

INDIAN ECONOMY

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PM MODI SPEAK

- When I was listening to Ritesh, OYO Rooms founder, I wondered why a 'chai wala ' did not think of starting hotel chain
- There are ways to close doors to new ideas. We want to open them.
- We are lacking in IP (intellectual property), but we have a lot of YP (youth property). We have to bring them on a single plane
- Failures shouldn't stop you forever. One who runs away from water cannot learn to swim
- We have a million problems but at the same time we have over a billion minds

CONCEPT RELATED TO NATIONAL INCOME

According to Central Statistical Organization, "National income is the sum total of factor incomes earned by normal residents of a country in the form of wages, rent, interest and profit in an accounting year."

National Income Accounting refers to methods or techniques used to measure the economic activity in the national economy as a whole. As one calculates income at an individual level similar calculation can be done for at the country level as well. NIA is needed for comparing the estimates in the past from those in future and also forecast the growth rates in future. For example, if a country has a GDP of Rs. 103 Lakh which is 3 Lakh rupees higher than the last year, it has a growth rate of 3 per cent.

In economics when a term 'a growing' economy is used, it means that the economy is adding up its income i.e. in quantitative terms, to find out the level of economic development of a country. It provides useful insight into how well an economy is functioning and where money is being generated and spent. One can compare the standard of living of different nations. It helps to show the rate of growth or development of different nations. It leads-

- (i) **To Formulate Policies**
- (ii) **Effective Decision Making**
- (iii) **To compare internationally**

National Income Concepts

A. Gross Domestic Product

Gross Domestic Product (GDP) refers to total market money value of all final goods and services produced in an economy over a period of one year. In India, this fiscal or financial year is from 1st April to 31st March i.e. it measures the money value of final goods and services produced within a geographic boundary regardless of the nationality of the individual or firm. (M.P. is first state having financial year 01st Jan to 31st Dec.)

In calculation of GDP only final output of such goods and services is considered. Counting of final goods is necessary to avoid multiple (double or triple) counting of raw materials, intermediate products, and final products.

Example - In an automobile industry, value of automobiles already includes the value of the steel, glass, tyres, engine and other components that have been used to make them.

Relevant definitions of these are as following:

- a) **Final Goods and Services:** Goods and Services purchased for final use.
- b) **Intermediate Goods/Raw Materials:** Products used as input in the production of some other product.

There are two ways to take in account multiple counting

- i. Calculate only the value of the final product.
 - ii. By calculating the value added at each stage of production, from the beginning of the process to the end. Specifically, it is derived by subtracting the value of the intermediate goods from the value of the sale.
- (c) **Factors of Production:** It includes the Cost of labour apart from cost of raw material. There are four factors of production. Land, Labour; Capital and Entrepreneurship.

Types of GDP

GDP can be divided into:

1. **Real GDP** - Real GDP refers to the current year production of goods and services valued at base year prices. Such base year prices are constant prices.
2. **Nominal GDP** - Nominal GDP refers to current year production of final goods and services valued at current year prices.

Real GDP is a better measure to calculate the GDP because in a particular year GDP may be inflated because of high rate of inflation in the economy. Real GDP therefore allows us to determine whether production increased or decreased, regardless of changes in the inflation and purchasing power of the currency.

Concept of Base Year

Base year is the year used as the beginning or the reference year for constructing an index, and which is usually assigned an arbitrary value of 100.

Economists use a price index to find the real GNP/GDP to make the calculation of GNP/GDP easier. A Price index is a number showing the changes in the overall level of prices. It shows a change in the general price level of an economy.

Recently the Indian Government changed the base year for calculating GDP to 2011-12 from 2004-2005. Base Year selection is made on the basis of

- (i) Stability of macroeconomic parameters. It has to be a normal year without large fluctuations in production, trade and prices of goods and services.
- (ii) Data available for the year should be reliable.
Comparability so that same parameters should be in use in both the years. Therefore it should be a recent year and not go long back into history.

B. Gross National Product (GNP)

GNP is a measure of the value of output produced by the nationals of a country irrespective of the geographical boundaries of a nation. It refers to the output of Indian citizens both within India and in all the countries of world.

GNP = GDP + Net income inflow from abroad - Net income outflow to foreign countries.

Example: Apple Inc is a US based firm. When it opens up a production centre in India, value of output from that centre is added to India's GDP, but it is not added while calculating GNP of India. Similarly, when Indian companies such as HCL or Reliance provides services in the US, the value of those services are not added in the Indian GDP but they are considered while calculating the Indian GNP.

GDP and GNP are measured on the basis of Market Price and Factor Cost.

- **Market Price:**

It refers to the actual transacted price and it includes indirect taxes such as custom duty, excise duty, sales tax, service tax, etc. (impending Goods and Services Tax):

These taxes tend to raise the prices of the goods in an economy.

- **Factor Cost:**

It refers to cost of factors of production.

Factors of 'Production i.e. rent for land, interest for capital,- wages for labour and profit for entrepreneurship. 'This is equal to revenue price of the final goods and services sold by the producers.

Revenue price (or factor cost) = Market Price - Net Indirect Taxes. Net

Indirect Taxes (NIT) = Indirect- Taxes - Subsidies

Hence, **Factor Cost = Market Price- Indirect Taxes + Subsidies**

Difference Between GDP and GNP

GDP is about where production takes place whereas GNP is about 'who produces them.

GDP reflects the production of goods and services produced within the boundaries of the country by both the citizens and the foreigners_ Hence focus of GDP is on where the output is produced rather than who produced it. When an economy with great levels of inflows of FDI' and-very less outgoing FDI, the GDP would generally be more than the GNP.

But if in an economy, more of its nationals move abroad and generate economic activity when compared to foreigners those who come in and perform any economic activity its GNP would be larger than its GDP.

In case of Indian economy, GNP is lower than its GDP as income from abroad is adverse /negative in India.

Even though GDP is a figure which is prominently used by economists across the world, some economists criticize it for not reflecting the true state of a nation's economy. This is because GDP does not take into account the profits earned in a nation by overseas companies that are remitted back to foreign investors. If these remitted profits are very large compared with earnings from the nation's overseas citizens and assets, the NFFI figure will be negative, and GNP will be significantly below GDP. GNP of a nation also reflects how much the outside world is dependent on its products and how much it depends on the world for the same.

Formula: $GNP = GDP + \text{Net Foreign Factor Income}$.

C. Net Foreign Factor Income (NFFI)

Net Foreign Factor Income (NFFI) is the difference between the aggregate amount that a country's citizens and companies earn abroad, and the aggregate amount that foreign citizens and overseas companies earn in that country.

Formula

Net Foreign Factor Income = $GNP - GDP$

D. Net National Product (NNP)

NNP is the value of the total output of the economy calculated without double counting, this is GNP, less

Allowance for depreciation (D) of the capital assets used in the production process.

Hence **$NNP = GNP - \text{Depreciation}$**

Concept of Depredation

In the process of production a country uses several capital assets such as machinery, equipment, automobiles, etc.

The assets like machines face wear and tear over a period of time. Its value reduces. This is known as depreciation.

When the value completely erodes the capital asset in question has to be either replaced or repaired.

Expenses incurred for this are called depreciation expenditure.

The sum of these two amounts is called Gross Investment in economics. Gross

Investment = Net investment $\pm$ Depreciation

Net investment will increase the production capacity and output of a nation, but not by depreciation expenditure. So we have, $NNP = GNP - \text{Depreciation}$.

The governments of the economies decide and announce the rates by which assets depreciate and a list is published, which is used by the different sections of the economy to determine the

real levels of depreciations in different assets. When we divide NNP by the total population of nation we get the 'per capita income' (PCI) of that nation i.e. 'income per head per year.

E. Net Domestic Product (NDP)

Net Domestic Product (NDP) is the GDP calculated after adjusting the value of 'depreciation'. This basically, net form of the GDP, i.e. GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced.

NDP = GDP : Depreciation

Because of the above, NDP of an economy is always lower than its GDP. Since there depreciation can never be reduced to zero. The concept of NDP Sand NIT is not used to compare different economies because the method of calculating depreciation varies from country to country.

Other Concepts Related to National Income

• What is Economic territory?

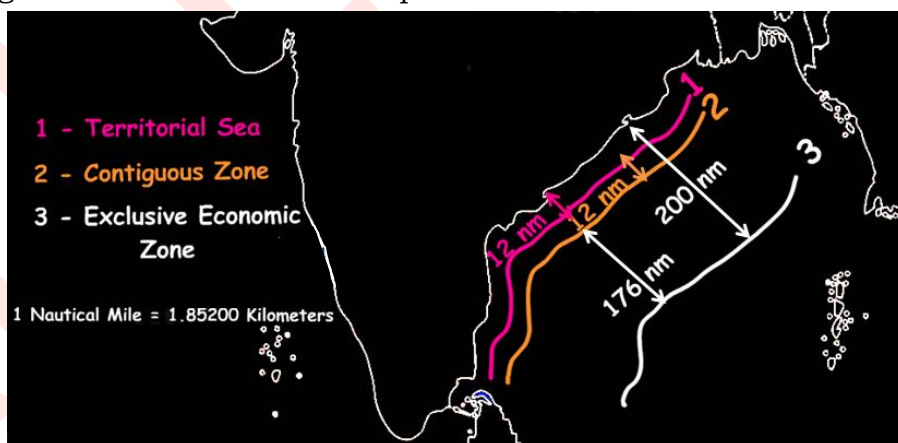
Economic territory is the geographical territory administered by a government within which persons, goods and capital circulate freely.

Those parts of the political frontiers of a country where the government of India, does not enjoy the above" freedom" are not to be included in economic territory of that country One example is embassies. Government of India does not enjoy the above freedom in the foreign embassies located within India. So, these are not treated as a part of economic territory of India. They are treated as part of the economic territories of their respective countries.

For example the U.S. embassy in India is a part of economic territory of the U.S.A. Similarly- , the Indian

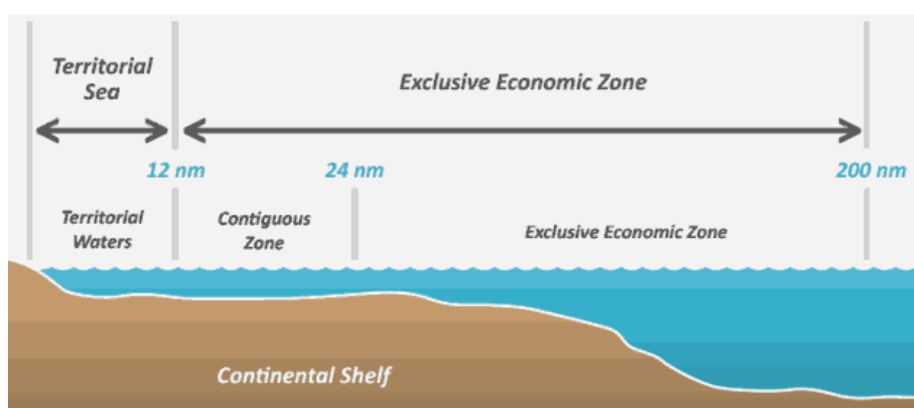
Embassy in Washington is part of economic territory of India.

- Based on 'freedom' criterion, the scope of economic tempter is defined to cover:
- Political frontiers including territorial waters and air space.
- Embassies, consulates, military bases, etc located abroad, but excluding those located within the political frontiers.
- Ships; aircrafts, etc. operated by the residents between two or more countries.
- Fishing vessels, oil and natural gas rigs, etc operated by the residents in the international waters or other areas over winch the country enjoys the exclusive rights or jurisdiction.



• What is the difference between citizen and resident?

Citizenship is basically a legal concept based on the place of birth of the person or some legal provisions allowing a person to become a citizen. On the other hand



resident ship is basically an economic concept based on the basic economic activities performed by a person.

A resident, whether a person or an institution, is one whose centre of economic interest lies in the economic territory of the country in which he lives. That is-NRI are the citizens of India but their economic interest lies in other countries (a engineer working in US thus its economic interest in US) thus NRI are known as Non Resident Indian.

• What are Transfer Payments?

Transfer payments refer to the payments made by the government to individuals for which there is no economic activity produced in return by these individuals. A few examples of transfer payments include old age pensions, scholarships, etc.

National Income (NI) at Factor Cost

National income at factor cost is a measure:

1. Of the sum of all factor incomes earned by the residents of a country both from within the country as well as abroad.
2. National Income and Net National Product (NNP) are synonymous. National income is calculated by deducting indirect taxes from NNP and adding subsidies. The reason for deducting indirect taxes is that they have been added twice - once in the hands of the people who pay them and other in the hands of the governments. Similarly, various subsidies, which are forwarded by the governments, need to be adjusted while calculating national income.

National Income at Factor Cost = NNP at Market Cost - Indirect Taxes + Subsidies

In India, and many developing countries across the world, National Income is measured at factor cost instead of market prices. Some of the reasons for the same is lack of uniformity in taxes, goods not being printed with their prices, etc.

Personal Income (PI)

In economics personal income refers to an individual's total earnings from wages, investment enterprises, and other ventures. It is the sum of all the incomes actually received by all the individuals or household during a given period. Welfare payments are received by households, but these are not elements of national income because they are transfer payments.

Similarly, in national income accounting, some income is attributed-to individuals, which they do not actually receive. For example, undistributed profits; employee's contribution for social security corporate income taxes etc. are part of national income but are not received by individuals: Therefore, they are to be deducted from national income to estimate the personal income. Personal income thus is:

$PI = NI + \text{transfer payments} - \text{Corporate retained earnings, income taxes, social security taxes.}$

Disposable Income. (DPI)

Disposable personal income refers to the amount, which in actual is at the disposal of individuals to spend as they like. It is the amount which is left with the individuals after paying personal taxes such as income tax, property tax, Professional Tax, etc. Therefore:

DPI = PI - Taxes (Income Tax i.e. Personal Taxes)

Hence, DPI results into Savings and Expenditure i.e. (Spend and Save). This concept is very useful for studying and understanding the consumption and saving behavior of the individuals.

Disposable income = Consumption + Savings

What are the factors that affect National Income?

Several factors affect the national income of a country. Some of them have been listed below:

1. Factors of Production

Normally, the more efficient and richer the resources, higher will be the level of National Income or GNP

(a) Land

Resources like coal, iron and timber are essential for heavy industries so that they must be available and accessible. In other words, the geographical location of these natural resources affects the level of GNP.

(b) Capital

Capital is generally determined by investment. Investment in turn depends on other factors like profitability. Political stability, etc.

(c) Labour

The quality or productivity of human resources is more important than quantity. Manpower planning and education affect the productivity and production capacity of an economy

(d) Entrepreneur**(e) Technology**

This factor is more important for Nations with fewer natural resources. The development in technology is affected by the level of invention and innovation in production.

(f) Government

Government can help to provide a favourable business environment for investment. It provides law and order, regulations.

(g) Political Stability

A stable economy and political system helps in appropriate allocation of resources Wars, strikes and social unrests will discourage investment and business activities.

Measurement of National Income

National Income calculated by three ways:

1. Value Added Method (or the Product Method)

The 'value added or production method is used by economists to calculate GDP at market prices which is the total values of outputs produced at different stages of production. It needs to be mentioned that caution should be taken to take Final Goods and not Intermediate goods, as it will result in Double Counting.

Note: Consider the following while calculating National Income through Value Added Method

Some of the goods and services included in production are:

- i. Goods and services actually sold in the market.
- ii. Goods and services not sold but supplied free of cost. (No Charge/Complementary)

Some of the goods and services not included in production are:

- i. Second hand items and purchase and sale of the same. Sale and purchase of second cars, for example, are not a part of GDP calculation as no new production takes place in the economy.
- ii. Production due to unwarranted/ illegal activities.
- iii. Non-economic goods or natural goods such as air and water.
- iv. Transfer Payments such as scholarships, pensions etc. are excluded as there is income received, but no good or service is produced in return.
- v. Imputed rental for owner-occupied housing is also excluded.

2. Income Method

This method emphasises on aggregating the payments made by firms to households, called factor payments. This gives the National Income, defined as total income earned by citizens and businesses of a country.

There are four types of factors of production and four types of factor incomes accordingly i.e. Land, Labour, Capital and Entrepreneur/Organization as Factors of Production and Rent, Wages, Interest and Profit as Factor Incomes correspondingly.

We need to add indirect taxes, less subsidies and add depreciation to get GDR

$$\text{GDP} = \text{Wages} + \text{Interest} + \text{Income} + \text{Rental} + \text{Income} + * \text{Profit} + \text{Indirect Taxes} - \text{Subsidies} + \text{Depreciation}$$

The term *Profit can be further sub-divided into: profit tax; dividend to all those shareholders; and retained profit (or retained earnings).

Such an approach is adopted in India to calculate the contribution of services sector to the economy.

Any income corresponding to which there is no flow of goods and services or value added, it should not be included in calculation by Income method.

3. Expenditure Method

The expenditure method measures the final expenditure on GDP. Amount of Expenditure refers to all spending on currently-produced final goods and services only in an economy. In an economy, there are three main agencies, which buy goods and services. These are Households, Firms and the Government

This final expenditure is made up of the sum of four expenditure items, namely:

- a) **Consumption (C):** Personal Consumption made by households, the payment of which is paid by households directly to the firms which produced the goods and services desired by the households.
- b) **Investment Expenditure (I):** Investment is an addition to capital stock of an economy in a given time period. This includes investments by firms as well as governments sector
- c) **Government Expenditure (G):** This category includes the value of goods and service purchased by Government. Government expenditure on pension schemes, scholarships, unemployment allowances etc. are not included in this as all of them come under transfer payments.
- d) **Net Exports (X-IM):** Expenditure on foreign made products (Imports) are expenditure that escapes the system, and must be subtracted from total expenditures. In turn, goods produced by domestic firms which are demanded by foreign economies involve expenditure

by other economies on our production (Exports), and are included in total expenditure. The combination of the two gives Net Exports.

$$\text{GDP} = \text{C} + \text{I} + \text{G} + \text{X} - \text{IM}$$

New Methodology for Calculation of GDP in India

Earlier domestic GDP was calculated at factor or basic cost, which took into account prices of products received by Producers.

The new formula takes into account market prices paid by consumers. It is calculated by adding GDP at factor price and indirect taxes (minus subsidies). It is in line with international practice and is expected to better capture the changing structure of the Indian economy.

The government has also changed the base year for estimating GDP from 2004-05 to 2011-12. This has been done to incorporate the changing structure of the economy, especially rural India.

Data for the new GDP series will now be collected from 5 lakh companies (against 2,500 companies earlier). Underrepresented and informal sectors as well as items such as smart phones and LED television sets will now be taken into account to calculate the gross domestic product.

The revision in GDP does not alter the size of India's economy (\$1.8 tn) nor will it alter key ratios such as fiscal deficit, CAD etc. (as percentage of GDP) for 2013-14.

The GDP at the aggregate and sector level has significantly changed. The- average share of the industrial sector has moved up by 5.6 percentage points from 26.1 per cent in the old series to 31.7 per cent under the new series, —for 2011- 12 to 2013-14.

Concept of GDP Deflator

It is a tool to measure the inflation comprehensively. It represents the ratio of GDP at current prices to GDP at constant prices. GDP deflator is published on a quarterly basis since 1996 with a lag of months. It is because of this very reason that economists prefer the use of WPI or CPI for deflating nominal price estimates to derive real price estimates.

Essentially $\text{GDP deflator} = (\text{Nominal GDP} / \text{Real GDP}) * 100$.

Unlike the WPI and the CPI, GDP deflator is not based on a fixed basket of goods and services, it covers the whole economy. One of the other advantages of GDP deflator is that changes in consumption patterns or the introduction of new goods and services are automatically reflected in the deflator, such a feature is missing in WPI/CPI.

BANKING

Central Banking

A central bank is an apex institution in the banking and financial structure of the country. It plays a crucial role in organizing, running, supervising, regulating and developing the banking and financial structure of the economy. India's central bank is known as the **Reserve Bank of India**.

Historical Background of RBI

In 1926 the Royal Commission on Indian Currency and Finance which is also known as the Hilton-Young Commission recommended the creation of a central bank. The idea was two-fold:

1. To separate the control of currency and credit from the government.
2. To augment banking facilities throughout the country.

The Reserve Bank of India Act of 1934 established the Reserve Bank as the banker to the and set in motion a series of actions culminating in the start of operations on April 1, 1935.

- RBI started with a Share Capital of Rs.5 Crore, divided into shares of Rs.100 each fully paid up.
- In the beginning, entire capital was owned by the private shareholders.
- The British Government of India held shares of nominal value (Rs.2,00,000) only.
- The Central office of RBI initially was Kolkata. It was shifted to Mumbai in 1937
- But, since function of the Bank was of public nature, the RBI Act of 1934 had provided the appointment of the Governor and two deputy Governors by the Central Government.
- It has four zonal offices at Delhi, Kolkata, Chennai and Mumbai for four regions: northern, eastern, southern and western regions respectively. RBI has 19 offices, which are located in state capitals and a few major cities in India. In addition, there are 9 sub-offices of RBI.
- In 1949, RBI was nationalized.
- RBI can issue currency notes of 5K & 10k denomination as specified by government but as per RBI act 1934. It can't issue note more than 10k value.
- As per Coinage Act 2011 coins up to denomination of Rs 1000 can be issued.
- RBI issues currency in India on Minimum reserve system under which it keep a minimal backing of Rs. 200 Crores out of which Rs 115 Crores worth of gold and Rs. 85 Crore worth of securities & bond of government & foreign government. Against this backing RBI can issue any amount of currency

Functions of Central Bank (RBI)

A central bank performs a number of important functions. The major functions are as follows:

1. **Bank of Issue:** It acts as a sole authority to issue. Central bank enjoys the monopoly of issuing currency notes and coins. Central bank has the issue department, which is solely responsible for the issue of Abates and coins.
2. **Banker to Banks and Government:** As the bankers' bank, RBI acts as the custodian of cash reserves of commercial and other banks.
 - Commercial banks are under statutory obligation to keep a part of their deposits as reserves with the central bank.

- The central bank provides credit, mainly short-term credit, to the commercial banks. It provides them guidance and direction and regulates their activities.
 - Commercial banks are required to shape their policy in accordance with these directions and guidance of the central bank.
 - As the banker and financial 'adviser to the government the central bank receives the deposits of cash, cheques, drafts etc. from the government. It provides cash to the government for paying salaries and wages and other cash disbursements. It makes payments on behalf of the government. It gives short period loans to the government. It buys and sells foreign currencies on behalf of the government.
3. Lender of Last Resort: RIM acts as the LOLR. When commercial banks have exhausted their resources and are in need of funds they approach the central banks to help them come out of the financial crisis. In its capacity as the lender of the last resort, the central bank provides, directly or indirectly, all reasonable financial assistance to commercial banks.
 4. Controller of Credit: The most important function of the central bank is to control credit creation by the commercial banks. Since 'credit money' or 'bank money' is the dominant form of money presently, it is essential that the supply of credit must be regulated so as to ensure the smooth functioning of the economy. For this purpose, the central bank adopts quantitative and qualitative methods of credit control. Quantitative methods aim at controlling the cost and availability of credit, while the qualitative methods influence the use and direction of credit.
 5. Custodian of Country's Foreign Currency Reserves: The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.
 6. It stabilizes the rate of inflation and exchange rate of India.

How is Central Bank different from Commercial Banks?

1. On the basis of profit: A central bank is not a profit-making institution. It does not aim at making profits like a commercial bank. It acts in the public interest so as to control and regulate the banking and financial system of the country.
2. On the basis of functions performed: A central bank does not perform ordinary commercial, banking functions such as accepting deposits from the general public of the country.
3. Ownership: A central bank is an organ of the government and therefore is owned by the government and managed by the government officials. But a commercial bank is generally maybe owned by both, private individuals as shareholders and by the government.
4. Issuer of Currency: A central bank has sole monopoly of note issue but commercial banks cannot issue notes.

Indian Banking System

Banks are financial-institutions that accept deposits and make loans

Oudh bank was the first bank having Indian shares whereas Punjab National bank was the first Indian bank completely.

In 1921 Imperial Bank of India was created by merging Presidency bank of Calcutta, Bombay and Mumbai in 1955.

Imperial bank was nationalized and was renamed as State Bank of India.

In India, the organised banking sector can be categorized into three major categories:

a. Central Bank of the country (RBI)

- b. Commercial Banks
- c. Co-operative Banks

Categorization of banks can also be done as (a)

(a) Scheduled Banks:

Scheduled banks are those banks which are mentioned in the second schedule of the RBI Act, 1934. These banks have to meet criteria such as a minimum paid up capital and reserves of total aggregate value not less than Rs.5 Lacs. These banks have to also satisfy the RBI that their functions would be carried out in the interests of their depositors. A Scheduled Bank enjoys the patronage of RBI.

Scheduled banks can further be categorised in two types:

- Commercial banks

Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long term loan to business enterprises. Now-a-days some of the commercial banks are also providing housing loan on a long-term basis to individuals.

Types of Commercial banks:

- (i) **Public Sector Banks:** These are banks where majority stake is held by the Government of India or Reserve Bank of India. Examples of public sector banks are: State Bank of India, Corporation Bank, Bank of Baroda and Dena Bank. etc. There are 27 PSBs.
- (ii) **Private Sectors Banks:** In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability. For example: The Jammu and Kashmir Bank Ltd., Bank of Rajasthan Ltd., Development Credit Bank Ltd, Lord Krishna Bank Ltd., Bharat Overseas Bank Ltd., Global Trust Bank, .Vysya Bank, etc.
- (iii) **Foreign Banks:** These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank; Standard & Chartered Bank, Grindlays Bank, etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.
- (iv) **Regional Rural Banks:** Regional rural banks came into being in the 1970s with the objective of providing deposit and credit facilities to the people in rural areas especially the small and marginal farmers, agricultural laborers, small entrepreneurs. Even though these banks count as the scheduled commercial banks but their focus and reach is generally limited to a district or to Some of the examples of Regional Rural Banks are Assam Gramin Vikash Bank, Allahabad UP Gramin Bank, Baroda Gujarat Gramin Bank etc. At present there are 82 RRBs functioning in India.

• Co-operative banks

Co-operative banks are small-sized units organized in the co-operative sector which operate both in urban and -non-urban centers. Co-operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act. 1965.

Types of Co-operative Banks

- (i) **Primary Credit Societies:** These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.
- (ii) **Central Co-operative Banks:** These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks.
- (iii) **State Co-operative Banks:** These are the apex (highest level) co-operative banks in all the states of the country, they mobilize funds and help in its proper channelisation among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

(b) Non-scheduled banks:

Non-scheduled banks on the other hand are those that have not been included in the second schedule' of the RBI Act.

• NABARD

In NABARD the majority stake is held by the Reserve Bank. NABARD is an apex Development Bank with a mandate for:

- Facilitating credit flow for promotion and development of agriculture, small-scale industries cottage and village industries, handicrafts and other rural crafts.
- Support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.
- NABARD acts as a regulator for co-operative banks and Regional Rural Banks (RRBs).
- NABARD also helps in capacity building of partner agencies and development institutions.
- NABARD provide facilities for training, for dissemination of information and the promotion of research including the undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development. It provides technical, legal, financial, marketing and administrative assistance to any person engaged in agriculture and rural development activities.

Functions of Commercial Banks

Commercial banks play an important role in the economic development of any country, the business of a commercial bank is primarily to accept deposits and to give short-term loans. Apart from this a commercial bank performs number of other useful functions to the society. Some of the functions of the commercial banks have been listed below:

- a) **Collection of Deposits:** The most important function of a commercial bank is the collection of deposits. These deposits can be of various forms namely:
 - i) **Fixed Deposits:** In this sort of a deposit the customer keeps a specified amount with the bank for a fixed period to earn interest. In case the customer withdraws money before the end of stipulated term of deposit, he has to pay a penalty. Generally, rate of interest on fixed deposits is higher than the other types of deposits.

- ii) **Saving Bank Deposits:** The saving and the investment amount in the saving deposits is significantly small and is a way to attract lower income households to save money. The interest rates are better than the current deposits but lesser than the fixed deposits.
 - iii) **Current Account Deposits:** Also known as demand deposit. The bank opens this account on an initial deposit of Rs. 100 but certain conditions have to be met to prove credit worthiness of the customer. There are no limitations on the amount of deposit and number of withdrawals. Generally, no interest is paid on current deposits.
- b) **Advancing loans:** Commercial banks also play an important role in the economy by providing loans to industries, individuals, businesses, agriculture etc. They also provide loans for export and import trade.
- c) **Utility services:** Commercial banks perform various services useful to the customer. Some of them have been listed below:
- i) **Locker facility:** Banks provide locker facility to customers to keep their valuables, such as securities, jewellery, documents etc.
 - ii) **Draft facilities:** Banks issue drafts to customers and enable them to transfer funds from place to place.
 - iii) **Letters of credit:** Banks issue letters of credit to their customers. These are useful to traders to buy goods from foreign countries on credit.
- d) **Agency Services:** Commercial banks also perform several activities on the behalf of their customers.
- i) **Collections:** Commercial banks take up collection of promissory notes, Cheques, bills, dividends subscriptions, rents, etc., on behalf of their customers as agents. The bank charges 'service charges' for rendering these services to its customers.
 - ii) **Payments:** Banks also accept the responsibility to pay insurance premium, rents, taxes, electricity bills, etc., periodically on behalf of its customers for which they charge commission.
 - iii) **Spig and purchase of securities:** Customers sometimes approach the bankers for sale and purchase of their securities. For these services the banks charge commission.

Challenges Faced by Commercial Banks in India

Though the commercial banks made significant progress in terms of branch expansion, deposit mobilisation, loans to priority sector and weaker sections of the society, they are still facing a number of problems in different respects. Some are discussed below:

- 1) **Problems in Branch Expansion:** Banks were asked to open their branches in rural and backward areas where minimum infrastructure facilities like roads, communication, transport, education: safe buildings for bank operations were not available. In some places there was a problem of even security to the bank employees.
- 2) **Problems in Deposit Mobilisation:** There has been heavy competition among public sector banks in deposit mobilisation as all of them have been providing the same service. Banks also face competition in mobilising deposits from National Savings Organization, Non-Banking Companies, Unit Trust of India, Mutual Funds etc. It is felt that despite their efforts, deposit mobilisation efforts of banks have not been adequate to meet the needs of the present economic needs. It was also criticised that the schemes of deposit mobilisation of banks are not suited to the needs of the prospective depositors in rural areas.

- 3) **Absence of Coordination:** For providing finance to the same borrowers, there are several financial agencies like Commercial Banks, Cooperative Banks, Regional Rural Banks and State Financial Corporation. In view of these multiple organisations and absence of coordination among these institutions, it has resulted in duplicate financing, over-financing or under-financing.
- 4) **Inadequate Finance to Agriculture:** Though the commercial banks have made spectacular efforts to meet the financial needs of the agricultural sector and its allied activities; still a more vigorous effort is required as the total assistance of commercial banks to agricultural sector is not even 10% of their needs. Most of the agriculture credit is of short term. Long term credits which facilitate capacity & infrastructure building is inadequate.
- 5) **Inadequate Banking Facilities in Rural Areas:** The number of banks in rural areas is quite inadequate compared to the needs of banking service, as is evident from the fact that only 5 per cent of the villages are covered by the banks.
- 6) **Regional Imbalances:** Though the commercial banks have spread their branches in different parts of the country, these are not equally distributed. According to Reserve Bank of India's Report about half of the branches are concentrated in the Southern and Western regions, the states like Assam, Jammu & Kashmir, Manipur, Nagaland, Orissa, Tripura, Uttar Pradesh and West Bengal may be termed as under banked areas.
- 7) **Low Profitability:** Financing of priority sectors, opening branches in rural as well as unbanked and backward areas, granting loans to weaker sections at low rate of interest, increase in cost of salaries and establishment and increase in overdue resulted in decline in the rate of profitability of most of the Commercial Banks in India. The low profitability is also caused due to increase in costs, inefficiency, bureaucratic attitude, absence of effective cost control increase in Statutory Liquidity Ratio and Cash Reserve Ratio etc.
- 8) **Low Efficiency:** Nationalisation of banking industry has brought in all the limitations of public sector to it. These are bureaucratic attitude of the managers, absence of initiative, red-tapism, inordinate delays, lack of commitment, responsibility, indifference to work etc. These result in low efficiency of the banks.
- 9) **Political Pressure:** Nationalisation of banks has brought political interference and political pressure at all levels of the banks. The political pressure results in poor selection of staff, granting loans and advances to undeserving, etc.
- 10) **Problems of Liberal Credit Policy:** Liberal Credit Policy, which is essential to meet the credit requirements of the weaker sections, agricultural sector, etc., resulted in, insecurity of bank funds and ultimately of depositors money. Liberal credit policy has also resulted in poor recovery of funds and absence of recycling of bank funds.
- 11) **NPAs:** Commercial banks in India especially PSBs are facing challenges of increased NPAs. The gross NDA stand about to Rs. 35 Lakh Crore. Most of the NPAs are in infrastructure sector & loan advances to big corporate.
- 12) **Lack of Capital:** Most of the capital is locked in long term loans & NPA. PSB banks need Rs. 3.5 Lakh Crore of recapitalization to follow BASEL- 3 norms.

Nationalization of Banks in India

It was observed that certain sectors of the "economy such as the agriculture, small-scale industries and weaker sections of the Society were relatively ignored by the banking system of the country.

For example, the agricultural sector only received 2.1% of the total credit as it stood in March 1967 compared to a humungous 64% for the industry. It was thought by Government of India that it should impose some control over banks with a view to prevent monopolistic trends, concentration of economic power and misuse of economic resources. Hence nationalization kicked in. Thus the basic goal of social control was to achieve the social ends without taking over the banks into public ownership. National Credit Control Council was set up on December 22, 1967 to assess periodically the available resources of credit and to ensure its equitable and purposeful distribution among the several sectors. Such a mechanism didn't work out and eventually nationalization was brought about through promulgation of an ordinance in 1969 which nationalized 14 leading commercial bank of the country. Some of them were the Punjab National Bank, JOB, Dena Bank, Syndicate Bank etc. In 1980 six more banks were nationalized.

Objectives:

- a. To mobilize savings of people to the 'maximum possible and to utilize them for productive purpose.
- b. To ensure that the banking operations are guided by 'a larger social purpose and are subject to close public regulations;
- c. To ensure that the legitimate credit needs of private sector industry and trade, big and small, are met;
- d. To ensure the -needs of the productive sector and in particular, agriculture, small scale industry, self-employed professionals are met;
- e. To actively foster the growth of the new and progressive class of entrepreneurs and create fresh opportunities for hitherto neglected and backward areas in different parts of the country; and
- f. To curb the use of bank credit for speculative and for other unproductive purposes.

Banking Reforms in India

Banking Reforms were carried out with the recommendation from M. Narasimharn, who proposed:

A. Narasimham Committee I (1991)

This committee was appointed against the backdrop of the Balance of Payment Crisis. It was set up to analyze all factors related to financial system and give recommendation to improve its efficiency and productivity. Some of the important recommendations of the committee were

- **Reduction in CRR and SLR**
- **Interest Rate Deregulation:** The Committee observed that the prevailing structure of administered rates was highly complex and rigid and called for deregulating it so that it reflects the emerging market conditions. However, it warned against instant deregulation and suggested that the rates be brought in line with the, market rates gradually over a period of time The Committee also recommended phasing out Concessional Interest rates.
- **Structural Reorganization of Banks:** With regard to the structure of the Banking System, the Committee believed that the structure should consist of 3-4 Banks (including SBI) becoming International Banks, 8 to 10 national banks with a network of branches throughout the country engaged in universal banking, Local banks whose operations would be generally confined to a specific region, Rural banks (including RRBs) whose operations

would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities.

- **Establishment of ARF tribunal:** The proportion of bad debts and non-performing assets of the public sector banks and Development financial institutes used to be very high. The committee recommended the establishment of an Asset Reconstruction Fund (ARF). The suggestion was that the ARF would take over the proportion of the bad and doubtful debts from the banks and financial institutes. All bad and doubtful debts of the banks were to be transferred in a phased manner to ensure smooth and effective functioning of the ARF. The committee also suggested the formation of special tribunals to recover loans granted by the bank
- **Allowing Banks to raise Capital:** The Committee recommended that profitable banks and banks with good reputation should be permitted to raise capital from the public through the capital market. Regarding other banks, the government should subscribe to their capital or give a loan, which should be treated as a subordinate debt, to meet their capital requirements.

B. Narasimham Committee II

The aim was to:

- **review the progress of the implementation of the banking reforms** since 1992
- **further strengthening the financial institutions of India.**

The Committee's Report focused on issues like size of banks and capital adequacy ratio.

- **Need for a Stronger Banking System:** The Narasimham Committee made out a strong case for a stronger banking system in the country. It recommended the merger of strong banks, which will have a "multiplier effect" on industry. It also supported that two or three large strong banks be given international or global platform to work on.
- **Stricter norms for NPAs:** Many public sector banks were facing a problem of the Non-performing assets (NPAs). Some of them had NPAs as high as 20 percent of their assets. For successful rehabilitation of these banks, the committee recommended Narrow Banking Concept. As per this the weak banks were to be allowed to place their funds only in short term and risk free assets.
- **Greater Autonomy for the PSBs:** Greater autonomy was proposed for the public sector banks in order for them to function with equivalent professionalism as their international counterparts. The Committee recommended GOI equity in nationalized banks be reduced to 33% for increased autonomy. It directed the RBI to relinquish its seats on the board of directors of these banks. The Committee recommended a review of functions of banks boards with a view to make them responsible for enhancing shareholder value through formulation of corporate strategy and reduction of government equity.
- **Capital Adequacy Norms:** To improve the inherent strength of the Indian banking system the committee recommended that the Government should raise the prescribed capital adequacy norms. As per the committee, this would improve their Risk absorption capacity. The committee targeted raising the capital adequacy ratio to 9% by 2000 and 10% by 2002. The Committee recommended penal provisions for banks that fail to meet these requirements.

Implementation of Recommendations

To implement these recommendations,, the RBI in Oct 1998, initiated the second phase of financial sector reforms on the lines of Narasimham Committee-II report. RBI raised Capital Adequacy Ratio by 1% and tightened the prudential norms for provisioning and asset classification in a phased manner. It also targeted to bring the capital adequacy ratio to.9% by March 2001.

In October 1999 criteria for "autonomous status" was identified by March .1999 and 17 banks were considered eligible for autonomy. The Committee's recommendations let to introduction of a new legislation in 2002, Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002(SARAFESI Act 2002). Some of the recommendations like reduction in Governments equity to 33%, the issue of greater professionalism and independence of the board of directors of public sector banks are still awaiting Government follow-through.

During the 2008 economic crisis, performance of Indian banking sector was far better than their international counterparts. This was credited to the successful implementation of the recommendations of the- Narasimham Committee-II with particular reference to the capital adequacy norms and the recapitalization of the public sector banks.

C. Nachiket Mor Committee

The "Committee on Comprehensive Financial Services for Small Businesses and Low Income Households" was set up by' the RBI under the chairmanship of Nachiket Mor.

In its final report, the Committee has outlined six vision statements for full financial inclusion and financial deepening in India:

1. Universal Electronic Bank Account (UEBA): Each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
2. Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges: The Committee envisions that every resident in India would be within a fifteen minute walking distance of a payment access point.
3. Sufficient Access to Affordable Formal Credit: Each low-income household and small-business would have access to a formally regulated lender that is capable of assessing and meeting their credit needs. Such a lender must also be able to offer them a full-range of suitable credit products at an affordable price.
4. Universal Access to a Range of. Deposit and Investment Products at Reasonable Charges: Each low-income household' and small-business would have access to providers that can offer them suitable investment and deposit products. Such services must be available to them at reasonable charges.
5. Universal Access to a Range of Insurance and Risk Management Products at. Reasonable Charges: Each low-income household and small business would have access to providers that have the ability to offer them suitable insurance and risk management products. These products must at minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity. disability and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property.
6. Right to Suitability: Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. She will have the right to seek

legal redress if she feels that due process to establish Suitability was-not followed or that there was gross negligence.

The key recommendations are:

- Providing a universal bank account to all Indians above the age of 18 years by January 1, 2016: To achieve this, a vertically, differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach. These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed.
- Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts.
- Monitoring at the district level such as deposits and advances as a percentage of gross domestic product (GDP).
- Adjusted- 50 per cent priority sector lending target with adjustments for sectors and regions based on difficulty in lending.

D. P. J. Nayak Committee

It was constituted by the RBI for making recommendations regarding corporate governance in PSU banks.

Recommendations of the Nayak Committee are:

- Scrapping and removal of Bank Nationalisation Acts, SBI Act and SBI (Subsidiary Banks) Act.
- Conversion of PSBs into Companies as per the Companies Act.
- Formation of a Bank Investment Company/BIC under the Companies Act: transfer of shares by the central government in PSBs to the BIC.
- BIC in turn would have over the controlling power to boards of PSBs.
- Government will only control earning return on investment.
- Fair return on investment to the Central government would be the responsibility of BIC.
- Appointments of CEOs, Inside Directors and top Executives of PSBs would be the responsibility of the Bank Boards Bureau constituting three serving or retired bank chairmen and the government would not be involved in this decision in any way.
- Nayak committee also recommends proportionate voting rights to all shareholders and reduction of governmental shareholding to 40%.

Mission Indradhanush for revamping Public Sector Banks

The mission includes the seven key reforms of appointments, board of bureau, capitalisation, de-stressing, empowerment, framework of accountability and governance reforms.

The mission includes:

1. **Appointments:** Executives from the private sector have been hired to run state-owned banks with the government.
2. **Bank Board Bureau:** The Bank Board Bureau will start functioning from the next financial year and is the first step toward a full-fledged bank holding company, an entity that will house the government's stake in state run banks struggling with mounting non-performing loans that have touched 6 per cent of gross advances.
3. **Capitalization :** The government will inject a total of Rs 25,000 crore of capital into debt-laden state banks in this fiscal: Rs 20,000 crore would be injected in a month. Over the next four years. The government plans to inject Rs 70,000 crore.
4. **De-stressing :** The government will concentrate on distressing the banks' bad loans.
5. **Empowerment :** The government will strive to make it easier for PSBs to hire. The government is looking at introducing Employee Stock Ownership Plan (ESOPs) for the PSU bank managements.

6. **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.
7. **Governance Reforms:** The process of governance reforms started with "Gyan Sangam" - a conclave of PSBs' and FIs organized at the beginning of 2015 in Pune which was attended by all stake-holders including Prime Minister, Finance Minister, MoS (Finance), Governor, RBI and CMDs of all PSBs and FIs. There was focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.

New Bank Licence Criteria

The Reserve Bank of India (RBI) granted two preliminary licences to IDFC Ltd and Bandhan Financial Services to set up new banks in a country where only one household in two has access to formal banking services.

The approval of licences marks the start of a cautious experiment for a sector dominated by lethargic state lenders, many of which are reluctant to expand into rural areas of towns where banking penetration is low. No new Indian bank has been formed since 'Yes Bank (YESB.NS) in 2004'.

RBI has come up with guidelines for issuing new bank license.

Key features of the guidelines are:

- (i) **Eligible Promoters:** Entities / groups in the private sector, entities in public sector and Non-Banking Financial Companies (NBFCs) shall be eligible to set up a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).
- (ii) **'Fit and Proper' criteria:** Entities / groups should have a past record of sound credentials and integrity, be financially sound with a successful track record of .10 years. For this purpose, RBI may seek feedback from other regulators and enforcement and investigative agencies.
- (iii) **Corporate structure of the NOFHC:** The NOFHC shall be wholly owned by the Promoter/ Promoter Group. The NOFHC shall hold the bank as well as all the 'other financial services entities of the group.
- (iv) **Minimum voting equity capital requirements for banks and shareholding by NOFHC:** The initial minimum paid-up voting equity capital for a bank shall be '5 billion. The NOFHC shall initially hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which shall be locked in for a period of five years and which shall be brought down to 15 per cent within 12 years. The bank shall get its shares listed on the stock exchanges within three years of the commencement of business by the bank.
- (v) **Regulatory framework:** The bank will be governed by the provisions of the relevant Acts, relevant Statutes and the Directives', Prudential regulations and other Guidelines/Instructions issued by RBI and other regulators. The NOFHC shall be registered as a non-banking finance company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

- (vi) **Foreign shareholding in the bank:** The aggregate non-resident shareholding in the new bank shall not exceed 49% for the first 5 years after which it will be as per the extant policy.
- (vii) **Corporate governance of NOFHC:** At least 50% of the Directors of the NOFHC should be independent directors. The corporate structure should not impede effective supervision of the bank and the NOFHC on a consolidated basis by RBI.
- (viii) **Prudential norms for the NOFHC:** The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis and the norms would be on similar lines as that of the bank.
- (ix) **Exposure norms:** The NOFHC and the bank shall not have any exposure to the Promoter Group. The bank shall not invest in the equity / debt capital instruments of any financial entities held by the NOFHC.
- (x) **Business Plan for the bank:** The business plan should be realistic and viable and should address how the bank proposes to achieve financial inclusion.
- (xi) **Other conditions for the bank :**
- The Board of the bank should have a majority of independent .Directors.
 - The bank shall open at least 25 per -cent of its branches in unbanked rural centres (population up to 9,999 as per the latest census)
 - The bank shall comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks.
 - Banks promoted by groups having 40 per cent or more assets/income from non-financial business will require RBI's prior approval for raising paid-up voting equity capital beyond Rs. 10 billion for every block of Rs. 5 billion.
 - Any non-compliance of terms and conditions will attract penal measures including cancellation of licence of the bank.
- (xii) **Additional conditions for NBFCs promoting / converting into a bank:** Existing NBFCs., if considered eligible, may be permitted to promote a new bank Or convert themselves into banks.

Small Finance Banks and Payment Banks Criteria

The Reserve Bank of India (RBI) issues licences to entities to carry on the business of banking and other business in which banking companies may engage, as defined and described in Sections 5 (b) and 6 (1) (a) to (o) of the Banking Regulation Act, 1949 respectively.

RBI has came up with guidelines for two new categories of banks- 'small and payments banks' and states that these can improve financial inclusion.

Small Finance Banks

The objectives of setting up of small finance banks will be to further financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units; small and manual farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations.

Eligible Promoters: Resident individuals/professionals with 10 years of experience in banking and finance; and companies and societies owned and controlled by residents will be eligible to set up small finance banks. 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. Promoter/promoter groups should be 'fit and, proper' with a sound track record of professional experience or of running their businesses for at least a period of five years in order to be eligible to promote small finance banks.

Scope of activities:

- a) The small finance bank shall primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- b) There will not be any restriction in the area of operations of small finance banks.

Capital requirement: The minimum paid-up equity capital for small finance banks shall be Rs. 100 crore.

Payment Banks

The primary objective of setting up of Payments Banks will be to further financial inclusion by providing (i) small savings accounts and (ii) payments / remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payments / remittance services in a secured technology-driven environment.

Registration, Licensing and Regulations

The Payments Bank will be registered as a public limited company under the Companies Act, 2013, and licensed under Section 22 of the Banking Regulation Act, 1949, with specific licensing conditions restricting its activities to acceptance of demand deposits and provision of payments and remittance services. It will be governed by the provisions of the Banking Regulation Act, 1949, Reserve Bank of India Act, 1934, Foreign Exchange Management Act, 1999, Payment and Settlement Systems Act, 2007, other relevant Statutes and Directives, Prudential Regulations and other Guidelines/Instructions issued by RBI and other regulators from time to time, including the regulations of SEBI regarding public issues and other guidelines applicable to listed banking companies.

Eligibility Criteria

The existing non-bank PPI issuers authorised under the Payment and Settlement Systems Act, 2007 (PSS Act) and other entities such as Non-Banking Finance Companies (NBFCs), corporate BCs, mobile telephone companies, super-market chains, companies, real sector cooperatives and public sector entities may apply to set up a Payments Bank. Even banks can take equity stake in a Payments Bank to the extent permitted under Section 19 (2) of the Banking Regulation Act, 1949.

The entities and their Promoters/ Promoter Groups as defined in the SEBI (Issue of Capital & Disclosure Requirements) Regulations, 2009 should be 'fit and proper' in order to be eligible to promote Payments Banks. RBI would assess the 'fit and proper' status of the applicants on the

basis of their past record of sound credentials and -integrity; financial soundness and successful track record of at least 5 years in running their businesses.

Scope of Activities

The Payments Bank will be set up as a differentiated bank and shall confine its activities to further the objectives for which it is set up. Therefore, the Payments Bank would be permitted to undertake only certain restricted activities permitted to banks under the Banking Regulation Act, 1949, as given below:

- i. Acceptance of demand deposits, i.e., current deposits, and savings bank deposits. The eligible deposits mobilised by the Payments Bank would be covered under the deposit insurance scheme of the Deposit Insurance and Credit Guarantee Corporation of India (DICGC). Given that their primary role is to provide payments and remittance services and demand deposit products to small businesses and low income households, Payments Banks will initially be restricted to holding a maximum balance of Rs. 100,000 per customer. After the performance of the Payments Bank is gauged by the RBI, the maximum balance can be raised. If the transactions in the accounts conform to the "small accounts" transactions, simplified KYC/AML/CFT norms will be applicable to such accounts as defined under the Rules framed under the Prevention of Money-laundering Act, 2002.
- ii. Payments and remittance services through various channels including branches, BCs and mobile banking. The payments / remittance services would include acceptance of funds at one end through various channels including branches and BCs and payments of cash at the other end, through branches, BCs, and Automated Teller Machines (ATMs). Cash-out can also be permitted at Point-of-Sale terminal locations as per extant instructions issued under the PSS Act. In the case of walk-in customers, the bank should follow the extant KYC guidelines issued by the RBI.
- iii. Issuance of PPIs as per instructions issued from time to time under the PSS Act.
- iv. Internet banking - The RBI is also open to applicants transacting primarily using the Internet. The Payments Bank is expected to leverage technology to offer low cost banking solutions. Such a bank should ensure that it has all enabling systems in place including business partners, third party service providers and risk management systems and controls to enable offering transactional services on the internet. While offering such services, the Payments Bank will be required to comply with RBI instructions on information security, electronic banking, technology risk management and cyber frauds.
- v. Functioning as Business Correspondent (BC) of other banks - A Payments Bank may choose to become a BC of another bank for credit and other services which it cannot offer.

The Payments Bank cannot set up subsidiaries to undertake non-banking financial services activities. The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not commingled with the banking and financial services business of the Payments Bank.

The Payments Bank will be required to use the word "Payments" in its name in order to differentiate it from other banks.

Deployment of Funds

The Payments Bank cannot undertake lending activities. • Apart from amounts maintained as Cash Reserve Ratio (CRR) with RBI, minimum cash in hand and balances with a scheduled commercial bank/RBI required for operational activities and liquidity management, it will be required to invest all its monies in Government securities/Treasury Bills with maturity up to one year that are recognized by RBI as eligible securities for maintenance of Statutory Liquidity Ratio (SLR). The Payments Bank will participate in the payment and settlement system and will have access to the inter-bank uncollateralised call money market and the collateralized CBLO market for purposes of temporary liquidity management.

Capital Requirement

Since the Payments Bank will not be allowed to assume any credit risk, and if its investments are, held to maturity, such investments need not be marked to market and there may not be any need for capital for market risk. However, the Payments Bank will be exposed to operational risk. The Payments Bank will also be required to invest heavily in technological infrastructure for its operations. The capital will be utilised for creation of such fixed assets. Therefore, the minimum paid up voting equity capital of the Payments Bank shall, be Rs. 100 crore. Any additional voting equity capital to be brought in will depend on the business plan of the promoters. Further, the Payments Bank should have a net worth of Rs. 100 crore at all times. The Payments Bank shall be required to maintain a minimum capital adequacy ratio of 15 per cent of its risk weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. However, as Payments Banks are not expected to deal with sophisticated products, the capital adequacy ratio will be computed under simplified Basel 1 standards.

As the Payments Bank will have almost zero or negligible risk weighted assets, its compliance with a minimum capital adequacy ratio of 15 per cent would not reflect the true risk. Therefore, as a backstop measure, the Payments Bank should have a leverage ratio of not less than 5 per cent. i.e. its outside liabilities should not exceed 20 times its net-worth / paid-up capital and reserves.

Non-Banking Financial Company (NBFC).

They are financial institutions that provide banking services, but do not hold a banking license. These institutions are not allowed to take deposits from the public. Nonetheless, all operations of these institutions are still covered under banking regulations.

It is a company registered under the Companies Act, 1956 engaged in the business of loans and advances. acquisition of shares/ stocks/ bonds/ debentures/securities issued by Government or local authority or other marketable securities of a like nature, but does not include any institution whose principal business is that of. agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few

differences as given below:

- i. NBFC cannot accept demand deposits;
- ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself

No NBFC can commence or carry on business of a non-banking financial institution without obtaining a certificate of registration from the Reserve Bank of India and without having a Net Owned Funds of Rs. 25 lakhs. RBI raised requirement of Net owned fund to Rs. 1 crore by 2016 and Rs. 2 crore by 2017.

The non-banking financial sector has evolved considerably in terms of operations, variety of market products and instruments, technological sophistication, etc. Over recent years the NBFCs have assumed increasing significance and have added considerable depth to the overall financial sector. The regulatory responses on the part of RBI have also kept pace with the evolution of this sector. In particular regulation has adequately addressed the issue of depositor protection, a major concern of RBI.

Contribution of NBFC can be seen as follows: As of March 2013, the size of the NBFC sector based on total assets was about Rs. 12.5 trillion, which is about 13% of the banking sector, whose size was about Rs. 96.7 trillion by total assets.

The Reserve Bank of India (RBI) released the Usha Thorat committee report on non-banking finance companies, or NBFCs.

Some key recommendations of the committee are:

1. Tier I capital of NBFCs to be at 12%: So far, NBFCs capital adequacy requirement is at 15% wherein there is no stringent stipulation of tier I or tier II capital. If the recommendation is accepted, every NBFC has to have a minimum tier I capital or equity capital of 12%.
2. Liquidity ratio to be introduced for 30 days. RBI has recommended maintaining a liquidity ratio of for 30 days. This means an NBFC has to set aside cash balance equivalent to its debt payments due every month. The measure is perceived to be important to check asset liability mismatch of NBFCs.
3. NBFCs may be given benefits under SARFAESI Act Under Securitisation and Reconstruction of Financial Assets And Enforcement of Security Interest or SARFAESI Act, an NBFC would not move to the court to auction underlying assets to recover loan dues. It will just publish a newspaper notice before such auction.'
4. NBFCs may be subject to regulations similar to banks while lending to stock brokers and merchant banks and similar to stock brokers, as specified by the Securities and Exchange Board of India (SEBI), while undertaking margin financing.

NBFCs with assets of Rs. 1000 crores and above should be inspected comprehensively on an annual basis with an annual stress test carried out to ascertain their vulnerability.

Terminologies/Concepts Related to Banking in India

A. White Label ATMs:

Concepts of White label ATMs is adopted from Canada. Since 2006, some banks have been pressing with RBI to introduce white label ATMs in India too. White Label ATM or White Label Automated Teller Machines or WLAs in India will be owned and operated by Non-Bank entities. From such White Label ATM customer from any bank will be able to withdraw money, but will need to pay a fee for the services. These white label automated teller machines (ATMs) will not display logo of any particular bank and are likely to be located in non-traditional places be done by only with the help of private operators. The white label automated teller machines are likely to benefit customers as well as banks. With the expansion of ATM network, customers will be able to withdraw funds at more locations, which will be convenient and located near their home or place of work payment channel.

B. Shadow Banks:

After the subprime crisis of the US, shadow banks is a term that came into use in 2007. Shadow Banks refer to those organizations that function like banks but are outside the banking regulation. They help in providing quick source of credit to the public but have been criticized because they lead to a creation of a bubble and on the defaulting on loans by the borrowers it leads to a crisis at one witnessed in the US. Economists express concern over the functioning of shadow banks for several reasons. Shadow banks don't enjoy powers under SARFAESI Act and therefore it is difficult for them to recover money in case of loan defaults. There are also concerns over their transparency and methods of functioning.

C. Bhartiya Mahila Bank:

Bharatiya Mahila Bank Ltd. is the first of its kind in the Banking Industry in India. One of the key objectives of the bank is to focus on the banking needs of women and promote economic empowerment. It is being looked upon as the beginning of a unique new institution that will provide financial services predominantly to women and women self-help groups to the small businesswomen and from the working women to the high net worth individual. Some salient features of the bank are:

- Bank will offer 4.5% interest on saving deposits
- It will not insist on collateral since most title deeds are in name of male family members. It will lend to micro businesses like catering, creches & for upgrading kitchens in households
- The bank aims to have Rs. 60,000 crore business and 775 branches by 2020.
- It will provide loans primarily to women, and will give low-cost education loans for Girls.
- Key positions, including treasury head and security head, held by

D. Lead bank Scheme:

Till 1960s, the Banking needs of the rural areas in general and backward in particular were not taken care of by the Commercial Banks. Lead Bank Scheme (LBS) was introduced in 1969. The basic idea was to have an "area approach" for targeted and focused banking. Now it has been launched in urban areas too.

E. SARFAESI Act 2002:

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) is the most potent tool in the hands of banks for recovering bad loans (NPAs). The SARFAESI Act empowers banks and financial institutions to recover their non-performing assets without intervention of courts. The Act provides three alternative methods for recovery of non-performing assets: securitisation, asset reconstruction and enforcement of security without the intervention of courts. According to the RBI's Report on Trend and Progress of Banking in India, 2012-13, banks have recovered Rs. 18,500 crore through the SARFAESI route. Also, in terms of efficiency, the Act has proved to be more effective than the debt recovery tribunals (DRTs) or mediation by Lok Adalats.

E. Banking Ombudsman:

Banking Ombudsman is a quasi-judicial authority functioning under India's Banking Ombudsman Scheme 2006, and the authority was created pursuant to a decision by the Government of India to enable resolution of complaints of customers of banks relating to certain services rendered by the banks. The Reserve Bank of India in 2006 announced the revised Banking Ombudsman Scheme with enlarged scope to include customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even to banks' sales agents, levying service charges without prior notice to the customer and no adherence to the fair practices code as adopted by individual banks. Applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks having business in India, the revised scheme came into effect from January 1, 2006.

Priority Sector Lending

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections:

Priority Sector includes the following categories:

A. Agriculture

In India, nearly one-third of its national income comes from the agriculture sector. Its economic and social development directly depends on the expansion of the agriculture sector. Therefore, it is treated as primary priority sector lending in India.

Agricultural loans are given to the farmers on their need-based credit.

These loans are classified into following two categories:

• **'Direct Finance' for Agricultural Purposes?**

- (i) Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers] engaged in Agriculture and Allied Activities, viz., dairy, fishery animal husbandry, poultry, bee-keeping and sericulture.
- (ii) Loans to corporate including farmers' producer companies of individual farmers, partnership firms and cooperatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of 2 crore per borrower.
- (iii) Loans to small and marginal farmers for purchase of land for agricultural purposes.
- (iv) Loans to distressed farmers indebted to non-institutional lenders.
- (v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Largesized Adivasi Multi-Purpose Societies (LAMPS) ceded to or managed/ controlled by such banks for on lending to farmers for agricultural and allied activities.

• **'Indirect Finance' to Agriculture**

- (i) If the aggregate loan limit per borrower is more than Rs. 2 crore in respect of para. (4) (ii) above, the entire loan will be treated as indirect finance to apiculture
- (ii) Loans up to Rs. 5 crore to Producer Companies set up exclusively by only small and marginal farmers under Part IXA of Companies Act, 1956 for agricultural and allied activities.
- (iii) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Largesized Adivasi Multi-Purpose Societies (LAMPS). --

B. Micro and Small Enterprises -

Bank loans to Micro and Small Manufacturing and Service Enterprises, provided these units satisfy the criteria for investment in plant machinery/equipment as per MSMED Act 2006.

	Manufacturing Sector
Enterprises	Investment in Plant and Machinery
Micro Enterprises	Do not exceed fifty lakh rupees
Small Enterprises	More than fifty lakh rupees but does not exceed ten crore rupees
Medium enterprises	More than ten crore rupees but does not exceed thirty crore rupees

C. Education

Loans to individuals for educational purposes including vocational courses up to Rs. 10 lakh for studies in India and Rs. 20 lakh for 'studies abroad are included under priority sector.

D. Housing

Under housing loan facilities, following types of loans are available for

- Construction of a house.
- Repair (maintenance) and/or renewal of a house
- Clearance of slums and rehabilitation of disaster-stricken masses to temporary refuge shelters. New.

New norms related to Priority Sector Lending

The Reserve Bank of India (RBI) has revamped priority sector lending (PSL) norms. Now loans to sectors such as social infrastructure, renewable energy and medium enterprises will also be treated as PSL.

While retaining the 40 per cent PSL target for domestic banks, the distinction between direct and indirect agriculture has been done away with. This means banks can meet their entire agriculture lending target – 18 per cent of their net loans disbursed in the previous year - by funding to indirect agriculture, which includes loans to companies engaged in the agriculture sector.

Direct agriculture refers to individual farmers or groups directly engaged in agriculture and allied activities. Nov, food and agro processing units will form part of agriculture.

Priority Sector Lending

1. Agriculture Sector.
2. Small-Scale Industrial Loans.
3. Small Road and Water Transport Operators.
4. Professional and Self-employed.
5. Retail trade Loans.
6. Educational Loan.
7. Housing Loan.
8. Consumption Loan.
9. State-Sponsored Corporations for SC/ST.
10. Other Recommended Priority Sectors.

Loans to build agriculture infrastructure such as storage, as well as those for soil conservation and watershed development, will now be considered farm lending. Loans for ancillary activities such as setting up agro clinics and agribusiness centres will also be part of farm lending.

For small and marginal farmers, banks have to mandatorily extend eight per cent of their overall loans. Lenders will be allowed to achieve the target in a phased manner - seven per cent by March 2016 and eight per cent by March 2017. A target of 7.5 per cent has been set for micro enterprises.

For foreign banks with more than 20 branches in India, the sub-targets for small and marginal farmers and micro enterprises will be made applicable after 2018. Large foreign banks have been asked to meet the PSL targets - on a par with domestic banks - by 2018. The targets for small foreign banks will be brought on a par with those for domestic banks by 2020, in a phased manner.

"Bank loans up to Rs. 5 crore a borrower for building social infrastructure for activities - schools, health care facilities, drinking water facilities and sanitation facilities will be provided in tier-II to tier-VI centres" has been added.

In the renewable energy segment, bank loans of up to Rs. 15 crore for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, etc, will be considered part of PSL. For individual households, the loan limit will be Rs. 10,00,000 a borrower.

On the home finance front, loans of up to Rs. 28 lakh to individuals in metropolitan centres and up to Rs 20 lakh in other centres will qualify as PSL, provided the overall cost of the dwelling unit is 'TU 35 lakh in the metropolitan centres and Rs. 25 lakh in other centres.

RBI has clarified as housing loans backed by long-term bonds are exempted from the PSL mandate. Banks should either include such loans under priority sector or take the benefit of exemption from PSL, but not both.

This means if a bank categorises a home loan under PSL, it won't get exemption in terms of cash reserve ratio (CRR) and statutory liquidity ratio (SLR). For resources raised through long-term bonds to fund affordable housing or infrastructure projects, RBI had exempted banks for maintaining CRR, SLR and PSL. Banks will also be allowed to issue PSL certificates to other lenders to make good shortfalls in meeting PSL targets.

Bank advances to microfinance institutions (MFIs) for lending to individuals, members of self-help groups and joint liability groups will also qualify as PSL, provided the MFIs meet the norms prescribed for micro lending (loan pricing, amount, etc). Every quarter, MFIs have to furnish certificates from a chartered accountant, stating these guidelines have been followed.

Non Performing Assets (NPA)

Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types. All those assets which generate periodical income are called as Performing Assets (PA).

While all those assets which do not generate periodical income are called as Non-Performing Assets (NPA). If the customers do not repay principal amount and interest for a certain period of time then such loans become nonperforming assets -(NPA). Thus non-performing assets are basically non-performing loans. In India, the time frame given for classifying the asset as NPA is 180 days as compared to 45 days to 90 days of international norms.

In India, NPA were very high in the beginning of 90's. Over a period of time there is considerable decline in the NPA's of all banks. In the case of public sector banks, gross non-performing assets were 9.4% in 2002-03 and it declined to 7.8% in 2003-04. The Gross NPA ratio of the banks has witnessed sharp increase from 2.90% as on 31st March 2012 to 3.40% as at end of March 2013. Similarly, the Net NPA ratio has gone up from 1.30% to 1.40% during the same period.

Among the selected seven sectors, Agriculture, Construction, Iron & Steel and Engineering sectors registered highest NPA compared to other sectors. The low level of NPA under infrastructure sector can be attributed to increased incidence of shifting of infra advances to restructured portfolio. If the present trend is not addressed, this sector is likely to witness higher slippage ratio in the ensuing year.

Causes of NPA

NPA arises- due to a number of factors or causes like:-

1. **Speculation** : Investing in high risk assets to earn high income.
2. **Default** : Willful default by the borrowers.
3. **Fraudulent practices** : Fraudulent Practices like advancing loans to ineligible persons, advances without security or references, etc.
4. **Diversion of funds** : Most of the funds are diverted for unnecessary expansion and diversion of business.
5. **Internal reasons**: Many internal reasons like inefficient management, inappropriate technology, labour problems, marketing failure, etc. resulting in poor performance of the companies.

6. **External reasons:** External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delays in payments by government, natural calamities, etc.

Steps taken

Major steps taken to solve the problems of Non-Performing Assets in India :-

1. Debt Recovery Tribunals (DRTs)

Narasimham Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. Accepting the recommendations, Debt Recovery Tribunals (DRTs) were established. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).

2. Securitisation Act 2002

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitisation Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender. The Securitisation Act further empowers the banks to take over the possession of the assets and management of the company. The lenders can recover the dues by selling the assets or changing the management of the firm. The Act also enables the establishment of Asset Reconstruction Companies for acquiring NPA. According to the provisions of the Act, Asset Reconstruction Company of India Ltd. with eight shareholders and an initial capital of Rs. 10 crores has been set up. The eight shareholders are HDFC, HDFC Bank, IDBI, IDBI Bank, SBI, ICICI, Federal Bank and South Indian Bank.

3. Lok Adalats

Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs-. 40 Crores by September 2001.

4. Compromise Settlement

Compromise Settlement Scheme provides a simple Mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances-below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of Willful default and fraud were excluded.

5. Credit Information Bureau

A good information system is required to prevent loans from turning into a NPA. If a borrower is a defaulter to one bank, this information should be available to all banks so that they may avoid lending to him. A Credit Information Bureau' can help by maintaining a data bank which can be assessed by all lending institutions.

Financial Inclusion

Financial inclusion denotes delivery of financial services at an affordable cost to the vast 'sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within

its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty.

NUSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources (of which one third also borrow from informal sources). Farm households not accessing credit from formal sources as a proportion to total farm households is especially high at 95.91%, 81.26% and 77.59% in the North Eastern, Eastern and Central Regions respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, the greater is the exclusion.

Benefits of Financial Inclusion

- It paves the way for establishment of an account relationship which helps the poor to avail a variety of savings products and loan products for housing, consumption, etc.
- An inclusive financial system facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital.
- This also enables the customer to remit funds at low cost. The government can utilize such bank accounts for social security services like health and calamity insurance under various schemes for disadvantaged. From the bank's point of view having such social security cover makes the financing of such persons less risky. Reduced risk means more flow of funds at better rates.
- Access to appropriate financial services can significantly improve the day-to-day management of finances. For example, bills for daily utilities (municipality, water, electricity, telephone) can be more easily paid by using cheques or through internet banking, rather than standing in the queue in the offices of the service.
- Transfer of money can be done more safely and easily by using the cheque, demand draft or through internet banking...
- A bank account also provides a passport to a range of other financial products and services such as short term credit facilities, overdraft facilities and credit card. Further, a number of other financial products, such as insurance and pension products, necessarily require the access to a bank account.
- Lastly, the Employment Guarantee Scheme of the Government which is being rolled out in 200 districts in the country would bring in large number of people through their savings accounts into the banking system.

Steps taken by GOI for Increasing financial inclusion

Government has taken number of steps to expand the reach of organized financial services to the door steps of the common man. Particular attention has been paid to the rural areas where a large segment of the society was not having access to organized banking. Some of the steps taken for financial inclusion are as below:-

• Micro-Finance: Self Help Group-Bank Linkage Programme

The Self-Help Group (SHG)-Bank Linkage Programme has emerged as the major micro-finance programme in the country. It is being implemented by commercial banks, regional rural banks (RRBs), and cooperative banks. Under the SHG-Bank Linkage Programme, as on 31 March 2012, 79.60 lakh SHG-held savings bank accounts with total savings of Rs. 6,551 crore were in operation. By November 2012 another 2.14 lakh SHGs had come under the ambit of the programme, taking the cumulative number of savings-linked groups to 81.74 Lakh.

- **Extension of Swabhimaan Scheme**

Under the Swabhimaan financial inclusion campaign, over 74,000 habitations with population in excess of 2,000 had been provided banking facilities by March 2012, using various models and technologies including branchless banking through business correspondents (BCs). Swabhimaan has been extended to habitations with population more than 1,000 in the North-Eastern and hilly states and population more than 1,600 in the plains areas as per census 2001. 10,450 have been provided banking facilities by end of December, 2012. This will extend the reach of banks to all habitations above a threshold population.

- **Setting up of Ultra Small Branches**

Considering the need for close supervision and monitoring of the Business Correspondent Agents (BCAs) by respective banks and in order to ensure that a range of banking services are available to the residents of such villages, ultra-small branches (USBs) are being set up in all villages covered through BCAs under financial inclusion.. These USBs will comprise a small area of 100-200 sq. feet where the officer designated by the bank will be available with a laptop on pre-determined days. A total of over 40,000 USBs have so far been set up in the country.

- **Roll out of Direct Benefit Transfer**

The Government of India has decided to introduce a Direct Benefit Transfer (DBT) scheme with effect from 1 January, 2013.. To begin with, benefits under 26 schemes will directly be transferred into the bank accounts of beneficiaries in 43 identified districts across respective states and union territories (UT).

- **Agriculture Credit**

As against the target of Rs. 4,75,000 crore fixed for 2011-12, Rs. 5,11,029.09 crore was disbursed to the agricultural sector, thereby exceeding the target by 8 per cent. •

- **Kisan Credit Card Scheme**

The Kisan Credit Card (KCC) has been an important initiative for universal access of farmers to institutional credit. The number of operative KCCs issued by the cooperative banks and RRBs as on 31 August, 2012 was 406 Lakhs against which outstanding loan amount was Rs.1,12,334 crores.

- **ICT Based Accounts - Through BCs**

In order to provide efficient and cost-effective banking services in the un-banked and remote corners of the country, RBI directed commercial banks to provide ICT. based banking services - through BCs. These ICT enabled banking services have CBS connectivity to provide all banking services including deposit and withdrawal of money in the financially excluded regions. The number of ICT-based transactions through BCs increased from 26.52 million in March 2010 to 250.46 million in March 2013, while transactions amount increased steadily from Rs.6.92 billion to Rs233.88 billion during the same period.

- **Expansion of ATM Network**

The total number of ATMs in rural India witnessed a CAGR of 30.6% during March 2010 to March 2013. The number of rural ATMs increased from 5,196 in March 2010 to 11,564 in March 2013.

- **Financial Literacy Initiatives**

Financial education, financial inclusion and financial stability are three elements of an integral strategy. As shown in the diagram below While financial inclusion works from supply side of providing access to various financial services, financial education feeds the demand side by promoting awareness among the people the needs and benefits of financial services offered by banks and other institutions. Regarding

- **Pradhan Mantri Jan-Dhan Yojana**

It is a National Mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the, country. The plan envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility In addition, the beneficiaries would get Repay Debit card having inbuilt accident insurance cover of 1 lakh. The plan also envisages channeling all Government benefits (from Centre / State / Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. The technological issues like poor connectivity, on-line transactions will be addressed. Mobile transactions through telecom operators and their established centres as Cash Out Points are also planned to be used for Financial Inclusion under the Scheme. Also an effort is being made to reach out to the youth of this country to participate in this Mission Mode. Programme.

The Jan Dhan scheme has much simpler Know-Your-Customer rules. An Aadhaar card is proof enough to open your Jan Dhan account on the spot. Attested NREGA cards. voters' ID card are the other documentary proofs that are allowed..For those who don't possess even these, simplified rules regarding proof of identity and address allow opening a more basic account.

- **Mndra Bank**

Micro Units Development & Refinance Agency Ltd. (MUDRA) is a new institution set up by Government of India to provide funding to the non-corporate, non-farm sector income generating activities of micro and small enterprises Whose credit needs are below ₹10 Lakh. Under the aegis of Pradhan Mantri MUDRA Yojana (PM/viY), MUDRA has created three products i.e. 'Shishu', 'Kishore' and 'Tarun' as per the-stage of growth and funding needs of the beneficiary micro unit. These schemes cover loan amounts as below:

- a. Shishu: covering loans up to ₹50,000
- b. Kishore: covering loans above ₹50,000 and up to ₹5,00,000
- c. Tarun: covering loans above ₹5,00,000 and up to ₹10,00,000

All Non-Corporate Small Business Segment (NCSBS) comprising of proprietorship or 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, food processors and others in rural and urban areas, are eligible for assistance under Mudra.

Bank branches would facilitate loans under Mudra scheme as per customer requirements. Loans under this scheme are collateral free loans.

MONETARY POLICY

What is Money?

Economists define money as anything that is generally accepted in

- payment for goods or services or
- in the repayment of debts.

The basic features of money include:

- a. Money may be anything (even a piece of paper) which is chosen by Common agreement as a medium of exchange or means of transferring purchasing power.
- b. It must be widely accepted in payment for goods and services..
- c. It must be easily standardized, making it simple to ascertain its value.
- d. It must be divisible, so that it is easy to make change.
- e. It must be easy to carry.
- f. It must not deteriorate quickly.

Functions

1. **Used as a Medium of exchange (MOE):** In almost all market transactions in our economy, money in the form of currency or checks is a medium of exchange; it is used to pay for goods and services. The use of money as a medium of exchange promotes economic efficiency by minimizing the time spent in exchanging goods and services. It eliminates the problem of going and finding services provided by specialized people a practice prevalent in barter system.
2. **As a Measure Value (Unit of account):** Another important role of money is to provide a unit of account; that is, it is used to measure value in the economy. We measure the value of goods and services in terms of money, just as we measure weight in terms of kilos or distance in terms of meters. In barter system this advantage is missing as one cannot calculate and compare the prices of two different entities available in the market.
3. **Store of Value:** Money functions as a store of value. It is a repository of purchasing power over time. A store of value is used to save purchasing power from the time income is received until the time it is spent. This function of money is useful, because most of us do not want to spend our income immediately upon receiving it, but rather prefer to wait until we have the time or the desire to shop. Even though there exist a number of means to store value such as house, jewelry, stocks, etc. but money has the most liquidity of them all.
4. **Can be used as Deferred Payments:** Money facilitates not only the current transactions of goods and services but also their credit transactions. It facilitates credit transactions when present goods are exchanged against future payments. In the modern world the bulk of deferred payments are stipulated in money terms only.
5. **Distributor of National Income:** Money helps in the distribution of national output among the people who have contributed in its production. In a modern society people co-operate together as workers, owners of capital, landlords, etc., to produce goods. The resultant output is, therefore, to be distributed among all of them in the form of wages and salaries, interest, rent, etc. In the absence of money it would not always be possible to distribute such an output, particularly in case of indivisible goods: e.g. a machine. With the help of money we can overcome such a problem.

Money Supply in India

Money supply refers to total supply of money in circulation in a given country's economy at a given time.

Money supply is considered as an important instrument for controlling inflation by some of the economists.

Economists analyze the money supply and develop policies revolving around it through controlling interest rates and increasing or decreasing the amount of money flowing in the economy. Money supply data is collected, recorded and published periodically by the RBI.

There are several measures for the money supply, such as M1, M2, and M3.

M1 (also called as the Narrow Money) = Currency with public (coins, currency notes etc.) + demand deposits of the public

M2 = M1 + Post office saving deposits

M3 (also called as the broad money) = M1 + Time deposits of public with the banks

M4 = M3 + Total Post office deposits (includes fixed deposits with the post offices)

In case of M1, currency With the public includes currency notes and coins in circulation but excludes cash held by the banks. The demand deposits on the other hand is the money deposited by the people in banks and other deposits with the RBI. People issue cheques against these deposits in the banks. Other deposits components include the deposits kept by certain individuals such as the ex-RBI governor with the RBI.(only few people are allowed to do so).

Money Supply M1 in India increased to 21301.60 INR Billion in May of 2014 from 21103.47 INR Billion in April of 2014. Money Supply M1 in India averaged 4011.39 INR Billion from 1972 until 2014, reaching an all time high of 21301..60 INR Billion in May of 2014 and a record low of 80.15 INR Billion in January of 1972.

In case of M3, fixed deposits (or timed deposits, with a time barrier) are also included for calculations. The reason why they are included in the calculation of money supply is because in case of fixed or timed deposits the depositors can borrow from the banks against them. Also, in some cases the depositors are allowed to withdraw their deposits after foregoing some interest and paying a penalty. The basic difference between M1 and M3 is the treatment of timed deposits with the banks. Narrow money excludes the timed deposits of the public with the banking system' on the ground that they are incoming earning assets and not liquid in the real sense.

Money Supply M3 in India decreased to 97058.34 INR Billion in May: of 2014 from 97078.77 INR Billion in April of 2014. Money Supply M3 in India averaged 15393.46 INR Billion from 1972 until 2014, reaching an all time high of 97078.77 INR Billion in April of 2014 and a record low of 123.52 INR Billion in January of 1972.

In case of M2 or M4, strangely the RBI does not count the deposits (either fixed or small saving deposits) as a part of the aggregate money resources of the country Post office savings deposits are far less liquid than commercial bank savings. Savings deposits with post office can be withdrawn on demand. but have the following restrictions:

- 1) Chequable portion of these deposits is very small.
- 2) There are restrictions on number of withdrawals in week.

- 3) There is a maximum limit on the amount of any single withdrawal (unless an advance notice is given to the post office).

Consequently, post office savings deposits cannot serve as a medium of exchange and are less liquid than the savings deposits with the commercial bank. It is with a view to treating post office savings deposits as Separate from the commercial bank savings deposits that M2 and M4 series of money supply we provided by the RBI. Money Supply M2 in India increased to 21351.95 INR Billion in May of 2014 from 21157.87 INR Billion in April of 2014. Money Supply M2 in India averaged 7281.92 INR Billion from 1991 until 2014, reaching * an all time high of 21351.95 INR Billion in May of 2014 and a record. low of 1127.49 INR Billion in November of 1991.

Money supply with the public is influenced mainly by:

- The Central Bank of country and its commercial banks (Monetary Policy).
- Fiscal policy, the government also fleets, some extent, the supply of money..

Monetary Policy

Monetary Policy refers to the measures pertaining to policy undertaken by the Central Bank (RBI) to influence the availability, determine the size and rate of growth of the money supply in the economy.

In other words, monetary policy can be defined as a process of managing a nation's money supply to contain/ control the inflation, achieving higher growth rates and achieving full employment. Generally, all across the globe, monetary policy is -announced by the central banking body of the country, for example the RBI announces it in India.

India entered into the era of economic planning in 1951.

The Monetary and Fiscal Policies had to be adjusted to the requirements of the planned development in the country and accordingly, the economic policy of the Reserve Bank was emphasized on two objectives:

- To speed up the economic development of the nation and raise the national income and standard of living of the people.
- Control and reduce the "Inflationary" pressure on the economy.

Monetary policy are of two kinds:

1. Expansionary Monetary Policy:

It increases the supply of money in an economy by making credit supply easily available. Money produced through such a policy is called as cheap money.

An expansionary monetary policy is required when an economy goes through a phase of recession accompanied by lower levels of growth/high levels of unemployment. But risk associated with EMP is inflation.

2. Contractionary Monetary Policy:

It decreases the supply of money in the economy. Contractionary monetary is used to tackle the menace of inflation in the economy by raising the interest rates.

Objectives of Monetary Policy

In India, as defined by former RBI governor C. Rangarajan, broad objectives of monetary policy are:

- a) To regulate monetary expansion so as to maintain a reasonable degree of price stability; and
- b) To ensure adequate expansion in credit to assist economic growth

Further the 'objectives of Monetary Policy are:

- a) **It leads to economic growth:** The monetary policy can influence economic growth by controlling real interest rates and its resultant impact on the investment. If the RBI opts for a cheap credit policy by reducing interest rates, the investment level in the economy can be encouraged. This increased investment can speed up economic growth.
- b) **Price Stability:** Inflation and deflation both are not suitable for an economy. Price stability is defined as a low and stable order of inflation. Thus, the monetary policy having an objective of price stability tries to keep the value of money stable.
- c) **Exchange Rate Stability:** If exchange rate of an economy is stable it shows that economic condition of the country is stable. Monetary policy aims at maintaining the relative stability in the exchange rate. The RBI by altering the foreign exchange reserves tries to influence the demand for foreign exchange and tries to maintain the exchange rate stability.
- d) **It generates employment:** Monetary policy can be used for generating employment. If the monetary policy is expansionary then credit supply can be increased. It would thus help in creating more jobs in different sector of the economy.
- e) **Equitable distribution of income:** Earlier many economists used to justify the role of the fiscal policy in maintaining economic equality. However, in recent years economists have given the opinion that the monetary policy can play a supplementary role in attaining economic equality.

Methods for Regulation of Monetary Policy

The methodology can be classified into two categories:

A. Quantitative Credit Control Methods:

1. Statutory Liquidity Ratio:

The Statutory Liquidity Ratio refers to that proportion of total deposits which the commercial banks are required to keep with themselves in a liquid form. The commercial banks generally make use of this money to purchase the government securities. Thus, the Statutory Liquidity Ratio, on the one hand, is used to siphon off the excess liquidity of the banking system, and on the other, it is used to mobilize revenue for the government. The Reserve Bank of India is empowered to raise this ratio upto 40 per cent of aggregate deposits of commercial banks. At present it is 21.25 per cent. It used to be as high as 38.5 percent at one point of time.

2. Cash Reserve Ratio:

The Cash Reserve Ratio (CRR) is the ratio fixed by the RBI of the total deposits of a bank in India, which is kept with the RBI in cash form. CRR deposits do not earn any interest for banks. Initially, limits of 4% (lower) and 20% (upper) were set for CRR, but respective amendments removed the limits, therefore providing RBI with much needed operational flexibility. The more the CRR the less the money available for lending by the banks to players in the economy. RBI increases CRR to tighten credit and lowers CRR to expand credit in the

economy. CRR as a tool of monetary policy is used when there is a relatively serious need to manage credit and inflation. Otherwise, RBI relies on signaling its intent through the policy rates of repo and reverse repo. At present it is 4 per cent.

3. Bank Rate:

In basic terms, bank rate is the interest rate at which RBI provides long term credit facility to commercial - banks. A change in bank rate affects the other market rates of interest. An increase in bank rate leads to an increase in other rates of interest, and conversely, a decrease in bank rate results in a fall in other rates of interest. Bank rate is also referred to as the discount rate. A deliberate manipulation of the bank rate by the Reserve Bank to influence the flow of credit created by the commercial banks is known as bank rate policy.

An increase in bank rate results in an increase in the cost of credit or cost of borrowing. This, in turn leads to a contraction in demand for credit. A contraction in demand for credit restricts the total availability of money in the economy, and hence-results as an anti-inflationary measure of control.

Likewise, a fall in the bank rate causes other rates of interest to come down. The cost of credit falls. i.e., borrowing becomes cheaper. Cheap credit may induce a higher demand both for investment and consumption purposes. More money through increased flow of credit comes-into circulation. A fall in bank rate may, thus, prove an anti-deflationary instrument of control. Penal rates are linked with Bank Rates. For instance if a bank does not Maintain the required level of CRR and SLR, then RBI can impose penalty on such banks. Currently Bank Rate is 7%.

Nowadays, bank rate is not used-a tool to control money supply, rather LAF (Repo Rate) is used to control the money supply in economy.

4 . Repo Rate:

Repo rate is the rate at which banks borrow funds from the RBI to meet the gap between the demands they are facing for money (loans) and how much they have on hand to lend. In simple words Repo Rate is the interest rate- charged by the Central Bank from other banks for short-term borrowings.

If the RBI wants to make .it more expensive for the banks to borrow money, it increases the repo rate; similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate. Repo rate stood at 6.5%.

5. Reverse Repo Rate:

Reverse Repo is the rate at which the Central Bank (RBI) borrows from the market. This is called as reverse repo as it the reverse of repo operation. Reverse repo rate at present is 50 basis points (or 0.5%) lower than the Repo Rate.

Repo and Reverse Repo Rates are also referred to as the Policy rates and are often used by the Central Bank (RBI) to send signal to the financial system to adjust their lending and borrowing operations.

Repo rates and reverse repo rates form a part of the liquid adjustment facility.

6. Open Market Operations (OMOs):

It refers to buying and selling of government securities in open market in order to expand or contract the amount of money in the banking system. This technique is superior to bank rate policy. Purchases inject money into the banking system while sale of securities do the opposite. It is a common misconception that OMOs change the total stock of government securities, but

in reality they only change the proportion of Government Securities held by the RBI, commercial and co-operative banks: The Reserve Bank of India has frequently resorted to the sale of government securities to which the commercial banks have been generously contributing. Thus, open market operations in India have served; on the one hand as an instrument to make available more budgetary resources and on the other as an instrument to siphon off the excess liquidity in the system

B. Qualitative Credit Control Methods

These are those tools through which the Central Bank not only controls the value of loans but also the purpose for

which these-loans are assigned by the commercial banks. Some of these are

a) Moral Suasion:

Moral suasion means persuasion and request. To arrest inflationary situation Central Bank persuades and requests the commercial banks to refrain from giving loans for speculative and non-essential purposes. On the other hand, to counter deflation Central Bank persuades the commercial banks to extend credit for different purposes. Under Moral Suasion, RBI issues periodical letters to bank to exercise control, over credit in general or advances against particular commodities. Periodic discussions are held with authorities of commercial banks in this respect. In India, from 1949 onwards the Reserve Bank has been successful in using the method of moral suasion to bring the commercial banks to fall in line with its policies regarding -credit..

b) Rationing of credit:

Rationing of credit is a method by which the Reserve Bank seeks to limit the maximum-amount of loans and advances, and also in certain cases fix ceiling for specific categories of loans and advances.- RBI also makes credit flow to certain priority or weaker sectors by charging concessional rates of interest. This is at times also referred to as Priority Sector Lending.

c) Regulation of Consumer Credit:

Now-a-days, most of the consumer durables like Cars, Televisions, and Laptops, etc. are available on installment basis financed through bank credit. Such credit made available by commercial banks for the purchase of consumer durables is known as consumer credit.

If there is excess demand for certain consumer durables leading to their high prices, Central Bank can reduce consumer credit by (a) increasing down payment, and (b) reducing the number of installments of repayment of such credit.

On the other hand, if there is deficient demand for certain specific commodities causing deflationary situation, Central Bank can increase consumer credit by (a) reducing down-payment and (b) increasing the number of installments of repayment of such credit.

d) Direct action

This method is adopted when a commercial bank does not co-operate with the central bank in achieving its desirable objectives. Direct action may be as :

Central banks may charge a penal rate of interest over and above the bank rate upon the defaulting banks; Central bank may refuse to rediscount the bills of those banks which are not following its directives; Central bank may refuse to grant further accommodation to those banks whose borrowings are in excess-of their capital and reserves.

e) Margin Requirements:

Generally; commercial banks give loan against 'stocks or 'securities. While giving loans against stocks or securities they keep margin. Margin is the difference between the market value of a security and its maximum loan value. Let us assume, a commercial bank grants a loan of Rs. 8000 against a security worth Rs. 10,000. Here, margin is Rs. 2000 or 20%.

If central bank feels that prices of some goods are rising due to the speculative activities of businessmen and traders of such goods, it wants to discourage the flow of credit to such speculative activities. Therefore, it increases the margin requirement in case of borrowing for speculative business and thereby discourages borrowing. This leads to reduction in money supply for undertaking speculative activities and thus inflationary situation is arrested.

Limitations of Monetary Policy

- a) The monetary policy of Reserve bank has played only a limited role in controlling the inflationary pressure. It has not succeeded in achieving the objective of growth with stability
- b) The existence of black money in the economy limits the working of the monetary policy. Black money is not recorded since the borrowers and lenders keep their transactions secret.
- c) Non-bank financial intermediaries like the indigenous bankers operate on a large scale in countries like India but they are not under the control of the monetary authority. This factor limits the effectiveness - of monetary policy in such countries
- d) An important limitation of monetary policy arises from its conflicting objectives. To achieve the objective of economic development, the monetary policy is to be expansionary but contrary to it is to achieve the objective of price stability and curb on inflation. It can be realised by contracting the money supply. The monetary policy generally fails to achieve a proper coordination between these two objectives.
- e) Another limitation of monetary policy in India is underdeveloped money market. The weak money market limits the coverage, as also the efficient working of the monetary policy.

Some Important Terms

• Inflation Indexing:

There is a need for a core inflation sector index to be adopted by the RBI, as one of the parameter. For deciding its monetary policy which excludes those sectors over which RBI's policies don't have much control. Eg. In USA, a core inflation index excludes food and oil from the basket because prices of these commodities do not respond to Federal Reserve policy. The excluded items differ from country to country depending on their volatility. This will make RBI's aims more realistic.

From above discussions one can infer that a simplistic inflation-targeting approach i.e. Fighting inflation first through stabilization and worrying about growth later is an IMF approach that has not worked well elsewhere in the world and will not work in India. We need a more comprehensive approach that will revive growth and lower inflation simultaneously. The interactions between monetary, fiscal and supply-side policies will need to be taken into consideration to get out of our current stagflation (any) predicament.

• **Quantitative Easing:**

This term is used to describe a situation or a form of monetary policy which used to simulate an economy when the interest rates are very low or zero. It is an occasionally used monetary policy, which is adopted by the government to increase money supply in the economy in order to increase lending by commercial banks and spending by consumers. The central bank infuses a pre-determined quantity of money into the economy by buying financial assets from commercial banks and private entities. This leads to an increase in banks' reserves.

Usually, central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. Lower interest rates encourage people to spend, not save. But when interest rates can go no lower, a central bank's only option is to pump money into the economy directly. That is quantitative easing (QE).

Quantitative easing comes with its own risks such as Inflation and Depreciation.

Inflation occurs because with more money in economy, the cost of goods tends to rise. Depreciation can occur because with more currency in supply, one can buy less foreign bonds thus reducing the value of domestic currency.

It was tried first by a central bank in Japan to get it out of a period of deflation following its asset bubble collapse in the 1990s. The US government has done this two times so far. QE1 started November 2008 and concluded in March of 2010. In QE2 the Federal Reserve purchased \$600 billion through Treasury securities and started in November 2010 and was concluded in June of 2011.

• **Marginal Standing Facility:**

Marginal Standing Facility (MSF) rate refers to the rate at which the scheduled banks can borrow funds overnight from RBI against government securities. MSF is a very short term borrowing scheme for scheduled commercial banks. Banks may borrow funds through MSF during severe cash shortage or acute shortage of liquidity.

Banks often face liquidity shortfalls due to mismatch in their deposit and loan portfolios. These are usually very short term and banks can borrow from RBI for one-day period by offering dated government securities.

The MSF is the last resort for banks once they exhaust all borrowing options including the liquidity adjustment facility by pledging through government securities, which has lower rate (i.e. repo rate) of interest in comparison with the MSF. The MSF would be a penal rate for banks and the banks can borrow funds by pledging government securities within the limits of the statutory liquidity ratio. The scheme has been introduced by RBI with the main aim of reducing volatility in the overnight lending rates in the inter-bank market and to enable smooth monetary transmission in the financial system. MSF rate automatically adjusts to 0.5 per cent above the repo rate.

• **Base Rate:**

Base Rate is the interest rate below which Scheduled Commercial Banks (SCBs) cannot lend to their customers. This rate was introduced in 2010 based on the recommendation of Deepak Mohanty Committee.

It was brought in to ensure that corporate houses are not lent money at low rates and Small and Medium business are not discriminated against with higher loan rates. In past banks used to compensate for lower rates for corporates by charging exorbitantly higher rates from Small and Medium Businesses (SMBs). One another benefit of Base Rate is that It helps in monetary

transmission, i.e. rate reductions undertaken by RBI pass through to all the sections of the economy. In absence of such a regime corporate houses get the reduction and SMBs continue to pay higher rates.

This system has replaced the much abused Benchmark-Prime Lending Rate (BPLR). The BPLR system, introduced in 2003, fell short of its original 'objective of bringing transparency to lending rates.

Base rate is determined on the basis of a bank's costs of funds which include costs of deposits, profit margins, operating expenses & administrative expenses and statutory expenses.

Now, all categories of loans are priced with reference to the Base Rate, except:

- a) Differential rate of Interest (DRI) loans;
- b) Loans to banks' own employees; and
- c) Loans to banks' depositors against their own deposits.

Since the Base Rate will be the minimum rate for all, loans banks are not permitted to resort to any lending below this rate- accordingly, the provision of lending below the BPLR to a customer by banks if the loan amount is not less than Rs. 2 lakh has been withdrawn.

Urjit Patel Committee Report on Monetary Policy

In January 2014, RBI appointed an expert committee headed by Deputy Governor of RBI, Shri Urjit Patel to examine its current monetary policy framework. The committee made several far reaching recommendations, some of which have been discussed below:

- The most important recommendation of the committee was that the RBI should focus on controlling inflation in the economy or in other words inflation should be the nominal anchor to frame monetary policy
- The nominal anchor or the target for inflation should be set at 4 per cent with a band* of +/-0.2 per cent around it.
- The nominal anchor should be defined in terms of headline CPI inflation; which closely reflects the cost of living and influences inflation expectations relative to other available metrics.
- Historically, Indian policymakers have relied on the wholesale price index.
- Given the current elevated level of CPI inflation, it recommended a 12-month target of 8 per cent and 24-month target of 6 per cent, before the inflation target is formally adopted.
- The committee asked the Central Government to ensure that the fiscal deficit as a ratio to GDP (gross domestic product) is brought down to 3.0 per cent by 2016-17.
- The Patel panel felt that the monetary policy decision-making should be vested with a monetary policy committee (MPC).
- It went on to recommend that the Governor of the RBI should be the Chairman of the MPC. It felt that the Deputy Governor in-charge of monetary policy could be the Vice-Chairman. The Executive Director in charge of monetary policy could be its member. It could have two external members.
- The term of office of the MPC could be three years, without prospect of renewal.
- Minutes of the proceedings of the MPC will be released with a lag of two weeks from the date of the meeting
- Currently, the RBI governor is the 'sole decision maker on monetary policy though he is advised by his four deputy governors and a technical advisory committee.

Concerns regarding Urjit Patel Committee Recommendations

- Experts feel that it is premature to use the Consumer Price Index (CPI) as anchor since the data had imperfections.
- Inflation targeting was done in :countries -Which had more stable kind of pricing. In India, it may be difficult to do that kind of targeting because that level of stability is not yet achieved in the prices where we can curb certain volatilities or volatility in certain periods through a very specific targeting.
- Some experts believe the panel recommendation for adopting monetary policy, which is centered on inflation, will be a shift from traditional policymaking, and will also bring RBI policy calibration closer to the international practices-.

Financial Sector Legislative Reforms Commission

Financial Sector Legislative Reforms Commission (FSLRC) was set up by the Indian Government to help rewriting and harmonizing the financial sector legislation, rules and regulations so as to address the contemporaneous requirements of the sector.

The establishment of the FSLRC is the result of a realisation that the institutional foundation (laws and organizations) of the financial sector in India needs to be looked afresh to assess its soundness for addressing the emerging requirements in a rapidly changing world. Today, India has over 60 Acts and multiple Rules/ Regulations that govern the financial sector. Many of them have been written several decades back. For example, the RBI Act and the Insurance Act are of 1934 and 1938 vintage respectively and the Securities Contract Regulation Ad, which governs securities transactions, was legislated in 1956 when derivatives and statutory regulators were unknown in the financial system. A Large number of amendments were, therefore, made in these Acts and regulations at different points of time to address various needs. But these have also resulted in their fragmentation, often adding to the ambiguity and complexity of regulations in the financial sector.

The seven pillars of the new Law are:

- Reserve Bank of India: Regulator of Banking & Payments monetary policy.
- Unified Financial Agency: Regulator of financial firms and activities other than banking and payments.
- Resolution Corporation: Deals with closure of distress in firms.
- Financial Redressal Agency: Single window complaint mechanism against financial institutions and intermediaries.
- Financial Stability & Development Council: Recast as statutory body. Will mange systematic risks and development.
- Public Debt Management Agency: Government's debt manager.
- Financial Sector Appellate Tribunal: Will hear complaints against all financial regulators.

INFLATION

Inflation refers to a gradual rise in the general price level in the economy and a fall in purchasing power of money over a period of time. In simple words, inflation is nothing but a rise in average price level of all the goods and services in an economy. Inflation occurs when too much money chases too few goods that is, even though money supply increases the supply of goods and services does not increase commensurately.

Types of Inflation

On the basis of rate of inflation, it is categorized into three types:

- a) **Trotting Inflation** lies in the range of 5% to 10%, which if not controlled properly may lead to "galloping inflation" at a rate of 10% to 20% annually. This galloping inflation may worsen into "runaway inflation" too.
- b) **Creeping Inflation** occurs when the inflation rate is in the range of 1% to 5%. Such inflation erodes the purchasing power of money, but is referred to as manageable and sometimes inevitable in a growing economy.
- c) **Hyper Inflation:** This form of inflation is out of control, which might have the annual rate in million or even trillion. In such inflation not only the range of increase is very large, but the increase takes place in a very short span of time, prices shoot up overnight. One of the most famous examples of hyperinflation occurred in Germany between January 1922 and November 1923, Among the recent examples the one experienced in Zimbabwe in 2008 is a prominent one.

Based on the causes of inflation, it can be classified into:

- a) **Demand Pull Inflation:** This type of inflation is caused by increase in demand and when the demand in the economy outgrows the supply in the economy. This kind of inflation can be described by "too much money chasing too few goods". One of the reasons for demand pull inflation can be the increase in money supply.
- b) **Cost-push Inflation:** It is also referred to as supply shock inflation. Such inflation occurs due to reduced supplies because of increased prices of inputs. For example, an increase in price of international crude oil adversely affects the inputs of almost all the items in a country like India, which neither has alternatives to oil for energy needs nor has significant amount of domestic oil production.
- c) **Structural Inflation:** This type of inflation is also called as bottleneck inflation. Such an inflation is built into the economic system due to government policies. Such inflation occurs from time to time because of weather and seasonal conditions leading to shortage of supply in goods and services.

What Causes Inflation?

Inflation primarily occurs due to two sets of factors, the demand-pull factors and the cost-push factors. Both of them have been explained below in detail:

a) Demand Pull factors:

These are those set of factors due to which there may be an increase in the demand for goods and services in the economy.

- (i) **Increase in government expenditure:** Increased government expenditure results in increased demand for goods and services and consequent increase in prices. This is because increased government expenditure results in putting large money in the hands of public, thereby putting to effect too much money chasing too few goods.
- (ii) **Rising population:** Increasing population also acts as an important factor in pushing up prices because of increased demand especially when the supply is unable to meet the demand.
- (iii) **Black. Money:** A large part of the black money is used in buying and selling of real estate in urban areas, extensive hoarding and black marketing in essential wage goods, such as cereals, pulses. etc. Black money, therefore, fuels demands and leads to rise in prices.
- (iv) **Changing consumption patterns:** One theory that was put forward by senior officials at the Reserve Bank of India (RBI) is that the inflation problem in India has its roots in a sharp increase in demand for certain food items that people eat more frequently as incomes rise. One example is protein-rich food. Increased consumption of pulses, eggs, fish and poultry were 'apparently driving up their prices in the economy.

b) Cost- Push Factors:

The reasons are:

- (i) Rise in wages: At times rise in wages, if greater than rise in productivity, increases the costs therefore increasing the prices too.
- (ii) Increase in indirect taxes also leads to cost side inflation. Taxes such- as custom and excise duty raise the cost of production as these taxes are levied on commodities.
- (iii) Increase in administered prices such as the MSP (Minimum Support Price) for the food grains, petroleum. products, etc also leads to inflation as they have a huge—share in budget of common citizens.
- (iv) Infrastructural bottlenecks: Infrastructural bottlenecks such as the lack of proper roads, electricity, water, etc raise per unit cost of production. This is one of the prime reasons for inflation in the context of Indian economy.
- (v) Fluctuation due to seasonal and cyclical reasons: Owing to events such as failed monsoons there is a drop in agricultural productivity, which inevitably results in inflation at times.

How is Inflation Measured?

The inflation rate is calculated as a percentage change in a price index. The price indices widely used for this are the Consumer Price Index (CPI) - adopted by countries such as US, UK. Japan and China, and the Wholesale Price Index (WPI).

In the WPI-based inflation calculation, a set of 676 commodities and their price changes are considered. The selected commodities are supposed to represent various strata of the economy and are supposed to give comprehensive WPI value for the economy. It is also called as headline inflation.

The WPI is calculated on a base- year. For the base year it is assumed to be 100.

The new WPI index released by the government includes 676 items against the 435 items of previous year. This presented a more comprehensive picture of inflation in the economy compared to earlier. This new WPI index is based on the recommendations of a working group set up under the guidance of Abhijit Sen.

In the new WPI series, 102 primary items find a way compared to the 9S earlier. It also accounted for 555 items of manufactured products compared to 318 items earlier.

One of the major limitations of WPI is that it does not include services such as the health, IT. Education, transport etc, Another problem With the WPI is that it does not account for the products of the unorganized sector in India, which constitutes about 35% of the manufactured output of the Indian economy.

Weightage in WPI

- Manufacturing products: 65%
- Primary and food articles: 20%
- Fuel and electricity: 15%

Apart from the WPI, inflation in India is calculated at the consumer level also by the mean of CPI. Because the wide disparities in the consumption baskets for different segment of consumers, India has not been able to evolve a single and a comprehensive consumer price index. The four CPIs adopted by India are:

CPI (Industrial Workers): The Consumer Price Index for the industrial workers (CPI-IW) has 260 items (plus -the services) in its basket with 2001 as the base year (the first base year was 1958-59). The data is collected at 76 centres with one month's frequency and the index has a time lag of one month. It contains 120- 160 commodities in its basket. Basically, this index 'specifies the government employees (other than banks' and embassies' personnel). The wages/salaries of the central government employees are revised on the basis of the changes occurring in this index, the dearness allowance (DA) is announced twice a year. When the Pay Commissions recommend pay revisions, the base is the CPI '(IW).

CPI (Urban Non- Manual Employees): The Consumer Price Index for the Urban Non-Manual Employees (CPIUNME) has 1984-85 as the base year and.146-365 commodities in the basket for which data-is collected monthly with two weeks' time lag.

This price index has limited use and is basically used for determining dearness allowances (DAs) of employees of some foreign companies operating in India (i.e. airlines, communications, banking, insurance, embassies, and other financial services). It is also used under the Income Tax Act to determine capital gains and by the CSO (Central Statistical Organisation) for deflating selected service sector's contribution to the GDP at factor cost and current prices to calculate the corresponding- figure at constant prices.

CPI (Agricultural Labour): The Consumer Price Index for Agricultural Labourers (CPI-AL) has 1986-87 as its base year with 260 commodities in its basket. The data is collected in 600 villages with a monthly frequency and has three weeks-time lag.

This index is used for revising minimum wages for agricultural labourers in different states.

CPI (Rural Worker): There is vet another Consumer Price Index for the Rural Labourers (CPI-RL) with 1983* as the base year, data is collected at 600 villages on monthly frequency with three weeks' time lag, and its basket contains 260 commodities.

In 2011 the CSO brought out a revised CPI, which was CPI (Urban), CPI (Rural) and CPI (Urban + Rural) with 2010 as the base price. The combined one would take into account the data from both the indices taking appropriate weights:

When compared to the WPI, CPI has much larger weightage of primary articles which is 57%. What this essentially means is that food inflation is reflected much more appropriately in the CPI when compared to the WPI which gives only 20% weightage to primary articles.

To compile the database for CPI-urban, the federal statistics office, has been collecting data from retail outlets in more than 100 cities, and for CPI-rural data collection is underway in more than 1,200 villages.

Due to a shortage of staff, the statistics department has roped in officials from various departments including the postal department. More than 2,400 postmen were engaged in collection of retail prices from villages across the country.

Currently, the labour ministry and the commerce and industry ministry are involved in compiling and releasing inflation figures. The ministry is also awaiting the cabinet's approval for a single nodal agency for compiling data.

PPI (Production Price Index): It is constructed at producer level before commodity reaches the market. It captures the price rise at producer level itself.

Recent changes in methodology of measuring inflation

Reserve Bank of India (RBI) had adopted the new Consumer Price Index (CPI) (combined) as the key measure of inflation. The national CPI is meant to measure retail inflation. This index will combine urban and rural CPIs, both under preparation and to be released simultaneously. Unlike many other countries, India does not have a unified CPI and uses the WPI as a benchmark. The unified CPI will usher in a fundamental shift in the way the Reserve Bank of India (RBI) targets inflation.

Recently Union Government and the Reserve Bank of India (RBI) have signed an agreement on Monetary Policy Framework. According to the framework the Reserve Bank of India will aim to bring retail inflation below 6% by January 2016. The target of financial year 2016-17 and all subsequent years shall be four per cent with a band of (+/-) 2 per cent.

The agreement also requires the RBI to give the government a report in case the target is missed for a specified period. The RBI is also required to make public every six months a document explaining the sources of inflation and the inflation forecast for the period between six and eight months. In case of any dispute arising out of interpretation of the agreement, it would be resolved through a meeting between the RBI governor and the government. The new monetary policy committee, which will set the inflation target, will have eight members, including a finance ministry nominee and external members. The RBI governor will head the panel and, as such, will have the veto power in the new monetary policy framework. The agreement comes in line with the recommendations of the RBI's Urjit Patel committee on inflation targeting aiming to smoothen the monetary policy.

Terminologies associated with inflation

Stagflation: Stagflation refers to a situation in an economy when inflation and unemployment both are at high levels. Such a situation occurs when the inflation may have gone on for a long period and resultantly affected the input prices as well as the demand for goods and services in the economy.

Deflation: This is nothing but the complete opposite of inflation as there is a fall in the general price levels in the economy over a period of time. Deflation occurs when the inflation rate falls below 0%. This should not be confused with disinflation, a slow-down in the inflation rate. Following the Asian financial crisis in late 1997, Hong Kong experienced a long period of deflation which did not end until the end of 2004.

Recession: It is a situation which is characterized by negative growth rate of GDP into successive quarters. Some of the indicators of a recession include slowdown in the economy, fall in investments, fall in the output of the economy, etc.

Depression: It is an extreme form of recession and characterizes a situation in which the recession may have gone on for too long resulting in depression of the economy. A common rule of thumb for recession is two quarters of negative GDP growth. The corresponding rule of thumb for a depression is a 10 percent — decline in gross domestic product (GDP). Some of the indicators of a depression are huge fall in demand and consumption of goods and services, shattering of business confidence, a sharp decline in the output of the economy and investments. One of the examples of depression is the great depression of 1930s.

Inflation Spiral: An inflationary situation in an economy, which results out of a process of wage and price interaction when wages press prices up and prices pull wages up is known as the inflationary spiral. It is also known as the wage-price spiral. This wage-price interaction was seen as a plausible cause of inflation in the year 1935 in the US economy, for the first time.

Reflation: Reflation is a situation often deliberately brought by the government to reduce unemployment and increase demand by going for higher levels of economic growth. Governments go for higher public expenditures, tax cuts, interest rate cuts, etc. Fiscal deficit rises, extra money is generally printed at higher level of growth, wages increase and there is almost no improvement in unemployment. Reflation can also be understood from a different angle—when the economy is crossing a cycle of recession (low inflation, high unemployment, low demand, etc.) and government takes some economic policy decisions to revive the economy from recession, certain goods see sudden and temporary increase in their prices, such price rise is also known as reflation.

Inflation Tax: It is a situation in which more and more people come under higher income bracket under progressive taxation because as inflation goes up, the money wages also goes up. However real income of people reduces and government collects more taxes. It is also called as fiscal drag.

How Can Inflation be Curbed ?

Monetary, fiscal and administrative measures are taken to control inflation to an optimal level in the economy.

a) Monetary Measures

- i) The governments may take recourse to tighter Monetary policy to cool down either the demand-pull or the cost-push inflation. For example, the RBI may increase the bank rates/repo rates, etc. to curb the supply of money in the market. Because of such a step, the public may want to invest more in the banks and lead to a drop in the consumption, thereby driving down the inflation in the economy.

- ii) It may also use qualitative control methods such as raise margins on loans for commodities for which traders have a tendency to speculate and hoard.
- iii) Reserve Bank may also resort to other operations such as the Open Market Operations to mop out the liquidity from the market by selling government securities and bonds.

But monetary steps can only be successful if inflation is due to demand pull factors and not structural in nature. Some of the limitations of raising interest rates to curb inflation have been discussed below:

- i) It has been observed several times in the past that the increase in bank rate by the RBI may not translate into a commensurate increase in interest rates by the banks. Banks necessarily do not raise their own interest rates at times even if the correct signals have been given by the RBI thereby defeating the entire purpose of the move.
- ii) Another issue, which is important in a country like India, is the large presence of unorganised banking. Because of this RBI is not able to control a large part of the banking sector in the economy.

b) Fiscal Measures

As far as fiscal measures are concerned the government can take two routes to bring down the prices. Firstly, it can cut down its own spending on various schemes, projects, etc and secondly it can increase the taxes (either direct or indirect).

As far as the first option is concerned most of the governments across the world do not employ this method for, two, simple reasons, first they cannot suddenly reduce the money, which is being spent on several critical projects pertaining to infrastructure, etc as it would not only bring down the image of the country but also create a negative market sentiment. Secondly, if they cut down spending on several important welfare schemes, etc then it may politically harm them in the next elections. So cutting down government expenditure is not considered feasible because of a mix of reasons.

The second method is raising the taxes to discourage spending. The government may increase the private direct taxes to reduce the incomes and thereby decreasing the consumption tendencies among the public. It may also increase the indirect taxes on commodities raising their prices and, thereby discouraging spending on them by the public.

FISCAL POLICY

Fiscal Policy is a tool of general macroeconomic policy that seeks to influence the level of economic activity.

Fiscal policy deals with the taxation borrowing and expenditure decisions of the government. Fiscal policy is an important constituent of the overall economic framework of a country and is therefore intimately linked with its general economic policy strategy.

Objectives of Fiscal Policy

In a system of indicative planning reliance on fiscal policy as an instrument of development is considerable. The Planning Commission has stated in the Seventh Five Year Plan "Though with it the government creates and sustains the public economy consisting of the provision of public services and public investment; at the same time it is an instrument for reallocation of - resources according to national priorities, redistribution, promotion of private savings and investments, and the maintenance Of stability". Thus fiscal policy primarily aims at economic growth with price stability. Among other goals of fiscal Policy are: capital formation, resource allocation and redistribution for mitigating inequality. It is notable that fiscal policy in a developed country is preoccupied with the problems of business cycle-boom and depression. But in a developing economy, tackling business cycle becomes secondary because the prime objective of such economies is capital formation through increased savings and investments in order to achieve high level of economic growth. Further, given scarcity of capital and other resources in a developing economy, it is imperative to allocate resources to various sectors of the economy and heads of development judiciously and in line with development priorities. Fiscal policy helps to achieve these goals.

Types of Fiscal Policy

1. Expansionary fiscal policy

It is defined as an increase in government expenditures and/or a decrease in taxes that causes the government's budget deficit-to increase or its budget surplus to decrease.

A government can adopt Expansionary fiscal policy on the following basis:

- (a) Government needs to borrow from domestic or foreign sources.
- (b) Print an equivalent amount of money.
- (c) Draws upon its foreign exchange reserves
 - But flipside of printing is it leads to inflation.
 - If the government borrows too much from abroad it leads to a debt crisis.
 - If it draws down on its foreign exchange reserves, a balance of payments crisis may arise.

2. Contractionary fiscal policy

It is defined as a decrease in government expenditures and/or an increase.in taxes that causes the government's budget deficit to decrease or its budget surplus to increase.

3. Neutral Fiscal Policy

It is usually .undertaken when an economy is in equilibrium. Government spending is fully funded by tax revenue and overall the budget outcome has a neutral effect on the level of economic activity.

Instruments of Fiscal Policy

Fiscal policy is carried out by the legislative and/or the executive branches of government. The two main instruments of fiscal policy are

- (a) Government expenditure
- (b) Taxes

The government collects taxes in order to finance expenditures on a number of public goods and services. The effect of government expenditures, taxation, and debt on the aggregate economy is of immense importance.

Government Expenditure

Public Expenditure also known as Government expenditure which can be classified under the following heads:

1. Capital Expenditure

Capital Expenditures of the government are those expenditures which result in creation of physical or financial assets or reduction in financial liabilities. These include:

- expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and
- loans and advances by the central government to State and Union Territory governments, PSUs and other parties.

2. Revenue Expenditure

Revenue Expenditure is expenditure incurred for purposes other than the creation of physical or financial assets of the central government (day to day expenses). It relates to:

- expenses incurred for the normal functioning of the government departments and various services;
- interest payments on debt incurred by the government; and
- grants given to state governments and other parties.

Both Capital and Revenue expenditure is also categorised as plan and non-plan in the budget documents.

- Plan expenditure relates to Expenditure on Central Plans (the Five-Year Plans) and Central Assistance for State and Union Territory plans.
- Non-plan expenditure covers a vast range of general economic and social services of the government. The main items of non-plan expenditure are:
 - a) Interest payments
 - b) Defence services
 - c) Subsidies
 - d) Salaries
 - e) Pensions

Interest payments on market loans, external loans and from various reserve funds constitute, the single largest component of non-plan revenue expenditure. Defence expenditure, is committed expenditure in the sense that given the national security concerns, there exists little scope for drastic reduction. Subsidies are an important policy instrument which aim at increasing welfare..

Taxes/Revenue

Government revenue is classified into:

1. Revenue Receipts

Revenue receipts are receipts of the government which are non-redeemable, that is they cannot be reclaimed from the government.

They are further divided into tax and non-tax revenues.

(a) Tax Revenue

Tax Revenues consist of the proceeds of taxes and other duties levied by the central government. Tax revenues are an important component of revenue receipts and comprise of following taxes:

- i. **Income tax:** Taxes on individual salaries and income.
- ii. **Corporate tax:** Taxes on firms and corporations.
- iii. **Excise duties:** Duties levied on goods produced within the country
- iv. **Customs duties:** Duties imposed. on goods -imported into and exported. out of India.
- v. **Service tax:** Tax levied by the government on service providers on certain service transactions.
- vi. **Wealth tax:** Charged on the net wealth of the assess. It is a tax on the benefits derived from ownership of property.
- vii. **Gift-tax:** Tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return. The tax applies whether the donor intends the transfer to be a gift or not.

Taxes like wealth tax, gift tax and estate duty (now abolished) have never been of much significance in terms of revenue yield and have thus been referred to as paper taxes.

The advantage of the tax is that it raises money for governments

Critics argue that the tax will result in fewer financial transactions being made. resulting in job losses in financial centres. Others warn that the tax will mean pension funds and savers get less returns, as banks will simply pass the cost of the tax onto their customers.

(b) Non Tax Revenue

Non-tax revenue mainly consists of:

- Interest receipts on account of loans by the central government;
- Dividends and profits on investments. made by the government;
- Fees and other receipts for services rendered by the government; and
- Cash grants-in-aid from foreign countries and international organisation's.

2. Capital Receipts

All those receipts of the government which create liability or reduce financial assets are termed as capital receipts.

The main items of, capital receipts are:

- Loans raised by the government from the public which are called market borrowings,
- Borrowing by the government from the Reserve Bank and Commercial .Banks and other Financial Institutions through the sale of treasury bills,
- Loans received from foreign governments and international organisations,
- Recoveries of loans granted by the central government,
- Small savings (Post-Office Savings Accounts, National Savings Certificates, etc),
- Provident funds, and

- Net receipts obtained from the sale of shares in Public Sector Undertakings.

The functions that operate through the revenue and expenditure measures of the government are:

1. Allocation Function - Expenditure on "Public Goods":

Certain goods, referred to as public goods (such as national defence, roads, government administration), as distinct from private goods (like clothes, cars, food items), cannot be provided through the market mechanism. i.e. by transactions between individual consumers and producers and must be provided by the government. This is the allocation function.

Note: Public goods are financed through the budget.

2. Distribution Function:

Government, through its tax and expenditure policy, the government attempts to bring about a distribution of income that is considered 'fair' by society. The government affects the personal disposable income of households by making transfer payments and collecting taxes and, therefore, can alter the income distribution. This is the distribution function.

3. Stabilisation function :

The economy tends to be subject to substantial fluctuations and may suffer from prolonged periods of unemployment or inflation. There may be times when extra government expenditure is needed to raise aggregate demand. There may be times when expenditures exceed the available output, under conditions of high employment and thus may cause inflation. In such situations, restrictive conditions are needed to reduce demand. These constitute the stabilisation requirements of the domestic economy.

Taxation System in India

Tax is not only a source of revenue and growth. It also plays a key role in building up institutions; markets and democracy through making the state accountable to its taxpayers.

Setting up an efficient and fair tax system is however, far from simple, particularly for developing countries that want to become integrated in the international' economy.

The ideal tax system in these countries should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activity and without deviating too much from tax systems in other countries.

The taxes can be categorised as Direct and Indirect taxes.

- A direct tax is one that the taxpayer pays directly to the government. These taxes cannot be shifted to others. A homeowner pays personal property taxes directly to the government. A family pays its own federal income taxes.
- An indirect tax can be passed on to another person or group. A business may recover the cost of the taxes it pays by charging higher prices to customers. A tax shift occurs when the business shifts its taxes to others. Example: Excise Duties and Custom Duties are examples of indirect taxes while rest of the above mentioned taxes are -direct taxes.

Taxes can also be categorized as either regressive, proportional, or progressive, and the distinction has to do with the behaviour of the tax as the taxable base (such as a household's income or a business profit) changes.

- **Progressive tax** —A tax that takes a larger percentage of income from high-income groups than from low-income groups.
- **Proportional tax** —A tax that takes the same percentage of income from all income groups.
- **Regressive tax** —A tax that takes a larger percentage of income from low-income groups than from high-income groups.

Important Terms related to Taxation:

- Adequacy means that taxes must provide enough revenue to meet the basic needs of society. A tax system meets the test of adequacy if it provides enough revenue to meet the demand for public services.
- Transparency means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money. We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.
- Administrative ease means that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple. Forms are not too complicated; it is easy to comply voluntarily. The state can tell if taxes are paid on time and correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected. The above can be understood on the basis of Laffer Curve.
- Specific Taxes: When any good is taxed on the basis of its measure, size, and weight, such tax is known as a specific tax. For example, if excise duty is imposed on sugar with respect to its weight, or excise duty is imposed on cloth on the basis of meters or yards, it will be a specific tax. The specific tax is advantageous because it can easily be imposed and charged.
- Ad valorem taxes: When any commodity is taxed on the basis of value of sales, it is known as an ad valorem tax. In such a case, the tax is imposed on the basis of value of the product whatever be the weight or size of the product. Ad valorem tax is beneficial in the sense that its burden lies with the rich. Hence, it is in accordance with the canon of equity. But the complication with this tax is that it is difficult to find the exact value of goods.
- Tobin Tax was put forward in 1972 by the Nobel-prize winning American economist James Tobin. Originally, he suggested a tax on all payments from one currency to another. His aim was to curb massive and destabilising movements of funds between foreign currency exchanges. He proposed that the cash raised should be used as aid for developing countries. The idea has since been extended to cover a tax on all share, bond, and currency transactions.
- Surcharge: It is a tax on tax which may be imposed on incomes above a certain level so as to reduce inequalities further. In India 10% surcharge is on income more than 1 crore.
- Cess: It is a temporary levy which may be imposed to achieve a specific objective, so once objective is achieved it may be withdrawn.
- Laffer Curve: This curve establishes relationship between tax rate & tax revenue. It is stated that if rates are too high, lowering them up to a point optimizes tax revenue as it reduces evasion & ensures better compliance.

Major problems associated with taxation in developing countries are:

- Maximum workers in these countries are typically employed in agriculture or in small, informal enterprises. As they are seldom paid a regular, fixed wage, their earnings fluctuate, and many are paid in cash, "off the books." The base for an income tax is

therefore hard to calculate. Nor do workers in these countries typically spend their earnings in large stores that keep accurate records of sales and inventories. As a result, modern means of raising revenue, such as income taxes and consumer taxes, play a diminished role in these economies, and the possibility that the government will achieve high tax levels is virtually excluded.

- It is a monstrous task to create an efficient tax administration without a well-educated and well-trained staff, when money is lacking to pay good wages to tax officials and to computerize the operation (or even to provide efficient telephone and mail services), and when taxpayers have limited ability to keep accounts. As a result, governments often take the path of least resistance, developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern, and efficient tax systems.
- There exists an informal structure of the economy in many developing countries and because of financial limitations, statistical and tax offices have difficulty in generating reliable statistics. This lack of data prevents policymakers from assessing the potential impact of major changes to the tax system. As a result, marginal changes are often preferred over major structural changes, even when the latter are clearly preferable. This perpetuates inefficient tax structures.
- Income is not evenly distributed within developing countries. Although raising high tax revenues in this situation ideally calls for the rich to be taxed more heavily than the poor, the economic and political power of rich taxpayers often allows them to prevent fiscal reforms that would increase their tax burdens. This explains in part why many developing countries have not fully exploited personal income and property taxes and why their tax systems rarely achieve satisfactory progressivity.

Types of Taxes

Direct Taxes

A Direct tax is a kind of charge, which is imposed directly on the taxpayer and paid directly to the government by the persons (juristic Or natural) on whom it is imposed. A direct tax is one that cannot be shifted by the taxpayer to someone else. Some important direct taxes imposed in India are as under:

Income Tax: Income Tax Act, 1961 imposes tax on the income of the individuals or Hindu undivided families or firms or co-operative societies (other than companies) and trusts (identified as bodies of individuals - associations of persons) or every artificial juridical person.

Corporation Tax: The companies and business organizations in India are taxed on the income from their worldwide transactions under the provision of Income Tax Act, 1961. A corporation is deemed to be resident in India if it is incorporated in India or if its control and management is situated entirely in India. In case of non-resident corporations; tax is levied on the income which is earned from their business transactions in India or any Other Indian sources depending on bilateral agreement of that country.

Property Tax: Property tax or 'house tax' is a local tax on buildings, along with appurtenant land, and imposed on owners. The tax power is vested in the states and it is delegated by law to the local bodies, specifying the valuation method, rate band, and collection procedures. The

properties lying under control of Central are exempted from the taxation. Instead a 'service charge' is permissible under executive order. Properties of foreign missions also enjoy tax exemption without an insistence for reciprocity.

Gift Tax: Gift tax in India is regulated by the Gift Tax Act which was constituted on 1st April, 1958. It came into effect in all parts of the country except Jammu and Kashmir. As per the Gift Act 1958, all gifts in excess of Rs. 25,000, in the form of cash, draft, check or others, received from one who doesn't have blood relations with the recipient, were taxable. However, with effect from 1st October, 1998, gift tax got demolished and all the gifts made on or after the date were free from tax. But in 2004, the act was again revived partially. A new provision was introduced in the Income Tax Act 1961 under section 56 (2). According to it, the gifts received by any individual or Hindu Undivided Family (HUF) in excess of Rs. 50, 000 in a year would be taxable.

Indirect Tax

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the customer). An indirect tax is one that can be shifted by the taxpayer to someone else. An indirect tax may increase the price of a good so that consumers are actually paying the tax by paying more for the products. The some important indirect taxes imposed in India: are as under:

Customs Duty: The Customs Act was formulated in 1962 to prevent illegal imports and exports of goods. Besides, all imports are sought to be subject to a duty with a view to affording protection to indigenous industries as well as to keep the imports to the minimum in the interests of securing the exchange rate of Indian currency. Duties of customs are levied on goods imported or exported from India at the rate specified under the customs Tariff Act, 1975 as amended from time to time or any other law for the time being in force.

Central Excise Duty: The Central Government levies excise duty under the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985. Central excise duty is tax which is charged on such excisable goods that are manufactured in India and are meant for domestic consumption. The term 'excisable goods' means the goods which are specified in the First Schedule and the Second Schedule to the Central Excise Tariff Act 1985. It is mandatory to pay Central Excise duty payable on the goods manufactured, unless exempted, eg., duty is not payable on the goods exported out of India. Further various other exemptions are also notified by the Government from the payment of duty by the manufacturers.

Various Central Excise are:

- (1) Basis Excise Duty
- (2) Special Excise Duty
- (3) Additional Duty of Excise . .
- (4) Road Cess
- (5) Surcharge
- (6) National Calamity Contingent Duty (NCCD): NCCD was levied on pan masala and certain specified tobacco products vide the Finance Act, 2001. The Finance Act, 2003 extended this levy to polyester filament yarn, motor car, two wheeler and multi-utility vehicle and crude petroleum oil.
- (7) Education Cess: Education Cess is leviable @ 2% on the aggregate of duties of Excise and Secondary and Higher. Education Cess is Leviable @ 1% on the aggregate of duties of Excise.

Service Tax: The service providers in India except those in the state of Jammu and Kashmir are required to pay a Service Tax under the provisions of the Finance Act of-1994. The provisions related to Service Tax came into effect on 1st July, 1994. Under Section 67 of this - Act, the Service Tax is levied on the gross or aggregate amount charged by the service provider on the receiver. However, in terms of Rule 6 of Service

Tax Rules, 1994: the tax is permitted to be paid on the value received. The interesting thing about Service Tax in India is that the Government depends heavily on the 'voluntary compliance of the service providers for collecting Service Tax in India.

Sales Tax: Sales Tax in India is a form of tax that is imposed by the Government on the sale or purchase of a particular commodity within the country. Sales Tax is imposed under both, Central Government (Central Sales Tax) and State Government (Sales Tax) Legislation. Generally, each State follows its own Sales Tax Act and levies tax at various rates. Apart from sales tax, certain States also impose additional charges like works contracts tax, turnover tax and purchaser tax. Thus, Sales Tax Acts as a major revenue-generator for the various State Governments. From 10th April, 2005, most of the States in India have supplemented sales tax with a Value. Added Tax (VAT). This is now further likely to become a part of GST.

Value Added Tax (VAT): The practice of VAT executed by State Governments is applied on each -stage of sale, with a particular apparatus of credit for the input VAT paid. VAT in India classified under the tax slabs are 0% for essential commodities, 1% on gold ingots and expensive stones, 4% on industrial inputs. Capital merchandise and commodities of mass consumption. and 12.5% on other items. Variable rates (State-dependent) are applicable for petroleum products, tobacco, liquor, etc. VAT levy is administered by the Value Added Tax Act and the rules made there-under and similar to a sales tax. It is a tax on the estimated market value added to a product or material at each stage of its manufacture or distribution, ultimately passed on to the consumer. VAT, in simple terms, is a multi-point levy on each of the entities in the supply chain. The value addition in the hands of each of the entities is subject to tax. VAT can be computed by using any of the .three methods: (a) Subtraction method: The tax rate is applied to the difference between the value of output and the cost of input. (b) The Addition-method: The value added is computed by adding all the payments that is payable to the factors of production (viz., wages, salaries, interest payments, etc). (c) Tax credit method: This entails setoff of the tax paid on inputs from tax collected on sales.

Securities Transaction Tax (STT): STT is a tax being levied on all transactions done on the stock exchanges. STT is applicable on purchase or sale of equity shares, derivatives, equity oriented funds and equity oriented Mutual Funds. Current STT on purchase or sell of an equity share is 0.075%.

A person becomes investor after payment of STT at the time of selling securities,(shares). Selling the shares after. 12 months comes under long term capital gains and one need not have to pay any tax on that gain. In the case of selling the shares before 12 'months, one has to pay short term capital gains ,d 10% flat on the gain. However, for a trader, all his gains will be treated as trading (Business) and he has to pay tax as per tax sables. In this case the transaction tax paid by him can be claimed back/adjusted in tax to be paid.

The overall control for administration of Direct Taxes lies with the Union Finance Ministry which functions through Income Tax Department-with the Central Board of Direct Taxes (CI3DT) at its apex. The CBDT is a statutory authority functioning under the Central Board of Revenue Act, 1963. It also functions as a division of the Ministry dealing with matters relating

to levy and collection of Direct Taxes. The Central Excise Department spread Over the entire country administers and collects the central excise duty. The apex body that is responsible for the policy and formulation of rules is the Central Board of Excise and Customs which functions under the control of the Union Finance Ministry.

Dumping: In international trade, it is the deliberate practice of selling a commodity in another market at price lower than home market with objective of capturing a foreign market.

Antidumping duty: An anti-dumping duty is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value. In the United States, anti-dumping duties are imposed by the Department of Commerce and often exceed 100%. They come into play when a foreign company is selling an item significantly below the price at which it is being produced. The logic behind antidumping duties is to save domestic jobs, although critics argue that this leads to higher prices for domestic consumers and reduces the competitiveness of domestic companies producing similar goods.,

Countervailing duties: Countervailing duties (CVD) are meant to level the playing field between domestic producers of a product and foreign producers of the same product who—can afford to sell it at a lower price because of the subsidy they receive from their government. If left unchecked, such subsidized imports can have a severe effect on domestic industry, forcing factory closures and causing huge job losses. As export subsidies are considered to be an unfair trade practice, the World Trade Organization (WTO) — which deals with the global rules of trade between nations — has detailed procedures in place to establish the circumstances under which countervailing duties can be imposed by an importing nation.

Different Kinds of Taxes Relating to a Company

Minimum Alternative Tax (MAT)

Normally, a company is liable to pay tax on the income computed in accordance with the provisions of the income tax Act, but the profit and loss account of the company is prepared as per provisions of the Companies Act. There were large number of companies who had book profits as per their profit and loss account but were not paying any tax because income computed as per provisions of the income tax act was either nil or negative or insignificant. In such case, although the companies were showing book profits and declaring dividends to the shareholders, they were not paying any income tax. These companies are popularly known as Zero Tax companies. In order to bring such companies under the income tax act net, section 115JA was introduced w.e.f assessment year 1997-98.

Fringe Benefit Tax (1ST)

The finance Act, 2005 introduced a new levy,, namely Fringe Benefit Tax (1:13T) contained in Chapter XIIIH (Sections 115W to 115WL) of the Income Tax Act, 1961.

Fringe Benefit Tax (FBT) is an additional income tax payable by the employers on value of fringe benefits provided or deemed to have been provided to the employees. The FBT is payable by an employer who is a company; a firm; an association-of persons excluding trusts/a body of individuals: a local authority; a sole trader, or an artificial juridical person. This tax is payable even where employer does not otherwise have taxable income. Fringe Benefits are defined as any privilege, service, facility or amenity directly or indirectly. provided by an employer to -his

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employees (including former employees) by reason of their employment and includes expenses or payments on certain specified heads.

The benefit does not have to be provided directly in order to attract FBT. It may still be applied if the benefit is provided by a third party or an associate of employer or by under an agreement with the employer.

The value of fringe benefits is computed as per provisions under Section 115WC. FBT is payable at prescribed percentage on the taxable value of fringe benefits. Besides, surcharge in case of both domestic and foreign companies is leviable on the amount of FBT. On these amounts, education cess is also payable.

Every company file its return of fringe benefits to the Assessing Officer in the prescribed form by 31st October of the assessment year as per provisions of Section 115WD. If the employer fails to file return within specified time limit specified under the said section, he has to bear penalty as per Section 271FB.

The scope of Fringe Benefit Tax is being widened by including the employees stock option as fringe benefit liable for tax. The fair market value of the share on the date of the vesting of the option by the employee as reduced by the amount actually paid by him or recovered from him shall be considered to be the fringe benefit. The fair market value shall be determined in accordance with the method to be prescribed by the CBDT.

Dividend Distribution Tax (DDT)

Under Section 115-O of the Income Tax Act, any amount declared, distributed or paid by a domestic company by way of dividend is chargeable to dividend tax. Only a domestic company (not a foreign company) is liable for the tax. Tax on distributed profit is in addition to income tax chargeable in respect of total income. It is applicable whether the dividend is interim or otherwise. Also, it is applicable whether such dividend is paid out of current profits or accumulated profits. Banking Cash Transaction Tax (BCTT) The Finance Act 2005 introduced the Banking Cash Transaction Tax (BCTT) w.e.f. June 1, 2005 and applies to the whole of India except in the state of Jammu and Kashmir. BCTT continues to be an extremely useful tool to track unaccounted monies and trace their source and destination. It has led the Income Tax Department to many money laundering and hawala transactions.

BCTT is levied at the rate of 0.1 per cent of the value of following "taxable banking transactions" entered with any scheduled bank on any single day:

- Withdrawal of cash from any bank account other than a saving bank account; and
- Receipt of cash on encashment of term deposit(s).

However, Banking Cash Transaction Tax (BCTT) has been withdrawn with effect from April 1, 2009

Securities Transaction Tax (STT)

Securities Transaction Tax or turnover tax, as is generally known, is a tax that is leviable on taxable securities transaction. STT is leviable on the taxable securities transactions with effect from 1st October, 2004 as per

the notification issued by the Central Government. The surcharge is not leviable on the STT.

Wealth Tax

Wealth tax, in India; is—levied under—Wealth-tax Act; 1957. Wealth tax is a tax on the benefits derived from property ownership. The tax is to be paid year after year on the same property on its market value. whether or not such property yields any income.

Under the Act, the tax is charged in respect of the wealth held during the- assessment year by the following persons: -

- Individual
- Hindu Undivided Family (HUF)
- Company.

Chargeability to tax also depends upon the residential status of the assessee same as the residential status for the purpose of the Income Tax Act.

Wealth tax is. not levied on productive assets, hence investments in shares, debentures, UTI, mutual funds, etc are exempt from it. The assets chargeable to wealth tax are Guest house, residential house, commercial building, motor car, jewellery, bullion, utensils of gold, silver, Yachts, boats and aircrafts, Urban land and Cash in hand.

Tax Exemption	Tax deduction
It means exclusion i.e. If certain income is exempt from tax then it will not contribute to the total income of a person.	IT means subtraction ie. An amount that is eligible to reduce taxable income
It is a form of relaxation	It is a form of concession
It boost the particular section in which tax is exempted.	It promotes saving & investments of general public
Eg. HRA exemption, conveyance, uniform, medical, etc.	e.g Infrabond, PPF, etc.

The Constitution 115th Amendment Bill, 2011 (Goods & Service Tax)

Prior to the introduction of VAT, .producers faced a burden of 'tax on tax*. Producers procured input items upon which taxes would have been paid. After production, the output value (inclusive of input costs) was taxed. As a result, the tax paid on inputs was again taxed at the output stage. This cascading effect continued further down the chain of production.. resulting in a high tax burden on retail 'consumers and less competitive exports. The introduction of VAT mitigated this effect by providing for an input tax "set-off" (credit for tax paid on inputs). Effectively, tax is paid not on the value of the output, but on the value added to the output at that particular stage. Since set-offs are only available once tax is paid, incentives for compliance increase as each person in the chain ensures that the previous person has paid the tax.

However, the existing VAT regime is incomplete. Many taxes, are not included within VAT. These taxes continue to have a cascading effect. Certain sectors are also exempt from 'VAT. Exempt sectors cannot claim set-offs for VAT paid on inputs, which leads to cascading. In addition, under state VAT. input tax set-offs are not provided for CENVAT and service tax paid on inputs, which also causes cascading. Introducing a GST would eliminate such cascading of taxes by including all taxes and all goods and services. under a VAT regime with set-offs across state and central jurisdictions.

Under the Constitution, states do not have the power to tax services. In many cases it is difficult to classify a product as either a 'good or service, particularly due to recent advancements in technology. In addition, certain goods and services are bundled as a single product. Distinguishing between goods and services complicates the taxation of these products.

Under GST, this distinction will no longer be required. The existence of exemptions and multiple tax rates (different-rates exist across products and across states) has given rise to a complex system. This results in economic distortions from inter-state differences, difficulty of information sharing between governments, lower compliance, proliferation of disputes, and higher administrative costs. A system for the harmonisation of tax rates for all goods and services would reduce such distortions.

The Bill amends the Constitution' to enable both Parliament' and state legislatures to frame laws for the introduction of a GST. It creates a GST Council to make recommendations on the working of the GST to the centre and states. It also creates a Dispute Settlement Authority to resolve disputes between states or between states and the centre.

Key features of GST

1. GST Bill defines GST as any tax on the supply of goods or services.
2. GST Bill deletes several taxes in the Union List and State List. as well as Article 268A, which provides for the levy of tax on services. Under the Bill, these taxes will be subsumed by GST. In addition, the Bill allows both Parliament and state legislatures to frame laws rega.rdMg G.ST. Unlike items in the Concurrent List, laws framed by state legislatures on GST will not be overridden by laws made by Parliament.
3. Taxes on imports and inter-state trade shall be collected by the central government. The 'distribution of these taxes between the centre and the states shall be determined' by Parliament.
4. The following goods are exempted from the purview of GST: (a) petroleum crude, (b) high speed diesel, (c) petrol, (d) natural gas: (e) aviation turbine fuel, and (f) alcohol for human consumption. States shall have the power to levy taxes on these items, except in-the case of -imports and inter-state trade. Unlike these goods, tobacco and tobacco products are not exempted from GST. However, the central government may still impose excise AID: on them.
5. State legislatures will have the power to levy certain taxes to the extent collected by Panchayats or Municipalities. These include octroi, entertainment tax, and amusement tax and. Stamp duties mentioned in the Union List shall he levied by the centre and collected by the states.

Issues related to the GST bill

1. Both centre and states ge: equal power to make laws related to GST (without Parliament's law overriding the state law). The question is whether this change in the nature of legislative powers exercised by the centre and states affects the basic structure of the Constitution.
2. A structure is creates an executive body (the GST Council) recommends tax rates. and judicial bodies (the GST Dispute Settlement Authority and the Supreme Court) decide the tax rates if any dispute is caused by a state deviating from the GST Council's recommendations. This may impinge on the right of legislatures to determine tax rates.
3. All decisions of the; GST Council shall be made by -consensus.' of all members present. However. the Bill does not define consensus_

4. Both the Thirteenth Finance Commission and Department of Revenue have recommended that petroleum products --included..within the purview of the GST. Petroleum products are inputs for many products and services, and exempting them will lead to tax cascading.

Budget Deficits

Calculation of Deficits is an important part of Fiscal Policy. Excess of expenditure over revenue results in Deficit whereas excess of revenue over expenditure results in Surplus. Surplus/Deficit in government results in either Budget Surplus/Deficit.,

Budgetary Deficit: When government 'expenditures exceed government tax revenues in a given 'year, the government is running a budget deficit for that year.

Budgetary Surplus: When government expenditures are less than tax revenues in a given year. the government s running a budget surplus for that year. The budget surplus is the difference between tax revenues and government expenditures. .

Balanced Budget: In the case where government expenditures are exactly equal to tax revenues in a given year, he government is running a balanced budget for that year.

Measures used to record government deficit and their implications for_ the economy are as follows:

1. Revenue Deficit

Revenue deficit refers to the excess of government's revenue expenditure over revenue receipts

Revenue deficit = Revenue expenditure - Revenue receipts

The revenue deficit includes only such transactions that affect the current income and expenditure of the government. When the 'government incurs a revenue deficit, it implies that the government is dissaving and is using up the savings or the othei sectors of the economy to finance a part of its consumption expenditure. This situation means that the government will have to borrow not only to finance its investment but also its consumption requirements. This will lead .to a build-up of stock of debt and interest liabilities and force the government eventually to cut expenditure. Since a major part of revenue expenditure is committed expenditure, it cannot be reduced. Often the government reduces productive capital expenditure or welfare expenditure. This would mean lower growth and adverse welfare implications.

Effective revenue deficit: Revenue deficit - those grants given to states which are used for creation of capital assets.

2. Fiscal Deficit

Fiscal deficit is the difference between the government's total expenditure and its total receipts excluding borrowing.

Gross fiscal deficit = Total expenditure - (Revenue receipts + Non-debt creating capital receipts)

Note: Non-debt creating capital receipts are those receipts which are not borrowings and therefore, do not give rise to debt. Example: Recovery of loans and the proceeds from the 'disinvestment in PSUs.

The fiscal deficit will have to be financed through borrowing. Thus, it indicates the total borrowing requirements of the government from all sources.

From the financing side

Gross fiscal deficit = Net borrowing at home + Borrowing from RBI + Borrowing from abroad.

Net borrowing at home includes that directly borrowed from the public through debt instruments (for example, the various small savings schemes) and indirectly from commercial banks through Statutory Liquidity Ratio (SLR).

The gross fiscal deficit is a key variable in judging the financial health of the public sector and the stability of the economy. From the way gross fiscal deficit is measured, it can be seen that revenue deficit is a part of fiscal deficit.

Fiscal Deficit := Revenue Deficit + Capital Expenditure - non-debt creating capital receipts

A large share of revenue deficit in fiscal deficit indicated that a large part of borrowing is being used to meet its consumption expenditure needs rather than investment.

3. Primary Deficit

Borrowing requirements of the government includes interest obligations on accumulated debt. The goal of measuring primary deficit is to focus on present fiscal imbalances.

Primary deficit is used to obtain an estimate of borrowing on account of current expenditures exceeding revenues. It is simply the fiscal deficit minus the interest payments.

Gross primary deficit = Gross fiscal deficit - Net interest liabilities

Net interest liabilities consist of interest payments minus interest receipts by the government on net domestic lending.

Public Debt

Budgetary deficits must be financed by either taxation or borrowing or printing money. Governments have mostly relied on borrowing, giving rise to what is called government debt. The concepts of deficits and debt are closely related. Deficits can be thought of as a flow which adds to the stock of debt. If the government continues to borrow year after year, it leads to the accumulation of debt and the government has to pay more and more by way of interest. These interest payments themselves contribute to the debt.

By borrowing, the government transfers the burden of reduced consumption on future generations. This is because it borrows by issuing bonds to the people living at present but may decide to pay off the bonds some twenty years later by raising taxes. These may be levied on the young population that have just entered the work force, whose disposable income will go down and hence consumption. Thus, national savings; it was argued, would fall. Also, government borrowing from the people reduces the savings available to the private sector. To the extent that this reduces capital formation and growth, debt acts as a 'burden' on future generations.

Fiscal Responsibility and Budget Management (FRBM) Act

Enacted in 2003, the Fiscal Responsibility and Budget Management Act requires the elimination of revenue deficit by 2008-09. This means that from 2008-09, the government will have to meet all its revenue expenditure from its revenue receipts. Any borrowing would then only be to meet capital expenditure - repayment of loans, lending and fresh investment. The Act also mandates a 3% limit on the fiscal deficit after 2008-09. This is a reasonable limit that allows significant leverage to the government to build capacities in the economy without compromising fiscal stability. It is important to note that since the entire Budget is at current market prices the deficits are also calculated with reference to GDP at current market prices. The main features of the bill are as follows

The Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in December 2000 and enacted in August 2003. The rules are effective from July '05, 2004 and the government is now committed to implement the FRBM act. Following are the main features of the FRBM Act:

- The Act stipulates the elimination of revenue deficit by March 31, 2008.
- According to the Act, the revenue deficit is to be reduced by a minimum of 0.5% of GDP per annum and the fiscal deficit by 0.3%. The rolling targets of FRBM provide for a reduction in the revenue deficit to 1.5% in 2005-06 and to 1.1% in 2006-07 and eventually to zero in 2008.
- The FRBM Act also caps the level of guarantees and prohibits government to borrow from the RBI after April 1, 2006.
- The Act requires that on a quarterly basis, the Government would have to place before both the Houses of Parliament an assessment of trends of receipts and expenditure. The Government also has to annually present the macro-economic framework statement, medium term fiscal policy statement and fiscal policy strategy statement. The three statements would provide the macroeconomic background and assessment relating to the achievement of FRBM- goals. "
- The medium term fiscal policy statement will contain a three-year rolling target for key fiscal parameters that underpin the Government's fiscal correction trajectory.
- Through the FRBM discipline, the Government is also committed to undertake an intra-year assessment of the achievement of its budgetary targets. During the Economy Crisis of 2008, the FRBM guidelines were not followed rigorously but now government is committed for reducing the deficits.

Deficit Financing

Excessive domestic borrowing by the government may lead to 'higher real interest rates and the domestic private sector being unable to access funds resulting in the crowding out of private investment. Sometimes a combination of these can occur. In any case, the impact of a large deficit on long run growth and economic - well-being is negative. Therefore, it is not Prudent for a government to run an unduly large deficit.

However, in case of -developing countries, where the need for infrastructure and social investments may be substantial, running surpluses at the cost of long-term growth might also not be wise. The challenge then for most developing country governments is to meet infrastructure and social needs while managing the government's finances in a way that the deficit or the accumulating debt burden is not too great:

Deficit Financing is a practice in which a government spends more money than it receives as revenue, the difference being made up by borrowing or minting new funds. Although budget deficits may occur for numerous reasons, the term usually refers to a conscious attempt to stimulate the economy by lowering tax rates or increasing government expenditures.

What is Fiscal Stimulus?

Fiscal or Economic Stimulus are attempts by government to financially stimulate an economy. An economic stimulus is the use of monetary or fiscal policy changes to kick start a lagging or struggling economy.

Example: Governments can adopt practices such as lowering interest rates, increasing government spending and quantitative easing, to name a few, to accomplish this.

Effects of Fiscal Policy on Macro Economy

Fiscal policy affects aggregate demand, the distribution of wealth, and the economy's capacity to produce goods and services. In the short run, changes in spending or taxation can alter both the magnitude and the pattern of demand for goods and services. With time, this aggregate demand affects the allocation of resources and the productive capacity of an economy through its influence on the returns to factors of production, the development of human capital, the allocation of capital spending, and investment in technological innovations.

Tax rates, through their effects on the net returns to labour, saving, and investment, also influence both the magnitude and the allocation of productive capacity. Fiscal policy also feeds into economic trends and influences monetary policy.

Effects of Fiscal Policy on Consumer Spending

Lower taxes, everything else being constant, increase households' disposable income, allowing consumers to increase their spending. The consequences of the cut - how much is spent or saved, and the response of economic activity - depend on the way households make their decisions and on prevailing macroeconomic conditions.

Whether the tax cut is perceived to be temporary or permanent will influence how much consumers save. A temporary cut will alter households' disposable income relatively little, and so might have little effect on consumption. If the cut is, instead, perceived to be permanent, then households will perceive a larger increase in their disposable income and so will likely increase their desired consumption by much more than they would if they thought the cut were temporary.

There is a potential conflict between the use of fiscal policy to stimulate aggregate demand when the economy is operating below potential in the short run and the use of policy to promote longer-run goals for national saving and capital formation to improve future living standards. When there are underutilized economic resources, fiscal stimulus can increase investment. But when the economy is operating near potential, an increase in the public debt might eventually depress private investment, unless the fiscal stimulus is reversed as the economy approaches full employment and utilisation.

Note: Fiscal drag is a concept where inflation and earnings growth may push more tax payers into higher tax brackets. Therefore fiscal drag has the effect of raising government tax revenue without explicitly raising tax rates.

This fiscal drag has the effect of reducing Aggregate Demand and becomes an example of deflationary fiscal policy- It could also be viewed as an automatic fiscal stabiliser because higher earnings growth- will lead to higher tax and therefore moderate inflationary pressure in the economy.

Limitations of Fiscal Policy

1. There are significant time lags
 - Recognition lag: time it takes government to recognize there is a problem
 - Decision lag: time required for government to determine most appropriate policy
 - Implementation lag: time it takes to figure out how to implement new directives
 - Impact lag: time it takes to be felt through multiplier effect •
2. There are difficulties in changing spending and taxation policies
 - It is far easier to increase spending and decrease taxes than to increase taxes and decrease spending
3. There is a conflict between levels of government over appropriate policies
 - Federal, provincial and city governments may differ on what needs to be done.
 - Regional variations.
4. There is crowding out of private investment •
 - Increases interest rates
 - Reduces amount of funding for private investment
5. Deficits impose burden on future generations and Foreign-owned debt removes capital from economy

FINANCIAL MARKETS

A financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivative's. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees, and market forces determining the prices of securities that trade.

Functions of financial Markets:

1. Mobilization of saving & channelize them into more productive uses.
2. Facilitate price discovery.
3. Provide liquidity to financial assets
4. Reduces the cost of transaction & save time & efforts.

A financial market consists of two major segments:

- (a) Money Market; and
- (b) Capital Market.

While the money market deals in short term credit, the capital market handles, the medium term and long-term credit.

Money Market

The money market is that part of a financial market which deals in the borrowing and lending of short term loans generally for a period of less than or equal to 365 days. According to the RBI, "The money market is the centre for dealing mainly of short character, in monetary assets; it meets the short term requirements of borrowers and provides liquidity or cash to the lenders. It is a place where short term surplus investible funds at the disposal of financial and other institutions and individuals are bid by borrowers, again comprising institutions and individuals and also by the government."

It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc. These financial instruments are close substitute of money.

Money market does not refer to any specific market place. Rather it refers to the whole networks of financial institutions dealing in short-term funds, which provides an outlet to lenders and a source of supply for such funds to borrowers. The Indian money market consists of Reserve Bank of India, Commercial banks, Cooperative banks, and other specialized financial institutions. The Reserve Bank of India is the leader of the money market in India...Some Non-Banking Financial Companies (NBFCs) and financial institutions like LIC, GIC, UTI, etc. also operate in the Indian money market.

Structure of Indian Money Market

Indian money market is characterised by its dichotomy i.e. there are two sectors of money market, the organized sector and the unorganised sector. The organised sector is within the direct purview of RBI regulations. The unorganised sector consists of indigenous bankers, money lenders, non-banking financial institutions, etc..

The major functions of money market are given below:

1. To maintain monetary equilibrium. It means to keep a balance between the demand for and supply of money for short term monetary transactions.
2. To promote economic growth...Money market can, do this by making funds available to various units in the economy such as agriculture, small scale industries, etc.
3. To provide help to Trade and Industry Money market provides adequate finance to trade and industry Similarly, it also provides facility of discounting bills of exchange for trade and industry.
4. To help in implementing Monetary Policy. It provides a mechanism for an effective implementation of the monetary policy
5. Money market provides non-inflationary sources of finance to government. It is possible by issuing treasury bills in order to raise short loans. However, this does not lead to an increase in the prices.

Instruments of Money Market

1. **Call Money:** It an important sub market of the Indian-money market. Call money is mainly used by the banks to meet their temporary requirement of cash. It is also known as money at call and money at short notice. In this, market money is demanded for an extremely short period. The duration Of such transactions is from a few hours to 14 days. These transactions, help stock brokers and dealers to ftifill their financial requirements. The rate at which money is made available is called as call rate. Rate is fixed by the market forces such as the demand for and supply of money. –
2. **Treasury Bill:** It is a market for sale and purchase of-short-term government securities. These securities are called as Treasury Bills, which are promissory mates or financial bills issued by. the RBI on behalf of the Government of India. There are two types of treasury bills: (i) Ordinary or Regular Treasury Bills and (ii) Ad Hoc Treasury Bills. Treasury bills are highly liquid instruments. At any time the holder of treasury bills can transfer of or get it discounted from RBI. These bills are normally issued at a price less than their face value; and redeemed at face value. So the difference between the issue price and the face value of the Treasury bill represents the interest on the investment. The maturity period of these securities range from as low as 14 days to as high as 364 days. They have become very popular due to high level of safety involved in them.
3. **Cash Management Bills:** The Government of India, in- consultation with the Reserve Bank of India, decided to issue a new short-term instrument, known as, Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Governmenl. The CMBs have the generic character of T- bills but are issued for maturities less than 91 days Like T- bills, they are also issued at a discount and redeemed at face value at maturity. The first set of CMBs were issued on May 12, 2010.
4. **Certificate of Deposits (CDs):** The certificate of deposits is issued by the commercial bankc. They are worth the value of Rs. 25 lakh and in multiple of Rs. 25 lakh. The minimum subscription of CD should be worth Rs. I Crore. The maturity period of CD is as low as 3 months and as high as 1 year These are the transferable investment instrument in a money market. The government initiated a market of CDs in order to widen the range-of instruments in the money market and to provide a higher flexibility to investors for investing their short term money

5. **Commercial Papers (CPs):** Commercial paper (CP) is an investment instrument which can be issued by a listed company having working capital more than or equal to Rs. 5 cr. The CPs can be issued in multiples of Rs. 25 lakhs. However, the minimum subscription should at least be Rs. 1 cr. The maturity period for the CP is a minimum of 3 months and maximum 6 months. Commercial paper (CP) is a popular instrument for financing working capital requirements of companies. The CP is an unsecured instrument issued in the form of promissory note. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for period ranging from 15 days to one year. Commercial papers are transferable by endorsement and delivery. The highly reputed companies (Blue Chip companies) are the major player of commercial paper market.
6. **Repurchase Agreements:** A repurchase agreement, also known as a repo, is the sale of securities together with an agreement for the seller to buy back the securities at a later date. The repurchase price should be greater than the original sale price, the difference effectively representing interest, sometimes called the repo rate. The party that originally buys the securities effectively acts as a lender. The original seller is effectively acting as a borrower, using their security as collateral for a secured cash loan at a fixed rate of interest.
7. **Short Term Loan:** It is a market where the short term loan requirements of corporates are met by the Commercial banks. Banks provide short term loans to corporates in the form of cash credit or in the form of overdraft. Cash credit is given to industrialists and overdraft is given to businessmen.

Capital Market

Capital Market may be defined as a market dealing in medium and long-term funds. It is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities. So it constitutes all long-term borrowings from banks, and financial institutions, borrowings from foreign markets and raising of capital by issuing various securities such as shares, debentures, bonds, etc.

Capital market can be classified into primary and secondary markets. The primary market is a market for new shares, whereas in the secondary market existing securities are traded. The companies have to follow well defined procedures when they are auctioning their shares for the first time. This is called Initial Public Offer. At this stage, the investment banks are involved in setting a price for the shares which the company is issuing. The major players in the primary market are merchant bankers, mutual funds, financial institutions. And individual investors.

The secondary market known as stock market or stock exchange plays an equally important role in mobilizing long-term funds by providing the necessary liquidity to holdings in shares and debentures. It is an organized market where shares and debentures are traded regularly with high degree of transparency and security. In fact, an active secondary market facilitates the growth of primary market as the investors in the primary market are assured of a continuous market for liquidity of their holdings.

Following are the important functions of the capital market:

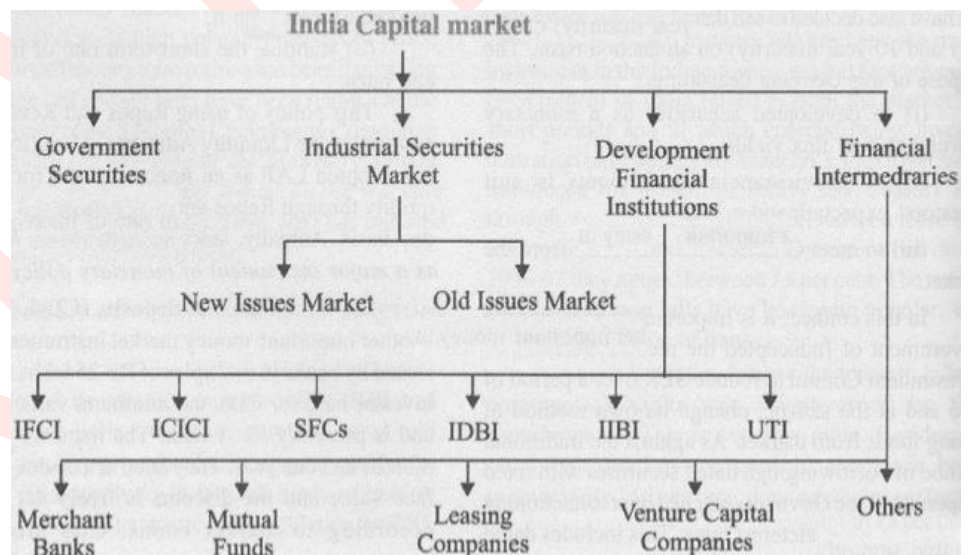
1. **Mobilization of Savings:** Capital market is an important source for mobilizing idle savings from the economy. It mobilizes funds from people for further investments in the productive

channels of an economy. In that sense it activates the ideal monetary resources and puts them in proper investments.

2. **Capital Formation:** Capital market helps in capital formation. Capital formation is net addition to the existing stock of capital in the economy. Through mobilization of idle resources it generates savings; the mobilized savings are made available to various segments such as agriculture, industry, etc. This helps in increasing capital formation.
3. **Speed up Economic Growth and Development:** Capital market enhances production and productivity in the national economy. As it makes funds available for a long period of time. the financial requirements of business houses are met by the capital market. it helps in research and development. This helps in increasing production and productivity in the economy by generation of employment and development of infrastructure.
4. **Proper Regulation of Funds:** Capital market not only helps in fund mobilization, but it also helps in proper allocation of these resources. It can have regulation over the resources so that it can direct funds in a qualitative manner.
5. **Continuous Availability of Funds:** Capital market is place where the investment avenue is continuously available for long-term investment. This is a liquid market: as it makes funds available on continuous basis. Both, buyers and sellers can easily buy and sell securities, as they are continuously available. Basically capital market transactions are related to the stock exchanges. Thus, marketability in the capital market becomes easy.

Structure of the Capital Market

The capital market can be divided into two constituents, the financial institutions and the securities market. The financial institutions provide long term and medium term loans. The securities market is divided into (a) the gilt edged market (or the market for government securities), and (b) the corporate or industrial securities market.



A. Gilt-Edged market

The gilt-edged market is also known as the securities guaranteed (both principal and interest) by the government apart from government securities. The government securities are risk free because the government can't default on its payment obligations and are hence known as gilt-edged (which means 'of the best quality'). The important characteristics of the government securities are:

- (1) It is without risk and returns are guaranteed. There is no place for speculation and manipulation of the market as also no uncertainties regarding yield, payment on time etc

- (2) Government securities market consists of the new issues market and the secondary market. R.B.I. is responsible for all the new issues of government loans, as it manages entirely the public debt operations of both the central and state governments. The secondary market deals in old issues.
- (3) The investors in the gilt-edged market are predominantly institutions-commercial banks. Life Insurance Corporation, General Insurance Corporation and the provident funds which are required statutorily to invest a certain portion of their funds in government securities. These institutions mobilise the savings of the people through their various scheme and invest a certain proportion in government securities.
- (4) Government securities are the most liquid debt instruments.
- (5) The transactions in the government securities market are large.

Many private sector mutual funds have entered this market in a considerable way in recent times and have floated various gilt-edge funds for this purpose on account of the risk-free returns guaranteed by the government securities market and its high liquidity. Many risk-averse individual investors (particularly those belonging to fixed-income groups). have welcomed this opportunity, as investment in guilt-edged funds is better than investment ' in bank fixed deposits due to better liquidity and exemption from tax on dividends.

B. Corporate Securities Market

Securities issued by firms (i.e.. shares, bonds_ and debentures) can be bought and sold freely in corporate securities market. It comprises the new issues market (the primary market) and the secondary market (stock exchanges).

• Primary Market

The new issues market is concerned with the issue of new securities-bonds debentures, shares and so on. Funds are often raised by the public limited companies from the primary market for setting up or expanding . their business. However, the company has to fulfill various requirements and decide upon the appropriate timing and method of issue for selling its securities. The various methods through which capital can be raised are:

- (1) **By Prospectus:** Capital can be raised from the general public by the issue of prospectus which is an invitation to the general public for subscribing to the capital. The prospectus contains various details regarding particulars of the company, its financial position. etc.
- (2) **By Offer. for Sale:** A methOd similar to the prospectus where initially shares are taken up by a third party in bulk. The peculiar feature of this arrangement is that while company already receives the money. Any premium received from the public goes to this third party rather than to the company.
- (3) **By Private Placing:** The shares are sold to individuals or institutions directly by making a private appeal to them. The cost of raising capital in this method becomes far lesser than the cost of raising capital via, other methods.
- (4) **By offering Rights' Issue:** By this, companies raise capital from the existing shareholders. Under this method of issuance, the shareholders have the right to a – certain number of shares in proportion to the shares held by them.

• Secondary Market/ Stock Exchange

The stock exchange or the secondary market is a highly organized market for the purchase and sale of secondhand quoted or listed securities (quoting or listing-of-a •particular security

implies incorporating that security in the register of the stock exchange so that it can be bought and sold there). A stock exchange is an association, organization or body of individuals, whether incorporated or not established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities. as has been defined by the securities Contracts (Regulation) Act, 1956.

C. Development Financial Institutions

'Development financial institutions were set up to meet the medium and long-term requirements of industry, trade and agriculture.' These are IFCI, ICICI, IDBI, IRBI, UTI, LIC, GIC. etc. All these institutions have been called Public Sector Financial Institutions.

D. Financial Intermediaries

Financial Intermediaries include Merchant banks, Mutual Fund, Leasing companies. etc. They help in mobilizing savings and supplying funds to capital market.

Share Capital

The companies registered under the Companies Act, 2013 are of three types as follows:

1. **Unlimited Company:** The unlimited company is a company where there is no limit on the liability of its members. This means that if the company suffers a loss and the company's property is not enough to pay off its debts, the private property of its members is used to meet the claims of the creditors. This means that there is a huge risk in such companies. Unlimited companies are not found in India; instead, their space is 'Occupied by the proprietary kind of businesses.
2. **Company Limited by Guarantee:** In such a company, the liability of the members is limited to the extent of guarantee given by them in the event of winding up of the company.
3. **Company Limited by Shares:** In this kind of the company, the liability of the members is strictly limited to the extent of nominal value of shares held by each of them. If a member has already paid the full amount of the shares, he shall not be liable to pay any amount. If a member has partly paid the shares, he can be forced to pay the remaining amount during the existence of the company as well as during the winding up. Such companies are of two kinds, private and public.

a) **Private Company:** A private company is the one which has a minimum paid up share capital of Rs. 100000 or such higher capital as prescribed by the Companies Act. Its Article of association mentions that the company

- Restricts the right to transfer its shares.
- Limits the number of its members from 2 to 50.
- Cannot go for invitation from public to subscription to any of its shares.
- Cannot accept deposits from persons other than its members, directors and relatives.

b) **Public Company:** A public company means a company which is not a private company and has minimum of 7 shareholders/subscribers. It has to have a minimum paid-up share capital of 5- Lakh.

Types of Share Capital

There are various terms, used in connection with the share capital of the company. They are as follows:

- **Authorized / Registered / Nominal Capital:** This is the Maximum Capital which the company can raise in its life time. This is mentioned in the Memorandum of the Association of the Company. This is also called as Registered Capital or Nominal Capital.
- **Issued Capital:** This is the part of the Authorised Capital which is issued to the public for Subscription. The act of creating new issued shares is called issuance, allocation or allotment. -After allotment, a subscriber becomes a shareholder. The number of issued shares is a subset of the total authorized shares and

Shares authorized = Shares issued + Shares unissued

- **'Subscribed' Capital:** The issued Capital may not be fully subscribed by the public. Subscribed Capital is that part of issued Capital which has been taken off by the public i.e. the capital for which applications are received from the public. So, it is a part of the Issued Capital as follows:

Issued Capital = Subscribed Capital + Unsubscribed Capital,

This can be understood by an example. If we say that 15000 shares of Rs. 100 each are offered to the public and public applies only for 12000 shares, then the Issued Capital would be Rs. 15 Lakh and Subscribed Capital would be Rs. 12 Lakh.

Please note that once the shares have been issued and purchased by investors and are held by them, they are called Shares Outstanding. These outstanding shares have rights, and represent ownership in the corporation by the person that holds the shares. The unsubscribed capital is also known as Treasury shares, which are shares held by the corporation itself and have no exercisable rights. Shares outstanding plus treasury shares together amount to the number of issued shares.

- **Called - up Capital:** The Company may not need to receive the entire amount of capital at once. It may call up only part of the subscribed capital as and when needed in installments. Thus, the called - up Capital is the part of "subscribed capital which the company has actually called upon the shareholders to pay. Called - up Capital includes the amount paid by the shareholder from time to time on application, on allotment, on various calls such as First Call, Second Call, Final Call, etc. The remaining part of subscribed capital not yet called up is known as Uncalled Capital. The Uncalled Capital may be converted, by passing a special resolution, into Reserve Capital; Reserve Capital can be called up only in case of winding up of the company, to meet the liabilities arising then.
- **Paid-up Capital:** The Called-up Capital may not be fully paid. Some Shareholders may pay only part of the amount required to be paid or may not pay at all. Paid-up Capital is the part of called-up capital which is actually paid by the shareholders. The remaining part indicates the default in payment of calls by some shareholders, known as Calls in Arrears. Thus,

Paid-up Capital = Called-up Capital - Calls in Arrears.

- **Reserve Capital:** As mentioned above, the company by special resolution may determine that a portion of the uncalled capital shall not be called up, except in the event of the winding up of the company. This part is called Reserved Capital. It is kept reserved for the Creditors in case of the winding up of the company

Stock Markets

A stock market or equity market is the aggregation of buyers and sellers (a—loose net Work of economic transactions, not a physical facility or discrete entity) of stocks and shares; these are securities listed on a stock exchange as well as those traded only privately. A stock exchange: is a place to trade stocks. Companies may want to get their stock listed on a stock exchange. Other Stocks may be traded "Over the counter. that is through , a dealer. A large company will usually have its stock listed on many exchanges across the world. To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade-is increasingly less- linked to such a physical place, as modern markets are electronic networks, which gives them advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only. The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market.

1. **Primary Market:** The primary market is the part of the capital market that deals with issuing of new securities. Companies, governments or public sector institutions can obtain funds through the sale of a new stock or bond issues through primary market. This is typically done through an investment bank or finance syndicate of securities dealers.
2. **Secondary Market:** The secondary market is the financial market in which previously issued financial instruments such as stock, bonds, options, and futures are bought and sold. "

The main points of distinction between the primary market and secondary market are as follows:

1. **Function:** While the main, function of primary market is to. raise long-term funds through fresh issue of securities, the main function of secondary market is to provide continuous and ready market for the existing long-term securities.
2. **Participants:** While the major players in the primary market are financial institutions, mutual funds, under-writers and indivichial investors, the major players in secondary market are all of these and the stockbrokers who are members of the stock exchange.
3. **Listing Requirement:** While only those securities can be dealt with in the secondary market, which have been approved for the purpose (listed), th6re is no such requirement in case of primary market.
4. **Determination of Prices:** In case of primary market, the prices are determined by the management with due compliance of the SEBI requirement for new issue of securities. But in case of secondary market, the price of the securities is determined by forces of demand and supply.

Comparison between Bull Market and Bear Market

There are two ways to describe the general conditions of the stock market it can be a bull market or a bear market. A bear market indicates. the continuous downward movement of the stock market. Conversely, a bull market indicates the constant upward movement of the stock market. A particular stock that seems to be increasing in value is described to be bullish while a stock that seems to be decreasing in value is described to be bearish.

The bull and bear terms do not refer to the short term fluctuations in the stock market. A bear market is the stock market wherein the prices of the key stocks have fallen by 20% or more over a period of at least two months. Prices, even during a bear market, may temporarily increase. Bull markets, being the opposite of bear markets, indicate a rise in the prices of the key stocks over a certain period of time.

The economical state-of a country is usually reflected through the stock market conditions. The stock market of an economy with reasonable interest rates and low unemployment rates is considered to be bullish since it is doing just well. Bear markets, on the other hand, usually occur during a slowdown in an economy. The investors tend to lose their confidence and the companies begin to lay off their workers. An exaggerated bear market will eventually lead to a crash that is brought on by panic selling while an exaggerated bull market will actually result to a market bubble that is brought on by investor over-enthusiasm.

Even if most money can be made during bull markets, bear markets also present a lot of financial opportunities. Investors use the knowledge of the characteristics of each type- of market as an investment strategy. It is expected that a bullish market will generate a huge number of investors who wish to -buy some stocks. Because, a bullish market could also mean that the economy is doing well, there will be a lot of people interested in buying stocks since they have the extra money to spend. This kind of situation will cause an ' increase in the prices of the stocks because there will, be a shortage in the supply of stocks. During bear markets, it is expected that a lot of investors will have, the desire to unload their stocks and put their money in fixed-return instruments like bOnds due to the continuous decrease in the prices of the stocks. Supply tends to exceed demand as money is withdrawn from the stock market. This causes the prices of the stocks to lower even further.

It is easier to make money during bull markets. In a bull market, all dips are temporary and they are going to be corrected any time soon. Since the upward rising of the prices cannot go on forever, the investors need to sell their stocks when the market reaches its peak.

Bear markets are considered to be opportunities of picking up stocks at bargain prices. Approaching the .end of a bear market will offer the greatest chance to generate some profit. Since the prices will most likely fall before they recover, the investors have to be prepared for some short-term loss. One investment strategy used during bear markets is short selling. It involves the selling of the stocks that they do not own in the anticipation of further decrease in prices. This strategy gives the investors a chance to buy the stocks for a price that During bear markets, fixed-return investments such as CAs and bonds can also be used to generate income. Defensive stocks, which include government-owned utilities that provide necessities despite the current economic state, are also safe to buy even during bear markets.

Stock Indices and Stock Exchanges

- A. **S&P BSE SENSEX-** The S&P BSE SENSEX (S&P Bombay Stock Exchange Sensitive Index), also called the BSE 30 or simply the SENSEX, is a free-float market-weighted stock market index of 30 well-established and financially sound companies listed on Bombay Stock Exchange. The 30 component companies which are some of the largest and most actively traded stocks are representative of various industrial sectors of the Indian economy. Published since 1 January 1986, the S&P BSE SENSEX is regarded as the pulse of the domestic stock markets in India. The base value of the S&P BSE SENSEX

is taken as 100 on 1st April 1979, and its base year as 1978-79. On 25 July 2001 BSE launched DOLLEX- 30. a dollar-linked version of S&P

- B. **Nifty 50-** The CNX Nifty, also called the Nifty 50 or simply the Nifty, is National Stock Exchange of India's benchmark index for Indian equity market. 'CNX' in its name stands for 'CRISIL NSE Index'. The CNX Nifty covers 22 sectors of the Indian economy. Credit Rating Information Services of India Limited (CRISIL) is a global analytical company providing ratings, research. and risk and policy advisory services. CRISIL's majority shareholder is Standard & Poor's, a division of Mcuraw-Hill Financial and provider of fmancial market intelligence. CRISIL's businesses can be divided into three' broad categories' - Ratings, Research and Advisory. CRISIL Ratings has rated/assessed over 61,000 entities in India. Its rating capabilities span the entire range of debt instruments and it has worked across the corporate strata, from large corporates in the country to the SMEs.
- C. **Carbon Index:** The Bombay Stock Exchange (BSE) in collaboration with the UK government has launched the first ever 'Carbon Indexing Project'. The Carbon Indexing Project will rate BSE-listed companies on the basis of their carbon emissions and compare it .to their performance on the stock exchange. The - objective is to offer investors expertise in analyzing the risks and opportunities associated with climate change, and with carbon regulation. The carbon indexing will help companies and investors to recomize carbon emissions from companies, in which they hold a stake. Those companies who manage their cai-bcin risk and improve energy efficiency are more sustainable and their stock market vahjations are better. Thus it is essential that companies reduce, their dependence on fossil fuel and become more energy efficient, which will bring about sustainable growth. If companies are over-dependent on fossil fuels, then it is going to squeeze margins and undermine future competitiveness. Initially all the companies in the BSE top 100 will be eligible for inclusion .in the Carbon Index.
- D. **Over the Counter Exchange of India (OTCEI):** The Over the Counter Exchange of India (OTCEI), incorporated under the provisions of the Companies Act 1956, is a public limited company_ It allows listing of small and medium sized companies. OTCEI is promoted by the Unit Trust of India, Industrial Development Bank of India, the Industrial Finance Corporation of India and others -and is a recognized stock exchange.

Instruments of Stock Market

1. **Forward contracts-** A customized contract between two parties to buy or sell an asset at .a specified price on a future date. A forward contract can be used for hedging or speculation, although its non-standardized nature makes it particularly apt for hedging. Unlike standard futures contracts. a forward contract can be customized to any commodity, amount and delivery date. A forward contract settlement can occur on a 'cash or delivery basis. Forward contracts do not trade on a centralized exchange and are therefore regarded as over-the-counter (OTC) instruments. While their OTC nature makes it easier to customize terms, the lack of a centralized clearinghouse also gives rise to a higher degree of default' risk. As a result, forward contracts are not as easily available to the retail investor as futures Contracts.
2. **Futures contracts-** A contractual agreement, generally made on the trading floor of a futures exchange, to buy or sell a particular commodity or financial' instrument at a pre-

determined price in the future. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange. Some futures contracts may call for physical delivery of the asset, while others are settled in cash.

3. Options contracts- A contract that allows the holder to buy or sell an underlying security at a given price, known as the strike price. The two most common types of options contracts are put and call options, which give the holder-buyer the right to sell or buy respectively, the underlying at the strike if the price of the underlying crosses the strike. Typically each options contract is written on 100 shares of the underlying. The critical difference between the options contract and futures contract is that the buyer of put option contract has the option to either enforce the contract or lapse it whereas no such discretion is available in case of futures contract.
4. Debentures- Debentures are bonds that are not secured by specific property or collateral. Instead, they are backed by the full faith and credit of the issuer, and bondholders have a general claim on assets that are not pledged to other debt. However, if Company XYZ is exceptionally creditworthy (e.g. it has significant cash flow and has never defaulted on any of its other debt), then placing liens on \$100 million of assets (called encumbering the assets) may not be necessary to attract investors. Company XYZ could issue debentures instead. Holders of the Company XYZ debentures would have a claim to the assets not otherwise pledged to other bondholders.

Stock Market Jargon - Important Definitions You Need to Know

- **Open** - The first price at which the stock opens, when market opens in the morning
- **High** - The stock price reached at the highest level in a day.
- **Low** - The stock price reached the lowest level in a day.
- **Close** - The stock price at which it remains after the end of market timings or the final price of the stock, when the market closes for a day
- **Volume** - Volume is nothing but quantity
- **Bid** - The Buying price is called as Bid price.
- **Offer** - The selling price is called offer price.
- **Bid Quantity** - The total number of stocks available for buying is called Bid Quantity
- **Offer Quantity** - The total number of stocks available for selling is called Offer Quantity.
- **Buying and selling of stocks** - Buy is also called as demand or bid and selling is also called as supply or offer. First selling and then buying (this only happens in day trading) is called as shorting of stocks or short sell...
- **Stock Trading** - Buying and selling of stocks is called stock trading.
- **Transaction** - One complete cycle of buying and selling of stocks is called One Transaction.
- **Squaring off** - This term is used to complete one transaction. Means if you buy, then have to sell (means square-off) and if you sell then you have to buy (means square-off).
- **Limit Order** - In limit order the buying or selling price has to be mentioned and when the stock price comes to that price then your order will get executed with the mentioned price by you.
- **Market Order** - When you put buy or sell price at market rate then the price gets executed at the current rate of market. The market order gets immediately executed at the current available price.

Stock Trading

Buying and selling of stocks is called stock trading. Mainly there are two ways of doing stock trading.

- **Online Stock Trading**

Doing stock trading with help of computer, internet connection and with trading/demat account is called Online Stock Trading.

- **Offline Stock Trading**

Doing stock trading with the help of broker or through phone is called Offline trading. In other words, trading will be done by another person on your behalf based on the instructions given by you, and then the other person can be a broker. The broker will do buying and selling of stocks on your behalf depending on the instructions given by you. If you want to do offline stock trading, then you need to open the demat account.

Different methods of buying/selling of stocks

Following are the types of orders which are used for buying and selling of stocks;

1. Market Order

When you put buy or sell price at market rate, then the price gets executed at the current rate of market. The market order gets immediately executed at the current available price. In market order, there is no need to mention the price; the stocks will get executed at the best current available price. If you wish to buy or sell stocks at any specific price, a market order is not suitable for you; then you have to go for limit order. Market order is for those who want to buy or sell immediately at the current available price.

2. Limit Order

It's totally different than market order. In limit order, the buying or selling price has to be mentioned, and when the stock price comes to that price, then your order will get executed with the mentioned price by you. But here, it's not sure that the price will come to your limit order. In day trading, it's risky because you have to close all your transactions before 3:30 PM, and if in case the price doesn't reach your limit order, then your order will be open, and then you have to go through (bare) the heavy penalties. Importantly, limit order and stop loss trigger price are used together.

3. Stop Loss Trigger Price

Stop loss and trigger price are used to reduce the losses. This is a very important term, especially if you are doing day trading (intraday). Stop Loss, as the name indicates, is used to reduce the loss.

Investment in Short term, Mid-term, and Long term trading

1. Short-term Trading - Stock trading done from one week to couple of months is called short term. Companies or sectors having some breaking news will be used for short term trading.

2. Mid-term Trading - Stock trading done from one month to couple of months, say six--to eight months is called midterm trading. Companies' announcements of quarterly results or some big foreign. Acquisitions will be used for midterm trading.
3. Long-term Trading - Stock trading done from couple of months to couple of years is called long term trading. Companies whose fundamentals are good and have good future plans then the stocks of these companies are used for long term trading. Generally traders having good capital go for long term trading.

Stock Market Regulators

• SEBI

The Securities and Exchange Board of India is the regulator for the securities market in India. It was established in the year 1988 and given statutory powers on 12 April 1992 through the 'SEBI Act, 1992. The SEBI is -managed by its members, which consists of a Chairman who is nominated by Union Government of India; two members who are officers from Union Finance Ministry; one member from The Reserve Bank of India and the remaining 5 members are nominated by Union Government of India, out of them at least 3 are time members.

The role or functions of SEBI are discussed below:

1. To protect the interests of investors through proper education and guidance as regards their in securities. For this, SEBI has made rules and regulation to be followed by the financial intermediaries . investment such as brokers, etc. SEBI looks after the complaints received from investors for fair settlement. It also issues booklets for the guidance and protection of small investors
2. To regulate and control the business on stock exchanges and other security markets. For this. SEBI keeps supervision on brokers. Registration of brokers and sub-brokers is made compulsory and they are expected to follow certain rules and regulations. Effective control is also-maintained by SEBI on -the-working of stock exchanges.
3. To make registration and to regulate the functioning of intermediaries such as stock brokers, sub-brokers, share transfer agents, merchant bankers and other intermediaries operating on the, securities market. In addition, to provide suitable training to intermediaries. This function is useful for a healthy atmosphere on the stock exchange and for, the protection of small investors.
4. To register and regulate the working of mutual funds including UTI (Unit Trust of India). SEBI has made rules and regulations to be followed by mutual funds. The purpose is to maintain, effective supervision on their operations & avoid their unfair and anti-investor activities.
5. To promote self-regulatory organization of intermediaries. SEBI is given wide statutory powers. However, self-regulation is better than external regulation. Here, the function of SEBI is to encourage intermediaries to form their professional associations and control undesirable activities of their members. SEBI can also use its powers when °required for protection of small investors.
6. To regulate mergers, takeovers and acquisitions of companies in order to protect the interest -of investors. For this, SEBI has issued suitable guidelines so that such mergers and takeovers will not be at the cost of small investors.

7. To prohibit fraudulent and unfair practices of intermediaries operating on securities markets. SEBI is not for interfering in the normal working of these intermediaries. Its function is to regulate and control their objectionable practices which may harm the investors and healthy growth of capital market.
8. To issue guidelines to companies regarding capital issues. Separate guidelines are prepared for first public issue of new companies, for public issue-by existing listed companies and-for first public issue by existing private companies. SEBI is expected to conduct research and publish information useful to all market players (i.e. all buyers and sellers).
9. To conduct inspection, inquiries & audits of stock exchanges, intermediaries and self-regulating organizations and to take suitable remedial measures wherever necessary. This function is undertaken for orderly working of stock exchanges & intermediaries.
- 10.To restrict insider trading activity through suitable measures. This function is-useful for avoiding undesirable activities of brokers and securities scams.

- **Forward Markets Commission (FMC)**

Forward Markets Commission (FMC) headquartered at Mumbai, is a regulatory authority, which is overseen by the Ministry of Finance, Govt. of India. It is a statutory body set up in 1953 under the Forward Contracts (Regulation) Act, 1952. The Act provides that the Commission shall consist of not less than two but not exceeding four members appointed by the Central Government. The Central Government nominates the Chairman from amongst them. The Forward Markets Commission is the chief regulator of forwards and futures markets in India. The Forward Markets Commission since September 2013, is overseen by the Ministry of Finance instead of the Department of Consumer Affairs under the Ministry of Food after the NSEL scam. NSEL stands for National Spot Exchange Limited. It is a Commodities exchange in India, and is a joint venture of Financial Technologies (India) Ltd. (FTIL) and National Agricultural Cooperative Marketing Federation of India (NAFED).

Terminologies associated with: Capital Market

1. Floating Rate Bonds:

Floating Rate Bonds are securities which do not have a fixed coupon rate. The coupon is re-set at preannounced intervals (say, every six months or one year) by adding a spread over a base rate. Floating Rate Bonds were first issued in September 1995 in India.

2. State Development Loans:

State Governments also raise loans from the market. SDLs are dated securities issued through an auction similar to the auctions conducted, for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal, is repaid on the maturity date. Like dated securities issued by the Central Government, SDLs issued by the State Governments qualify for SLR. They are also eligible as collaterals for bon through market repo as well as borrowing by eligible entities from the RBI under the Liquidity Adjustment Facility (LAF).

3. Equity:

Equity is the money invested in a firm to finance its operations. It generally has a lock-in period during which they are not traded on the stock exchange. When listed, equity is in the form of shares and provides ownership of the company to the shareholder.

4. Debt:

To finance its operations, the company can resort to either infusing equity or raising debt. Debt is essentially borrowing from an institution or an individual which necessarily has to be paid at a future date.

5. Mutual Funds:

An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. One of the main advantage of mutual funds is that they give small investors access to professionally managed, diversified portfolios of equities, bonds and other securities, which would be quite difficult (if not impossible) to create with a small amount of capital. Each shareholder participates proportionally in the gain or loss of the fund.

6. Venture capital:

It is the money provided by investors to startup firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.

7. Angel investors:

An angel investor or angel (also known as a business angel or informal investor) is an affluent individual who provides capital for a business startup usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies. Angels typically invest their own funds, unlike venture capitalists who manage the pooled money of others in a professionally managed fund.

8. External Commercial Borrowings:

Any money that has been borrowed from foreign sources for financing the commercial activities, in India is called 'External Commercial Borrowings'. The Government of India permits ECBs as a source of finance for Indian corporates for expansion of existing capacity as well as for fresh investment. ECBs refer to commercial loans in the form of bank loans, securitized instruments (e.g. floating rate notes and fixed rate bonds, nonconvertible, optionally convertible or partially convertible preference shares), buyers' credit, suppliers' credit availed of from non-resident lenders with a minimum average maturity of 3 years. ECBs cannot be used for investment in stock market or speculation in real estate. They are beneficial for the corporate as they help to avail funds at a lower interest rate prevalent in the foreign market. Earlier banks were not allowed to borrow under ECB. However, from September, 2013, RBI has allowed banks to borrow to fulfill their Tier-1 requirements under Basel-3 norms.

9. Foreign Currency Convertible Bonds:

FCCBs mean a bond issued by an Indian company expressed in foreign currency, and the principal and interest in respect of which is payable in foreign currency. The ECB policy is applicable to FCCBs. It is a debt instrument. The bond issued is convertible to equity at a future date depending on the performance of the company.

10. American Depositary Receipts:

Introduced to the financial markets in 1927, an American Depositary Receipt (ADR) is a stock that trades in the United States but represents 'a specified number of shares- in a foreign corporation. ADRs are bought and sold on American markets just like regular stocks, and are issued/sponsored in the U.S. by a bank or brokerage_ The ADR price is set to suit the American market, where the face value of share prices is typically - higher - perhaps \$20-100 or more. At these levels, each ADR usually represents several foreign shares, rather than just one.

11. Global Depositary Receipts:

In order to ensure that investors from different countries and not one country alone may invest in a corporate entity, it was essential to make available stocks on an international level. A Global Depositary Receipt (GDR) is when a bank issued certificate .in more than one country for shares in a foreign -company The shares are held by a foreign branch of an international branch. The shares trade as domestic shares, but are offered for sale globally through the various bank branches. Indian companies are permitted to raise equity capital in the international market through the issue of Global Depositary Receipt. GDRs are designated in dollars and are not subject to any upper limit on investment. Both ADRs and GDRs are. equity instruments.

12. Euro issues:

Euro issues are simply means of raising finances in the international market. It is' a misnomer as initially they were aimed at European markets and were located on the Luxemburg or London exchanges but now they have expanded to tap the global market. They include ADRs, GDRs and FCCBs.

13. Buy-back of shares:

The repurchase of outstanding shares by a company in order to reduce the number of shares on the market. Companies will buy back shares either to increase the value of shares still 'available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake. The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956. These were inserted by the Companies (Amendment) Act, 1999.

14. Foreign Institutional Investors

FII 'is an investor or investment fund that is from or registered in a country outside of the one in which it is currently investing. Institutional investors include hedge funds, insurance companies, pension funds and mutual funds. The term is used most commonly in India to refer to outside companies investing in the financial markets of India. International institutional investors must register with the Securities and Exchange Board of India to participate in the market. One of the major market regulations pertaining to FIIs involves placing limits on FIT ownership in Indian companies. Foreign Institutional Investors are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme (PIS). SEBI prescribes norms to register FM and also regulates FIT investments. The limit on FIT investments varies from sector to sector and company to. -company.

FIIIs typically use participatory notes (PNs) for making investments in the stock market. They facilitate the participation of overseas hedge funds and mutual funds that are not registered with SEBI. PNs are popular because they offer a high degree of anonymity but since the source of funds is not revealed, they are potentially unsafe as well. Hence SEBI decided to restrict the usage of PN in the market. The brokers that issue these notes or trades in Indian securities have to mandatorily report their PN issuance status to SEBI for each quarter.

The recent boom in the stock market was due to huge FIT inflows because of a bullish market. Due to their high volatility, FIIIs are sometimes called as Hot Money. Such a scenario was seen during the East Asian crisis in 1997 when FIIIs withdrew investments from ASEAN nations resulting in a financial crisis.

15. Qualified Foreign Investors

A QFI is an individual, group or association "resident in a foreign country that is compliant with the Financial Action Task Force standards. Till 2012, they were investing in India through the FIIIs registered with SEBI. From 2012, they are allowed to invest directly for which SEBI and RBI have made the necessary rules. This step was taken because of significant cash outflows from the Indian market which resulted in rupee depreciation. Its aim was to widen the class of investors and attract more foreign funds to reduce market volatility. The individual and aggregate investment limit for QFIs is 5% and 10% respectively.

16. P-Notes

Participatory Notes -- or P-Notes or PNs -- are instruments issued by registered foreign institutional investors 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. P-Notes are issued to the real investors on the basis of stocks purchased by the FII. The registered FIT looks after all the transactions, which appear as proprietary trades in its books. It is not obligatory for the FIIIs to disclose their client details to the SEBI, unless asked specifically.

Participatory Notes, somewhere down the line, hide in themselves the functions and properties of Hedge Funds. Although SEBI, as a regulator had issued KYC (Know Your Client) guidelines: which include that FIIIs must know all the requisites details about their client and be able to furnish the details of the same, as and when demanded or asked by the regulator, to which there should be strict compliance, failing which they have to face the wrath of the regulator.

17. Hedge funds

Hedge funds-, which invest through participatory notes, borrow money cheaply from Western markets and invest these funds into stocks in emerging markets. Financial instruments used by hedge funds that are not registered with Sebi to invest in Indian securities.

18. Initial Public Offering

An initial public offering (IPO) is the first sale of stock by a private company to the public. IPOs are often issued by smaller, younger companies seeking the capital to expand, but can also be done by large privately owned companies looking to become publicly traded.

In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type, of security to issue (common or preferred), the best offering price and the time to bring it to, market.

19. Offer for Sale.

OFS mechanism facilitates the promoters of an already listed company to sell or dilute their existing shareholdings through an exchange based bidding platform

Except the promoters of the company, all market participants like individuals, mutual funds, foreign institutional investors (FIIs), insurance companies, corporates, other qualified institutional bidders (QIBs), HUFs etc. Can bid/participate in the OFS process or buy the shares. The promoters of the company can only participate as the sellers in the process.

20. Follow On Public Offer

A follow on public offer (FPO) is an issuing of shares to investors by a public company that is already listed on an

exchange. An FPO is essentially a stock issue 'of supplementary shares made by a :company that is already publicly listed and has gone through the IPO process.

Commodity Derivatives

'Commodity Derivatives are the first of the derivatives contracts that emerged to hedge against the risk of the value of the agricultural crops going below.- the cost of production. Chicago Board of Trade was the first organized exchange, established in 1848 'to have started trading in various commodities Chicago Board of Trade and Chicago Mercantile Exchange are the largest commodities exchanges in the world.

It is important to understand the attributes necessary in a commodity derivative contract:

- a) Commodity should have a high shelf life - only if the commodity has storability, 'durability will the carriers of the stock feel the need for hedging against the price risks or price fluctuations involved
- b) Units should be homogenous - the underlying commodity as defined in the commodity derivative contract should be the same as traded in the cash market to facilitate actual delivery in the cash market. Thus the units of the commodity should be homogenous
- c) Wide and frequent fluctuations in the commodity prices - if the price fluctuations in the cash market are small, people would feel less incentivised to hedge or insure against the price fluctuations and derivatives market would be of no significance. Also if by the inherent attributes of the cash market of the commodity, the cash market of the commodity was such that it would eliminate the risks of volatility or price fluctuations, derivatives market would be of no significance. Taking an oversimplified example, if an investor had purchased 100 tons of rice Rs. 10/ kg in the cash market and is of the view that the prices may fall in the future, he may short a rice future at Rs. 10/ kg to hedge against the fall. in prices. Now if the prices fall to Rs. 2/ kg, the loss that the investor makes in the cash market may be compensated by squaring of the short position thus eliminating the risk of price fluctuations in the commodity market.

Commodity derivative contracts are standardized contracts and are traded as per the investors needs. The needs of the investor may be instrumental or convenience, depending upon the needs, the investor would trade in a derivative product. Instrumental needs would relate to price risk reduction and-convenience needs to flexibility in trade or efficient clearing process.

Commodity Derivatives in India

Commodity derivatives in India were established by the Cotton Trade Association in 1875, since then the - market has suffered, from liquidity problems and several regulatory dogmas. However in the recent times the commodity trade has grown significantly and today there are 25 derivatives exchanges in India which include four national commodity exchanges; National Commodity and Derivatives Exchange (NCDEX). National Multi- Commodity Exchange' of India (NCME), National Board of Trade (NBOT) and Multi Commodity Exchange (MCX).

• NCDEX

It is the largest commodity derivatives exchange in India and is the only commodity exchange promoted by national level institutions: NCDEX was incorporated in 2003 under the Companies Act, 1956 and is regulated by the Forward Market..Commission in respect of the futures trading in commodities. NCDEX is located in Mumbai.

• MCX

MCX is recognised by the government of India and is amongst the world's top three bullion exchanges and top four energy exchanges. MCX's headquarter is in Mumbai and facilitates online trading, clearing and settlement operations for the commodities futures market in the country.

Reforms in Capital Market of India after 1991

Significant changes brought about by the liberalisation policies of the government are the following:

- a) Simplification of public issues.
- b) Abolition of controller of capital issues.
- c) Establishment of SEBI and its regulatory mechanism
- d) Private sector entry into mutual funds.
- e) Permission to issue. GDR's and ADR's.
- f) Designing new financial instruments.
- g) SEBI and stock exchanges becomes- more investor friendly
- h) Opening capital markets to the external sector which resulted in the inflow of foreign capital
- i) Establishment of NSE
- j) Open Electronic limit order book market and screen based trading
- k) NSE established satellite communication system which led to the emergence of an integrated national market.
- l) The establishment of National Securities Clearing house Corporation (NSCC). Clearing House organization which registers, monitors, matches and guarantees the trades of its members and carries out the final settlement of all futures transactions.
- m) The transfer of physical shares involved huge transaction cost, delays, reduced liquidity etc. The Act established Depositors i.e institutions that dematerialize shares. These institutions convert the shares into electronic form. E.g.: NSDL and CDSL.
- n) T+n Rolling settlement was introduced in the stock exchange T = trading day, n = number of days after the trading day All shares were compulsory moved to Tolling settlement from December 2001_ All exchanges were moved to the same settlement day. T+5, T+3 and later T+2 Were the settlements adopted.T+1 mode was introduced in 2004.
- o) The Corporatisation and demutualization reform was introduced in 2001. It involves segregation of ownership, management and trading membership and introduction of Comprehensive Risk Management System (CRMS). CRMS incorporated i) Capital adequacy of members ii) Adequate margin requirements iii) Limits on exposure and turnover iv) Indemnity insurance v) On line position monitoring vi) Automatic disablement vii) System for efficient market surveillance. etc.

BALANCE OF PAYMENT

Balance of Payment is a systematic record of all the transactions that a nation carries out with outside world. It is the difference between what a nation gets from outside world and What it pays to the outside world.

Balance of Payment (BoP) comprises:

- current account.
- capital account,
- errors,
- omissions,
- changes in foreign exchange reserve&

Current Account

Under current account of the BoP, transactions are classified into merchandise goods (exports and imports) and invisibles. Invisible transactions are further classified into three categories, namely

- (a) Services - travel, transportation. insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction.. financial, software, news agency. royalties, management and business services),
- (b) Income, and
- (c) Transfers (grants, gifts, remittances, etc. which do not have any quid pro quo.

Capital Account

Under capital account, capital inflows can be classified by instrument (debt or equity) and maturity (short or long-term).

The main components of capital account include foreign investment, loans and banking capital. Foreign investment comprising Foreign Direct Investment (FDI) and portfolio investment consisting of Foreign Institutional Investors (FITs) investment, -American Depository Receipts/Global Depository Receipts (ADRs/GDRs) represents non-debt liabilities, while loans (external assistance, external commercial borrowings and trade credit) and banking capital including nonresident Indian (NRI) deposits are debt liabilities.

Foreign investment comprises of two components:

• Foreign. Direct Investment

FDI is foreign investment with aim of profit motive and provide unique mixture of resources, technology knowledge, professionalism, and management techniques.

India's economy has been opening for more FDI. 100% FDI is permitted M sectors like petroleum sector. road building, power, drugs and pharmaceuticals hotels and tourism.

No FDI is allowed in gambling, betting, lottery, atomic energy etc.

FDI in India is allowed under Automatic Route i.e. without prior approval of government/RBI whereas other is government route which requires approval of FIPB.

• Foreign Institutional Investment

FII or Foreign institutional Investment is done in the stock market with the purpose of only trading in shares of companies, in corporate debt and in government securities. Such investments are volatile in nature.

FII also comes in the form of participatory notes (PN) (unregistered FII) and round tipping. Through round tipping, capital goes out of the country only to return from a different route to avoid incidence of tax on profit earned. Much of FIT invested in India comes from Mauritius taking advantage of Double Taxation Avoidance Treaty. .

Balance of payment of a country is a separate and independent "record" of all transactions being done in foreign currency in the country. It has great significance for open economies.

Current Account and Capital Account

BOP		
Current Account		Capital Account
Balance of Goods	Balance of Invisibles	Transactions other than those mentioned in current account consist of foreign investment NRI deposits, borrowing external assistance and grants.
Records all transaction of foreign currencies in export and import of good only	- Records exports and imports of services like banking shipping, insurance, software consultancy etc. - Also included in it are transactions related to net tourism, net remittancesand net education	

Hence, there can be current account surplus or current account deficit.

The balance in the current and capital account constitutes the BOP of the country BOP of any country should be zero or positive but not negative. Therefore current account deficit should be met by foreign currency inflows either through foreign investment or NRI deposits or borrowing of government (from IMF. World Bank etc.)

There can be positive BOP if:

1. There is current account and capital account surplus.
2. There is current account deficit but sufficient capital inflows other than borrowing to wipe the deficit.

Therefore, BOP might not produce a true picture of the economy: however, current account of an economy is extremely relevant.

Till the year 2004-05, current account balance was favourable due to surplus on balance of invisibles. Since 200405, India has a current account deficit due to balance of trade (or goods) because of increased imports.

But there has been rapid increase in capital inflows on capital account due to foreign investment which offsets, CAD and gives surplus on BOP. However such growth is not good for economy in long term.

Importance of Foreign Reserves

- Buffer against global fallouts and prevent currency crisis.

- To meet import needs.
- Safeguard against current account deficit.
- To meet high cost or short term foreign currency debt.
- Give confidence for government for greater and bolder reform's.
- Increase international credibility.
- Giving emerging economies "hard currency".

Trade Deficit: Trade deficit is an economic measure of a negative balance of trade in which a country's imports exceeds its exports. A trade deficit represents an outflow of domestic currency to foreign markets.

Current Account Deficit: A current account deficit represents a negative net sales abroad. The current account also includes net income, such as interest and dividends, as well as transfers, such as foreign aid, though these components tend to make up a smaller percentage of the current account than exports and imports. The current account is a calculation of a country's foreign transactions, and along with the 'capital account is a component of a country's balance of payment.

Exchange Rate Concept

Exchange rate is the value for domestic currency with respect to foreign currency and vice-versa.

In India, exchange rates are managed and any capital inflows would-be mopped up by RBI to prevent rupee from 'appreciating thus resulting in build of reserves.

They can be either fixed exchange rate or market determined exchange rates.

1. Fixed Exchange Rate System:

They are arrived at the intervention of the Central Bank. There are two types of such interventions.

A. Currency Board System

- It is done in inflated economies.
- The central bank pegs the home currency to a stronger currency on a 1:1 basis or some different but fixed ratio
- Home currency will be in circulation equal to inflowing foreign currency
- Example: Argentina

B. Crawling pegged exchange rate

- Fixed rate but Central Bank allows it float between ceiling and floor rates.
- **Example: Russia and China**

Merits of fixed exchange rate:

- It ensures stability in exchange rate, The exporters and importers have not to operate under uncertainty. about the exchange rate. Thus it promotes foreign trade.
- It promotes capital movements. Fixed exchange rate system attracts foreign capital because a stable currency does not involve any uncertainties about exchange rate that may cause capital loss.
- Stable exchange rate prevents capital outflow
- It prevents speculation in foreign exchange market.

- It forces the government to keep inflation in check. In case of fixed exchange rate system, inflation causes balance of payments deficit resulting in depletion of foreign exchange reserves.

Demerits of fixed exchange rate:

- It contradicts the, objective of having free markets.
- Under this system, countries with deficits in balance of payment run down this stock .of gold and foreign currencies. This can create serious problem for them. They may be forced to devalue their currency. On the other hand countries with surplus in balance of payments will face the problem of inflation.
- There. may be undervaluation or overvaluation of currency. If the fixed exchange rate is at a level which is lower than the market level i.e. at which demand for foreign currency far exceeds its supply. it will result in deficit in balance of payment. If it is higher than the market level i.e. at which the supply exceeds demand then it may create inflationary pressure because of balance of payments surplus. It is difficult to fix a rate that may prove to be equilibrium rate.

2. Flexible exchange Rate system

They are arrived at the intervention of the market. There are two types of such interventions.

A. Full float

- Determined by forces of demand and supply of foreign currency in the home country
- No role Of Central Bank.
- Examples are. USA, EU.
- Market determined rates are seen as maturity of economics and a test for globally competitive economy.

B. "Managed" exchange rate

- Also referred as "dirty floating" as central bank intrude indirectly in influencing exchange rate.
- In managed exchange rate, even though the exchange rate is market determined, there is active indirect intervention by the central bank to bring exchange rate closer, to its own preceptor.

iii. Example: India

If exchange rate is market determined and currency make sizeable portion in terms of trade volume, it is known as hard currency. Examples are USA, Japan and UK, etc.

Merits of flexible exchange rate system

- It eliminates the problem .of overvaluation or Undervaluation of currencies, Deficit or surplus in balance of payments is automatically corrected under this system.
- It frees the government from problem of balance of payments.
- There is no need for the government to hold any reserves.
- It enhances the efficiency in the economy= by achieving optimum resource allocation.

Demerits of flexible exchange rate system

- It creates situations of instability and uncertainty. Wide fluctuations in exchange rate are possible. This hampers foreign trade and capital Movements between countries.
- It encourages speculation which may lead to larger uncertainties and fluctuations.
- The uncertainty caused by currency fluctuations can discourage international trade and investment

Nominal Effective Exchange Rate and Real Effective Exchange Rate

Nominal rupee depreciation, while having some adverse effects such, as greater imported inflation, is also useful over time in offsetting high domestic inflation and ensuring Indian exports remain competitive.

The nominal effective exchange rate (NEER) and real effective exchange rate (REER) indices are used as indicators of external competitiveness of the country over a period of time. NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies." while REER is defined as a weighted average of nominal exchange rates, adjusted for home and foreign country relative price differentials. REER captures movements in cross-currency exchange rates as well as inflation differentials between India and its major trading partners and reflects the degree of external competitiveness of Indian products. The RBI has been constructing six currency (US dollar, euro for euro zone, pound sterling, Japanese yen, Chinese renminbi and Hong Kong dollar) and 36 currency indices of NEER and REER.

Difference between Currency Devaluation and Depreciation

A devaluation is when a country makes a conscious decision to lower its exchange rate in a fixed or semi fixed exchange rate. The government pledges to buy and sell as much of its currency as needed to keep its exchange rate the same.

Depreciation occurs when there is a fall in the value of a currency in a floating, exchange rate. This is not due to a government's decision, but due to supply and demand side factors. Depreciation happens in countries with a floating exchange rate.

Convertibility

An economy allows its currency fully or partially convertibility in its current and capital account. The issue of currency convertibility is concerned with foreign currency outflow.

In case of India

India took different measures to check the foreign exchange outflow in both current and capital account. But with economic reforms, situation changed drastically.

Convertibility in India

Current Account	Capital Account
- Fully convertible in India - Full amount of foreign exchange required will be made available at official exchange rate for current purpose - India obliged to do so under article VIII of IMF	- Partial convertibility (40-60) is allowed - After Tarapore committee, India has been moving towards full convertibility in capital account

Reforms towards full convertibility are as follow:

- Indian corporates are allowed full convertibility in the automatic route up to 500 million dollars in overseas ventures.
- Indian corporates are allowed to prepay their ECB (External commercial borrowing) via automatic route if loan is above 500 million dollars.
- Individuals are allowed to invest in foreign assets, shares etc. up to level of 0.2 million dollars per annum.

Foreign Exchange Management Act (FEMA)

When a business enterprise imports goods from other countries, exports its products to them or makes investments abroad, it deals in foreign exchange. Foreign exchange means 'foreign currency and includes: (I) deposits, credits and balances payable in any foreign currency; (II) drafts, travellers' cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency: and (III) drafts travellers' cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency.

In India, all transactions that include foreign exchange were regulated by Foreign Exchange Regulation Act (FERA), 1973.

The main objective of FERA was conservation and proper utilization of the foreign exchange resources of the country. It also sought to control certain aspects of the conduct of business outside the country by Indian companies and in India by foreign companies. It was a criminal legislation (punishable with imprisonment as per code of criminal procedure) which meant that its violation would lead to imprisonment and payment of heavy fine. It had many restrictive clauses which deterred foreign investments.

In the light of economic reforms and the liberalized scenario, FERA was replaced by a new Act called the Foreign Exchange Management Act (FEMA), 1999. The Act applies to all branches, offices and agencies outside India, owned or controlled by a person resident in India.

FEMA emerged as an investor friendly legislation which is purely a civil legislation in the sense that its violation implies only payment of monetary penalties and fines. However, under it, a person will be liable to civil imprisonment only if he does not pay the prescribed fine within 90 days from the date of notice but that too happens after formalities of show cause notice and personal hearing. FEMA also provides for a two year sunset clause for offences committed under FERA which may be taken as the transition period paved for moving from one 'harsh' law to the other 'industry friendly' legislation.

Broadly, the objectives of FEMA are:

- (i) To facilitate external trade and payments; and
- (ii) To promote the orderly development and maintenance of foreign exchange market.

The Act has assigned an important role to the Reserve Bank of India (RBI) in the administration of FEMA. The rules, regulations and norms pertaining to several sections of the Act are laid down by the Reserve Bank of India, in consultation, with the Central Government. The Act requires the Central Government to appoint as many officers of the Central Government as Adjudicating Authorities for holding inquiries pertaining to contravention of the Act.

There is also a provision for appointing one or more Special Directors (Appeals) to hear appeals against the order of the Adjudicating authorities. The Central Government also establishes an Appellate Tribunal for Foreign Exchange to hear appeals against the orders of the Adjudicating Authorities and the Special Director. (Appeals).

The FEMA provides for the establishment, by the Central Government, of a Director of Enforcement with a Director and such other officers or class of officers as it thinks fit for taking up for investigation of the contraventions under this Act. .

The Act deals with two types of foreign exchange transactions - Capital Account Transactions and Current Account Transactions.

FEMA permits only authorized persons to deal in foreign exchange or foreign security. Such an authorized person, under the Act, means authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized by Reserve Bank.

INDUSTRY

KODOLIVE

Industry implies the transformation of existent materials into something new, into goods that are used as endproducts themselves, or are utilized to manufacture more goods. For instance, clay is transformed into bricks - for building, and into pottery; sheet rubber is made into houses, footwear, upholstery and tyres; timber is converted into furniture, constructional materials, pulp and paper; copper ores are concentrated, smelted and alloyed for use in household equipment, ornamental goods and electrical apparatus. It is true to say that the more processing and alteration an Article is given, the more valuable it will become.

Types of Industries

1. Primary Sector

The Primary' Sector includes all those economic activities, which extract or harvest natural resources from the earth. These activities include agriculture, forestry, farming, grazing, hunting, mining, etc. This sector uses manual labour along with some simple technology to extract the resources..As the productivity, of sector is low, most of the people live around poverty line of their society. .

2. Secondary Sector

This sector usually processes the raw material provided by the primary sector. -Manufacturing through industries by using machines and better technology is an important feature of this sector. Activities associated with this sector are metal working and smelting, automobile production, textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction and shipbuilding.

3. Tertiary Sector

This sector includes all those economic activities which provide services to the general population. Activities associated with this sector include retail and wholesale sales, transportation and distribution, entertainment industry, restaurants, clerical services, media, tourism, insurance, banking, healthcare; and law This sector has better productivity and per capita income than the other two sectors.

On the Basis of Strength of Labour it is Divided as:

- **Large-scale Industries:** Industries, which employ a large number of labourers in each unit, are called large-scale industries. Cotton or jute textile industries are large-scale industries.
- **Medium-scale Industries:** The industries, which employ neither a very large number of labour nor a small number and have investment of about one million rupees, are put in the category of medium-scale industries. Cycle industry, radio and television industries are some examples of medium scale industries.
- **Small-scale Industries:** Industries, which are owned and run by individuals and which employ a small number of labourers, are called small-scale industries. Cottage and small-scale village industries are as widespread as agriculture. The number of people employed in the handloom and other small-scale village industries is still. More. than the number employed in large-scale factories, mines and plantation- put together. Village industries characterize our rural economy vividly. This industrial activity is subsidiary to agriculture. They suffer from the lack of good raw material, improvement of technical skills and efficiency of organised marketing. That is why the village industrial products

are mostly fulfilling the rural needs, particularly in inaccessible parts of the country. The idea of establishing industrial estates has been given some practical shape for the promotion and expansion of small-scale manufacturing units on modern and scientific lines.

On the Basis of Raw Material and Finished Goods it is Divided as:

- **Heavy Industries:** Industries, which use heavy and bulky raw materials and produce products of the same category, are called heavy industries. Iron and steel industry presents a good example of heavy industries.
- **Light Industries.** The light industries use light raw materials and produce finished products. Textile industry, electronics, fans, sewing machines are light industries.

On the Basis of source of Raw Material it is Divided as:

- **Agro-based Industries:** Agro-based industries are those industries which obtain raw material from agriculture. Cotton textile, jute textile, silk, sugar, vegetable oil and paper industry are representative industries of agro-based group of industries.
- **Mineral-based Industries:** The industries that receive raw material primarily from minerals such as iron and steel, aluminium and cement industries fall in this category.
- **Pastoral-based Industries:** These industries depend upon animals for their raw material. Hide, skin, bone, horn, shoes, dairy, etc., are some of the pastoral-based industries.
- **Forest-based Industries:** The industries which use forest products as their raw materials are known as forest-based industries. Paper, card-board, lac, rayon, resin, basket, etc. are examples of forest based industries:

On the Basis of Ownership it is Divided as:

- **Public Sector**

It is Government owned and controlled. The employees, managers and supervisors work for the government. Some public sector organizations are a part of government and others are stock companies with the state as a regular stakeholder. A public sector unit is a company where the government owns the majority shares (at least 51%). Some PSUs are Air India Limited, Bharat Heavy Electricals Limited, Coal India Limited, Food Corporation of India, Hindustan Aeronautics Limited, India Trade Promotion Limited, National Thermal Power Corporation, etc.

Need of Public Sector after Independence

The various reasons for giving so much emphasis on public sector are as follows:

- Inability of the Private Sector:** At the time of independence India was an agrarian economy with weak industrial base and high levels of unemployment. There was virtually no infrastructure and hence no investment and savings. India needed a big push to come out of this backwardness. This push would have come from either of the private sector or the public sector. But, private sector was starved of funds and was incapable of taking risks involved in projects having long gestation periods. Thus, public sector was thought of as an engine of self-reliant economic growth.
- To Promote Rapid Economic Development:** After a long period of colonisation, India was relatively a much backward country with respect to other European countries. So, - our planners envisaged a rapid development of the country." For this, rapid development India needed a sustained source of funds through some internal mechanism. This source was taxation and which could only be achieved by the government. Also, the profits earned by

one PSU were to be invested for the development of other PSUs which could not have been possible with the private sector. Because in private sector the profits are distributed as dividends among its shareholders.

- c) **To Promote Balanced Regional Growth:** Balanced regional growth is an essential ingredient for a country to have inclusive growth. Before 1947, only few pockets of areas around the coast were developed. This was creating the problem of migration with pull factors. Thus, public enterprises were set up in backward and under developed areas. The idea was to develop the surrounding areas around various projects set-up by the public sector. Various examples are steel plants at Bhilai, Durgapur and Rourkela.
- d) **To Realise the Socialistic Pattern of Development:** Socialistic pattern broadly means that the state will be in the commanding position of the economy and by its resources it will reduce the inequalities of income present in the society leading to a peaceful and a just society. This idea is also reflected in Article 39 of the Indian Constitution (DPSP). This was achieved by investing the profits of public sector enterprises into social infrastructure. Regulating the salaries of top executives by maintaining high managerial efficiency and adopting discriminatory policies to benefit low income consumers.

• Private Sector

Private players own and control this industry. Employees here are employed by the organization and are responsible to the board of directors or the owner. The private sector companies are profit oriented as they can't survive without earning profits. They compete in the market with other competitors and try to outperform from their competitors.

• Joint Sector

It is an industry where the ownership, control and management are shared jointly by the Government, the private players and the public at large. In India the share capital of a joint sector undertaking (without foreign participation) is to be divided as follows: government 26 per cent, private businessmen 25 per cent and the public 49 per cent. No single individual or organization can hold more than 25 per cent of the paid-up capital of a joint sector enterprise without the permission of the Central Government.

In case of foreign participation, the respective shares will be: Government 25 per cent, Indian entrepreneur 20 per cent, foreign investor 20 per cent and the investing public 35 per cent. Cochin Refineries and Gujarat State Fertilizers are examples of joint sector undertakings.

• Cooperative Sector

A cooperative enterprise is an autonomous association of persons who unite voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Cooperatives as business enterprise possess some basic interests such as ownership and control but these interests are directly vested in the hands of the user. Therefore, they follow certain broad values other than those associated purely with profit making. Need for profitability is balanced by the needs of the members and the wider interest of the community.

Amul is a dairy cooperative in India which is jointly owned by some 2.6 million milk producers in Gujarat.

Industrial Policies Since Independence

The Indian Industrial Sector at Independence

- Before the colonization of India under the British rule, India was a leading manufacturer of items like cotton and 'silk fabrics, handicrafts,. etc. These products were exported at very high prices in the world markets.
- The colonization of India along with the advent of the Industrial revolution in Europe in the 19th century reversed India's positional in the world industrial market From being the leading exporter of manufacturing items, it was made the leading importer of cheap machine-made goods manufactured in Europe.
- These factors resulted in large scale decline in the value addition as well as the employment generated by the Indian industrial sector. This phenomenon (particularly the decline in employment) is defined as de-industrialization in the Indian context.
- At the time Of independence only two industries viz. Cotton textiles in western India and Jute in eastern India contributed to about two-thirds of value-addition and employment of Indian manufacturing sector. Further, the jute industry was almost exclusively owned by British managing agencies.
- As. a whole, the basic features of. the Indian industrial sector at independence were as follows:
 - (a) The sector was extremely underdeveloped with very weak infrastructure.
 - (b) The lack of government intervention in favour of the industrial sector was considered as an important – cause of under — .development.
 - (c) Export orientation had been against the country's interests.
 - (d) The structure of ownership was highly concentrated.
 - (e) Technical and managerial skills were in short supply.
- Due to the above features, India chose an inward-looking industrial policy with active government participation. Import substitution was an important aspect of such policy. Import substitution is defined as a conscious effort to replace major consumer imports by promoting the emergence and expansion of domestic industries. It requires the imposition of protective tariffs and quotas to get the new domestic industries started.
- Such development policy adopted by India and some other developing nations found support in the writings of economists like Ragnar Nurkse, Singer and Prebisch.
- The active role, of the State was clearly articulated in pre-independence industrial documents like the report of the National Planning committee (1938) under the Chairmanship of Jawaharlal Nehru and in the Statement of Industrial Policy (1945). The. SIP (1945) can be regarded as a precursor of all the thinking that became enshrined in the key industrial policy resolutions after independence: Two important aspects of SIP (1945) were:
 - (a) Introduction of the concept of Industrial Licensing.
 - (b) Special importance given to the development of steel, heavy engineering machine tools and heavy chemical industries.

Industrial Policy, 1948

This policy resolution envisaged a mixed economy where it reserved few areas of economy for the private' sphere and other areas for the public sector. As India had recently got independence, it wanted to use the expertise of the private sector along with the resources of public sector for.-the speedy and the balanced growth of economy.

In this resolution the industries were divided into four categories:

- Exclusive monopoly of central government: It consisted of arms and ammunitions, production of atomic energy and management of railways.
- New undertakings could be undertaken only by the state: It included coal, iron and steel-aircraft manufacturing, ship building, telegraph, telephone, etc.
- Industries to be 'regulated by, the government: This included industries of basic importance.
- Open to private enterprise, individuals and cooperatives: This included remainder of industrial field.

Industrial Policy, 1956

This was the most important policy resolution as it decided the path of development of Indian economy till 1991. Other resolutions till 1991 were just a slight modification of this resolution..

Salient features of this policy resolution were:

- **New classification of Industries:** Classifications were more -sharply defined and decreased from 4 categories in 1948 resolution to 3 categories in this resolution. Industries in category A were to be completely owned by the government. Category B industries will be owned and set-up by the government but private sector would supplement the efforts of state. Category C would be left open to the private sector.
- **Enacting License Quota- Permit regime:** All the category B industries and a number of category C industries came, under compulsory licensing regime. It means that to open any industry license needs to be acquired from the related government agency. Though the licenses were intended to regulate the economy for its balanced growth but the red-tapism and the bureaucratic delays made it a source of corruption for the government employees.
- **Removal of Regional Disparities:** After the British rule only few scattered pockets of the country were developed and this was. benefitting only few sections of society. This policy envisaged the reduction of regional disparities by opening PSUs in the under develop areas of the country Thus, it outlined the fact that by the balanced 'and coordinated development of industry and agriculture in each region, we can achieve high , standard of living for the whole country.
- **Encouragement of small and village level industries:** Government used various methods such as differential taxation and direct subsidies to restrict the volume of production in the large scale Sector. Also, state took various measures to modernise the technology in the, small scale industries to make them more competitive:

Industrial Policy, 1977

This policy was just extension of the 1956 policy and aimed to remove some shortcomings of earlier policy.

This was enacted by the Janata government. The main thrust was to, encourage small scale and cottage industries against large scale industries dominated by the big industrial houses. The aim was to provide employment to the poor and reduction in the concentration of wealth. It made it clear to big industrial houses that the funds of public sector financial institutions will not be available to them and they would have to depend upon their own internally generated resources for financing the new projects.

Other areas of focus of this policy were workers' participation in ownership and management, increasing role for the public sector, measures to contain growth of monopoly capital and prohibition of foreign investment in, unnecessary area But before this policy could make any long term changes the Janata government fell and this led to the new policy of 1980.

Industrial. Policy, 1980

This policy endorsed the 1956 policy and improved upon its Shortcomings-. It acknowledged the erosion of public faith in the public sector and launched a drive to revive the efficiency of PSIs. It regularised the excess capacity installed above the licensed capacity It liberalised licensing and provided the clause of automatic expansion of capacity to all industries: It also blurred the distinction between small scale and large scale industries and promoted latter at the cost of former. Thus, it followed the intensive path of development and underplayed the employment objective.

Industrial Policy, 1991

This policy is the most important policy of post-independence India. It marked the entry of India into LPG era i.e. Liberalization, Privatization and Globalization era. Various features of this _policy are

- **De-reservation of Industries:** The industries which were reserved for the central government were reduced to only 8 industries now With increase in demand there was a need for more production and therefore to increase more investment. Thus, many industries producing consumer durables and luxury goods were dereserved for the private sector to participate in it. Today, only nuclear research, nuclear energy and railways are reserved for the central 'government.
- **De-licensing of Industries:** The number of industries which required compulsory license to operate was cut down to only 18. These 18 industries were related to security, strategic importance. social concerns, and hazardous chemicals. Today, only 6 industries need compulsory licensing. These are aerospace, gun powder, dangerous chemicals, tobacco, alcoholic drugs and drugs & pharmaceuticals.
- **Promotion to foreign Investment:** Mid Technology: This policy provided approval for direct foreign investment up to 51% in the industries which required huge investment and latest technology. FERA was replaced by liberal FEMA. Automatic approval was provided for technology agreements in high priority areas. Also, no permission was needed to hire a foreign technician or for foreign testing of indigenously developed technologies.
- **Reforming the Public Sector units:** .Many public sector units showed low' rate of investment on the capital invested. Thus, they became a burden on the government rather than being an asset. Thus, government strengthened those-units who were in reserved areas or generating good profits. This was done by providing more autonomy to the management of these PSUs. Competition NV as introduced by inviting private sector participation. In some cases even disinvestment was done to raise the resources.

Recent Sector in India Steps Initiated by GOI for Improving Manufacturing

- **National Manufacturing Policy:** It was approved by the government in October. 2011. The major objectives of the policy are enhancing the share of manufacturing in gross domestic product (GDP) to 25 per cent and creating an additional 100 million additional jobs over a decade or so. The Policy also provides special focus to industries' that are employment intensive, those producing capital goods, those having strategic significance, small and medium enterprises, and public sector enterprises besides industries where India enjoys a competitive advantage. The NMP provides for promotion of clusters and

aggregation, especially through the creation of national investment and manufacturing zones (NIMZs).

- **Delhi - Mumbai Industrial Corridor:** Industrial development initiatives under DMIC project presently cover-eight industrial cities that are proposed to be developed along the railway corridor. The Master Planning for the investment regions and industrial areas taken up initially to be developed as new cities in Gujarat, Madhya Pradesh, Haryana, Rajasthan and Maharashtra have been completed and master planning in Uttar Pradesh has started.
- **FDI Policy Initiatives:** In order to make FDI policy more liberal and investor friendly further rationalization and simplification has been carried out since. Accordingly a number of clarifications have been issued on various subjects_ Some recent changes in FDI policy, besides consolidation of the policy into a single document include FIN in multi-brand retail trading up to 51 per cent subject to specified conditions; increasing FDI limit to 100 per cent in single-brand retail trading; FDI up to 49 per cent in civil aviation and power exchanges; FDI up to 49 per cent in broadcasting sector under the automatic route and FDI above 49 per cent and up to 74 per cent under the Government route both for teleports and mobile TV.
- **Ensuring Ease of Business:** The government has announced the setting up of - 'Invest India'- a jointventure company between the Department of Industrial Policy and Promotion and FICCI, as a not-forprofit, single window facilitator, for prospective overseas investors and to act as a structured mechanism to attract investment. In addition, the° Government has initiated implementation of the e-Biz Project, for promoting an online single window at the national level for business users. The objectives of setting up of the e-Biz portal are to 'provide a number of services to business users, covering the entire life cycle of their operation. The. project aims at enhancing India's business competitiveness through a service oriented, event-driven G2B interaction.
- **Micro Small and Medium Sector:** The sector play a key role in the development of economies with their effective, efficient, 1-Ixibie and innovative entrepreneurial spirit. The MSME development Act 2006 has been a major intervention aimed at reducing the regulatory interface. Promotion of small scale industries continues to be a focus area for the government.
- **Make in India Initiative:** Government of India has launched the 'Make in India' Programme to promote manufacturing in India and develop it*as a hub for manufacturing, design and innovation. The "Make in India" initiative is based on four pillars, which have been identified to give boost to entrepreneurship in India not only in manufacturing but also other sectors. The four pillars are:
 - (i) **New Processes:** 'Make in India' recognizes 'ease of. doing business' as the single most important factor to promote entrepreneurship. A number of initiatives have already been undertaken to ease business environment.
 - (ii) **New Infrastructure:** Government intends to develop industrial corridors and smart cities. create world class infrastructure with state-of-the-art technology and high-speed communication. Innovation and research activities are supported through a fast paced registration system and improved infrastructure for IPR registration. The requirement of

skills for industry are to be identified and accordingly development of workforce to be taken up.

(iii) **New Sectors:** FDI has been opened up in Defence Production, Insurance. Medical Devices, Construction and Railway infrastructure in a big way. Similarly FDI has been allowed in Insurance and Medical Devices.

(iv) **New Mindset:** In order to partner with industry in economic development of the country Government shall act as a facilitator and not a regulator.

- **Startup India:** Government of India has launched the Start-Up India initiative which aimed at promoting entrepreneurial culture in the country. Start-up India Action Plan highlights are

a) **Compliance Regime based on Self-Certification:** There are provisions of self certification to comply with various labour and environment laws such as Contract Labour (Regulation and Abolition) Act, 1970 or Air (Prevention & Control of Pollution) Act, 1981 etc. It has been done to reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance cost low.

b) **Mobile App & Portal:** The government has proposed to create a single window web portal Or Mobile App for purpose of registration of start-ups, tracking status of registration, Filing compliances for various clearances/approvals, applying for various schemes or collaborating with various Startup ecosystem partners etc.

c) **Fast-tracking Patent Examination at Lower Costs:** For effective implementation of the scheme, a panel of " facilitators" shall be empanelled by the Controller General of Patents, Designs and Trademarks (CGPDTM), who shall also regulate their conduct and functions. The government will bear entire facilitation costs and startups have to pay only statutory fees for patent registration. Startups shall be provided an 80% rebate in filing of patents as compared to other companies.

d) **Faster Exit for Startups:** In terms of the Insolvency and Bankruptcy Bill, 2015 (IBB) which has been tabled in Lok Sabha. Startups with simple debt structures or those meeting such criteria as may be specified may be wound up within a period of 90 days from making of an application for winding up on a fast track basis.

e) **Funding:** Under Start-up India scheme, government will set up a fund with an initial corpus of Rs 2500 Cr and total, corpus of 1.0000 Cr for next 4 years. The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

f) **Tax Benefits:** Start-ups shall be exempted from income tax for a period of 'first 3 years.

g) **Atal Innovation Mission (AIM) and SETU:** The AIM has launched with Start-up India scheme. It has two main functions that are as follows'

— **Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU),** wherein innovators would be supported and mentored to become successful entrepreneurs. Establishment of 500 Tinkering Labs, Pre-incubation training, Strengthening of incubation and Seed funding are some examples of entrepreneurship promotion.

— **Innovation promotion:** to provide a platform where innovative ideas are generated such as Institution of Innovation Awards (3 per state/UT) and 3 National level awards etc.

- Govt will create innovation or Start-up centres at national institutes such as HTs, NITS, or HITS with various facilities like incubation, etc.
- Stand up India: The Government of India has recently. approved the "Stand up India Scheme" to promote entrepreneurship among SC/ST and Women entrepreneurs. The Scheme is intended to facilitate at least a two such projects per bank branch, on an average one for each category of entrepreneur. The scheme aims to benefit at least 2.5 lakh women and SC/ST entrepreneurs. The scheme has target of 2.5 lakh loan approvals within 36 months. The Stand Up India Scheme provides for:
 - a) Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs. 10,000 crore.
 - b) Creation of a credit guarantee mechanism through the National Credit Guarantee Trustee Company (NCGTC).
 - c) Handholding support for bet-ID-wen. both at the pre loan stage and during operations. This would include increasing their familiarity with factoring services, registration with online platforms and e-market places as well as sessions on best' practices and problem .solving.

The overall intent of the approval is to leverage the institutional credit structure to reach out to these, underserved sectors of the population by facilitating bank loans. repayable up to 7 years and between Rs. 10 lakh to Rs. 100 lakh for greenfield enterprises in the non farm sector set up by such SC, ST and Women borrowers.

The loan under the scheme would be appropriately secured and backed by a credit guarantee through a credit guarantee scheme for which Department of Financial Services would be the settler and National Credit Guarantee Trustee Company Ltd. (NCGTC) would be the operating agency.

Margin money of the -composite loan would be up to 25%. Convergence with state schemes is expected to reduce the actual requirement of margin money for a number of borrowers. o Over a period of time, it is proposed that a credit history of the borrower be built up through Credit Bureaus.

• **Shramev Jayate Karyakaram : The five main schemes launched are:**

- a. **A dedicated Shram Suvidha Portal:** That would allot Labour Identification Number (LIN) to nearly 6 lakhs units and 'allow them to file online compliance for 16 out of 44 labour laws
- b. **An all-new. Random Inspection Scheme:** Utilizing technology to eliminate human discretion in selection of units for Inspection, and uploading of Inspection Reports within 72 hours of inspection mandatory
- c. **Universal Account Number:** Enables 4.17 crore employees to have their Provident Fund account portable, hasslefree and universally accessible
- d. **Apprentice Profsahan Yojana:** Will support manufacturing units mainly and other establishments by reimbursing 50% of the stipend paid to apprentices during first two years of their training
- e. **Revamped Rashtriya Swasthya Bima Yojana:** Introducing a Smart Card for the workers in the unorganized sector seeded with 'details of two more social security schemes

Issues in Manufacturing Sector

- **Infrastructure Deficit**

There is an urgent need to bridge the gap in physical infrastructure and address the equipment and raw materials requirements in key sectors such as power and transport. Poor connectivity results in high logistics costs, long lead times and impacts market penetration. For example - "a truck carrying goods from Gurgaon to Mumbai has to pass through 36 checkpoints and takes up to 10 days to reach its destination. While 57% of goods in India are transported by road (the most inefficient, expensive and emissionsintensive mode of transport), the figure in China is just 22%". It is estimated that addressing this deficit can enhance growth in India's manufacturing sector by 3% annually

- **Land Acquisition**

Multiple land acquisition policies, variation in rules on how land can be, acquired, compensation paid to land seller, have added to the complexity of doing business and is a major impediment in establishing new industrial projects (E.g., Tata Motor's land acquisition in Singur, West Bengal had an in-principle approval but later ran into hurdles and political opposition leading to major production delays. Eventually, the company pulled out of the project.).

- **Environmental Clearances**

Securing environmental clearances for new projects have been a key roadblock for investors in the past due to long delays and social hurdles (E.g., Posco's project in Orissa).

- **Labour-Related Issues**

A universal concern for manufacturers is enhancing labour productivity ensuring sustained availability of skilled and highly qualified workforce, resolving labour disputes during closures or bankruptcy and managing rigid and archaic labour laws. These are impediments in attracting investments-.

- **Multi-tier Regulatory Framework and Complex Procedures:**

Multi-tier regulatory frameworks and complex procedures, prevailing at the central, state and local jurisdictions. increase the burden on investors and deter -them from venturing into capital intensive projects. E.g., a manufacturer has to comply with almost 70 regulations and file .100 returns a year. Recent attempts to streamline procedures for bringing down -compliance requirements (E.g.. single window systems) have only been partially successful. .

- **Dealing with Intense Global Competition**

Globalization has allowed manufacturers increasing access to developing markets. Companies can move' production anywhere in the world in search of materials, expertise, and low labor costs. The result has been the globalization of supply chains, as firms around the world compete for business. American and European firms have benefited from this arrangement because they are able to purchase materials and labour at lower prices. But it has also opened them up to fierce competition.

Two major factors have reshaped competition in -the manufacturing industry. The -first is the revolution in technology, which has raised productivity and reduced costs worldwide. The second is the significant reduction in barriers to trade, particularly with respect to manufactured goods. -

- **Finding and Keeping Skilled labor**

The manufacturing industry has a problem locating, and retaining, skilled employees., There are three main reasons for this problem:

- I. Employability — Work ethic, attendance,. and reliability are basic requirements. but they're lacking in a great many applicants. When you consider that a modern manufacturing plant is also looking' for' employees who can work as part of a team, multi-task, and work through minor problems, the absence of even the most basic skills is cause for concern.
- II. Industry Image — The image many people have of manufacturing is one of toil in a dark. often dirty and potentially dangerous environment. Other assumptions are that the pay is low and that job security is non-existent. What people may not realise is that many of the layoffs in recent years have been the result of companies redricing the number of unskilled workers in favor of lower numbers of skilled employees, combined with computerized machines. to complete the same amount of work.
- III. Training Gaps — In addition to the difficulties involved with attracting skilled labor. the manufacturing industry has also been struggling with training the employees it already has. Getting employees to enroll in, and complete, job skill training has proven difficult.

- **Weak Institutional Architecture for business Regulations in the country**

Despite that-high priority of the business regulatory reform agenda in the country. there is no dedicated. authority that can guide the whole process of reform in a structured, planned, cogent and systematic manner, which could mandate the respective departments of the Union,. State and Local governments to comply in a timely, result oriented and predictable way.

Steps Needed for Improvement

A. Policy and Process Interventions

- Align stakeholders in the process of development and implementation of industrial polities.
- Simplify processes for doing business in India by mandating a 'Regulatory Impact Assessment' and , operationalising single window clearance across the country.
- Create a level-playing field for Indian manufacturers through fiscal measures by correcting anomalies in duty structures.
- Boost demand for domestic manufacturing, regardless of ownership of enterprises, through public procurement backed by minimum threshold quality parameters.
- Bring down the cost of finance.

B. Technology Upgradation Measures

- Improve Government—industry and industry—academic collaboratibh.
- Encourage technology transfers through EDI/JVs
- Improve technical standards and voluntary compliance, across the industry.
- Encourage adoption of ',green technology'.
- Modernise MSMEs through technology adoption and adequate access to finance.

C. Infrastructure Creation

- Improve transport and power infrastructure.
- Set up NIMZs- (National Investment and Manufacturing Zones).

- Make industrial clusters more effective by creating both, the 'hard' physical infrastructure as well as the 'soft' infrastructure for knowledge creation and sharing.
- Design an effective land-acquisition process for industrial development.

D. Human Capital Formation

- Modernise labour regulations and institutions.
- Improve skill availability through Skill Councils.
- Ensure social protection to all employees in the manufacturing sector by creating 'safety institutions' for workers in transitory phase and develop innovative insurance systems for the informal sector.
- Improve 'industrial relations' through streamlining of consultative processes and representative institutions.
- Improve the quality of manufacturing managers/supervisors.

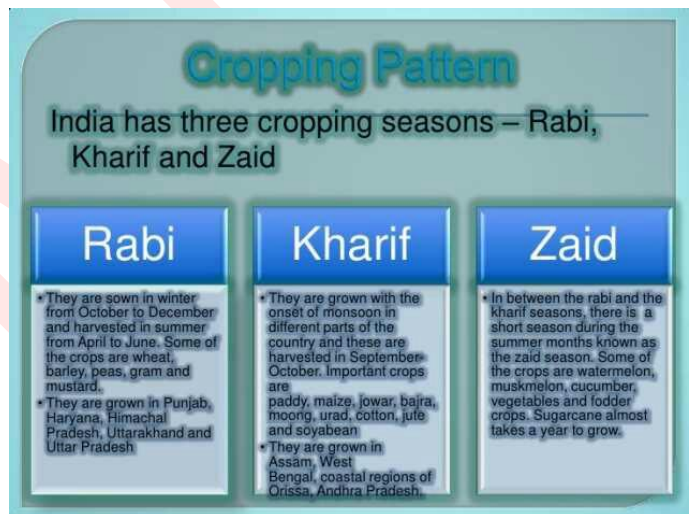
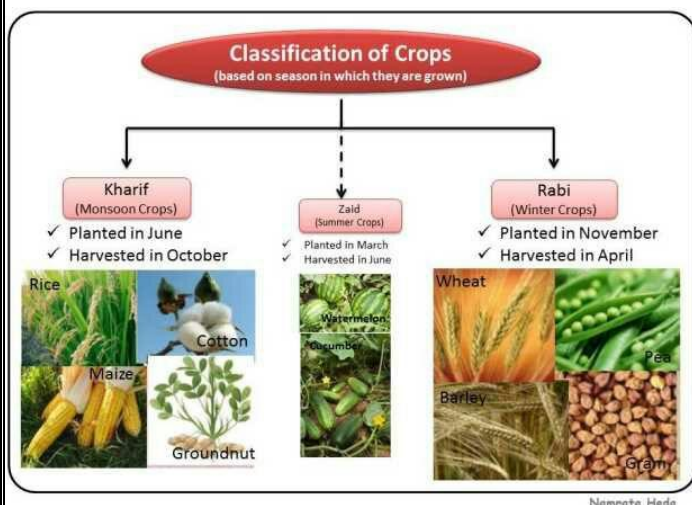
AGRICULTURE

Basic Features of Indian Agriculture

Agriculture and allied activities remain the major source of livelihood for nearly half of the Indian population. The share of agriculture in employment was 48.9 per cent of the workforce [National Sample Survey Office (LASSO); 2011=12] while its share in the Gross Domestic Product (GDP) was 17.4 per cent in 2014-15.

This sector provides us with food security and raw material for the manufacturing sector. India's agriculture sector is characterized by traditional, subsistence and livelihood, rain fed farming, food grain oriented, lack in diversification and commercialization. The key issues in agriculture are to improve productivity, and increase production.

Crop Pattern



Statistics of Productivity of Agriculture

As per the Second Advance Estimates for 2015-16, food grains production during 2015-16, estimated at 253.16 million tonnes, is expected to be higher by 1.14 million tonnes over the production of 252.02 million tonnes during 2014-15. The acreage under several crops declined substantially in 2014-15 compared to 2013-14 as per the Fourth AE (Advance Estimates). The largest decline in the areas of gram and groundnut of around 20 and 15 per cent respectively, resulted in a decline in production of gram and groundnut by 27 per cent and 32 per cent in 2014-15 compared to 2013-14. It appears that the shift away from gram and groundnut has been in regions of relatively higher productivity, since the respective declines in output are much larger than the declines in the acreage. The percentage change in the yield of crops in 2014-15 over the previous year shows an increase in yield of only two crops, jowar and bajra. With scanty moisture and precipitation, there has been delayed sowing, which is reflected in a decline in percentage change in area sown of the majority of crops.

Policies Related to Agriculture

1. Land Reforms

- Institutional factors like the size of land-holdings, the pattern of ownership, the method of inheritance and security of tenure have a definite impact on both investment in agriculture and welfare of population dependent on agriculture.
- At the time of independence, India inherited a semi-feudal agrarian structure where ownership and control - of land was highly concentrated among relatively few landlords and intermediaries.

Three types of land-tenure systems existed in pre-independent India:

- The Zamindari system under which a class of revenue collectors called zamindars was created who acted as intermediaries between the cultivator and the British government. Zamindars were supposed to pay fixed revenue to the government and as long as they did so they were free to fix and extort any revenue ° from the tenant. This system was introduced in by Lord Cornwallis in Bengal, Bihar, Odisha and North Madras and led to exploitation of tenants and stagnancy in agricultural yield in these areas.
 - The Mahalwari system under which the village community was jointly responsible for the payment of rent to the government. It was introduced by William Bentinck in Agra, Oudh and Punjab.
 - The Ryotwari system where individual cultivator was supposed to pay the rent directly to the government without any intermediary. It was prevalent in parts of Madras, Bombay province and Assam.
 - In practice, however, all three types of system had taken the features of each other. The picture that emerged at independence was that of exploitation of agricultural labourers at the hands of landlords,- exorbitant rents, lack of incentive for technological progress and rigid system of land transfer across the country
 - It was in the light of above problems that three major types of land-reforms were undertaken after independence:
- Abolition of Intermediaries like Zamindars so that ownership of land could be clearly identified with management and control. Many states promulgated laws to put-an end to absentee landlordism and as a result about 30 lakh tenants acquired land ownership over an area of 62 lakh acres throughout the country.
 - Tenancy reforms to confirm the rights of occupancy of tenants and to regulate rent of leased land. These reforms could not be implemented due to two main reasons. Many small tenants were forced to surrender their land under the so called "voluntary surrender" rule in the legislation. Secondly, the unavailability of accurate and up-to-date land record also constrained its implementation.
 - Reorganization of land holdings to offset extremely uneven distribution of agricultural land. Under this, ceiling laws were imposed which laid down the maximum land that can be owned by a land holder (which was subsequently amended to holding by a family with effect from 1972). The excess land was to be surrendered to the government. But- its performance remained dismal as it -lead to redistribution of less than 2% Operated area by 1992.

Thus, with the exception of abolition of intermediaries, other reforms could not be implemented mainly due to lack of political will.

- Consolidation of holding was introduced as a measure of improving farming efficiency. It made considerable progress in Punjab, Haryana and western UP. but did not take off in southern and eastern States.

- Cooperative joint farming, recommended by the Congress Agrarian Reforms Committee under Mr. J. C. Kumarappa was also encouraged in the five year plans initially. Under this, farmers pool their land and reap the economies of scale, although the ownership continues to remain with the individual farmer. But this could not be implemented mainly because of farmers' reluctance to alienate their land. Many landlords also tried to misuse this concept to circumvent land ceiling.
- One of the recent steps in land reforms has been The National Land Records Modernization Programme (NLRMP) which started in 2008 and aims at updating and digitizing land records by the end of the Twelfth Plan. Eventually the intent is to move from presumptive title-where registration of a title does not imply that the owner's title is legally valid-to conclusive title, where it does.
- Digitization will help -enormously in lowering the costs of land transactions. while conclusive title will eliminate legal uncertainty and the need to use the government as an intermediary for acquiring land so as to 'cleanse' title. Given the importance of this programme, its rollout in various states needs to be accelerated. Easier and quicker land transactions will especially help small and medium enterprises that do not have the legal support or the management capacity that large enterprises have.
- Irrigation Policy and Watershed Development: To raise the productivity of agriculture in India there is need to expand the acreage under irrigation along with adoption of appropriate technologies for efficient utilization of Water through suitable pricing.
- First, adoption of irrigation technologies which improve efficiency in the use of water is imperative in a scenario where flood irrigation has resulted in wastage of water. Second, focus on efficient irrigation technologies is important with increasing water shortages owing to climate change and indiscriminate wastage of water in agriculture and other uses. Having 'more crop per drop through efficient irrigation technologies should be the motto to improve productivity in agriculture which can ensure food and water security in the future.
- Irrigation schemes are divided into three categories on the basis of the area covered by them or the Culturable Command Area (CCA):
 - (a) Major irrigation schemes have a potential CCA; of more than 10,000 hectares.
 - (b) Medium irrigation schemes have a potential CCA between 21,000 and 10,000 hectares
 - (c) Minor irrigation schemes have a potential CCA of less than 2,000 hectares.
- As per the latest available- data on irrigation, the all India percentage distribution of net irrigated area to total cropped area during 2012-13 was 33.9 per cent.
- There is regional disparity in irrigated farming, with net irrigated area to total cropped area, at more than 50 per cent in the states of Punjab, Tamil Nadu and Uttar Pradesh, while it is at less than 50 per cent in the remaining states.
- There is substantial gap between Irrigation Potential. created (IPC) and the Irrigation Potential Utilized (IPU) during the Five Year Plan periods. There is perceptible decline in the ratio of IPU to IPC due to lack of proper operation. and maintenance, incomplete distribution system, non-completion of command area development, changes in cropping pattern and diversion of irrigated land for other purposes.
- Different schemes launched are:

a) Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)

- PMKSY has been formulated amalgamating ongoing schemes viz. Accelerated Irrigation Benefit Programme (AIBP) of the Ministry of Water Resources, River Development & Ganga Rejuvenation (MoWR, RD&GR), Integrated Watershed Management Programme (IWMP) of Department of Land Resources (DoLR) and the On Farm Water Management (OFWM) of Department of Agriculture and Cooperation (DAC): PMKSY has been approved for implementation across the country. It will have an outlay of Rs. 50,000 crore over a period of five years (2015-16 to 2019-20).

- The major objective of the PMKSY is to achieve convergence of investments in irrigation at the field level, expand cultivable -area under assured irrigation (Har Khet ko pani), improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies (More crop per drop), enhance recharge of aquifers and introduce sustainable water conservation practices by exploring the feasibility of reusing treated municipal based water for peri-urban agriculture and attract greater private investment in precision irrigation system.
- The programme architecture of PMKSY aims at a 'decentralized State level planning and execution' structure, in order to allow States to draw up a District Irrigation Plan (DIP) and a State Irrigation Plan (SIP).
- It is expected that PMKSY will provide convergence to existing schemes of water management, thus bringing efficiency to the use of water.

b) Neeranchal

- For achieving the major objectives of the Watershed Component of the Pradhan Mantri Krishi Sinchayi Yojana ("PMKSY) and for ensuring access to irrigation to ever,/ farm (Har Khet Ko Pani) and efficient use of water (Per Drop More. Crop), Neeranchal is implemented with the assistance of World Bank.
- Neeranchal will translate into better implementation outcomes of PMKSY. The programme will lead to reducing surface runoff of rainwater, increasing recharge of ground water and better availability 'of water in rainfed areas resulting in increinental rainfed agriculture productivity, enhanced milk yield and increased cropping intensity through better convergence related programmes in project areas.

c) National Water Policy 2012

- Emphasis on the need for a national water framework .law, comprehensive legislation for optimum development of inter-State rivers and river valleys, amendment of Irrigation Acts, Indian Easements Act, 1882, etc.
- Water, after meeting the pre-emptive needs for safe drinking water and sanitation, achieving food security, supporting poor people dependent on agriculture for their livelihood and high priority allocation for minimum ecosystem needs, be 'treated .as economic good so as to promote its conservation and efficient use.
- Ecological needs of the river should be determined recognizing that, river flows are characterized by low or no flows, small floods (freshets), large floods and flow variability and should accommodate development needs. A portion of river flows should be kept Aside to meet ecological needs ensuring that the proportional low and high flow releases correspond in time closely to the natural flow regime.
- Adaptation strategies in view of climate change for designing and management of water resources structures and review of acceptability criteria has been emphasized.
- A system to evolve benchmarks for water uses for different purposes, i.e. water footprints, and water auditing be developed to ensure efficient use -of water. Project financing has been suggested as .a tool to incentivize efficient & economic use of water.
- Setting up of Water Regulatory Authority has been recommended. Incentivization of recycle and re-use has been recommended.
- Water Users Associations should be given statutory powers to collect and retain a portion of water charges, manage the volumetric quantum of water allotted to them and maintain the distribution system in their jurisdiction.
- Removal of large disparity in stipulations, for water supply in urban areas and in rural areas has been recommended.

- Water resources projects and services should be managed with community' participation. Wherever the State Governments or local governing bodies so decide, the private sector can be encouraged to become a service provider in public private partnership model to meet agreed terms of service delivery including penalties for. failure.
- Adequate grants to the States to update technology, design practices, planning and management practices, preparation of annual water balances and accounts for the site and basin, preparation of hydrologic balances for water systems; and benchmarking and performance evaluation.

3. Fertilizers

- Fertilizer is a critical and expensive input required to improve agricultural output. In India, there has been a sharp increase in the use of fertilizers since the Green Revolution in the mid 1960s. To facilitate and promote the use of fertilizers in order to improve productivity, the Government has been providing fertilizer subsidy to farmers.
- For India, the standard ratio for the use of NPK fertilizers has been estimated to be 4:2:1. But during 2006- 07, the ratio was 6:2.4:1 after which it is improving to reach 4:3:2:1 during 2009-10_ Thus the fertilizer consumption is now less biased in favour of nitrogenous fertilizers.
- The biasness in favour of nitrogenous fertilizers reached its extreme in 1996-97 when it was 10:3:1. after which it has reduced despite periodic fluctuations.
- Another reason for negative impact of fertilizer 'use on productivity of soil, is comparatively higher application of straight fertilizers like urea, DAP and MOP as against the complex fertilizers (NPKs) which are considered to be agronomically better and more balanced fertilizers products.
- The domestic production of Urea and DAP has been rising after witnessing a decline till 2007-08. While Urea production has increased from 199.2 lakh tonnes in 2008-09 to 211.12 lakh tonnes in 2009-10 DAP production has increased .from 29.93 tonnes to 42.46 .lakh tonnes in the same period. After declining to 58.5 lakh tones in 2007-08, the production of complex fertilizers has increased to 80.38.lalch tonnes in. 2009-10.
- Availability of raw materials is the main constraint towards increase in fertilizer production.
- There is no domestic production of MOP and its requirement is met fully by import. Urea and DAP are also imported in significant amounts.

Fertilizer-Prices and Subsidy'

- Fertilizer prices in India do not reflect market prices because of the Central government subsidy given to both the farmers and the fertilizers manufacturers.
- However, the fertilizer subsidy system has changed since April 2010. Till this time, the farmer got fertilizers at a pre-determined lower rate called Maximum Selling price. The manufacturer was paid a price called Retention Price which was high enough to cover his costs and yet leave a 12 percent post tax return on the net worth.
- Three important reforms were introduced in April. 2010:
 - (a) Prices of all fertilizers except urea were decontrolled.
 - (b) Retention Price -System was replaced by Nutrient-based subsidy system. Under this system, the government 4 pays the fertilizer companies a fixed amount of subsidy per tonne of nutrients being used and gives the companies the freedom to decide the prices of the nutrient-based fertilizers.,
 - (c) The list of nutrients eligible for subsidy was expanded from just phosphatic and potassic fertilizers to include sulphur, boron and zinc.
- These reforms are expected to -solve different types of inefficiencies being faced both by the fertilizer companies and the farmers. The companies have got more flexibility in terms of

deciding new combination of the nutrients which are competitive in terms of price and useful. This is likely to increase competition among these companies and thus can decrease fertilizer prices.

- More importantly, it is expected to tackle the imbalance in the use of fertilizers and therefore crucial to . maintain soil fertility
- There are, however, many bottlenecks. Urea prices are still regulated and therefore the reforms may not reduce unnecessary greater demand for cheap urea. The reform in urea sector. is on cards. but the political will is missing due to powerful urea producers' lobby. This half-hearted reform can take the credit away from the nutrient-based subsidy system:
- Further farmers are willing to use fertilizers in a balanced way, but they do not have information on the nutrients already present in their soil. This may not allow them to take an informed decision on fertilizer use. Agricultural. Extension, through soil testing initiatives can solve such problem.
- Recent initiatives: The use of fertilizers has not resulted in commensurate growth in agricultural productivity The declining response ratio or marginal productivity of fertilizers since the 1970s is a pointer to their inefficient use in Indian agriculture. As can be seen in Figure 5.16, the yield of grain per kilogram use of NPK fertilizer has declined from 13.4 kg grain per ha in 1970 to 3.7 kg grain per ha in irrigated areas by 2005.

a) Soil Health Card

- Government has launched a scheme to provide every farmer a Soil Health Card in a Mission mode. The card will carry crop wise recommendations of nutrients/fertilizers required for farms. making it possible for farmers to improve productivity by using appropriate inputs.
- A Soil Health Card is used to assess the current status of soil health and, when used over time, to determine changes in soil health that are affected by land management. A 'Soil Health Card displays values on soil parameters such as pH, EC, N, P, K, S, Zn, Fe, Mn, Cu & 'B. Recommendation on appropriate dosage of fertilizer application based on test values and requirement of crop. use of organic manures and soil amendments to acidic/alkaline/sodic soils and associated descriptive terms.
- The indicators are typically based on farmers' practical experience and knowledge of local natural resources. The card lists soil health indicators that can be assessed without the aid of technical or laboratory equipment. Also it provides recommendation on appropriate dosage of fertilizer 'application based on test values arid requirement of crop, use of organic manures and soil amendments to acidic/alkaline/sodic soils and associated descriptive terms.

b) New Urea Policy 2015

- A comprehensive New Urea Policy 2015 has been formulated for the next four financial-years. The Policy has multiple objectives of maximizing indigenous urea production and promoting energy efficiency in urea units to reduce the subsidy burden on the Government. Savings in energy shall reduce the carbon-footprint and. would thus be more environment friendly.
- It will enable the domestic urea sector having 30 urea producing units, to become more energy efficient, would rationalin the subsidy burden and incentivize urea units to maximize their production at the same time The policy will ensure timely supply of urea to farmers at same Maximum Retail Price (MRP) with lesser financial burden on the exchequer. It will also reduce import dependency in the urea sector.
- Additionally Government had also decided' to allow urea producers to produce neem coated urea up to 100 percent of production and making it mandatory to produce a minimum of 75 percent of domestic urea as , neem coated, so that farmers are benefitted.

- Neem coated urea is required less in quantity with same plot size and gives higher crop yields. Underground water contamination due to leaching of urea also gets reduced with neem coating since nitrogen in the neem coated urea gets released to plants very slowly. Neem coated urea is not fit for industrial use, so chances of its illegal diversion to industries will also be lesser

4. Seeds

- In India, more than four-fifths of the farmers rely on farm-saved seed leading to a low seed replacement rate.
- The importance of seeds as a crucial input was more formally recognized with the introduction of High Yielding Varieties (HYV) of seeds developed in Mexico by Prof Norman Borlaug. It was introduced during the mid-1960s after the third Five Year Plan.
- The Indian Seed Programme includes the participation of Central and State Government, the Indian Council of Agricultural Research (ICAR), State Agricultural Universities and the Seed Corporations and private players.
- There are 15 State Seed Corporations besides two National level Corporations, viz., the National Seeds Corporation and the State Farms Corporation of India.
- According to the type of seed generation, there are three types of seeds which are produced, viz., breeder, foundation and certified seeds.
- Breeder seeds are the highest class seeds and come directly from plant breeder. Foundation seeds are grown from the breeder seeds and the Certified seeds are grown from the foundation seeds.
- Development and Strengthening of Infrastructure Facilities for Production and Distribution of Quality seeds :
 - (a) It is a central government scheme implemented by the Ministry of Agriculture, since 2005-06. . .
 - (b) It aims to facilitate the availability of quality seeds of various crops to the farmers at affordable price and in time so as to enhance seeds replacement rate.
 - (c) The scheme also aims to improve the quality of farm-saved seeds through 'Seed Village Programme'.
 - (d) The Central Government has also financed Tissue Culture facilities in Odisha and Maharashtra for banana and pomegranate respectively
- **The Protection of Plant Varieties and Farmers' Rights (PPV&FR) Authority:**
 - (a) It has been established in November 2005 to implement provisions of the PPV&FR Act, 2001. The Act was enacted to protect the Intellectual Property Rights (IPRs) of plant breeders and to stimulate investment in R&D for the development of new plant varieties.
 - (b) 14 crops were notified for the purpose of registration under the Act.

Important policy initiatives under the amended NEW POLICY ON SEED DEVELOPMENT (NPSP) include permitting 100% FDI under the automatic route and simplifying the procedure for inclusion of new varieties in the Organisation for Economic Cooperation and Development (OECD) Seeds Scheme.-

What is Agricultural Credit?

Agricultural Credit in India can be classified on two main bases viz. on the basis of specific financial requirement and on the basis of sources of credit. On the basis of financial requirement, the agricultural credit can be classified into

- (a) **Short term Credit:** It is requested for the purchase of seeds, fertilizers. feeds etc. and is given for a period, of not more than 15 months:.
- (b) **Medium term Credit:** It is given for a period of 15 months-5 years for the purpose of purchase of agricultural implements, animals etc.
- (c) **Long - term Credit:** It is given for a period of more than 5 years for purchase of machinery like tractors, for land, improvements, etc.

On the basis of sources, agricultural credit can be classified into two main categories:

- (a) Institutional sources such as cooperatives, commercial banks and land development banks.
- (b) Non-institutional/private sources such as money lenders, traders and commission agents.

In 1951-52 institutional sources accounted for only 7% of total bicultural credit. But by 1981, this contribution had increased to 63% with just 37% . coming from non-institutional sources. But these figures also indicate that the non-institutional lenders like moneylenders are still important sources of credit in the agricultural sector.

Due to the dismal performance in meeting- credit flow target to the agricultural sector in the first two years of the tenth Five Year Plan .(2002-07), the Reserve Bank of India (RBI) constituted an Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System under the Chairmanship of V. S. Vyas.

Some of Vyas Committee's major recommendations were

- (a) A review of mandatory lending to agriculture by commercial banks to enlarge direct lending programmes.
- (b) Direct agricultural lending by public and private sector banks should increase to about 18 percent of net bank credit. (c) Banks to increase their disbursements to small and marginal farmers under. Special Agricultural Credit Plan (SACP).
- (c) Reducing cost of agricultural credit by .enhancing their cost effectiveness, procedural simplification etc.

Thus the target of 'Farm Credit Package' announced in June 2004 to double the flow of agricultural credit in three years was achieved well within time.

There are three important sources through which the institutional credit flow takes place to the agricultural sector. They are

- (a) Cooperatives,
- (b) Scheduled Commercial Banks and
- (c) Regional Rural Banks.

History of Cooperative Credit Societies

Till 1970-71, almost Av-h-ole----of institutional credit was provided by the cooperatives. However, after the nationalisation of 14 major commercial banks in 1969 and the formation of Regional Rural Banks (RRBs) in 1975, their-relative share in total credit flow has consistently decreased.

In 2006-07, the corresponding shares of Commercial Banks, Cooperatives and RRBS were 69 per cent, 21 percent and 10 percent respectively.

The Cooperatives are organized on a three-tier system, the upper most tier is formed by State Cooperative Bank (SCB) at state level. At the second tier are the Central Cooperative Banks (CCB) organized at District level. The Primary Agricultural Credit Societies (PACS) at village level forms the lowest tier.

In addition to the above, Land Development Banks (LDBs) provide long-term rural credit for land improvement. Soil conservation, etc. LDBs have now been renamed as State Cooperative Agricultural and Rural Development Banks (SCARDBs).

In practice, however, the cooperatives are not very efficient in providing agricultural credit. Some of the main deficiencies faced by the cooperatives are lack of autonomy of the PACS, high level of Non-performing assets (NPAs), control over cooperatives credit by the larger farmers etc

In 2004, the government appointed a task force with Prof. A. Vaidyanathan as Chairman to recommend a plan of action to revive the rural cooperative credit structure.

Some important recommendations of Vaidyanathan Committee were

- (a) Measures should be taken -strengthen the capital base of cooperative institutions. .
- (b) Their autonomy should be increased by removing excessive government control.
- (c) Capacity building of cooperatives' personnel at all time should take place:
- (d) RBI should be empowered to take direct action to enforce prudent financial management by cooperative banks.

In January 2006, the government announced a package for the revival of the Short-term Rural Co-operative structure with a financial assistance of Rs. 13, 596 crore. National Bank for Agriculture and Rural Development (NABARD) has been designated the implementing agency for the purpose. 25 states have signed memorandums of understanding (MoUs) with the Central Government and NABARD for the implementation of reforms needed for this package.

Role of Commercial Banks (CBs) and Regional Rural Bank (RRB)

Till 1961, the commercial banks provided less than 1% of total agricultural credit. However, after nationalization of banks in 1969, the total number of branches in rural areas and the credit disbursed by them increased consistently.

The CBs finance rural credit directly through poverty alleviation programmes like IRDP and through RRBs.

In 1975, five RRBs were set up to provide direct loans to small and marginal farmers, rural artisans and agricultural labourers.

The RRBs were co-sponsored by Central government (50%), state government (15%) and the sponsoring bank (3%)

The RRBs can fix rate of interest between 14% and 18% on advances. There are about 200 RRBs covering more than 400 districts.

In 2006-07, RRBs disbursed total credit of Rs. 20,435 which was 10% of the total agricultural credit.

Despite 69% contribution of Commercial Banks towards total rural credit, the rural credit accounts for only 15% of total bank credit. This fact is confirmed by an NSSO study, which shows that only 27% of cultivator households have any access to any institutional credit.

Only five states, viz. Andhra Pradesh, Karnataka, Uttar Pradesh, Maharashtra and Tamil Nadu together account for 50% of outstanding rural credit as on 31st March, 2005.

The North-Eastern states accounted for only 3% of outstanding loans.

National Bank for Agricultural and Rural Development (NABARD)

- The NABARD was set up in 1982 under the NABARD Act, 1981, during the 6th Five Year Plan
- NABARD has formally become the apex body to look after the credit requirements of rural sector, taking over most of the functions of RBI in, this area.
- Its primary task is to function as a refinancing institution for all types of lending for agriculture and rural development .
- In addition, it provides term credit to state cooperative banks, state government and RRBs.
- In 1995-96; NABARD was entrusted the responsibility of financing rural infrastructure (such as irrigation, roads and bridges) through Rural Infrastructural Development Fund (RIDF).

Recent developments on Agricultural Credit

- Kisan Credit Card (KCC). scheme
 - (a) KCC scheme was introduced in August 1998 to provide short and medium term loans to the farmers for their cultivation needs, including the purchase of all inputs.
 - (b) The. scheme includes reasonable component of consumption Credit and investment credit within the overall credit limit sanctioned to the borrowers. The scheme has also been extended to the borrowers of the long-term cooperative .credit structure to address all the loan requirements of the borrowers of State Cooperative Agriculture Rural Development Bank (SCARBDs) under KCC scheme.
 - (c) The KCC scheme is being implemented by the commercial banks, RRBs and Co-operative banks, with their proportional contribution being about 39%, 13
 - (d) Holders of the KCC are also automatically covered under accident insurance cover against death or disability.
 - (e) A revised KCC scheme was introduced in March 2012 in which the KCC passbook has been replaced by an ATM cum-debit card to all eligible and willing farmers in a time-bound manner.
- Agriculture Debt Waiver and Debt Relief Scheme 2008.

In the Union Budget 2008-09, the Government announced a scheme of agricultural debit waiver and debt relief for farmers with the total value of overdue loans being waived estimated at Rs. 50,000 crore and onetime settlement (OTS) relief on the overdue loans at Rs. 10,000 crore for implementation by-all-Scheduled Commercial Banks (SCBs), RRBs and cooperatives.

What is Agricultural Insurance

Agricultural insurance schemes are extremely important for Indian agriculture due to enormous risk and uncertainty faced by it on account of many natural calamities like droughts. flood, cyclones, erratic rainfall, raising temperatures, agro-climatic variations etc.

Scheme related to Agricultural Insurance has been launched under Pradhan Mantri Fasal Bima Yojana

The PMFBY will replace the existing two schemes National Agricultural Insurance Scheme as well as the Modified NAIS

The new scheme, to be executed also by private insurance .companies; is seen as a significant step by policy makers, farming community and experts. The government's move will enhance insurance coverage to more crop area to protect farmers from vagaries of monsoon.

Under the new scheme that would cost government Rs. 8,000-9,000 crore annually, the farmers' premium has been kept at a maximum of 2 per cent for foodgrains and oilseeds, and up to 5 per cent for horticulture and cotton crops.

There is no upper limit on Government subsidy. Even if balance premium is 90%, it will be borne by the Government. Earlier, there was a provision of capping the premium rate which resulted in low claims being paid to farmers. This capping was done to limit Government outgo on the premium subsidy. This capping has now been removed and farmers will get claim against full insured without any reduction.

Importantly for the beneficiaries, crop losses which are covered under the scheme include Yield Losses as well as post-harvest losses, where coverage will be available up to a maximum period of 14 days from harvesting for those crops.

The use of technology will be encouraged to a great extent resulting in operational efficiency. Smart phones will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers.

Remote sensing will be used to reduce the number of crop cutting experiments.

What is Agricultural Marketing?

The basic aim behind agricultural marketing is to provide remunerative price to agricultural produce. Some steps taken by government in this direction are discussed here.

Schemes related to Agricultural Marketing:

a) Promotion of National Market through Agri Tech Infrastructure Fund (ATIF)

- Central Sector Scheme for Promotion of National Agricultural Market through Agri-Tech Infrastructure. Fund .(ATIF) for Rs.200 crores to be implemented during 2014-15 to 2016-17.
- The Scheme envisages initiation of e-marketing platform at the national level and will support creation of infrastructure to enable e-marketing in 642 regulated markets across the country.
- For creation of a National Market, a common platform across all States is necessary It is therefore, proposed that a Service Provider be engaged centrally who would build, operate and maintain the a platform on PPP (Build, Own, Operate, Transfer - BOOT) model. This platform would be customized/ configured to address the variations in different states.
- As an initiative of deregulation, States have been advised by the Government of India to bring fruits and vegetables out, of the ambit of APMC Act. In pursuance of this advisory. 12

States have, so far, either de-regulated the marketing of fruits and vegetables or have exempted from levying of market fee.

b) e-platform NAM

- e-NAM trading mechanism has been launched recently to integrate 585 regulated wholesale markets or apiculture produce market committees (AM/Ws) under one electronic platform by 2018. It will allow farmers to sell their produce anywhere in the country and create a common market for selling of crops, network existing APMC and other market yards to create a unified national market and provide a single window service for all -APMC related information and services.
- Prior to this India had been facing various problems due to lack of a common market. The lack of a national common agricultural market and an un-integrated and distortion ridden agricultural market has led to some of the most striking problems in agriculture growth. Presently, markets in agricultural products were regulated under the 'Agricultural Produce Market' Committee (APMC) Act enacted by respective State Government and which posed a large number of problems before farmers such as levying of high fees, multiple licenses and selling of crops in distress. The farmers had even to suffer due to presence of a large number of middlemen. All these led to loss for the farmers. However, with the launch of a common market these issues are going to be resolved.
- The e- NAM will prove to be turning point for farmers in following ways:
 - a) It will keep a check on the price differentials that exist across the country, by curbing the tendency to hoard, which will control the level of food inflation. - -
 - b) The enhanced degree of competitiveness achieved through better participation of traders in the National Agricultural Market will help farmers realize better prices.
 - c) The integrated system of distribution enabled by better infrastructure will help farmer fetch a premium through better quality and minimisation of post-harvest losses.
 - d) It will create a transparent system and the farmers choice of selling their crops will be widened as ' - previously they had to depend on. a few buyers. So, NAM would essentially be a common electronic platform allowing farmers to sell their crops to buyers anywhere in the country
 - e) The buyers or the agents can log into the platform and source from any mandi in India connected to NAM. They don't need to be physically present or depend on intermediaries with trading licenses in those mandis. So, it will reduce the multiple• licensing and heavy fees they had to pay earlier.
 - f) The larger market obtained as a result of better inter-linkages and free movement of commodity between States will help in developing industry linkages, create greater industrial capacity to produce goods and encouraging private players to participate in creating modern infrastructure mainly storage, market, agribusiness, processing and transport.

What is Agricultural Extension?

Agricultural extension refers to an effective transfer of agricultural technologies and information to the farming community and is undertaken by Department of Agriculture & Cooperation (DAC).

Programs for Agricultural. Extension

1. State Extension Programmes for Extension Reforms

It is a centrally sponsored scheme, launched in May 2005 during the 10th Five Year Plan. Its Objective is to support State government's effort on revitalization of their extension system.

It promotes a decentralized farmer-driven and farmer accountable extension system through dissemination in the form of an Agricultural Technology Management Agency (ATMA).

The scheme is in operation in 583 districts of 29 states and 2 UTs.

The scheme supports both state-level activities like upgrading 'state level training institutions and district – level activities which are farmer oriented like training, demonstration and Krishi Melas.

Restructuring of all extension and IT-related schemes of the department and putting them under one mission scheme namely proposed.

2. Agri Clinics and Agri Business Centres (ACABC) Scheme

Launched in April 2002, the scheme encourages unemployed agri-graduates to set up agri-clinics and agri-business centres to supplement the efforts of public extension system and to serve as supplementary sources of input supply and services to the needy farmers.

Capital subsidy to the extent of 25% (33% for North-East and hill areas and women graduates) and interest subsidy for first two years is provided to ACABCs by NABARD.

3. The Kisan Call Centres Scheme

- i. The Scheme was launched in 2004 during the 10th Five Year Plan to provide agricultural information to the farming community through toll-free countrywide common numbers.
- ii. The answers are given in 21 local languages by the 25 KCCs located across the country.
- iii. The Tele-communication Consultants India Limited, a public sector undertaking, is implementing the scheme through a private service provider.
- iv. Kisan Knowledge Management System (KKMS) is being developed to provide instant information back up to the call centre agents for replying to farmers' queries.
- v. The State Agricultural Universities (SAUs) are responsible for updating and validating KKMS.

Price Policy for Agricultural and- Food Management

Objectives of Agricultural Price Policy

- i. Procurement of food grains from farmers at remunerative prices so that he does not switch crops.
- ii. Distribution of food grains to the non-producing consumers particularly the vulnerable sections of society at affordable prices.
- iii. Maintenance of reasonable terms of trade (price ratio) between agricultural and non-agricultural sectors.
- iv. Maintenance of good buffers for food security and price stability. How is APP in India implemented? a)

a) Minimum Support Prices (MSP)

The Commission for Agricultural Costs and Prices (CACP) analyses the input costs and recommends MSP for 26 major crops. .

MSP can be regarded as an offer price at which government is willing to buy any amount of grain from the farmers in the years of good harvest when, in the absence of support operation, the market prices may fall below the costs of production.

The economic rationale for such built-in-subsidy are vagaries of monsoon is an important factor of production and the demand for food grains, which are necessities, does not change much with change in prices. Thus, it is greater supply through higher MSPs that can lead to higher market-prices.

b) Procurement Prices

Procurement prices are the prices at which government purchases food grains for maintaining Public Distribution System (PDS) and for building up Buffer stock.

They are generally fixed at a level higher than MSF

c) Public Distribution System (PDS)

The basic objective of PDS in India is to provide essential consumer goods, particularly food grains at cheap and subsidized prices to the consumers so as to insulate them from the impact of rising prices and maintain the minimum nutrition level of the population.

With respect to food grains, the PDS works on the basis of explicit subsidy paid to the Food Corporation of India (FCI) to meet the difference between the procurement price paid by FCI to the farmers and the issue price at which it sells food grains to the PDS.

Only four items, viz., -Rice, Wheat, Sugar and Kerosene account for almost 86% of total sales.

The share of coarse grain and pulses are just about 1% and 01% respectively.

With about 5 lakh fair prices shops, PDS distributes more than Rs. 20,000 crore worth of commodities to about 160 million families and has the largest distribution network of its kind in the world.

d) Targeted Public Distribution System (TPDS)

It was introduced in June 1997 as part of Decentralized Procurement Scheme launched in 10 states and 1 U.T. Under this, the population was to be divided into Below Poverty Line (BPL) and Above Poverty Line (APL) categories. The BPL families were allocated 10 kg/household/month of food grains which increased to 35 kg/ household/month in April 2002 before decreasing to 30 kg/household/month in January 2006.

A set of multiple prices were introduced for food grains allocated to BPL families. APL families and for Antyodaya Scheme (Since 2001).

Since 2000, the Central Issue Price (CIP) to BPL families was 50% of the economic cost to the FCI while for APL families, CIP was 100% of the economic cost.

Income tax assesses were not entitled to sugar under PDS.

Review of APP Instruments in India

- During the 1960s, the main aim of government was to promote the production of wheat through new technology. Thus contrary to economic logic, the procurement prices (particularly for wheat) emerged as a guaranteed price, announced well ahead of harvest time.

- Thus, MSP became same as procurement prices which made procurement of grain difficult in times of scarcity, because farmers could have got higher price in market.
- Due to the above reason and also due to pressure of large farmers' lobby, procurement prices have shown steep upward trend since 1990s. The MSP for wheat in 2004-05 was Rs. 640/quintal, an increase of about 185% since 1980-81.
- For 2013-14 marketing year, MSP for wheat has been increased to Rs.1400 per quintal despite CACP recommendation to keep it constant at Rs.1285 per quintal level last year. In pulses, the MSP for both chana (gram) and masur. (lentils) has been increased by Rs. 400 per quintal to Rs. 3200 per quintal while for sunflower and mustard MSP has been increased to Rs. 3000 per quintal and Rs. 2800 per quintal respectively .MSP for, paddy has also increased to Rs. 1250 .per quintal in 2011-12.
- Higher procurement prices, while benefiting farmers, hurts non-producing poor consumers and leads to inflationary trend.
- It also decreases- demand for food grains forcing FCI to store higher amount, thus increasing storage costs of FCI.
- Further, most of the benefits of higher MSP have gone to larger farmers who were able to use new technology and to selected states.
- Procurement of food grains continues to be higher in states such as Punjab, Haryana, UP and Andhra Pradesh. These four states accounted for about 70% of rice procured in 2007-08. Punjab and Haryana accounted for 66.9% wheat procured in 2008-09. The share of these two states was 99.5% in 2006-07.
 - The Food Corporation of India (FCI) on behalf of the Central Government has also been undertaking sale of wheat and rice at pre-determined price/reserve prices in the open market to enhance market supply of food grains under the Open Market Sale Scheme (Domestic). It can be sold to the bulk consumers and small private traders.

Reforms in Agriculture Price Policy

- One way of rationalizing MSP policy is to make these price signals reflect social rather than just-private returns of production. For instance, the social returns to pulse production is higher than the private returns, because it not only uses less water and fertiliser but fixes atmospheric nitrogen naturally and helps keep the soil porous and well aerated because of its deep and extensive root systems. These positive social benefits should be incorporated into MSP estimates.
- **Price Deficiency Payment:** Under this system if the price in an Agriculture Produce -Market Committee (APMC) mandi fell below the MSP then the farmer would be entitled to a maximum of, say, 50 per cent of the difference between the MSP and the market price. This subsidy could be paid to the farmer via Direct Benefits Transfer (DBT).
- **The Decentralized Procurement (DCP) scheme:** To enhance efficiency of procurement and public distribution and to extend the benefits of MSP to local farmers, some state governments have adopted this scheme.
- **An Online Procurement Monitoring System (OPMS)** has been evolved for reporting and monitoring on a daily basis, procurement operations for wheat, paddy, and coarse grains in the country.

- The government had also set up a High Level Committee (HLC) in August.2014 under the chairmanship of Shri Shanta Kumar to suggest inter-alia restructuring or unbundling of the FCI with a view to improving its operational efficiency and financial management. The gist, of its main recommendations are:
- a) The FCI should hand over all procurement operations of wheat, paddy, and rice to states that have gained sufficient experience in this regard and have created reasonable infrastructure for procurement
 - b) Better price support operations for pulses and oilseeds and dovetail their MSP policy with trade policy so that their landed costs are not below their MSP
 - c) Cash transfers in PDS should be gradually introduced
 - d) On PDS and NFSA related issues: Defer implementation of the NfSA in states that have not done end to end computerization; Coverage of Population should be brought down to around 40 percent
 - e) FCI should outsource its stocking operations to various agencies
 - f) Silo bag technology and conventional storages wherever possible should replace CAP
 - g) A transparent liquidation policy to liquidate stocks in (MSP Or in export markets, whenever stocks go beyond the buffer stock norms. .
 - h) Farmers be given direct cash ,subsidy (of about Rs 7000/ha) and fertilizer sector can then be deregulated.
 - i) Total end-to-end computerization of the entire food management system
 - j) The new face of the FCI will be akin to an agency for innovations in the food management system with the primary focus of creating competition in every segment of the food grain supply chain.

Schemes related to Agriculture sector

A. Krishonnati Yojana

It is an umbrella scheme which includes the following:

a) National Food Security Mission (NFSM):

- National Food Security- Mission was launched in 2007-08 to increase the production of rice, wheat and pulses by 10, 8 and 2 million tonnes, respectively by the end of 11th Plan.
- The mission is being continued during 12th plan with new target of additional production of 25 million-tonnes of food grains comprising 10 million tonnes of rice, 8 million tonnes of wheat and 4 million tonnes of pulses and 3 million tonnes of coarse cereals.
- The major interventions/activities covered under NFSM include cluster demonstrations of rice, wheat, pulses and coarse cereals, distribution of improved varieties/hybrid seeds, need based plant and soil - management, farm mechanization, resource conservation

techniques/energy management, efficient water/ application tools, cropping system based trainings and local initiatives, etc.

b) National Food Security Mission-Commercial Crops :

- The Government of India has approved crop development programme on cotton, jute and sugarcane for enhancing productivity under National Food Security Mission-Commercial Crops (NFSM-CC) from 2014-15. Under this scheme, the thrust is on transfer of technology through frontline demonstrations and trainings.

c) Mission for Integrated Development of Horticulture (MIDH):

- It covers wide horticulture, base, which includes fruits, vegetables, tuber crops, mushrooms, spices and aromatic plants flowers and foliage and plantation crops like coconut, arecanut, cashew nut, cocoa and bamboo.
- The mission emphasises on production of quality seeds and planting material, production enhancement through productivity improvement measures' along with support for creation of infrastructure to reduce postharvest losses and improved marketing of produce with active participation of all stakeholders, particularly farmer groups and farmer producer organizations.

d) National Mission on Oilseeds and Oil Palm:

- National Mission on Oilseeds and Oil Palm (NMOOP) envisages increase in production of vegetable oils sourced from oilseeds, oil palm and tree borne oilseeds.-
- The strategy to implement the proposed mission will include increasing seed replacement ratio) with focus on varietal replacement: increasing irrigation coverage under oilseeds from 26 per cent to 36 per cent; diversification of area from low yielding cereals crops to oilseeds crops; intercropping of oilseeds with cereals/pulses/sugarcane; use of fallow land after paddy potato cultivation; expansion of cultivation of oil palm in watersheds and wastelands; increasing availability of quality planting materials of oil palm.-

e) National Mission for Sustainable Agriculture:

- (NMSA) as a programmatic -intervention made operational from-the year 2014-15 aims at making agriculture more productive, sustainable and remunerative and climate resilient by promoting location Specific integrated/composite farming systems; soil and moisture conservation measures; comprehensive soil health management; efficient water management practices and mainstreaming rain fed technologies.
- In relation to this following schemes have been launched:

1. Soil Health Card scheme

- Under this scheme Soil Health Card (SHC) will be provided to all farmers in the country at an interval of three years 'so as to enable' them to apply appropriate recommended dosages of nutrients for crop production and improving soil health and its fertility

2. Paramparagat Krishi Vikas Yojana

- Under this programme, group of farmers would be motivated to take up organic farming. Fifty or more farmers will form a cluster having 50 acre land to take up organic farming under the scheme.
 - Every farmer will be provided Rs. 20,000 per acre over three years to meet end to end expenditure-seed to harvesting of crops to transport of produce to the market.

- Organic farming will be promoted by using traditional resources and the organic products 'Will be linked with the market. It will increase domestic production and certification of organic produce by involving farmers.

f) National Mission on Agricultural Extension and Technology:

Its aim is to restructure and strengthen agricultural extension to enable delivery of appropriate technology and improved agronomic practices to the farmers consists of four sub-missions namely : (i) On agriculture extension; (ii) Seed and planting material; (iii) Agriculture mechanization; and (iv) Plant protection and plant quarantine.

This includes the following initiatives:

1. Support to State Extension Programmes for Extension Reforms

- This scheme has recently been revised to include manpower support; roping in the farmers' feedback into planning by setting up Farmer Advisory Committees (FACs) at block/district and state level and providing farmer-to-farmer learning and extension support through farmer friend.

2. Agri-Clinic and Agri-Business Centres :

- The scheme provides extension services to farmers through setting up of economically viable self employment. ventures. Selected trainees are provided agri-entrepreneurship training for a period of two months by MANAGE through identified nodal training institutions in various states, which also provide handholding support for one year.

3. National e-Governance Plan in Agriculture : This scheme aims to achieve rapid development of apiculture in India through the use of ICT for ensuring timely access to agriculture related information for the farmers of the country.

4. Setting up of Kisan Call Centres and farmer's portal to create awareness. It also includes platform like m Kisan portal and DD Kisan. channel.

g) Price Stabilization Fund for Cereals and Vegetables : The Government has approved the Price Stabilization Fund (PSF) as a Central Sector -Scheme, with a corpus of Rs. 500 crore, to advance interest free loans to states and central/ state agencies to support their working capital and other expenses on procurement interventions for perishable agri-horticultural commodities when prices crash and farmers need to be protected. Currently it is operational for onion and potato only.

B. Pradhan Mantri Krishi Sichai Yojana

The PMKSY programme will focus on: i) ensuring access to water to every agriculture farm (Hail-Khet Ko Pani); ii) increasing agricultural production and productivity by increasing availability and efficient use of water; iii) providing flexibility and autonomy to states in the progress of planning and executing programmes; and iv) ensuring a holistic approach by way of preparation of comprehensive district and state irrigation plans.

C. Initiative for increasing flow of credit

a) Interest subvention: Government of India had announced an Interest Subvention Scheme in 2006-07 to enable banks to provide short term credit to agriculture (crop loan) upto Rs. 3 lakhi -at 7 per cent rate of interest to farmers. It aims to provide credit at a cheaper rate to the farmers.

- b) Kisan Credit Card Scheme: In order to ensure that all eligible farmers are provided with hassle free and timely credit for their agricultural 'operation, Kisan Credit Card (KCC) Scheme was introduced in 1998- 99. The main objectives of the scheme are to meet the short term credit requirements for cultivation of crops, postharvest expenses, produce Marketing loan, consumption requirements of farmer household, working capital for maintenance of farm assets and activities allied to agriculture like dairy animals, inland fishery, etc., investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals,. etc.

Allied Sectors of Agriculture

A. Food Processing Industry

According to the Confederation of Indian Industry (CII) the food-processing sector has the potential to attract US\$ 33 billion of investment, in 10 years and generate employment of 9 million person-days. Realizing the importance of food processing and its potential in India the Government set up a separate Ministry for Food Processing Industries in 1998, with the following under its purview:

1. Fruit & Vegetable processing (including freezing and dehydration)
2. Grain Processing
3. Processing of Fish (including canning and freezing)
4. Processing and refrigeration of certain agricultural products, dairy products, poultry and eggs, meat and meat products
5. Industries related to bread, oilseeds, meals (edible), breakfast foods, biscuits, confectionery. malt extract, protein isolate, high protein food, weaning food and extruded food products (including other ready-to-eat foods)
6. Beer, including non-alcoholic beer
7. Alcoholic drinks from non-molasses base
8. Aerated water and soft drinks



Revolutions related to Food Production and Food Processing

1. Pink Revolution - Meat and Poultry Production.
2. Red Revolution - Meat. & Tomato Production.
3. Round Revolution - Potato Revolution.
4. Silver Fiber Revolution - Cotton Revolution.
5. Silver Revolution - EOa/Poultry Production. .
6. White Revolution - Milk/Dairy production (Operation Flood). .
7. Yellow Revolution - Oil Seeds production.
8. Evergreen Revolution - Overall development of Agriculture.
9. Blue Revolution - Fish Production.
10. Brown Revolution - Leather /Cocoa production.
11. Golden Fibre Revolution - Jute Production.
12. Golden Revolution - Overall Horticulture development/Honey Production.
13. Green Revolution - Agriculture in general.

Central Sector Schemes

(a) Scheme for Development of Infrastructure for Food Processing

- (i) **Mega Food Parks:-** The Scheme of Mega Food Parks was launched during 2008 to provide modern Infrastructure for food processing Units in the country on pre-identified cluster basis. The pattern of assistance is 50% of the eligible project cost in general areas and 75% in difficult areas subject to a maximum of Rs.50.00 crore.
- (ii) **Integrated Cold Chain, Value Addition and 'Preservation Infrastructure:-** The Scheme of Integrated Cold Chain, Value Addition and Preservation Infrastructure is to provide integrated cold chain and preservation infrastructure facilities without any break, from the farm gate to the consumer. During 12th Five Year Plan period, the plan allocation of the scheme is Rs.786.00 crore. The scheme envisages grant in-aid @ 50% of the total cost of plant and machinery and technical civil work in general areas and 75% in North Eastern region and difficult-areas subject to maximum of Rs.10.00 crore per Project.
- (iii) **Modernization of Abattoirs:-** The Scheme of Modernization of Abattoirs was launched during 2008. The Scheme is implemented through local bodies (Municipal Corporations and Panchayats)/Public Sector Undertakings/Cooperatives/ Boards under Government –and will have the flexibility for involvement of private investors on PPP basis. The Scheme envisages grant-in-aid 50% of the project cost in general. Areas and 75%0. for North- Eastern region subject to a Maximum of Rs.15.00 crore per project.

(b) Scheme for Quality Assurance, Codex Standards, 'Research & Development and Other Promotional Activities

- (i) **Food Testing Laboratories:** The objective of the scheme is to ensure safety and quality of food products with the analysis of the samples received from food processing industries and other stakeholders. The establishment of a surveillance system for monitoring the quality and composition of food and thereby ensuring compliance of international standards on food.
- (ii) **Implementation of HACCP:** = The objective of the scheme is to motivate the food processing industries for adoption of food safety and quality assurance mechanisms, such as TQM including ISO 14000, ISO 22000 HACCP, GMP, GHP to prepare them to face global competition in post STO Regime, to enable adherence to stringent quality and hygiene norms, to enhance product acceptance by overseas buyers and to keep Indian industry technologically abreast of international best practices.
- (iii) **Research & Development:-** The objective of this scheme is that the end product/findings of R&D work must benefit food processing industries in terms of product and process development, improved packaging, value addition and leading to innovative products and process with commercial value.
- (iv) **Promotional Activities:-** Under the Scheme for Promotional Activities, the Ministry provides financial assistance for organizing pan India level Seminars/Workshops/Fair/ Exhibitions and also participate in pan India level Fair/Exhibitions spearheaded by Apex Industry Associations and Autonomous Bodies/ PS Us of Govt. of India with the objective of dissemination of information regarding food processing industries.

(d) Scheme for Human Resource Development

Ministry of Food Processing Industries. (MFPI) has been implementing the Scheme for. Human Resource Development since 9th Plan and onwards to augment the supply of trained

manpower/ personnel at all levels for 'food processing sector namely entrepreneurs, managers, sales persons, floor workers etc.

During the 12th Five Year Plan (2012-13), the HRD Scheme has been subsumed under the National Mission on Food Processing (NMFP), which is being implemented through State/UT Governments

(e) Strengthening of Institutions

This scheme focuses on putting in place new and strengthening of existing institutional mechanisms for human resource development in the food processing sector. The following Institutions have been set up by the Ministry for development of food processing sector:-

- National Institute of Food Technology Entrepreneurship & Management (NIFTEM)
- Indian Institute of Crop Processing Technology (IICPT) Indian Grape Processing Board (IGPB)
- National Meat and Poultry- Processing Board (NMPPB)

(f) Centrally Sponsored Scheme of National Mission on Food Processing (NMFP):

The most significant initiative taken by Ministry of Food Processing-Industries (MoFPI) during 12th Plan is launching of Centrally Sponsored Scheme-National Mission. on Food Processing (NMFP) through Under the Mission, funds are shared on 75:25 basis by Govt. of India and States: 90:10 in North- Eastern States and 100% grants for UTs. The components of the NMFP are (i) Technology Up-gradation / Setting up / Modernization of Food Processing Units (ii) Cold Chain, "Value Addition and Preservation Infrastructure for Non-Horticulture Products (iii) Modernisation of Abattoirs (iv) Human Resource Development (v) Promotional Activities (vi) Creating Primary Processing Centres / Collection Centres in Rural Areas (vii) Modernisation of Meat Shops and (vi) Reefer Vehicles.

B. Horticulture

The horticulture sector consists of crops like Fruits, Vegetables, Flowers. Plantation Crops and Spices.

Globally, India is the second largest producer of fruits, and vegetables, the largest producer of mango, banana, coconut, cashew, papaya and pomegranate, and the largest producer and exporter of spices.

Horticulture production has exceeded the production of food grains and oilseeds in 2012-13. owing to an 8.6% increase in -productivity of horticulture crops between 2008-09 and 2012-13.

Schemes for the horticultural sector

- Price Stabilisation Fund .Schemes (PSFS) .

PSFS for tea, coffee, rubber and tobacco growth was launched in' April, 2003 against the backdrop of decline in unit value realization of these commodities.

The objective of PSF was to safeguard the interests of growers and provide financial relief when. prices fall below a specified level.

All erstwhile schemes National Horticulture Mission (NHM), Horticulture Mission for1Clorai Eaquad Himalayas (HMNEH), National Horticulture Board (NHB), Coconut Development Board (CDR-Central Institute for Horticulture and National Bamboo Mission (NBM) have been subsumed under the Mission for Integrated Development of Horticulture (MIDH) during the Twelfth Plan.

C. Animal Husbandry, Dairying and Fisheries

Animal Husbandry

Indian Agriculture system is a model of sustainable agriculture, as it is predominantly a mixed crop livestock farming system. with the livestock segment supplementing farm incomes by providing employment, draught animals, and manure.

Dairy Sector

India ranks first in the world in milk production, accounting for 17% of world production. During 2012-13, milk production peaked at 132.43 mt.

It is an important secondary source of income for 70 million rural households engaged in dairying and for 70% of the workforce that comprised women. A new scheme called the National Dairy Plan Phase I has been launched in March 2012 with the objectives of improving productivity of milk animals, strengthening and expanding village-level infrastructure for milk procurement, and providing producers greater access to the market in the dairy sector. A comprehensive- new scheme National Programme on Bovine Breeding and Dairy Development was launched with the objective of enhancing- milk production.

Fisheries

- India ranks second in world fish production.
- The sector contributes 1% to overall GDP and represents 4.6%

Livestock health

- Live Health and Disease Control Scheme.
- It is centrally sponsored.
- It has led to overall reduction in incidence of animal. diseases in the country.

Important Scheme's

- National Project for Cattle and Buffalo Breeding (NPCBB). Launched in 2000 to be implemented in 10 years. It aims at genetic up gradation and development of indigenous breeds. At present 28 states and one UT are participating in the project.
- **Livestock Insurance Scheme**

Implementation as- a centrally sponsored scheme on a pilot basis during 2005-06 to 2007-08 in 100 selected districts across the country

Two objectives of the scheme are:

Providing protection mechanism to the farmers. against any eventual loss of animals. Attaining qualitative improvement in livestock and their products. 50% subsidy on premium is provided by the Central Government.

The scheme was implemented in the states through respective State Livestock Development Boards.

• National Livestock Mission

It has been formulated encompassing. seven centrally sponsored and seven central 'sector schemes with the objective of sustainable development of the livestock sector.

• The National Fisheries Development Board (NFDB)

NFDB registered in 2006 has been set up to apply modern tools of R&D like biotechnology in fisheries sector.

• A Central Mini-kit Testing Programme

Has been implemented under which Mini-kits of latest high-yielding fodder varieties are distributed.

Economics of Animal Rearing

India is home to a large number of breeds of animals, as part of the eco system converting waste into protein (having multi functionality with agricultural activities (ploughing and sowing), as means of transport of agricultural produce, their produce used for consumption (milk), excreta providing source of energy, (cow dung), directly used for consumption and exports (poultry, meat products). Their skin used for multiple purposes like clothing, footwear, wool, woollen wear etc (sheep, yak).

But animal rearing in India is an informal secondary occupation. It is unscientific in nature, as an ancillary livelihood activity meeting requirements of rural families, their produce over self-consumption as surplus sold amongst the local population. There is also the 70:70 feature of India, of 70% of the animals held by 70% of the rural population, largely comprising of women and landless/small/marginal farmers in rural areas.

It is not seen as a science, but driven more out of need, experimentation and experience. They play a complementary inter-linked activity to farming and other allied activities, not allowing understanding of it being a potential source of Multiple-Income Earning Opportunity (MIEO) for the rural poor. Cooperatives set up for milk and products through National Dairy Development Board (NDDB), Anand Milk Union Limited (AMUL) and others represent the first attempt of economics of animal rearing as a viable business model of not only providing means of livelihood but remunerative means of income enabling prosperity amongst farmers engaged in this activity. Goat, milk sale price is much higher than price of milk from buffaloes and cows and can be seen as commercial activity.

India has been the largest exporter of beef products and India is presently in the throes of "pink revolution" signifying a great potential for meat products. But this will require modern and automated abattoirs, greater thrust on hygiene and processing and cannot be confined as an informal activity any more. It will also require – developing local infrastructure in terms of adequate power, refrigerated storage and transport and an efficient logistics.

Similarly poultry hatchery, eggs are fast emerging as viable businesses given the growing demand and changing consumption habits towards protein oriented diet globally. Sheep and Yak rearing can provide linkages to the woollen industry. But more than opportunities, it has structural issues which need to be addressed, to look at them as sound business proposition and the other ensuring long term viability and sustainability of this untapped area in rural areas. Dissemination of the science of animal rearing, feed and fodder, newer technologies of breeding and cross breeding and health management.

PLANNING

Planning is programming for action for a particular period for achieving certain specific progressive developmental goals. In other words, it is a method of achieving economic prosperity by the optimum utilization of the resources of an organization. It is a tool to bridge the gap between reality and objectives of an organization. Also, it is an effort towards attaining self-sufficiency and narrowing the intra and inter-regional disparities. And ' preparing ideal conditions for the development.

The first almost rudimentary "idea of economic planning as part of republican justice in India started in 1938 when Congress. President, Netaji Subhas Bose, with the collaboration of the physicist and mathematician, Meghnad Saha, gave us a glimpse of all that planning for the long term, by an independent and transparent apex, could do for the future of India. In his presidential address at the Haripura session of the Congress in February 1938, Netaji envisaged "the first task of the Government of Free India" is to set up a "National Planning Commission" in order to address the task of fighting poverty. He created what was, in effect, the nucleus for the-future Union Planning Commission in the National Planning Committee under the aegis of the Indian National Congress, with Jawaharlal Nehru as the first Chairman of the Committee.

Need of Planning

Socio-economic planning has been one of the most noteworthy inventions of the 20th century. Starting with the Soviet experiment in 1928. planning gradually swept over almost two-thirds. of the entire world.

1. For developing countries, whether belonging to a democratic or an authoritarian political culture, planning has been considered a prerequisite. for balanced socio-economic development and a -strategy for making the best possible use of a available natural manpower, and financial as well as infrastructural resources. There are continuing pressures on developing countries to accelerate the speed of development so. That the .-gap between the standard of living of their people and that of the developed -countries is reduced at the fastest possible pace and consequently, they also emerge as dignified members of the international community.
2. Even in the developed countries of the west, planning in one form or another. has remained an integral part. of their economic system. Only, it is termed -indicative" planning for it is expected to indicate the direction of growth and, not to dictate it. Developing countries like China (in late 1970s) and India (in 1990s) started using indicative planning also.

Objectives of Planning

Indian planning, ever since its inception, has attempted to meet the following objectives of multi-faceted development:

- Securing an increase in national income.
- Accelerating the planned rate of investment to enhance the proportion of actual investment to national income.
- Mitigating the inequalities of income and wealth and regulating the concentration of economic power
- Increasing the quantum of employment for the maximum possible utilization of manpower

- Promoting development in agricultural, industrial and other sectors and striving to achieve inter-sectoral development '
- Speeding up the development of relatively backward regions and promoting balanced regional development. Reducing, in a progressive manner, incidence of poverty by providing food, work and productivity to the people below the poverty-line.
- Modernization of the economy through effecting shifts, in the sectoral composition of production diversification of activities, advancement in technology and institutional innovation.

Types of Planning

There have been several experiments in planning in India. The different types of planning that one-come across while talking about planning in India are discussed below.

• **Indicative" Planning**

Indicative planning was adopted since five year plan which is driven by liberalization of the Indian economy and the private sector being given a role on par with or more than that of the government in quantitative terms.

State would turn its role into a facilitator from that of a controller and regulator.

It was decided that trade and industry would be increasingly freed from government control and that planning in India should become more and more indicative and supportive in nature. In other Words, the remodeling of economic growth necessitated recasting the planning model from imperative and directive (hard) to indicative (soft) planning. Since the Government did not contribute the .majority of the financial allocation, it had to indicate the policy direction to the corporate sector and encourage them to contribute to plan targets. Government should create the right policy climate — predictable, irreversible and transparent — to help-she corporate sector contribute resources for the Plan.

Indicative planning is to assist the private sector with information that is essential for its operations regarding priorities and plan targets. Here, the Government and the corporate sector are more or less equal partners and together are responsible for the accomplishment of planning goals. Government, unlike earlier contributes less than 50% of the financial resources. Government provides the right type of policies and crates the right type of milieu for the private sector - including the foreign sector to contribute to the results.

Indicative planning gives the Government an opportunity to give the private sector encouragement to achieve growth in areas where the. country has inherent strengths. It is known to have brought Japan results in shifting towards microelectronics. In France, too indicative planning was in vogue.

Planning Commission would work on building a long-term strategic vision of the future. The concentration would be on anticipating future trends and evolving strategies for competitive international standards. Planning will largely be indicative and the public sector would be gradually withdrawn from areas where no public purpose is served by its presence. The new approach to development will be based on -a re-examination and reorientation of the role of the government". The state has to play more of a facilitating role. This point was particularly stressed in the development strategy of the Tenth Five Year Plant (2002-2007).

- **Rolling Plan**

It was adopted in India in 1962, in the aftermath of Chinese attack on India, in the Defence Ministry in India. Professor Gunnar Myrdal (author of the more famous book 'Asian Drama') recommended it for developing countries in his book 'Indian Economic Planning in Its Broader Setting'.

In this type, every year three new plans are made and implemented — annual plan that includes annual budget; three—four-five plan that is changed every year in response to the economic demands.; and perspective plan for 10 or 15 years into which the other two plans are dovetailed annually. Rolling plan becomes necessary in circumstances that are fluid.

- **Financial Planning**

Here, physical targets are set in line with the available financial resources. Mobilization and setting expenditure pattern of financial resources is the focus in this type of planning.

- **Physical Planning**

Here, the output targets are prioritized with inter-sectoral balance. Having set output targets, the finances are raised.

Five Year Plans of India

Though the planned economic development in India began in 1951 with the inception of First Five Year Plan, theoretically efforts had begun much earlier, even prior to the independence. Setting up of National Planning Committee by Indian National Congress in 1938, The Bombay Plan, & Gandhian Plan 1944, Peoples Plan in 1945 (by post war reconstruction Committee of Indian Trade Union), Sarvodaya Plan in 1950 by Jaiprakash Narayan were steps in this direction.

Five-Year Plans (FYPs) are centralized and integrated national economic programs. Joseph Stalin implemented the first FYP in the Soviet Union in the late 1920s. Most communist states and several capitalist countries subsequently have adopted them. China and India both continue to use FYP.

The first Five-year Plan was launched in 1951 and two subsequent five-year plans were formulated till 1965, when there was a break because of the Indo-Pakistan Conflict. Two successive years of drought, devaluation of the currency, a general rise in prices and erosion of resources disrupted the planning process and after three Annual Plans between 1966 and 1969, the fourth Five-year plan was started in 1969.

The Eighth Plan could not take off in 1990 due to the fast changing political situation at the Centre and the years 1990-91 and 1991-92 were treated as Annual Plans. The Eighth Plan was finally launched in 1992 after the initiation of adjustment policies.

For the first eight Plans the emphasis was on a growing public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, the emphasis on the public sector has become less pronounced and the current thinking on planning in the country, in general, is that it should increasingly be of an indicative nature. Short details of each plan are given below:

First Plan (1951-56)

- Based on the Harrod—Domar model.

- High Priority was given to agriculture in view of the large import of food grain and inflation 31% of total outlay to agriculture followed by transport and communication social service
- Major projects - the Bhakra Dam and Hirakud Dam
- Other initiatives - Community Development Program, IIT Kharagpur opened up, Contracts were signed to start five steel plants

Assessment

- The target growth rate was 2.1% GDP growth per annum; the achieved growth rate was 3.6%-, the net domestic product went up by 15%.
- National income went up by 118 per cent and per capita income by 11 per cent due to high population growth.
- Price was stable
- The monsoon was good and there were relatively high crop yields, boosting exchange reserves and the per capita income increased by 8%.
- The World Health Organization (WHO), with the Indian government, addressed children's health and reduced infant mortality, indirectly contributing to population growth.
- The University Grant Commission (UGC) was set up to take care of funding and take measures to strengthen the higher education in the country.
- Contracts were signed to start five steel plants, which came into existence in the middle of the Second Five-Year Plan. The plan was successful for the government.
- It was a successful plan primarily because of good harvests in the last two years of the plan. Objectives of rehabilitation of refugees, food self-sufficiency & control of price were more or less achieved.

Second Plan (1956-61)

- . Based on PC Mahalanobis model
- Priority areas — basic and heavy industry
- "Socialistic pattern of society" was accepted as goal
- To increase the rate of investment from 7% to 11% of GDP
- Hydroelectric power projects and steel plants at Bhilai, Durgapur, and Rourkela were established.
- Coal production was increased.
- More railway lines were added.

Assessment

- Hydroelectric power projects and five steel plants at Bhilai, Durgapur, and Rourkela were established.
- Coal production was increased.
- More railway lines were added in the north east.
- The Tata Institute of Fundamental Research (TIFR) was established as a research institute.
- Moderately successful, targeted growth rate. was 4.5 per cent but achieved 4.1 per cent.
- There was steep price rise and low agricultural production.
- Industrial policy, 1956 was framed in which the state was going to play a progressive role in the development of industries.
- Acute shortage of forex led to pruning of development targets, price rise was also seen (about 30%) vis a vis decline in the earlier Plan and the Plan was only moderately successful.

Third Plan (1961-1966)

- Focus area — agriculture, later on defence
- Self-reliant and self-generating economy was the goal
- Bokaro steel plant opened, up in ,1964

- Many primary schools were started in rural areas. In an effort to bring democracy to the grass-root level. Panchayat elections were started and the states were given more development responsibilities.
- State road transportation corporations were formed and local road building became a state responsibility.
- The plan was a failure as actual GDP growth was half of targeted growth.
- Sino-Indo and Indo-Pak wars in 1962 and 1965 respectively. It resulted into expenditure on defence forces and defence research. "
- Two successive famine in 1965-66.
- The government was forced to declare "plan holidays" (from 1966-67, 1967-68, and 1968-69). Three annual plans were drawn during this intervening period.

Assessment

- The target growth rate was 5.6%, but the actual growth rate was 2.4%
- Sino-Indian War of 1962 expired weaknesses in the economy and shifted' the focus towards the defense industry and the Indian Army.
- The war led to inflation 'and the priority was shifted to price stabilisation.
- Punjab began producing an abundance of wheat.
- In an effort to bring democracy to the grass-root level, Panchayat elections were started and The states were given more development responsibilities.
- Failure of Third Plan that of the devaluation of rupee (to boost exports) along with inflationary recession led to postponement of Fourth FYP. Due to miserable failure of the Third Plan the government was forced to declare " plan holidays", (from 1966-67, 1967-68, and 1968-69).
- The Plan was thorough failure in reaching the targets due to unforeseen events - Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66_ Due to conflicts the approach during the later phase was shifted from development to defence & development.

Fourth Plan (1969-74)

- Objective Poverty removal, growth with stability and progressive achievement of self-reliance
- Green revolution
- Nationalization of 14 major banks
- Gadgil formula for central assistance to states" plan.
- Introduction of minimum needs programme
- Indo-Pak war, 1971
- Underground nuclear test 1974
- Abolition of privy purse. 1971

Assessment

- Nationalized 14 major Indian. Banks
- The Green Revolution, which made India self-sufficient in food grains later on First two years of the plan saw record production. The last three years was not measured due to poor monsoon.
- Adoption of import substitution policy and export-promotion policy widened the industrial base.
- Successful Nuclear. test in 1974
- The target growth rate was 5.6%; but the actual growth rate was 3-.3%.
- The plan was a failure on account of runaway inflation (due to 1972 oil crisis).

Fifth Plan (1974 — 1979).

- Laid stress on employment', poverty alleviation (Garibi Hatao), and justice

- Focused on self-reliance in agricultural production and defence
- "Minimum needs Programme" launched
- Command Area Development Programme was started in 1975 to utilize water in major and medium irrigation projects
- The Electricity Supply Act was amended in 1975, which enabled the central government to enter into power generation and transmission.
- The Indian national highway system was introduced and many roads were widened.

Assessment

- It was closed one year before the plan period in 1978 with change in government. .
- The Electricity Supply Act was amended in 1975, which enabled the central government to enter into power generation and transmission.
- The Indian national highway system was introduced and many roads were widened to accommodate the increasing traffic.
- The target growth rate was 4.4% and the actual growth rate was 4.8%
- Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards. After promulgation of emergency in 1975, the emphasis shifted to the implementation of Prime Ministers Twenty Point Programme (TPP).

Sixth Plan (1980 — 1985)

- Focus - Increase hi national income, modernization of technology, ensuring continuous decrease in poverty and unemployment, population control .through family planning,
- The emphasis was laid on greater management, efficiency and monitoring of various schemes.
- People's participation in development at local level
- IRDP, TRYSEM, NREP launched
- Vishakhapatnam steel plant started functioning

Assessment

- Price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living.
- Family planning was also expanded in order to prevent overpopulation.
- The target growth rate was 5.2% and the actual growth rate was 5.5%
- Programmes such as TRYSEM (for 'skill transfer), IRDP (holistic rural development), NERD (providing slack season employment) were initiated.
- The Plan could be taken as a success as most of the target were realised even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less than the record output of previous year.

Seventh Plan (1985-1990)

- Focus - rapid growth in food-grains production, increased employment opportunities and productivity within the framework of basic tenants of planning
- The plan laid stress on improving the productivity level of industries by upgrading of technology_
- The Seventh Plan had strived towards socialism and energy production at large.
- The thrust areas of the Seventh Five-Year Plan were: social justice. removal of oppression of the weak, using-modern technology, agricultural development, anti-poverty programs. full supply of food, clothing, - and shelter, increasing productivity of small- and large-scale farmers, and making India an independent . economy.
- The Plan was focused on achieving the prerequisites of self-sustaining growth by the year 2000.

Assessment

- The plan was very successful as the economy recorded 6% growth rate against the targeted 5°/4) with the decade of 80's struggling out of the Hindu Rate of Growth'.
- Food grain production grew by 3.23 per cent as compared to a long term growth rate of 2.68 per annum in last two decade.

1989-91 was a period of economic instability in India and hence no five-year plan .was implemented. Between 1990 and 1992, there were only Annual Plans.

Eight Plan (1992-1997)

- In 1991. India faced a crisis in foreign exchange (forex) reserves, left with reserves of only about USS1 billion. Thus. under pressure, the country took the risk of reforming the socialist economy.
- At that time Dr. Manmohan Singh (former Prime Minister of India) launched India's, free market reforms that brought the nearly bankrupt nation back from the edge. It was the beginning of privatisation and liberalisation in India.
- The gradual opening of the Indian economy was under taken to correct the burgeoning deficit and foreign debt: Meanwhile India became a member of the World Trade Organization on 1 January 1995.
- Era of indicative planning - "From a highly centralised planning system, India gradually moving towards indicative planning. Through clear prioritisation of goals, efforts will be made to reduce the bottlenecks, making higher rates of growth possible."
- Plan concentrate on building a long-term strategic vision of the future and set forth the priorities of the nation.
- This plan can be termed as the Rao and Manmohan model of economic development. The major objectives included, controlling population growth, poverty reduction, employment generation, strengthening the infrastructure, institutional building, tourism management, human ,resource development, involvement of Panchayati Raj, Nagar Palikas, NGOs, decentralisation and people's participation.
- While for the public sector, the Pian goes into the details examining the alternatives and identifying the specific projects in various sectors, for the rest of the economy 'it works out sectoral targets and tends to Provide promotional stimulus to the economy to grow in the desired direction.
- The Plan recognises "human-development" as the core of all developmental effort. The priority sectors for this goal are - health, education, literacy and basic needs, including drinking water, housing and welfare programmes for the weaker sections.

Assessment

- Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt.
- Some of the main economic outcomes during eighth plan period were rapid. economic growth (highest annual growth rate so far — 6.8 %), high growth of agriculture and allied sector. and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.
- With economic reforms (Liberalization, Privatization and Globalization), improvement in trade and current account deficit. Foreign investment was the major reason for high growth.
- Significant reduction in fiscal deficit.
- Agriculture growth and industrial growth both increased.
- However, there was less job creation due to focus on capital-led improvement.
- Local government elections were conducted with 73rd and 74th constitutional amendments.

- High growth rate. was achieved even though the share of public sector in total investment declined considerably to about 34%.

Ninth Plan (1997-2002)

• Priorities

- a) Accorded priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty
- b) Accelerating the growth rate of the economy with stable prices
- c) Ensuring food and nutritional security for all
- d) Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity, to all in a time bound manner
- e) Social mobilization and participation of people at all levels using Panchayati Raj institutions, co-operatives and self-help groups
- f) Strengthening efforts to build self-reliance

• Strategies

- a) Structural transformations and developments in the Indian economy.
- b) Efficient use of scarce resources to ensure rapid growth.
- c) Combination of public and private support to increase employment.
- d) Enhancing high rates of export to achieve self-reliance.
- e) Providing services like electricity, telecommunication, railways etc.

Assessment

- Global economic slowdown and other factors led to revision of targeted growth rate from 7 per cent to 6.5 per cent that too was not achieved. The plan achieved a GDP growth rate of 5.4 per cent only.
- The agriculture industry grew at a rate of 2.1% against the target of 41%
- The industrial growth in the country was 4.5% which was higher than that of the target of 3%
- The service industry had a growth rate of 7.8%.

Tenth Plan (2002-2007)

- Attain- 8% GDP growth per year in view of doubling per capita income in 10 years.
- Reduction of poverty rate by 5% by 2007.
- Providing gainful and high-quality employment at least to the addition to the labour force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007
- 20-point program was introduced:
- Target growth: 8.1% - growth achieved: 7.7%
- Universal access to primary education by 2007. Increase in literacy rate to 72% within the plan period and to 80% by 2012.
- All villages to have sustained access to potable drinking water by 2012.

Assessment

- Increase in GDP growth to 7.6 per cent compared to 5.5 per cent in the ninth plan. The lower than targeted rate of 8 per cent was due to low growth of 3 per cent in the first year of the Plan.
- Increase in gross domestic saving and investment.
- Reduction in ICOR (incremental capital output ratio) to 4.2 per cent though higher than the targeted but lower than ninth plan's ICOR of 4.5 per cent.
- Increase in foreign exchange reserves to \$287 billion

- However, the Plan fared worst on socio-economic indications and agriculture growth rate was meager .2.1 per cent.
- India had emerged as one of the fastest growing economy by the end of the Tenth Plan. leventh Plan (2007-2012)
- Theme : "Faster and more inclusive growth"
- To increase the growth rate in agriculture, industry and services to 4%, 1'0% and 9% respectively.
- Emphasis on social sector and delivery of service therein.
- Empowerment through education and skill development.
- Reduction of gender inequality. Raise-the sex ratio for age group- 0-6 to 935 by 2011-12 and to 950 by 2016-17
- Environmental sustainability.
- Create 70 million new work opportunities and reduce educated unemployment to below 5%. Raise real wage rate of unskilled workers by 20 percent.
- Increase forest and tree cover by 5 percentage points.

Assessment

- Annual average economic growth rate remained at 8 per cent compared to the targeted 9 per cent for the plan
- The farm sector grew at an average rate of 3.7 per cent as against 4 per cent targeted
- Industrial growth stood at 7..2 per cent as against 10-11 per cent envisaged
- Services sector grew at an average rate of 9.7 per cent per annum compared to the targeted 9-11 per cent
- The Eleventh Plan started well with the first year achieving a growth. rate of 9.3 per cent, however, the growth decelerated following the global financial crisis of 2008 and second bout of global slowdown in 2011 due to the sovereign debt crisis in Europe coupled with domestic factors such as tight monetary policy and supply side bottlenecks due to high inflation and policy paralysis.
- Final average annual growth during the plan was 8 per cent which was lower than the target but better than the Tenth Plan achievement. Since the period saw two global crises - one in 2008 and another in 2011— the 8 per cent growth may be termed as satisfactory
- The realised GDP growth rate for the agriculture, industry and services sector during the 11th Plan period is estimated at 3.7 per cent, 7.2 per cent and 9.7 percent against the growth target of 4 per cent, 10-11 per cent and 9-11 per cent respectively
- The domestic savings and investment :averaged 33.5 per cent and 36.1 per cent of GDP at market prices respectively in the Eleventh Plan which is below the target but not very far.
- The main emphasis is on social sector and delivery of services therein. Education, in .particular, has been accorded utmost priority during the Plan. It is reflected in high spending in primary education, opening up of various universities, If is, Wand ITMs.
- One perceptible improvement is in the standard of living of the people, attributed to a number of strategic initiatives put in place by the government. Based- on the latest estimates of poverty released by the Planning Commission, poverty in the country has declined by 1.5 percentage points per year between 2004-05 and 2009-10.
- The issue of Price Stability remained resonating for more than half of the Plan period. Inability to pass on burden on costlier imported oil prices might have constrained the supply of investible funds in the government's hand causing the Plan to perform at the levels below its target.

Twelfth Plan (2012-2017)

- Theme: "Faster, inclusive and sustainable growth"
- Objective of development is broad- based improvement in economic and social conditions

- Revised targets - GDP growth 8%, Agricultural growth 4%, Manufacturing sector 10% (in the last 2 years of the plan period)
 - Concentrated to encourage the development of India's agriculture, education, health, social welfare through government spending
 - Maintain fiscal discipline
 - Dimensions of Inclusive growth
 - a) Empowering masses and building a participatory democracy
 - b) Group Equality- concern of SCs-, STs, Women, Minorities , Differently able, Children, etc are taken care of.
- Poverty reduction through adequate flow of benefits to needy
- c) Reducing income inequality.
 - d) Regional Balance

• **Sustainability**

- a) Development should have minimum impact on the environment
- b) Energy needs for development have potential trade-off with conservation of environment
- c) This dimension of development is also a global concern
- d) The impact of environment degradation must be taken into the way GDP is calculated to bring in proper assessment and attention towards the issue

Planning Commission and NDC

Planning Commission was set up in March, 1950. It laid emphasis on the need of planned development to raise the standard of living of the people and to reduce the strain on the economy caused due to conditions created by the war and the influx into India of the several million persons displaced from their homes and occupations. It then draws attention to the fundamental rights guaranteed to the citizens in the constitution and the directive principles of the State Policy which lay down the broad lines of the new social order which the State should seek to secure.

The principal task of the Planning' Commission (PC) is to formulate the Five Year and Annual Plans for the most effective and balanced utilization of the country's material, capital and human resources, appraise from time to time the progress in their implementation and recommend adjustments of policy and measures that are considered to be necessary in the light of such appraisal.

PC plays an integrative role in the development of a holistic approach to the policy formulation in critical areas of human and economic development. In the social sector, schemes which require coordination and-synthesis like rural health, drinking water, rural energy needs, literacy and environment protection have yet to be subjected to coordinated policy formulation. It has led to multiplicity of agencies. An integrated approach can lead to better results at much lower costs. In a federal framework, such an integrated approach can be developed only by the Planning Commission, which has close links with both the Central Ministries and State governments.

Relevance of Planning Commission

There has been .a criticism of the PC that, generally, it has overstepped its role. First Administrative Reform Commission also recommended that PC should not interfere in the implementation of the plans. PC is also criticized for encroaching upon the autonomy of the states under the federal- system. Around 30 per cent of total flow of money from centre to state

is through PC and rest through finances commission. Being an extra constitutional and extra-statutory body, it is looked as encroachment over domain of a constitutional body, the Finance Commission. With LPG reforms, PC's importance should be reduced to minimal as per critics.

However, in the era of globalization, one noteworthy development is the volatility in the economies all over the world with repercussions on Indian economy. Fiscal, stimulus and later its withdrawal when not needed requires planning beyond the annual budget. The function of planning in a predominantly market-driven economy has to be symptomatic, co-coordinative and authoritarian. That- provides a good reason for India's Planning Commission to engage in preparing development plans for the economy periodically even after liberalisation. The PC plays an integrative role and help in the development of a holistic approach to the policy formulation in critical areas of development. The PC plays a' mediatory and facilitating role for managing the change smoothly and creating a culture of high productivity and efficiency in the 'Government.

The five year plans are now seeking to provide an indicative path of development. It will still be necessary for PC to integrate and coordinate the plans of different ministries and undertakings of the central government, and bring them in line with the medium and long-term goals while keeping within the budget constraint. In modern form of capitalism and international atmosphere of trade and investment, the planning process needs to be integrated with the market rules as unless they are reformed and recapitalized with the development rules, the planning process may not be able provide optimum result.

Role of National Development Council (NDC)

The NDC was established in August 1952 by an executive resolution of the Government of India on the recommendation of the first five year plan. It is listed as an advisory body to the Planning Commission and its recommendations are not binding.

The NDC has a special role in our federal polity. Chief Ministers of all -states are members of NDC. It symbolizes the federal approach to planning and is the instrument for ensuring that the planning system adopts a truly national perspective. It acts as a bridge between the central government, state governments and the Planning Commission. It is the apex body for decision Making and deliberations on development matters. presided over by the Prime Minister of India and comprising of all Union Ministers, Chief.

Ministers of all• the States and Administrators of Union Territories and Members of the Planning Commission. Ministers of State with independent charge are also invited to the deliberations of the Council.

The objectives of the NDC are:

- i. To secure the cooperation of states in the execution .of the Plan
- ii. To strengthen and mobilize the efforts and resources of the nation in support of the Plan.
- iii. To promote common economic policies in all vital spheres.
- iv. To ensure balanced and rapid development of all parts of the country.

The functions of the NDC are:

- i. To prescribe guidelines for the formulation of the National Plan including the assessment of resources for the Plan
- ii. To consider the National Plan as formulated by the Planning Commission
- iii. To consider important questions of social and economic policy affecting national development
- iv. To review the working of the Plan from time to time and to recommend such measures as are necessary for achieving the .aims and targets set out in the National Plan.

India has undergone a paradigm shift over the past six decades - politically, economically, socially, technologically as well as demographically. The role of Government in national development has seen a parallel evolution. Keeping with these change times, the Government of India has decided to set up NITI Aayog (National Institution for Transforming India), in place of the erstwhile Planning Commission, as a means to better serve the needs and aspirations of the people of India. The new institution will be a catalyst to the developmental process; nurturing an overall enabling environment, through a holistic-approach to development going beyond the limited sphere of the Public Sector and Government of India.

NITI Aayog

The National Institution for Transforming India (NITI) Aayog came into existence by a government resolution . dated January 1, 2015 replacing The existing Planning Commission which was established by a resolution dated March 15, 1950.

The new institution is envisaged to be a catalyst to the developmental process; nurturing an overall enabling environment, through a holistic approach to development going beyond the limited sphere of the Public Sector

This will be built on the foundation of :

- An empowered role of States as equal partners in national development; operationalizing the principle of Cooperative Federalism.
- A knowledge hub of internal as well as external resources; serving as repository of good governance best practices, and a think Tank offering domain knowledge as well as strategic, expertise to "all levels of government
- A collaborative platform facilitating implementation; by monitoring progress, plugging gaps and bringing together the various Ministries at the Centre and in states, in the joint pursuit of developmental goals.

Objectives of NITI Aayog

The Resolution setting up the NITI Aayog outlines following objectives:

- i. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives. The vision of the NITI Aayog will then provide a framework 'national agenda' for the Prime Minister. and the -Chief Ministers to provide impetus to.
- ii. To foster cooperative federalism through structured support initiatives and mechanisms with the states on a continuous basis, recognizing that strong states make a strong nation.
- iii. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- iv. To ensure, on areas that are specially referred to it, that the interests of national security are incorporated in economic strategy and policy.
- v. To pay special attention to the sections of our society that may be at risk of not benefitting adequately from economic progress.
- vi. To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements,. including necessary midcourse corrections.

- vii. To provide advice and encourage partnerships between key stakeholders and national and international likeminded Think Tanks, as well as educational and policy research institutions.'
- viii. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- ix. To offer a platform for resolution of inter-sectoral and interdepartmental issues in order to accelerate the implementation of the development agenda.
- x. To maintain a State-of-the-art Resource Centre, be a repository of research on. good governance and best practices in suitable and equitable development as well as help their dissemination to stake-holders.
- xi. To actively monitor and evaluate the implementation of programmes and initiatives,. including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- xii. To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- xiii. To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

Composition

The composition of the NITI Aayog is as follows:

- i. Prime Minister of India as the Chairperson.
- ii. The Governing Council comprising the Chief. Ministers of all the States, Chief Ministers of Union Territories with legislature, viz., Delhi and Puducherry and Lt. Governors of other Union Territories.
- iii. Regional Council will be formed to address specific issues and contingencies impacting more than one state or a region. These will be formed for a specified tenure, The Regional Councils will be convened by. the Prime Minister and will comprise of the Chief Minister of States and Lt. Governors of Union Territories in the region.- These will be chaired by the Chairperson of the NITI Aayog or his nominee.
- iv. Experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime Minister.

The full time organizational framework will consist of, in addition to the Prime Minister as Chairperson. Vic-Chairperson: To be appointed by the Prime Minister, Members.

Full Time, Part-time Members: Maximum of 2, from leading universities, research organizations and other relevant institutions in an ex-officio capacity Part time members will be on a rotational basis. Ex officio Members: Maximum of 4 Members of the Union Council of Ministers to be nominated by the Prime Minister.

Chief Executive Officer: To be appointed by the Prime Minister for a fixed tenure, in the rank of Secretary to the Government of :India, Secretariat as deemed necessary.

At present the approved constitution of the NITI Aayog is as under:

- i) Chairperson: Shri Narendra Modi, Prime Minister,
- ii) Vice Chairpersons: Dr. Arvind Panagariya, in the rank of Cabinet Minister,
- iii) Full Time Members: Dr. Bibek Debroy, in the rank of Minister of State.
- iv) Dr. V.K. Saraswat, former Secretary: Defence R & D, in the rank of Minister of State.

Major Activities

NITI Aayog as a "Think Tank" of the Government has been instrumental in providing a directional and policy dynamics for taking steps in liaison with states while fostering the spirit of cooperative federation.

Some of the activities of NITI Aayog since its inception are given as under:

- i. The Union Budget 2015 announced the setting up of Atal Innovation Mission (AIM), Self - Employment and Talent Utilization (SETU) and Unified National Agriculture Market. under the NITI Aayog. The Union Budget also has a provision for providing special assistance by specific intervention through NITI Aayog.
- ii. In pursuance of the decision taken in the Governing Council Meeting, two Task Forces have been formed in order to tackle the crucial subjects of Agriculture Development and Elimination of Poverty under the leadership of Dr. Arvind Panagariya.
- iii. NITI Aayog has initiated the process of undertaking the Mid-Term Appraisal of the 12th Five Year Plan.
- iv. As NITI Aayog's first initiative, the "Report India's Renewable Electricity Roadmap 2030- Toward Accelerated Renewable Electricity Deployment" was released at the Renewable Energy Global Investors—Meet & Expo (Re-Invest 2015).
- v. Pioneering the change in Government Buildings, NITI Aayog was awarded a 5 star rating by the Bureau of Energy Efficiency (BEE). NITI Aayog has retrofitted its electrical appliances to achieve the highest energy efficiency rating for commercial buildings.
- vi. The erstwhile Planning Commission -won the Web Ratna- Gold Award under the Open Data Champion category NITI Aayog will continue promoting initiatives like Open Government Data Platform India.
- vii. A pilot project was successfully completed for universal enrolment of children aged between 0-6 years by concurrent- Birth Registration and Aadhaar Enrolment in Haryana between February 23 and March 6, 2015. NITI Aayog participated in this exercise along with other ministries, and departments.

Some Major. Recent Activities and Initiatives

1. Pradhan Mantri Krishi Sinchai Yojana

- The Pradhan Mantri Krishi Sinchai Yojana (PMKSY) will ensure access to protective irrigation to all agricultural farms (Har Khet Ko Pani) through water harvesting and recycling (Jal Sanchay and Jal Sinchan) with increased water application and its use efficiency to achieve higher water productivity (per drop more crop).
- It will focus on end to end solution in irrigation supply chain, viz., water sources, and distribution network and farm level applications.
- It will be implemented by adopting a 'decentralized State level planning and projectized execution' structure following bottom up approach through comprehensive district and state irrigation development plans, based on sources of availability of water, agro-climate and the cropping patterns and.. provide complete flexibility and autonomy to states to plan and execute programmes in projectized mode for ensuring water to every farm.

- The PMKSY will provide overarching management and governance for convergence amongst the programmes of agriculture, water resources and land resources and other departments dealing with water and energy.

2. Soil Health Card

- An outlay of Rs. 568.54 crore to assess the soil fertility status in respect of 1400 lakh land holdings at 3 year intervals has been initiated.
- The states will be provided funds for strengthening of the soil testing labs. analysis of soil samples and distribution of the Soil Health Card.
- This would be continuous and dynamic exercise to be carried out periodically.

3. Agri-Tech Infrastructure Fund

- Promotion of National Agricultural Market through Agri-Tech Infrastructure Fund (ATIF) with an outlay of Rs. 200. crore for 2014-15 to 2016-17 has been formulated.
- ATIF is aimed at implementation of agricultural marketing reforms by initiating appropriate e-market platforms in states with a view to move towards a National Market.
- It would also increase the farmers' access to markets through warehouse based sales and thus obviate the need to transport the produce to the Mandi

4. Digital India Programme

- Government has launched Digital India programme with the objective to transform India, into a connected knowledge economy.
- It is an Umbrella Programme covering many departments. Digital India Programme is coordinated by the Department of Electronics and IT and is being implemented by the entire government.
- The focus of Digital India is on making technology central to enabling change. The Programme pulls together many existing schemes. These schemes will be restructured and refocused and will be implemented in a synchronized manner.

5. Public Financial Management System

- Public Financial Management System (PFMS), earlier known as Central Plan Schemes Monitoring System (CPSMS), is a Central Sector Scheme of NITI Aayog (erstwhile Planning Commission) started in April, 2008.
- It aims at establishing a suitable online Management Information System (MIS) and Decision Support System (DSS) for fund management of the Schemes of the Government of India.
- The system is envisaged to track the fund disbursement from Government of India under Schemes and ultimately report utilization under these Schemes at different levels of implementation in States/UTs on a real time basis.
- PFMS through its interface with banking networks, facilitates end-to-end beneficiary management and electronic payment system to the bank accounts/Aadhaar linked bank accounts of the beneficiaries and provides an online-real time MIS to various stakeholders.
- PFMS has been fully implemented at Central level in respect of all 98 Ministries/Departments (Except for the Ministry of External Affairs. Departments of Atomic Energy. Department of Space and Other Non-Civil Ministries). Sanction generation. bill generation and transfer of funds, of Plan Schemes are through PFMS only
- PFMS is serving as a payment gateway/platform for e-payment to beneficiaries for the scheme notified by the government for Direct Benefit Transfer in 600 districts of the Country.
- The system is configured to make e-payment to ASHAs (Scheme under National Health Mission) using Digital Signature, Corporate Internet Banking (CINB) and Payment Print Advice. At present 15,26,238 agencies are registered on PFMS.

6. Housing for All

- The Government endeavors to ensure 'Pucca housing' for every family by the 75th year of Independence (2022).
- It also aims to provide these houses with basic amenities - Water, sanitation, electricity, broadband etc. These, perhaps are among the most ambitious pronouncements, given the extent of deficit of housing in India and limited access to basic services by poor.

7. Sardar Patel National Mission for Urban Housing

The Government recently approved this scheme with a focus on:

- Rehabilitation of existing slum dwellers using land as resource through participation of private developers, in situ, wherever possible and in unavoidable cases by relocation;
- Promotion of affordable housing through credit linked' subsidy;
- Affordable Housing in partnership: and
- Subsidy for beneficiary led individual house construction or enhancement.

8. Swachh Bharat Mission

- The Swachh Bharat Mission (SBM) a joint mission of the Ministry of Urban Development and the Ministry of Drinking Water and Sanitation.
- Government launched Swachh Bharat Mission (SBM) on October 2, 2014, with a target to make the country clean by October 2, 2019.
- The Mission would be implemented as a Centrally Sponsored Scheme (CSS) with an aim to provide 100% sanitation including toilet facilities to the urban population of the country.
- The implementation of schemes under SBM may provide the toilet facilities to the urban population including slum areas who do not have access to the toilet facility and municipal solid waste management in urban areas.
- The gap in financing the components for household toilets, community toilets, public toilets and solid waste management projects could be met by the beneficiary contribution, private funding, funds with private companies under Corporate Social Responsibility (CSR) and the Swachh Bharat Kosh of the Ministry of Finance.

9. Smart Cities Initiatives

- The Smart Cities Mission intends to make national priorities, such as the Swachh Bharat Mission and Digital India, a reality.
- The specific priorities -are to have clean air according to norms, move towards zero discharge of solid and liquid waste, make streets litter free, involve citizens in policy making and execution, generate jobs. expand the identified core economic activity (ies) of the city, make the city prepared for, floods and extreme weather conditions.
- It will also work to reduce and eliminate poverty, make basic services available to all especially the poor and the disadvantaged create recreations places and parks, realign processes so that citizens get timely municipal services through complete disintermediation, and promote good governance in general and mobile governance in particular.

10. Saansad Adarsh Gram Yojana

- Saansad Adarsh Gram Yojana (SAGY), a new initiative in rural development, was launched by the Government of India on October 11, 2014 with the objective that these Adarsh Grams (Model Villages) serve as the "nucleus of health, cleanliness, greenery and cordiality" within the Village community
- The scheme's Guidelines call upon Members of Parliament (MPs) to make one village of their choice, other than his own or that of his/her spouse in their constituency a Model Village by 2016, and another two villages by 2019.
- Taking development to the doorstep of villages, the scheme aims to empower the villagers to make choices and provide them with opportunities to exercise these choices. Utilizing the

advantages of ' Jan Bhagidari, the scheme will take initiatives in children's education, particularly smart schools, e-libraries, green schools. The Model Villages will serve as demonstration villages for the surrounding areas.

- The Adarsh Gram will have a population of 3-5 thousand in plain areas and 1000 to 3000 in hilly, tribal and difficult areas.
- The scheme would utilize in a convergent manner the resources available from existing schemes like JAY, PMGSY, MGNREGS, RKVY, NRLM, National Health Mission (NHM), Sarys Shiksha Abhiyan (SSA), Backward Regions Grant Fund (BRGF), Member of Parliament Local Area Development Scheme (MPLADS), schemes of MLAs and CSR funds, and no additional funding will be required. The scheme will leverage the strengths of the private, voluntary and cooperative sectors.
- There will be mid-term and post project evaluation by competent independent agencies.

11. RURBAN Mission

- The Government launched the Dr. Shyama Prasad Mukherji RURBAN Mission on August. 8, 2014 to deliver integrated project based infrastructure in the rural areas.
- The RURBAN Mission aims at providing basic amenities in rural areas and check migration from there to cities.
- The scheme envisages development of economic activities and skill development and helping rural areas get efficient civic infrastructure and associated services. The preferred mode of delivery would be through PPPs, while using various scheme funds. .

12. Swachh Bharat Mission (Gramin)

The Government of India administers Swachh Bharat Mission (Gramin) (SBM) (G) a comprehensive programme to ensure sanitation facilities in rural areas with the main goal of eradicating the practice of open defecation and ensuring clean environment.

13. Tourist Visa on Arrival

- The Government has launched Tourist Visa on Arrival (TVoA) enabled by Electronic Travel Authorization (ETA) on November 27, 2014 for 43 Countries at 9 Airports.
- Prior to it, only the normal TVOA scheme was in operation for 12 countries. Tourist Visa on Arrival (TVoA) registered an increase of 92.4% during January-December, 2014 over the same period earlier.

14. Biometric Attendance System

- As per the "Digital India" program of Government of India, it has decided to implement common Biometric Attendance System (BAS) in the Central Government Offices (Agencies) located in Delhi to begin with.
- The proposed system, would enable an employee to register attendance by presenting his/her biometric (finger print/iris) which will be authenticated online by doing one to one match with the biometric stored in the UIDAI data base against the employee's Aadhaar number.
- Biometric Attendance System (BAS) is an online attendance system. Network connectivity, is essential for marking attendance.

15. Direct Benefits Transfer

- To achieve targeted delivery of welfare services in a transparent and efficient manner, the Government launched Direct Benefits Transfer (DBT) through Aadhaar Payment Bridge (APB) and other channels in 2013.
- As per the directions of Government of India, 35 centrally sponsored schemes come under the purview of DBT which is to be implemented across India.

Annexure

Balance of Payment Crisis

Balance of Payment (BoP) is a systematic record of all economic transactions between the residents of a country and the rest of the world: There are two types of, accounts in BoP, namely: (i) Current Account; and (ii) Capital account.

A rise in, the gross domestic product (GDP) growth rate in the 1980s (relative to the 1970s) was accompanied by higher fiscal deficits, rising current account deficits, and larger external debt. The impact of the second Oil Shock of 1979, the full effects of which spilled over into the 1980s, was more severe than of the first oil shock of 1973-74. The worsening fiscal situation, in the presence of inadequate flexibility of the exchange rate, led to a rising current account deficit (CAD). With foreign direct investment (FDI) and foreign portfolio inflows restricted, the higher CAD translated into rising levels of external debt. The low productivity of government expenditure contributed to external vulnerability by lowering the rate of return on the borrowed funds. The declining trend in concessional aid and the consequential recourse to private sources of external borrowing led to rise in the interest costs. The cost of servicing external debt was- therefore rising faster than the return on its use.

As the perceived risk in international lending traditionally rises with outstanding external debt, this along with the increasing private sourcing of external borrowing made capital flows' vulnerable and open to politically related perceptions. The proportion of long-term public and publicly guaranteed external debt sourced from private 'Creditors rose sharply from 9.1 per cent of total long-term debt in 1980 to 31.2 per cent in 1990. From the user side, private non-guaranteed long-term debt more than doubled from 10.4 per cent of GDP in 1980 to 24.2 per cent of GDP in 1990: A substantial part of this debt was channeled to the central government. public-sector units. and public financial institutions during the 1980s. Thus, if the ,fixity of the exchange rate contributed to excessive external borrowing. the main borrowers so affected were the central government and public institutions.

There is evidence of growing, overvaluation of the exchange rate in the late 1980s. During 1990-91. the BoP gap opened significantly and the need for devaluation was quite clear. The overvaluation manifested itself through the invisibles account and the. capital account. The. highly controlled external payments regime and the public banking oligopoly meant that the transaction costs of remitting money through the official markets were high. The ban on import of gold meant that the large domestic demand for gold could only bz met through gold smuggling into India, financed by underground (hawala) markets for foreign exchange. Increased overvaluation of the exchange rate made the incentive for diversion greater and slowed the flow of remittances (private transfers) and service earnings through the official foreign-exchange market.

An unusual combination of external and domestic political developments between end 1989 and early 1991 accentuated all these vulnerabilities to produce the BoP crisis in India. This BoP crisis was more akin to the earlier (1980s) debt crises in Latin America than to the subsequent Asian crisis as it had its origins in government finances and functioning rather than in the private sector.

The crisis cannot be attributed to trade imbalances as many left-oriented economists did at that time. Though imports increased by 2.3 per cent of GDP, about one-third of this increase was due to the second oil shock. Import liberalization during the 1980s contributed about half the total increase in the import-GDP ratio. Export performance Was depressed by the severe international recession of 1980-83. As exports increased by only 0.3 per cent of GDP in the 1980s, the trade deficit increased from an average of 12 per cent of GDP in the 1970s to an average 'of 3.2 per cent of GDP in the 1980s. The CAD therefore rose sharply from an average of

0.1 per cent of GDP during the 1970s to an average of 1.8 per cent of GDP during the 1980s. To some extent, net invisible receipts to provide support to the balance of payments, largely in the form of earnings from tourism and the private transfers. There, was a reprieve during 1982-83 to 1984-85, with the decline in the imports and production of oil from Bombay High.

Government (centre and states) expenditure rose to 11 per cent in 1991. During this period, total public debt as a proportion of GNP doubled reaching the level of 60 per cent and foreign currency reserves were depleted rapidly. Matters were made worse by an accompanying double-digit inflation in the 1990-91. The oil price increased, resulting from Iraq's invasion of Kuwait in 1990. India's credit rating got downgraded. India was on the verge of defaulting on its international commitments and was denied access to the external commercial credit markets. In June 1991, foreign exchange of only three weeks of essential imports was left. A – new outflow of NRI deposits commenced in 1990.

The CAD, which shot up to 1.5 per cent of GDP during 1980-84, increased further to 2.1 per cent of GDP during 1985-89; because of shrinking surplus on the invisibles account, which followed an inverted U pattern during the 1980s. In a medium-term perspective the invisibles balance was a much more significant. Element in the BoP crisis of 1990-91 than the trade deficit.

Economic Reforms after Crisis

The government's immediate response was to secure an emergency loan of S2.2 billion from the International Monetary Fund (IMF).by pledging 67 tons of India's gold reserves as collateral. The RBI had to airlift 47 tons of gold to the Bank of England and 20 tons of gold to the Union Bank of Switzerland. The move helped tide over the balance of payment crisis and kick-started economic reform process. Although, most of these reforms came because IMF required those reforms as a condition for loaning money to India in order. to overcome the crisis.

The comprehensive import control regime was gradually dismantled, starting with capital and intermediate goods and moving to consumer goods. Tariff rates were brought down over a decade from a peak rate of about 300 per cent to a peak rate of 35 per cent. The problem of high proportion of short-term debt was addressed by liberalizing FDI and foreign equity inflows while keeping a very tight lid on short-term debt obligations and maintaining the control regime for external commercial borrowing.

A comprehensive reform of the exchange control regime was undertaken based on thorough intellectual and administrative preparation. The illegal foreign exchange market and its link with smuggling and invisible transactions were addressed by a comprehensive liberalization of gold imports.

The macroeconomic response of the BoP crisis as it existed at the start of 1991-92 was the classic textbook one of expenditure compression through a sharp fiscal correction and expenditure. switching through devaluation. The fiscal deficit of the centre was reduced from 7.8 percent of GDP in 1990-91 to 5.6 per cent of GDP in 1991-92. The trade policy of April 1992 freed imports of almost all intermediate and capital goods. After ' this initial major step, further liberalization was slow until 2000 when here was complete elimination of import control.

The decontrol of FIN took the form of an 'automatic route'. FIJI level of .51 per cent was chosen as this allowed foreign companies to amalgamate profits and losses from such a company into those of the parent company for tax pill-poses. EDI or technology import outside the 'automatic route' limit had to be approved by a newly created Foreign Investment Promotion Board (FIPB). Hundred per cent export-oriented units and export-processing zones could sell the entire amount at market rate and were thus not taxed in traditional way. India was among the early openers of the equity market to foreign portfolio investment. Both FDI and "portfolio flows increased rapidly through the mid-1990s.'

The overvalued exchange rate was corrected by devaluation in 1991, followed by partial convertibility of rupee in 1992-93. India introduced, a 'dual exchange rate' system to ease the transition from a heavily controlled trade regime to a free market system. The dual exchange rate mechanism was a success. As the Reserve Bank of India (RBI) retains the right to intervene to even out excessive volatility in the exchange rate, the system is classified as a 'managed float'.

A new foreign Exchange Management Act was introduced in 1999-2000 with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in, India. The CAD averaged 1.1 per cent of GDP in the post-crisis period. Capital-flow liberalization led to an unprecedented surge in equity inflows. Capital inflows increased to an average of 2.2 per cent of GDP in the post-crisis period. , External-sector reforms have been the most successful of all the reforms that were undertaken in the 1990s, proving that a well-regulated market-based foreign trade and payments system would be more efficient and equally stable. Capital flows are now much more diversified and therefore much less risky for the country.

The primary lesson of the 1990s is that liberalization of the current and capital accounts increases the flexibility and resilience of the BoP. The Indian economy has become more open relatively to other emerging economies. India's ranking with respect to trade, FDI, and portfolio flows has improved noticeably over the 1980s. However, there is scope of further reduction of tariff protection and liberalization of capital flows will enhance the efficiency of the Indian economy and, along with, reform of 'domestic policies; will stimulate investment and growth.

POVERTY AND UNEMPLOYMENT

Poverty

The biggest challenge to development planning in India is posed by the problems of poverty, inequality and unemployment. These problems are correlated and any effort to tackle them, one must necessarily take into account the other.

Poverty is a social phenomenon wherein a section of society is unable to fulfill even its basic necessities of life. The UN Human Rights Council has defined poverty as "A human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights".

The poor are those who live Below the Poverty Line (BPL). The poverty line is defined in terms of per capita household expenditure. Poverty manifests itself in the form of both absolute poverty as well as relative poverty.

Absolute Poverty: This concept is based on absolute needs of the people and people are defined as poor when some absolute needs are not sufficiently satisfied. It is also defined in terms of insufficiency of basic needs. In India, these basic needs are measured in terms of calorie intake of 2400 in rural areas per person per day and 2100 in urban areas. The corresponding monetary yardstick for calorie intake is based on per capita monthly household expenditure.

Relative Poverty: This concept is related to the general standard of living in a society. Thus, according to this concept, people are poor because they are deprived of the opportunities, comforts and self-respect regarded as normal in the community to which they belong. In relative poverty, poor are defined as, a person or family whose incomes are less than the average income of the community. Thus relative poverty relates to inequalities in a society. India is characterised by both in extreme measures, i.e., absolute and relative poverty.

The Planning Commission which was the nodal agency for estimating the number and proportion of people living below the poverty line at National and State levels, separately for rural and urban areas, makes poverty estimates based on a large sample survey of household consumption expenditure carried out by the National Sample Survey Organisation. (NSSO) after an interval of approximately 5 years.

‘Causes of Poverty’

The extent of poverty in an economy is due to a wide range of factors as follows:

- (i) Underdeveloped nature of economy •
- (ii) Rapid growth of population in an overpopulated country: even if the national income increases, the per capita income remains the same due to increase in population.
- (iii) Large inequalities in the ownership of earning assets such as land, buildings, industry etc.
- (iv) Low level of productivity in agriculture and industry.
- (v) Large scale unemployment and under-employment
- (vi) Inequality of opportunity in acquiring education and skills.
- (vii) State Policies.
- (viii) Regional disparities

‘Poverty estimation in India’

The Recommendations of Different committees for Estimation of Poverty:

- **Lakdawala Committee**

The Lakdawala. Committee defined, the poverty line -based on per capita consumption. expenditure as the criterion to determine the persons living below poverty line. The per capita consumption norm was fixed at Rs.49.09 per month in the rural areas and Rs.56.64 per month in the urban areas at 1973-74 prices at national level, corresponding to a basket of goods and services anchored in a norm of per capita daily calorie intake of 2400 kcal in the rural areas and 2100 kcal in the urban areas.

• **Tendulkar Committee Report to Review the Methodology for Estimation of Poverty**

The Planning Commission constituted an Expert Group in December 2005 under the chairmanship. Of Professor Suresh D. Tendulkar to review the methodology for estimation of poverty. The Expert Group . submitted its report in December 2009. While acknowledging the multidimensional nature of poverty, the Expert Group recommended moving- away from anchoring poverty lines to the calorie intake norm to adopting Mixed Reference Period (MRP) based estimates of consumption expenditure as the basis for future poverty lines and MRP equivalent of the urban Poverty Line Basket (PLB) corresponding to- 25.7% urban headcount ratio as the new reference PLB for rural areas. On the basis of the above methodology, the 4-India rural poverty had count ratio for 2004-05 was estimated at 41.8%, urban at 25.7%, and .all-India at 37.2%.

• **Saxena Committee Report to Review the Methodology for Conducting BPL Census in Rural Areas**

An Expert Group headed by Dr. N.C. Saxena was constituted by the Ministry of Rural Development to recommend a suitable methodology for identification of BPL families in rural areas. The Expert Group submitted its report in August 2009 and recommended doing-away with score-based ranking of rural households followed for the BPL census 2002. The Committee has recommended automatic exclusion of some privileged sections and automatic inclusion of certain deprived and vulnerable sections of society. and a survey for the remaining population to rank them on a scale of 10.

Automatic Exclusion

Households that fulfill any of the following conditions will not be surveyed .for BPL census:

- 1) Families who own double the land of the district average of agricultural land per agricultural household -f-if partially or wholly irrigated (3 times if completely unirrigated).
- 2) Families that have 3 or 4 wheeled motorized vehicles, such as, jeeps and SUVs.
- 3) Families that have at least one mechanized farm equipment, such as tractors, power tillers, threshers, and harvesters.
- 4) Families that have any person who is drawing a salary of over 10,000 per month in a non-government/ private organization or is employed in government on a regular basis with pensionary or equivalent benefits.
- 5) Income tax payers.

Automatic Inclusion

The following would be compulsorily included in the BPL list:

- 1) Designated primitive tribal groups.
- 2) Designated most discriminated against SC groups, called 'Mafia
- 3) Single women-headed households.
- 4) Households with a disabled p6rson as bread-winner.
- 5) Households headed by a minor.
- 6) Destitute households which are dependent predominantly on alms for survival.
- 7) Homeless households.
- 8) Households that have a bonded labourer as member.

• **Rangarajan Committee:**

The poverty estimation is based on certain normative standards of: food and non-food consumption, as well as behavioural aspects of classes concerned for consumption of some other items.

It not only takes normative levels for adequate nourishment, clothing, house rent, conveyance and education, - bin also considers behaviorally determined levels of other non-food expenses.

The committee has estimated that almost 30% of us were poor in 2011-12.-It uses separate data sets for rural and urban parts.

Accordingly, the energy requirement as calculated by Rangarajan is 2,155 kcal per person per day in rural areas and 2,090 kcal per person per day in urban areas. This is significantly lower than the 2,400 kcal in rural areas and slightly less than 2,100 kcal in urban areas used by the earlier Lakdavalala Panel. The reason given is that the age profile and working conditions have changed with time.

The protein and fat requirements have been estimated on the same lines. These are 48g and 28g per capita per day, respectively, in rural India. and 50g and 26g per capita per day in urban areas.

A food basket which simultaneously meets all the normative requirements of the 3 nutrients defines, the food component of the poverty line basket proposed by the panel. These nutrient norms are met for persons located in the 6th fractile (25-30%) in rural areas and for those in the 4th fractile (15-20 %) in urban areas, given in the National Sample Survey Office (NSSO) report on consumption expenditure for 2011-12.

The new poverty line, thus, translates to a monthly per capita consumption expenditure of Rs. 972 in rural areas and Rs. 1,407 in urban areas in 2011-12. Or Rs. 32 in rural areas and Rs. 47 in urban areas on a, per capita daily basis.

‘Comparison of Tendulkar and Rangarajan Committee’

Committees	Tendulkar	C. Rangarajan
Poverty Estimation Method	Per capita Expenditure Monthly	Monthly expenditure of family of 5
Urban Poverty Line Per day per Person	33	47
Urban Poverty Line Per Month per Person	1000	1407
Committees	Tendulkar	C. Rangarajan
Urban Poverty Line Per Month, Family of 5 Members	5000	7035
Rural poverty line Per Day Per Person	27	32
Rural poverty line (Rs) per Months Per person	816	972
Rural poverty line (Rs) per Month Family of 5 Members	4080	4860
BPL (Below Poverty Line) In crore	27 crore	37 crore
Calorie expenditure	Only calorific value in expenditure	Calorie + Protein + fat
Calories In rural areas	2400	2155
Calories In Urban areas	2100	2090
Main focus areas	Only counts	1- Food

expenditure on food, health, education, clothing.	2- Nonfood items such as education 3- Healthcare 4-Clothing, 5- Transport 6- Rent 7- Non-food items that meet nutritional requirements
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‘Anti-poverty strategy’

Since Independence, the government is following a 3-pronged strategy for poverty eradication, which comprises:

- a) Economic growth and overall development.
- b) Human development with emphasis on health, education and minimum needs, including protection of human rights and raising the social status of the weak and poor
- c) Directly-targeted programmes for poverty alleviation through employment generation; training and building up asset endowment of the poor.

Economic growth enables expansion of productive employment and generation of resources, Which are vital to support any form of intervention for eradication of poverty. Since 1991 India has undertaken trade reforms, financial sector reforms, and removal of controls, which primarily were introduced with the objective of improving efficiency and productivity to accelerate growth. The ultimate objective of such reforms was ensuring the expeditious eradication of poverty. Adequate precaution was taken to protect the poorer sections of the society against the short-term effects of these changes. This was done mainly through increased allocation of resources for programmes for poor in the national plan and sharpening the focus of such programmes on the poor. The Central support for human resource and social development' in the country has progressively increased through the 1990s. The Central Government's expenditure (plan and non-plan) on education. health, family welfare, nutrition, sanitation,. rural development, social welfare. etc. has increased tremendously.

Salient features of various employment generation of poverty alleviation programme are given below:

1. MGNREGA

This flagship programme of the Government of India aims at enhancing livelihood security of households in rural areas of the 'country by providing at_ least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual Work. It also mandates 1/3' participation for women. The primary objective of the scheme is to augment wage employment. This is to be done, while also focusing on strengthening natural resource management through works that address causes of chronic poverty like drought, deforestation, soil erosion and thus encourage sustainable development.

2. Deendayal Upadhyay Antyodaya Yojana (DAY)

To reduce poverty and vulnerability of the urban poor households by enabling them to access gainful self-employment and skilled _wage employment opportunities, resulting in an appreciable improvement in their livelihoods on a sustainable basis, through building strong grassroots level institutions of the poor. The mission would aim at providing shelters equipped with essential services to the urban homeless in a phased manner. In addition, the mission would also address livelihood concerns of the urban street vendors by facilitating access to

suitable spaces, Institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.

3. Rashtriya Swasthya Bima Yojana (RSBY)

The RSBY was launched on 1st October 2007 to provide smart card-based cash-less health insurance cover of Rs., 30,000 per family per annum on a family floater basis to BPL families (a unit of 5) in the unorganized sector. The scheme became operational from 1st April 2008. The premium is shared on 75:25 basis, by the centre and state governments. In the case of the north-eastern states and Jammu and Kashmir, the premium is shared in 90:10 ratio.

4. The Unorganized Workers Social Security Act 2008

The Act came into force from-16-May-2009. With the objective of providing social security to unorganized workers. The Unorganized Workers' Social Security Rules. 2009 have also been framed. Constitution of the National Social security, Board in 2009 was another significant step. The Board recommended that social security schemes, namely the RSBY providing health insurance, JBY providing death and disability cover and Indira Gandhi National Old Age Pension Scheme (IGNOAPS) providing old age pension be extended to building and other construction workers, NIGNREGA workers, Asha workers, Anganwadi workers and helpers, porters/coolies/gangnen, and casual and daily wagers:

5. Pradhan Mantri Suraksha Bima Yojna

A large proportion of India's population is without insurance of any kind, health, accidental or life.

Highlights of the Yojana are:

- Age: Available to people in-age, of group 18 to 70 years with bank account.
- Premium: Rs. 12 per annum.
- Payment Mode: The premium will be directly auto-debited by the bank from the subscribers account. This is the only mode available.
- Risk Coverage: For accidental death and full disability Rs. 2 Lakh and for partial disability Rs. 1 Lakh.
- Eligibility: Any person having a bank account and Aadhaar number linked to the bank account can join the scheme.
- The premium paid will be tax-free under section 80(C) and also the proceeds amount will get tax exemption u/s 10(D). But if the proceeds from insurance policy exceed Rs.1 lakh TDS at the rate of 2% from the total proceeds if no Form 15 (G) or Form 15(H) is submitted to the insurer.

6. Atal Pension Yojana

Under the Atal Pension Yojna Scheme (APY), the subscribers, under the age of 40, would receive the fixed monthly pension of Rs. 1000 to Rs. 5000 at the age of 60 years, depending on their contributions. To make - the pension scheme more attractive, government would co-contribute 50% of a subscriber's contribution or Rs. 1,000 per annum, whichever is lower to each eligible subscriber account for a period of 5 years from 2015-16 to 2019-20. The benefit Of government's co-contribution can be availed by those who subscribe to the scheme before December 31, 2015.

7. Pradhan Mantri Jeevan Jyoti. Bima Yojana.

Pradhan Mantri Jeevan Jyoti Bima Yojana is low cost life insurance policy provided by government of India. Maximum sum offered under this scheme is Rs. 2 Lakh Premium payable for this insurance scheme is Rs. 330 per year or less than 1 rupee per. day.

- **Highlights of the Pradhan Mantri Jeevan Jyoti Bima Yojana are.**

- **Eligibility:** Available to people in the age group of 18 to 50 and having a bank account. People who join the scheme before completing 50 years can however, continue to have the risk of life cover up to the age of 55 years subject to payment of premium.
- **Premium:** Rs. 330 per annum. It will be Auto-debited in one instalment.
- **Payment Mode:** The payment of premium will be directly Auto-debited by the bank from the subscribers' account.
- **Risk Coverage:** Rs. 2 Lakh in case of death for any reason.
- **Terms of Risk Coverage:** A person has to opt for the scheme every year. He can also prefer to give a long-term option of continuing, in which case his account will be auto-debited every year by the bank.
- The scheme will be offered by Life Insurance Corporation and all other life insurers who are willing to join the scheme and tie-up with banks for this purpose

Major Reasons for Failure of Poverty Alleviation. Programmes'

I. Planning process is faulty:

- Identifying the 'poor'
- Defining 'poor'
- Processing of the identification involves too many stages.
- Lack of technology up gradation.
- Ideally the programs should be broader based. (benefitting the large number of people).
- Disjointed programs- not integrated. (Beneficiaries overlap, the same rural areas benefited from served programs.)

II. Implementation of programs:

- Corrupt officials/ staffs:
- Lack of involvement of people.
- Local politics. (selection of beneficiaries)
- Improper follow up of program/ review or revision is practically none existed.

III. Lack of support from the credit and marketing system:

- Role of local money lenders and banks.
- Inability to sustain income generation from the asset credited.

Steps Needed:

- Adopt a comprehensive reform approach to further lower the incidence of poverty and reverse the pattern of growing inequality This multi-dimensional approach. must, include education, health care and labour market reforms.
- Enhance the cost effectiveness properties of the NREGS, by ensuring that the wage is set at a level around the minimum wage.
- Re-target environmentally harmful subsidies, to more directly support poor households and increase equity.
- Tackle regulatory and infrastructure barriers still preventing small towns from realising their potential.

Concepts Related to Employment

Unemployment is a situation when a capable and willing to do job workforce does not get work.

'Types of Unemployment'

- Cyclical Unemployment:** It is caused due to business cycle. This kind of an unemployment occurs when all those who want to work cannot be employed because there is not enough demand^o in the market for their work. It is called as; cyclical unemployment because it varies with the trade Cycle. For example. when the economy is doing well there would be greater demand for the goods, pressure on the forces of production and therefore greater demand for working hands but exactly the opposite is true for the years when the economy slows down.

- b) **Frictional Unemployment:** This kind of unemployment occurs when a person leaves/loses a job and starts looking for another one. This search for a job may take a considerable amount of time resulting in frictional unemployment. Frictional unemployment tends to be on a high when an economy is not doing so well and low otherwise; because during good times it will be easier for people to find jobs that match their skills and requirements easily. This kind of unemployment may also be high in an economy if people change jobs frequently due to high level of dissatisfaction with the working conditions in the economy.
- c) **Seasonal Unemployment:** This kind of unemployment is expected to occur at certain parts of the year. For example, the jobs at a hill station may experience seasonal un-employment during the winter months because less people will visit these areas during this time. Another case could be the seasonal unemployment in agriculture depending upon the success of monsoon. Failure of monsoon may result in widespread unemployment in the agricultural sector of the economy. Getting laid off due to a recession is the classic case of cyclical unemployment. This is why the unemployment rate is a key economic indicator.
- d) **Structural Unemployment:** This kind of unemployment happens when the structure of an industry changes. For example, as the country is tending to move from use of bicycles to motorbikes and cars, the demand for labor in the cycle industry has continuously fallen in the country. It essentially occurs when the industry is unable to provide jobs for those who are seeking employment because there exists a mismatch of skills between the skills of the unemployed and the skills needed for the job. Changes in technology and changes in tastes are two big reasons for the occurring of structural unemployment in the economy. One of the reasons why 12th plan focuses on skill development is to address the problem of structural unemployment in the country.
- e) **Full Employment:** Employment would be full literally, when every able-bodied adult works the number of hours considered normal for a fully employed person.
- f) **Under Employment:** This term can be used in multiple connotations but one of the primary usage is to showcase a situation where a person with high skills works in low wage and low skills job. It can also be used to reflect a situation when the people employed in a job are not using their services fully or not putting in the man-hours which can be extracted from them. For example, if someone works for just 10 hours a week, it would be a case of under-employment.
- g) **Disguised Unemployment:** Such type of unemployment is quite common in the agricultural sector in India. It occurs when people are employed in a job where their presence or absence does not make any difference to the output of the economy. Because of large families in the rural areas several people work on farms and at times the work of 2-3 people is done by 4-5 people because otherwise it would result in unemployment. But in reality this is nothing but a case of disguised unemployment. It refers to the situation of employing surplus labours whose marginal productivity is zero.

Nature of Unemployment in India

India being a developing country, the nature of unemployment therefore is in stark contrast to the one observed in the developed countries. In developed countries unemployment is driven by a fall in demand because as the demand for goods and services, machines fall idle and the demand for labour goes down. But in India the bigger problem is that of under-employment or disguised unemployment. In a country like India this unemployment is not due to the lack of demand for goods but due to the shortage of capital equipment etc. in the economy. Because of lack of capital stock India has not been able to commensurately meet the needs of the growing labour force in the country.

This manifests itself in two ways -

- i) The prevalence of large scale unemployment in the urban areas;
- ii) In the growing numbers engaging themselves in the agricultural sector resulting in disguised unemployment.

As per one of NSS data 8.5 million people in the rural areas and 1.2 million people in the urban areas work for less than 14 hours a week resulting in underemployment.

The basic solution to the entire problem is faster rate of capital formation so as to enlarge employment opportunities. For this the government needs to encourage savings and their productive utilization in increasing the rate of investment. The state itself can participate in the process of capital formation by undertaking such development activities as the private entrepreneurs do not find it profitable to undertake. There is also a need for the government to increase and attract more foreign investment in a country like India.

To understand the concept of employment and unemployment it is necessary to understand the concept of labour force, for by definition, one who is not in the labour force cannot be unemployed. All those who are not working and are neither seeking nor available for work are considered outside the labour force and hence do not figure in employment or unemployment statistics.

Labour force: Persons who are either 'working' (employed) or 'seeking or available for work' (unemployed) or both during a major part of the reference period, constitute the labour force.

Workers (or Employed): Persons who during the reference period are engaged in any economic activity or who, despite their attachment to their economic activity, have temporarily abstained from work for some reason(s).

Seeking or available for work (or Unemployed): Persons, who owing to lack of work, had not worked but either sought work through employment exchanges etc. or expressed their willingness or availability for work.

Out of labour force: Persons who are neither 'working' and at the same time nor 'seeking or available for work' for various reasons during the major part of the reference period are considered to be 'out of the labour force'. Persons under this category are students-, pensioners etc.

Concepts of Labour Force'

The basic concepts of important Labour Force parameters are given below:

- Labour Force Participation Rate (LFPR) is defined as the number of persons in the labour force per 1000 persons. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services. Low LFPR primarily implies high dependency ratio.

$$\text{LFPR} = \frac{\text{no. of employed + no. of unemployed persons}}{\text{Total population}} \times 1000$$

- Work Participation Rate (WPR) is obtained by dividing the number of persons in the workforce with total population.

$$\text{WPR} = \frac{\text{no. of employed persons} \times 1000}{\text{Total population}}$$

- Proportion Unemployed (PU) is defined as, the number of persons unemployed per 1-000 persons.

$$\text{PU} = \frac{\text{no. of Unemployed persons}}{\text{Total population}} \times 1000$$

- Unemployment Rate (UR) is...obtained by dividing the number of those unemployed with the total number of persons in the labour force. .

$$\text{LFPR} = \frac{\text{no. of unemployed persons}}{\text{Labour Force}} \times 1000$$

Different Approaches for Measuring Labour Force

In a country where majority of the workers are employed in the unorganized sector and pursuing multiple activities, no single measure is appropriate to estimate the labour force parameters precisely. Labour Force related parameters may be derived by the following 4 different approaches based on different reference periods.

- i. **Usual Principal Status (UPS) Approach** - The major time criterion based on the 365 days is used to determine. The activity pursued by a person under the usual principal status approach. Accordingly, the major time spent by a person (183 days or more) is used to determine whether the person is in the labour force or out of labour force. A person found unemployed under this approach reflects the chronic unemployment.
- ii. **Usual Principal & Subsidiary Status (UPSS). Approach** - This approach is a hybrid one which takes into consideration both the major time criterion and shorter time period (30 days or more in any economic activity). -A person who has worked even of 30 days or more is considered as employed.
- iii. **Current Weekly Activity Status (CWS)** - If a person is found employed or seeking/available for work even for 1 hr. during the reference week, he/she is considered to be part of labour force. It is used to determine the seasonal fluctuations in the labour force. In India, where majority of the labour force is 'engaged in the unorganised sector of the economy, current weekly and current daily status approaches may reflect the employment-unemployment situation in a more appropriate manner.
- iv. **Current Daily Activity Status (CDS)** - In a day, if a person has worked for 4 hr. or more in any activity he/she will be considered as employed for full day and a full intensity of 1.0 will be recorded. If a person has worked for less than four hour but more than 1 hr. in a day, he/she will be considered as employed for half day and an intensity of 0.5 will be recorded.

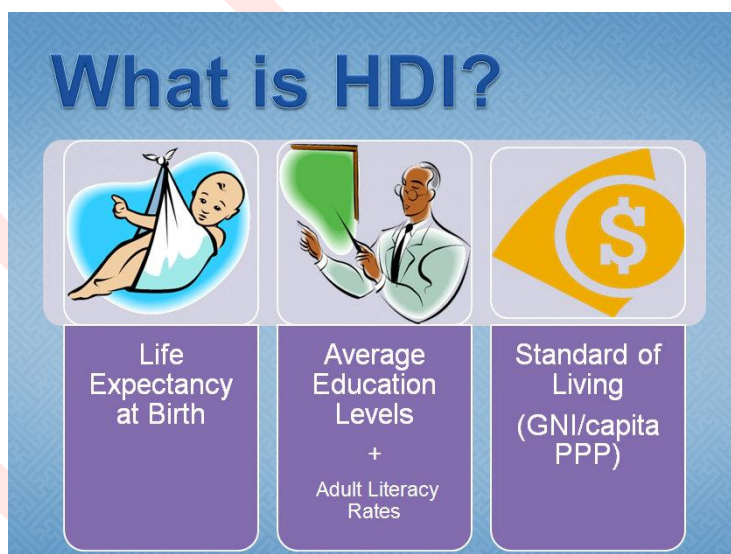
CONCEPT OF HUMAN DEVELOPMENT

Introduction

- Human development is a process of enlarging people's choices as they acquire more capabilities and enjoy more opportunities to use those capabilities. But human development is also the objective, so it is both a process and an outcome.
- Human development implies that people must influence the process that shapes their lives: In all this, economic growth is an important means to human development, but not the goal.
- The human development framework, taking a people-centred approach, changed the lens for viewing development needs, bringing the lives of people to the forefront.
- It emphasized that the true aim of development is not only to boost incomes, but also to maximize human choices by enhancing human rights, freedoms, capabilities and opportunities and by enabling people to lead long, healthy and creative lives.

About Human Development Index

- The HDI was developed by Pakistani economist Mahbubul Hag, is anchored in the Indian Nobel laureate Amartya Sen's work on human capabilities, often framed in terms of whether people are able to "be" and "do" desirable things in their life, and was published by the United Nations Development Programme.
- The statistic is composed of calculation of life expectancy, education and standard of living, corrected at the national level using a predetermined formula. The HDI looks beyond GDP for a better definition of wellbeing.



It provides a composite measure of 3 dimensions of human development.

- (i) Living a long and healthy life (Measured by life expectancy),
- (ii) Having education (measured by literacy and gross enrolment in education);
- (iii) Having a decent standard of living (measured by purchased power parity, PPP, income).

The 2010 Report introduces following 3 new indices to capture important aspects of the distribution of wellbeing for inequality, gender equity and poverty.

- a) Inequality-adjusted Human Development Index (IHDI) adjusts the Human Development Index (HDI) for inequality in distribution of each dimension across the Population. The IHDI is the actual level of human development (accounting for this inequality), while the HDI can be viewed as an index of "potential" human development (or the maximum level of HDI) that could be achieved- if there was no inequality. The "loss" in potential human development due to inequality is given by the difference between the HDI and the IHDI and can be expressed as a percentage.
- b) Gender Inequality Index (GII) reflects women's disadvantage in 3 dimensions-reproductive: health, empowerment and the labour market. The index shows the loss in human development due to inequality between female and male achievements in these dimensions.

It ranges from 0, which indicates that women and Men fare equally, to 1, which indicates that women fare poorly in all measured dimensions.

- c) Multidimensional Poverty Index (MPI) identifies multiple deprivations at the individual level in health, education and standard of living. It uses micro data from household surveys, and unlike the Inequality adjusted Human Development Index all the indicators needed to construct the measure must come from the same survey. Each person in a given household is classified as poor or non-poor depending on the number of deprivations his or her household experiences.
- The 2010 Human Development Report introduced an Inequality-adjusted Human Development Index (IHDI). While the simple HDI remains useful, it stated-that "the IHDI is the actual level of human development (accounting for inequality)," and "the I-II)I can be viewed as an index of 'potential' human development (or the maximum, IHDI that could be achieved if there were no inequality).

New Method (2010 Report Onwards)

- Published on 4 November 2010 (and updated on 10 June 2011)
- Starting with the 2010 Human Development Report the HDI combines 3 dimensions:
 - a. A Long and Healthy Life: Life expectancy at birth
 - b. Education Index: Mean. years of schooling and Expected years of schooling
 - c. A Decent Standard of Living: Gross -National Income (GNI) per capita (PPP US\$)
- In its 2010 Human Development Report, the LTNDP began using a new method of calculating the HDI.

The following 3 indices are used:

1. Life Expectancy Index (LEI)
2. Education Index (EI) .
 - 2.1 Mean Years of Schooling Index (MYST)
 - 2.2 Expected Years of Schooling Index (EYSI)
3. Income Index (II)

Finally, the HDI is the geometric mean of the previous 3 normalized indices:

LE: Life expectancy at birth.

MYS: Mean Years of Schooling (Years that a 25-year-old person or older has spent in schools)

EYS: Expected Years of Schooling (Years that a 5-year-old child will spend with his education in his whole life)

GNIPC: Gross National Income at purchasing power parity per capita.

Human Development Report 2015

Achievement so far

- Between 1990 and 2015 income poverty in developing country regions fell by more than 2/3rd
- The number of extreme poor people worldwide fell from 1.9 billion to 836 million.
- The child mortality rate fell by more than half, and under -5 deaths fell from 12.7 million to 6 million.
- More than 2.6 billion people gained access to an improved Source of drinking water, and 2.1 billion gained access to improved sanitation facilities

Yet, human progress has been uneven, human deprivations are still widespread and much human potential remains unused (Data sheet):

- In 2014 Latin America and the Caribbean's HDI value was 0.748., compared with 0.686 in the Arab States. The Maternal mortality ratio was only 21 per 100,000 live births in

Organisation for Economic Co-operation and Development, countries, compared with 183 in South Asia.

- Globally women earn 24% less than men and hold only 25% of administrative and managerial positions in the business world-while 32% of businesses have no women in senior management positions. Women still hold only 22% of seats in single or lower houses of national parliament.
- In Malaysia the richest 10% of the population had 32% of national income in 2012, the poorest 10% of the population had only 2%.
- Worldwide 795 million people suffer from chronic hunger, 11 children under age of 5 die every minute and 33 mothers die every hour. About 37 million people live with HIV and 11 million with Tuberculosis.
- More than 660 million people use an unimproved source of drinking water. 2.4 billion people use an unimproved sanitation facility and nearly a billion people resort to open defecation.
- In 2015, 204 million people were out of work, including 74 million young people based on formal unemployment data. About 830 million people in the world are working poor living on less than \$2 a day and more than 1.5 billion are in vulnerable employment, usually lacking decent working conditions and adequate voice and social security.
- Today around 80% of the world's people have only 6% of the world's wealth. The share of the richest 1% is likely to be more than 50% by 2016.

Future trend of demography and challenges

- Population growth, driven mostly by South Asia and increasingly by Sub-Saharan Africa, will have major implications for human development.
- Recent estimates indicate that there is a global shortage of 13.6 million care workers, causing extreme deficits in long-term care services for those over the age of 65. Greater longevity, ageing, the youth bulge and dependency ratios will all have impacts.
- In 2050 more than 2/3rd of the world's population or 6.2 billion people are expected to live in urban areas, stressing the coping capacities of cities.

Security Concerns

- At the end of 2014, 60 million people had been displaced worldwide. Between 2000 and 2013 the cumulative death tolls from global and national violent extremism rose more than fivefold.
- One in three women has been subject to physical or sexual violence.
- 1.3 Billion people live on fragile lands (more vulnerable to climate change).

Health

- Non-communicable (or chronic) diseases are now a global health risk, killing 38 million people each year, almost three-quarters of them (28 million) in low and middle income countries. Almost 30% (2.1 billion) of the world's people are obese, more than 3/5th of them in developing country regions.

The Human Development Index has been criticized on a number of grounds including alleged ideological biases towards egalitarianism and so called "Western models of development", failure to include any ecological considerations, lack of consideration of technological development or contributions to the human Civilization, focusing exclusively on national performance and ranking, lack of attention to development from a global perspective, measurement error of the underlying statistics, and on the United Nations Development Programme (UNDP's) changes in formula which can lead to severe misclassification in the categorisation of 'low', 'medium', 'high' or 'very high' human development countries.

DID YOU KNOW

Difference between foreign capital / investment through FDI and Falls Earlier in March 2013, the government increased the permissible limit of foreign direct investment (FDI) in sectors such as aviation, multi- brand retail and broadcasting and power exchanges.

Also, foreign institutional investors (FIIs) have been active in the capital markets—since my have invested around \$6.2 billion (Rs. 33,021 crore) in the equity market and \$464 million in the debt market compared with around \$9 billion of net inflows in equity and debt from FIIs in FY12. While both FDI and FII are forms of foreign capital in-vestment/there is a difference in how, they are routed and benefits.

FDI

FDI is an investment made by a company, which has foreign ownership, in another country in form of equity capital/reinvested earnings or other direct capital by setting up an enterprise. This can either be done in partnership or under a joint venture with a domestic company. If 100% FDI is allowed, then the foreign company doesn't need any domestic support. The sector limits in FDI are decided by the Centre and implementation can happen at the state level.

FDI enables setting up of businesses; more businesses mean more jobs and capacity ad-dition. In other words, FDI is a source of capital in the primary market and this capital gets converted into goods and services.

FII

FII is a source of sssaulz405 linked solely to the capital markets. FIIs have to register with capital markets regulator, Securities and Exchange Board of India (Sebi), and are governed by guidelines from Sebi and Foreign Exchange Management Act (Fema). Offshore funds not registered with Sebi can trade through participatory notes via a registered FII

As per regulations, the total holdings of FIIs in a company can't exceed 24% of paid-up capital or paid-up value of each series of convertible bonds. Keeping these limits in mind, Fils can invest directly in listed and unlisted securities in the capital market. FII investment can increase capital flow, but has no real bearing on productivity, other than in the securities market.

WHY IS FDI PREFERRED?

FDI is considered a more stable form of foreign capital infusion as it brings in a certain expenditure that can't be pulled out over-night. It creates jobs and can potentially aid economic growth.

FII funds, on the other hand, can come and go easily. Sudden withdrawal can create liquidity problems in the securities market and hit the foreign exchange rate of the country. So, in a sense, FII funds are more cosmetic in nature and FDI funds have a more long-lasting impact on the economy.

KEYNESIANISM

Keynesianism or Keynesian economics is basically based on the ideas put forward by 20th century British economist John Maynard Keynes.

The publication of the book The General Theory of Employment, Interest and Money by Keynes in 1936 was a revolution, which changed the fate of the dismal science forever. Keynes challenged what was till then conventional wisdom that markets would adjust automatically, including the labour market. This (pre-Keynesian economic thought) was also termed as classical economics. However, nothing of that sort happened during the Great Depression and assumptions of classical economics fell apart.

However, the free market economics again hit its limits with the "Great Recession", which started in 2008, and Keynesian economics was back with a bang. But, again, before Keynesians could declare the final victory in this battle of ideas, challenges have emerged in the shape of sovereign debt crisis in the developed world and the role of the government is again being questioned. While this battle of ideas will continue, the debate remains as open and interesting as ever.

WHEN DOES GOVT DECLARE DROUGHT?

Even though the share of agriculture in the country's GDP is declining, a year of poor rainfall means acute hardship for farmers which, in turn, has a negative impact on the economy.

WHAT IS A DROUGHT YEAR?

THE Indian Meteorological Department defines a drought year as one in which the overall rainfall deficiency is more than 10% of the long period average and more than 20% of the agricultural area, is affected.

ARE THERE DIFFERENT CATEGORIES OF DROUGHTS?

Yes, There are three types depending on the impact.

METEOROLOGICAL

This happens when the rainfall in an area is less than 25% of its long-term average.

HYDROLOGICAL

A marked depletion of surface water causing very low stream flow and drying of lakes, rivers and reservoirs.

AGRICULTURAL

Inadequate soil moisture resulting in a fall in agricultural productivity

WHEN IS A DROUGHT DECLARED?

Traditionally, in India, district collectors recommend the declare of a drought after obtaining crop production estimates. Generally areas with less than 50% normal sowing are considered to be affected by a drought. The other markers of drought conditions include rain deficiency, normal difference in vegetation index and moisture content in the soil.

WHAT HAPPENS AFTER THE DECLARATION OF DROUGHT?

The government initiates planning and implementation of relief measures. States roll out contingency plans, which include measures to provide employment, food, drinking water, and fodder for the livestock.

HOW DOES A DROUGHT IMPACT THE ECONOMY?

A drought impacts virtually all spheres of economic activity. Farm produce dips, water levels go down and the mortality rate of livestock and wildlife goes up. The economy takes a hit as farm income falls, food prices accelerate, consumption demand plummets and farm loan defaults, rise. Its social costs include unemployment and migration.

REAL EFFECTIVE EXCHANGE RATE

The external account is a major source of worry for policymakers as well as markets in India. India runs a large current account deficit—the difference between exports and imports of goods and services—which is funded by the inflow on the capital account— inflows as investment, both direct and portfolio. However, due to challenging external environment exports have suffered with capital flows remaining tricky and the rupee has become volatile. It depreciated from the level of 48-49 in February to the US dollar to the current level of 55-56 per dollar. Even though rising and falling currency means different things to different people, economists

insist that people should not look at the movement of nominal rates and focus on real effective exchange rate (REER).

WHAT IS IT?

Real effective exchange rate is defined as "a weighted average of nominal exchange rates adjusted for relative price differential between the domestic and foreign countries, relates to the purchasing power parity (PPP) hypothesis". As the definition highlights, REER takes price differential and inflation into account and, therefore, is said to be a better indicator of the competitiveness of the country in terms of exchange rates. In India, Reserve Bank of India (RBI) complies with REER indices. The first one is based on six country's trade-based weights and the second on 36-currencies' export and trade based weights. The indices are also a better reflection of the position of a currency in comparison with the countries in which India has large export and trade interest. The base is taken as 100 and currently the base year is 2004-2005.

A rise in the level of index indicates appreciation of currency and vice-versa. In terms of readings, REER has moved from 107.57 in April to 104.24 in September, indicating a depreciation of rupee in the six-currency basket, though it went up to 106.84 in October.

A. What is Capital Gains Tax?

This is a tax that a seller has to pay when he/she sells an asset like shares, bonds, gold, property, etc. at a price that is higher than at which it was purchased. Depending upon the duration of holding, there are two types of capital gains, long-term and short-term. In India, the rate of short-term capital gains tax is usually on a par with the rate of income tax that a person pays. In shares, any holding of over a year is considered long-term investment and no tax is paid on that. However, for some other assets, investor can avail of indexation benefit, which takes care of the impact of inflation on capital gains and reduces the total tax burden substantially.

B. STAGFLATION

The Indian economy grew at 5.3% in the three months ended 31 March, 2013 the slowest pace in nine quarters, pulling the full-year growth down to 6.5%. The economy is slowing down at a time when inflation continues to remain high. This combination of slowing growth and high inflation is termed as stagflation by many commentators and institutions.

C. WHAT IS STAGFLATION

Stagflation basically refers to a situation when an economy stagnates and also has high inflation, a situation where inflation and unemployment both are at higher level. In fact, the term has an interesting origin. Iain Macleod, member of House of Commons in England, coined this term in a speech in 1965. Macleod in that famous speech said: "We now have the worst of both worlds— not just inflation on the one side or stagflation on the other, but both of them together. We have a sort of stagflation situation." However, theoretically, till the hyperinflation 1960s and 1970s hit the world, unemployment and inflation were considered to have an inverse relationship (Phillips, curve). This kind of situation may arise due to some supply-side shock and raises the cost of production significantly. Higher cost of production then affects output and employment.

D. WHAT IS LIBOR?

This serves as a benchmark that gives an indication of the rate at which banks can borrow from London interbank market for a given period of time. The rates are released for 15 different time periods and for 10 currencies every day. Banks contributing to the discovery of Libor submit their quotes for a simple question: "At what rate could you borrow funds, were you to do so by asking for, and then accepting inter-bank offers in a reasonable market size just prior to 11

am? The rates are released shortly after 11 am every day for all time periods and currencies On behalf of the British Bankers' Association (BBA).

It currently serves as a benchmark rate for millions of contracts worth billions of dollars written everyday all over the world.

Bob Diamond, the chief executive of UK based bank Barclays Pic, resigned under serious public and political pressure in the interbank lending rate rigging scandal in the UK. The bank was fined £59.5 million by the Financial Services Authority (FSA) of UK for manipulating Libor (London Inter Bank Offered Rate) last week. The U.S Commodity Futures Trading Commission also slapped a fine of-\$200 million on the bank.

At present the authorities are also investigating the role of several other banks in this interest rate scandal. Probes at various levels have been ordered and a committee formed of members of Parliament from both houses in the UK to look into the matter.

Funding of Current Account Deficit

The current account deficit (CAD) in a country's balance of payments measures the gap between import and export of goods, services and transfers. This deficit is not necessarily a bad thing.

Developing countries may run a CAD in the short term to increase local productivity and exports in the future. But in the long run, a current: account deficit can sap economic vitality. Gayatri Nayak explains.

HOW IS THE CAD FUNDED?

A deficit in the current account is funded by various capital inflows, including portfolio investments, external commercial borrowings, foreign direct investments and NRI deposits. nature on the local currency.

WHAT IS THE IDEAL WAY TO FUND IT?

The best way to fund the current account deficit is through non-debt creating long term inflows such as foreign direct investments. Volatile inflows like portfolio investments, sometimes referred to as hot money, could threaten the stability of the external sector balance sheet.

WHAT HAS BEEN INDIA'S EXPERIENCE?

Of late, India's current account deficit has widened to nearly 4% of GDP. At the same time, there have not been adequate capital inflows and this has led to a significant weakening of the rupee vis-a-vis the US dollar. As a result, the Reserve Bank of India has had to sell its stock of dollars to meet the dollar demand.

WHY ARE REGULATORS AND POLICYMAKERS CONCERNED?

Because there is very little that can be done to restrict the current account deficit as prices of essential items of imports are rising and exports are not picking up. A CAD not higher than 2.5% of India's GDP is considered prudent. The challenge before the government is to devise policies that will boost exports and reduce unnecessary imports such as those of gold.

Tools Reserve Bank of India uses for Monetary and Liquidity Management

The Reserve Bank of India (RBI) and its attempt at managing liquidity, inflation and growth through its monetary policy has been constantly in the news. And its decision to cut rates or not has become the subject matter of much non-economist discussion. You know that monetary policy is RBI's primary responsibility but may not know the tools that RBI has at its disposal. There are five main policy tools that RBI uses.

REPO AND REVERSE REPO RATE

Repo is a transaction wherein securities are sold by RBI and simultaneously repurchased (hence, the tom repo) at a fixed price. This fixed price is determined in context of an interest

rate which is called the repo rate. The transaction is relevant for banks when they need funds from RBI—so, RBI repurchases the securities—which is akin to lending money to the bank at the decided rate. The higher the repo rate, the more costly funds are for banks and hence, higher will be the rate that banks pass on to customers. If the rate is high, it signals that access to money is expensive for banks; lesser credit will flow in the system and that helps bring down liquidity and lowers inflation. The reverse is the reverse repo rate which is used by banks to park excess money with RBI. At present repo rate is 6.50% and reverse repo 7.50%.

CASH RESERVE RATIO (CRR)

This is the percentage of a bank's time and demand liabilities that needs to be kept as cash with RBI. RBI can vary the percentage up to a limit. A high percentage means banks have less to lend and hence, curbs liquidity and a low CRR does the opposite. RBI can use the CRR to tighten or ease liquidity by increasing or decreasing it as the situation demands. At present, CRR is at 4.00/0.

OPEN MARKET OPERATIONS

This refers to buying and selling of government securities by RBI to regulate the short-term money supply. If RBI wants to induce liquidity or more funds in the system, it will buy government securities and inject funds into the system, and if it wants to curb the amount of money out there it will sell these to the banks thereby reducing the amount of cash that banks have.

STATUTORY LIQUIDITY RATIO

Banks are required to invest a percentage of their time and demand liabilities in government approved securities, this is referred to as the SLR. At present it is at 23%.

BANK RATE

This is the re-discounting rate that RBI extends to banks against securities such as bills of exchange, commercial papers and any other approved securities. In recent years it has been the repo rate rather than the bank rate which acts as a guideline for banks fixing their interest rates and the bank rate is currently at 9%. In addition to these specific measures, RBI also uses many qualitative tools through which it can regulate credit flow and cost of credit to the economy and specific sectors within the economy.

E. WHAT IS QUANTITATIVE EASING?

Central banks usually stimulate a slowing economy by cutting interest rates, which encourages people to spend by borrowing more. But with rates in the developed world already close to zero, that option is no longer available. So central banks pump money directly into the economy, a process known as quantitative easing.

HOW IS THIS DONE?

Central banks expand their balance sheets by buying government securities or other securities from the market and financial institutions. This process increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

HAS THIS BEEN DONE EARLIER?

Developed countries used quantitative easing to spur growth following the 2008 financial meltdown. Subsequently, the US Fed went ahead with another round of QE in late 2010 (called QE2). Other central banks such as the Bank of England and Bank of Japan have also increased money supply via QE in the past two years.

HOW DOES IT WORK?

At any given point of time, there is a fixed amount currency/money chasing products and services available in the economy. The objective is to get more money into the system and promote consumption. the intention is also to spur lending by giving more cash in the hands of financial institutions.

WHAT WILL BE THE IMPACT OF ANOTHER QE?

In today's globalised world, cheap money from developed economies may flow into emerging economies and fuel asset bubbles and inflation by perking up commodity prices while India is in dire need of dollar inflows the positives are offset by rising commodity prices.

HOW DOES IT HELP?

The flood of cheap money causes asset (shares and real estate) prices to rise The notional high wealth, together with cheap and easy credit, encourages people to spend.

Quantitative easing also helps devalue the currency, encouraging exports further and increasing the level of economic activity. The final consequence is increased demand resulting in ramping up of production, which, in turn, creates more jobs.

Index of Industrial Production

WHAT IS IT?

The Index of Industrial Production (IIP) measures short-term changes in industrial activity in the country. The first attempt to compile IIP in India was made by the office of economic adviser in the ministry of commerce and industry with base year 1937 covering 15 items of which 13 were from manufacturing and the rest from mining and electricity. The data is released on a monthly basis since 1950 and the Central Statistical Organisation (CSO) compiles it since its establishment in 1951. The base year has been revised seven times by the CSO from its first base of 1946; the latest is 2004-05.

WHAT DOES IT COVER?

As suggested by the United Nations (UN) statistics division in 1950, the scope of coverage in IIP could range from mining, manufacturing, electricity, construction and gas, which has now been expanded to areas including water supply and waste management. However, in India, due to the unavailability of data and other issues, IIP only covers areas in mining, manufacturing and electricity. At present, the index taps changes in volume of production in 682 items falling in 392 different item groups. The inclusion of the products in the index depends on a certain contribution to the total output of the country.

HOW IS IT CALCULATED?

The items in the index are given different weights according to their relevance and this is revised from time to time along with the base year in order to reflect the changing nature of the economy. The data is released on a monthly basis. The variation is gauged year-on-year. For example, growth in index for April 2013 will be based on the index value for April 2014.

F. The Big Mac Index

We live in an extremely complex and competitive global economic environment. Things are getting a lot more complicated in the aftermath of the global financial crisis as countries are still Struggling to restore output through pushing exports by deliberately undervaluing their currencies. In such an environment, can a burger from a global fast food joint tell you by how much a currency is overvalued or undervalued? The Big Mac index, created by The Economist newspaper in 1986, attempts to do just that.

WHAT IS IT?

The Big Mac index, as The Economist puts it in its 2 February edition, is a "light-hearted analysis of foreign-exchange rates". The Big Mac index only has one item — the Big Mac sold by the McDonald's in a number of countries.

The India index: Since Big Mac is not sold in India because it contains beef, the index takes Maharaja Mac into consideration which contains chicken.

HOW DOES IT WORK?

The theory behind the index is purchasing power parity (PPP), which basically says that prices and exchange rates adjust in a way that over time similar goods should cost the same in different countries. The index compares the price of Big Mac in the US with other countries to see if they are undervalued or overvalued compared with the US dollar. For example, in the last issue (2 February), the burger costs \$4.37 in the US, while the Canadian version costs \$5.39, indicating that Canadian dollar compared with the US dollar, is overvalued by 24%. Further, according to the index, the currencies of Norway, Switzerland and Brazil are overvalued compared with the US dollar, while currencies of emerging markets such as India, Russia and China are undervalued; Although the Index is a popular reading, critics have pointed out that since means of production, including the labour cost, is lower in poor countries, the cost for McDonald's is also lower and may not necessarily indicate undervaluation.

5. THE SOCIAL AGENDA

SVVVALAIVIBAN

This is a co-contributory scheme to promote voluntary retirement savings towards pensions. The government makes a contribution to NPS account of unorganized sector workers.

AADIAR

It is a 12-digit individual identification number that serves as a proof of identity and address, anywhere in India..

BHARAT NIRMAL

Bharat Nirman is UPA's ambitious plan to build infrastructure in rural India: irrigation, roads, water supply, housing, rural electrification and rural telecom connectivity.

FOOD SECURITY ACT

The govt. plans to provide highly subsidized foodgrain to majority of the population. It is expected to be rolled out in the next fiscal.

SWABHIMAN

This is government campaign to extend banking facilities through business correspondents to habitations having population on excess of 2, 000.

DIRECT CASH TRANSFER OF BENEFITS

It is a poverty alleviation initiative under which welfare benefits are given directly to the poor in cash (in their bank accounts) rather than in the form of subsidies.

ABATEMENT

This is like a discount with reference to taxes. Abatement is given when the tax is not levied on full amount but on a portion of the transaction.

RESOURCE TRANSFERS TO THE STATES

The Centre gives funds to states in two ways: a share in taxes and budget support for their plans. These are largely in the nature of grants, and include those given to states for managing Centrally-sponsored schemes.

DISINVESTMENT

The process of sale of government shares in state-owned entities.

G. QUALIFIED FOREIGN INVESTORS

Foreign individuals, groups or associations that are eligible to invest directly in India. They must be from countries that follow global anti-money laundering rules.

H. VIABILITY-GAP FUNDING

Financial support to a public-private partnership (PPP) infrastructure project to make it viable for the private-sector investor.

I. REFLATION

basically means inflationary measures, such as increasing government spending or monetary intervention, to stimulate economic activity and prices. Many commentators have expressed fears that the unconventional monetary policy being followed in the developed world can lead to hyperinflation, and it will be difficult for central banks to contain prices. However, so far, signs of high inflation, or hyperinflation, are not visible. In fact, commodity prices, including that of crude oil, have come down significantly in the past one year.

WHAT IT MEANS FOR INDIA

A strong economic revival in the developed world will benefit India at the fundamental level and help it grow at a faster pace. However, in the interim, it could lead to some volatility in the financial market. Better economic prospects in advanced economies would also mean that central banks would want to curb liquidity in order to avoid inflationary threats, which could result in higher interest rates.

Higher interest rates in the developed market can not only reduce inflows to emerging markets such as India, but can also lead to some outflows, resulting in volatility in stock, bond and currency markets. If the ongoing injection of liquidity, however, results only in an increase in commodity prices and higher inflation, India would be worse off as it may have to deal with both inflation and financial market volatility.

Crony Capitalism

Presently in India corruption and crony capitalism are high on the list, as a number of controversies have surfaced in the recent years on the issue of allocation of natural resources by the government. "India's election in April and May will in part be a plebiscite on a decade of crony capitalism". Noted The Economist in an article (The new age of crony capitalism, 15 March, 2014).

What is Crony Capitalism?

It basically refers to conditions where some businesses and entrepreneurs are able to gain and accumulate wealth due to their proximity to the seat of power. Businesses may gain from the allocation of natural resources or licenses and permits on favorable terms, which can lead to super normal profit. Crony capitalism affects the overall business environment and the well-being of the economy in the long run. For example, if the government allocates a piece of land to a person or a company at a cost that is below the market price, the cost of setting up a project gets reduced, which can undermine competition as the competitor may not get land on similar terms. Also, if the land was sold at the market price, the state exchequer would have gained and the money could have been used for development by the State. Further, the company which got the land at a cheaper rate could sell it at market price in the future and pocket the difference.

India, however, is not the only country suffering from crony capitalism or "rent seeking." It is a global phenomenon, though currently more visible in the developing world. The latter half of the nineteenth century saw massive accumulation of wealth by "cronies" in the US.

The following line from a Hindi movie best describes the working of crony capital

India to be 3rd Biggest Economy in 15 Years: Study

The Indian economy will more than treble to become the world's third largest behind the US and China in 15 years, rising from the current 10th spot, according to projections by the US Department of Agriculture. The global economic order will change with emerging economies catapulting into prominence and the US being far less dominant Here's a list of the projected top 20 economies by 2030.

CONCEPT OF BITCOIN

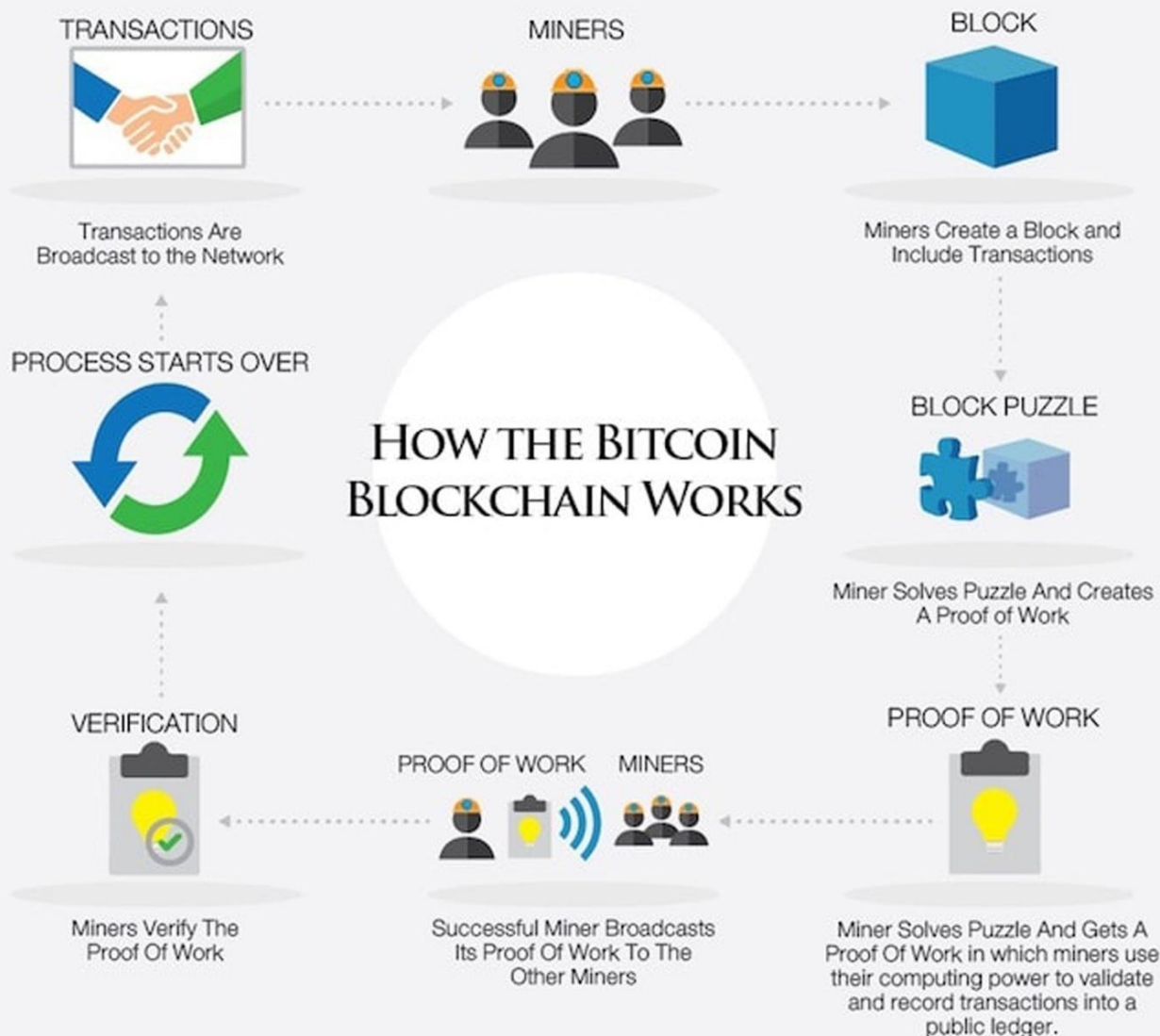
WHAT IS BITCOIN TECHNOLOGY?

Once you have installed a bitcoin wallet on your computer or mobile device, it will generate your first bitcoin address and you can create more whenever you need one.

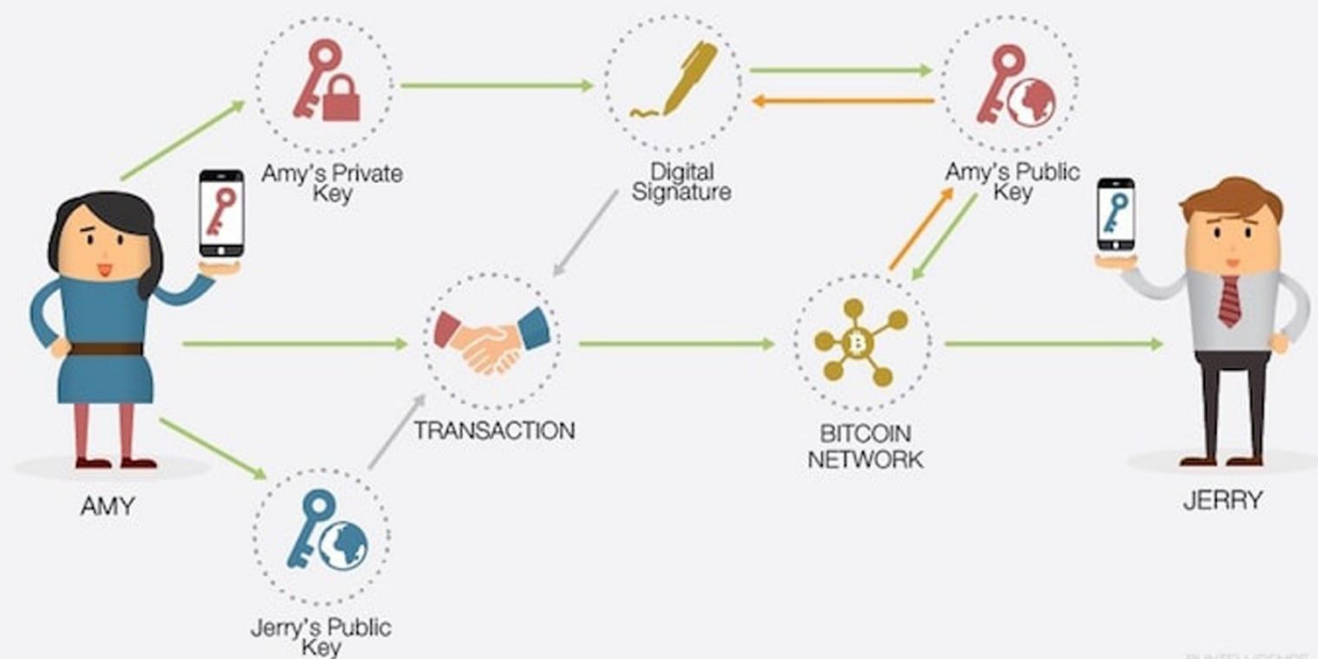
Blockchain is the shared public ledger on which the entire decentralized distributed peer-to-peer Bitcoin network relies. All confirmed transactions are included in the blockchain so that the bitcoin wallet can calculate the spendable balance and new transactions can be verified.

A transaction is a transfer of value between bitcoin addresses that get included used to digitally sign transactions to provide a mathematical proof that they are valid. Bitcoin wallets keep a secret piece of data called the private key or seed which is used to sign transactions to provide a mathematical proof that they came from the owner of the wallet.

A digital signature prevents the transaction from being altered by anyone once it has been signed. All transactions are broadcast between users and usually begin to be validated and confirmed by the Bitcoin network within a few minutes and mostly within an hour.



THE ANATOMY OF A BITCOIN TRANSACTION



BI INTELLIGENCE

WHAT IS BITCOIN?



Bitcoins are created as reward for payment processing work in which users offer their computing power to verify and record payments into a public ledger. The activity is called mining and miners are rewarded with transaction fees and newly created bitcoins. Bitcoins can be exchanged for other currencies, products and services.

WHAT IS A BITCOIN WALLET?

<https://www.weusecoins.com/wallet>



A Bitcoin wallet is software enables users to receive, store and send bitcoins by empowering users to create and manage a collection of private keys. Private keys are numbers users keep secret using a Bitcoin wallet that enable them to move bitcoins by solving a math problem that the Bitcoin network can validate.

TYPE OF BITCOIN WALLET

Online bitcoin wallets

Wallets accessed from the web from any Internet-connected device



Bitcoin hardware wallets

Physical devices designed to secure bitcoins



Software wallets

Applications downloaded to a mobile phone, computer or tablet



Paper wallets

Bitcoin private keys printed from an offline computer that has never been connected to the Internet



BEST PRACTICES: HOW TO ENSURE YOUR SECURITY AND PRIVACY



• Control your private keys

Use wallets where you can control your private keys

• Protect your privacy

Use a wallet that downloads the whole blockchain

• Don't reuse addresses

Create a new address for each transaction

• Use different wallets for different sums of money

• Create multiple secure backups of wallets

Backups should be kept in separate physical location

HOW TO BUY BITCOINS ONLINE?

<https://www.weusecoins.com/buy>



IMPORTANT ORGANIZATION

International	
Organization Name	Head Office
Amnesty International	London
APEC (Asia Pacific Economic Forum)	Singapore
ASEAN (Association of South East Asian Nations)	Jakarta
Commonwealth of Nations	London
EU (European Union)	Brussels
FAO (Food and Agricultural Organization)	Rome
IAEA (International Atomic Energy Agency)	Vienna
ICAO (International Civil Aviation Organization)	Montreal
ICJ (International Court of Justice)	The Hague
ILO (International Labor Organization)	Geneva
IM (International Maritime Organization)	London
IMF (International Monetary Fund)	Washington
International Standards Organizations	Geneva
NAM (Non Aligned Movement)	New York
NATO (North Atlantic Treaty Organization)	Brussels
OECD (Organization for Economic Cooperation and Development)	Paris
OPEC (Organization of Petroleum Exporting Countries)	Vienna
SAARC (South Asian Association for Regional Cooperation)	Kathmandu
Transparency International	Berlin
UNAEC (United Nations Atomic Energy (Commission)	New York
UNAIDS (Joint United Nations Programme on HIV/AIDS)	Geneva
UNCDF (United Nations Capital Development Fund)	New York
UNCTAD (United Nations Office on Drugs and Crimes)	Vienna
UNDP (United Nations Development Programme)	New York
UNEP (United Nations Environment Programme)	Nairobi
UNESCO (United Nations Educational scientific and cultural Organization)	Paris
UNFCCC (United Nations Framework Convention on Climate Change)	Germany
UNFPA (United Nations Population Fund)	New York
UNHCR (United Nations High Commissioner for Refugees)	Geneva
UNICEF (United Nations Children's Education Fund)	New York
UNO (United Nations Organization)	New York
WHO (World Health Organization)	Geneva
WMO (World Meteorological Organization)	Geneva
World Bank	Washington
World Intellectual Property Org.	Geneva
WTO (World Tourism Organization)	Madrid

IMPORTANT REPORTS

Report Name	Given By
1. World Development Report	World Bank
2. Asian Development Outlook	ADB (Asian Development Bank)
3. Global Financial Report	BIS (Bank for International Settlements)
4. Global Money Laundering Report	FATF (Financial Action Task Force)
5. Indian State of Forest Report	Forest Survey of India
6. Technical Co-operation Report	IAEA (International Atomic Energy Agency)
7. Nuclear Technology Review	
8. Ease of Doing Business	World Bank (IBRD)
9. Global Hunger Index Report	I.F.P.R.I
10. World Employment and social outlook World of Work Report	I.L.O (International Labour Organisation)
11. World Economic Outlook	I.M.F.
12. Global Financial stability Report	I.M.F
13. World Energy Outlook	International Energy Agency
14. World Happiness Report	S.D.S.N
15. World Investment Report	UNCTAD
16. Travel and Tourism Competitiveness Report	World Economic

INDIAN INSTITUTION

Name of institution	Head office
1. IRDA (Insurance Regulatory and development Authority)	Hyderabad
2. SEBI (Securities and Exchange Board of India)	Mumbai
3. R.B.I. (Reserve Bank of India)	Mumbai
4. PFRDA (Pension Fund Regulatory and Development Authority of India)	New Delhi
5. NABARD (National Bank for Agriculture and rural development)	Mumbai
6. SIDBI (Small Industries Development Bank of India)	Lucknow
7. TRAI (Telecom Regulatory Authority of India)	New Delhi
8. C. S. O. (Central Statistics office)	New Delhi

QUESTIONS PRE. EXAM

1. One of the reasons for India's occupational structure remaining more or less the same over the years because
 - (a) People are largely unaware of the significance of transition from agriculture to industry for economic development
 - (b) Investment pattern has been directed towards capital intensive industries
 - (c) Productivity in agriculture has been high enough to induce people to stay with agriculture
 - (d) Ceiling on land holdings have enabled more people to own land and hence their preference to stay with agriculture

2. Consider the following statements
 1. More than one-third of world population lives in the low income economy countries.
 2. More than three-quarters of the gross national income of the world is accounted for the high income economy countries.

Which of the statement (s) given above is/are correct?

- (a) only 1
 - (b) only 2
 - (c) Both 1 and 2
 - (d) Neither 1 nor 2
3. Who was the chairman of the 14th Finance Commission of India?
 - (a) Indira Rajaraman
 - (b) C. Rangarajan
 - (c) Vijay Kelkar
 - (d) None of the above

4. Consider the following announcements of Government of India in recent times.
 1. Carbon tax imposed on the coal produced and imported.
 2. Jawaharlal Nehru National Solar Mission.
 3. Ultra-Mega Power Projects.

Which of the announcements given above is/are aimed to bring sustainable development in India?

- (a) 1, 2 and 3
- (b) 1 and 2
- (c) 2 and 3
- (d) only 2

5. Match the following

List – I

(Five Year Plan)

- A. First Plan
- B. Third Plan
- C. Fifth Plan
- D. Twelfth Plan

List – II

(Objective)

1. Growth with social justice
2. Sustainable inclusive growth
3. Self-reliant and self-generating economy
4. Agriculture, irrigation and power projects

Codes

- | A | B | C | D |
|-------|---|---|---|
| (a) 2 | 4 | 3 | 1 |
| (b) 2 | 3 | 4 | 1 |
| (c) 4 | 3 | 1 | 2 |
| (d) 1 | 3 | 2 | 4 |

6. Consider the following statements
 1. Under Annapurna Scheme, indigent senior citizens of 65 years of age or above eligible for National Old Age Pension, but not getting pension can get 10 kg of food grains per person per month free of cost

2. Ministry of Social Justice and Empowerment has Scheme in which indigent people living in welfare institutions like orphanages are given 15 kg of food grains per person per month at BPL rates.

Which of the statement (s) given above is/are correct?

- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

7. Consider the following statements about the Eleventh Five Year Plan with respect to Agriculture and Allied sector.

1. The average annual growth in Agriculture and Allied sectors during the Eleventh Five Year Plan is more than the target set in the Plan Approach Paper.
2. For the Eleventh Five Year Plan, the average growth rate target for the Agriculture and Allied sector in the Approach Paper was set at 5%

Which of the statement (s) given above is/are correct?

- (a) only 1 (b) only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. Match the following

List - I

(Revolution)

- A. Yellow Revolution
B. Blue Revolution
C. White Revolution
D. Green Revolution

List - II

(Associated Agriculture Sector)

1. Food crops
2. Oil seeds
3. Mils production
4. Fish production

Codes

- | | A | B | C | D |
|-----|---|---|---|---|
| (a) | 2 | 4 | 3 | 1 |
| (b) | 2 | 3 | 4 | 1 |
| (c) | 4 | 3 | 1 | 2 |
| (d) | 4 | 1 | 3 | 2 |

9. Match the following

List - I

- A. NABARD
B. NCDC
C. SCARDB
D. NAFED

List - II

1. Inter-state sale of agricultural commodities
2. Loans and credits to rural financial institutes approved by RBI
3. Assistance for the land development
4. Financial assistance for the construction of god owns and warehouses

Codes

- | | A | B | C | D |
|-----|---|---|---|---|
| (a) | 2 | 4 | 3 | 1 |
| (b) | 2 | 3 | 4 | 1 |
| (c) | 4 | 3 | 1 | 2 |
| (d) | 4 | 1 | 3 | 2 |

10. Match the following

List - I (industry)

- A. Basic industries
B. Strategic industries
C. Critical industries
D. Goods-based industries

List - II (Field)

1. Fertilizer
2. Petroleum
3. Automobile
4. Arms and ammunition

Codes

- | | A | B | C | D |
|-----|---|---|---|---|
| (a) | 2 | 4 | 3 | 1 |

- | | | | |
|-------|---|---|---|
| (b) 2 | 3 | 4 | 1 |
| (c) 4 | 3 | 1 | 2 |
| (d) 4 | 1 | 3 | 2 |

11. Assertion (A) Fiscal deficit is greater than budgetary deficit.

Reason (R) Fiscal deficit financing is the borrowing from the Reserve Bank of India plus other liabilities of government of met its expenditure.

Codes

- (a) Both A and R are true and R is the correct explanation of A
- (b) Both A and R are true, but R is not the correct explanation of A
- (c) A is true, but R is false
- (d) A is false, but R is true

12. Which of the following is not a Public Sector Undertaking (PSU)/enterprises?

- (a) NTPC
- (c) SAIL
- (b) BHEL
- (d) TISCO

13. With reference to Aam Aadmi Bima Yojana consider the following statements

- 1. The member insured under the scheme must be the head of the family or an earning member of the family in a rural landless household
- 2. The member insured must be in the age group of 30 to 65 years.
- 3. There is a provision for free scholarship for up to two children of the insured who are studying between classes 9 and 12

Which of the statement (s) given above is/are correct?

- (a) Only 1
- (b) 2 and 3
- (c) 1 and 3
- (d) 1, 2 and 3

14. Consider the following statements

- 1. National Programme of Nutritional Support to Primary Education (NP-NSPE) was launched in 1995.
- 2. Mid-day meal Scheme aims to provide cooked midday meal to all children studying in classes (i) Upper Primary Level in Government and aided schools and EGS/AIE centres.

Which of the statement (s) given above is/are correct?

- (a) Only 1
- (b) Only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 2

15. Consider the following statements

- 1. Swarna Jayanti Gram Swarozgar Yojana was launched as an integrated programme for self-employment of the rural poor.
- 2. The objective of Swarna Jayanti Gram Swarozgar Yojana is to bring the assisted poor families above the poverty line by organizing them into Self Help Groups (SHGs).

Which of the statement (s) given above is/are correct?

- (a) Only 1
- (b) Only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 1

16. Aadhar has huge potential for improving operations and delivery of services. Its potential application in various significant public services delivery and social sector programme is immense. In this context, consider the following statements

- 1. The UID database can be used for the authentication of beneficiaries under the public distribution system.
- 2. It will help in enhancing the efficiency of social audit of programmes.
- 3. Enable greater commitment towards government financing of public health and primary health care.

Which of the statement (s) given above is/are correct?

- (a) 1 and 2
- (b) 1 and 3
- (c) 2 and 3
- (d) All of these

17. Consider the following statements

1. WTO has 199 members representing less than 50% of total world trade.
2. WTO's headquarters is at the Centre William Rappard, Geneva.
3. WTO is governed by a ministerial conference meeting every 2 years.

Which of the statement (s) given above is/are correct?

- (a) 1 and 2
- (b) 1 and 3
- (c) 2 and 3
- (d) All of these

18. Foreign Direct Investment (FDI) is investment directly into production in a country by a company located in another country, then which one of the another country, then which one of the following modes is correct about the FDI?

- (a) Buying a company in the target country
- (b) Expanding operations of an existing business in that country
- (c) Investing in the shares and stocks of a company in the target country
- (d) Both 'a' and 'b'

19. Consider the following statements

1. Asian Development Bank (ADB) is a regional development bank established in 1966.
2. Asian Development Bank (ADB) admits the members of the United Nations Economic and Social Commission for Asia and the Pacific.

Which of the statement (s) given above is/are correct?

- (a) only 1
- (b) only 2
- (c) Both 1 and 2
- (d) Neither 1 nor 2

20. Union government of India granted service tax exemption on the services of Life Insurance Business provided under, which of the following schemes?

1. Janashree Bima Yojana
2. Bima Yojana for Handicraft Artisans
3. Swasthya Bima Yojana
4. Aam Aadmi Bima Yojana
5. Jeevan Bima Yojana

21. Consider the following statements about 'Mega Food Park'

1. To provide good infrastructure facilities for food processing industries.
2. To increased processing perished items and reduce wastage.
3. To provide emerging and econ friendly food processing technology to entrepreneurs.

Which of the statement (s) given above is/are correct?

- (a) 2 and 3
- (b) 1 and 2
- (c) 1 and 3
- (d) All of these

22. Why is Reserve Bank of India (RBI) also known as Bankers' Bank and Lender of last resort?

- (a) Reserve Bank of India maintains the security of the commercial banks and appointment of its officials
- (b) Commercial banks need to keep some amount in the custody of the RBI and can borrow from the RBI at the times of need and stringency.
- (c) RBI acts as an agent of the government to regulate the day-to-day functions of the Commercial Banks and maintain the iniquity of the banks.
- (d) Both 'a' and 'c'

23. Consider the following statements

1. The rank of India in terms of Quota Share in the international Monetary Fund (IMF) is below one dozen countries.
2. China ranks second just after the united States in the quota terms of IMF

Which of the statement (s) given above is/are correct?

- (a) only 1 (b) only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

24. The functions of Central Banks are

1. bankers to the bank.
2. Custodian of foreign exchange.
3. Controller of credit.
4. bank of issue
5. Banker, agent and financial adviser to the state.
6. financial adviser of private banks.

Which of the statement (s) given above is/are correct?

- (a) 1, 2, 3 and 6 (b) 2, 3, 4 and 5
(c) 1, 2, 3, 4 and 5 (d) All of these

25. Consider the following events in the Indian Financial System and arrange in chronological order.

1. Nationalisation of Reserve Bank of India.
2. Foundation of Punjab National Bank.
3. Nationalisation of State Bank of India.
4. Establishment of NABARD.

Codes

- (a) 1, 2, 3, 4 (b) 1, 2, 4, 3
(c) 2, 1, 4, 3 (d) 2, 1, 3, 4

26. Consider the following about the Lead Banks' role in the Lead Bank Scheme.

1. To coordinate the cooperative Banks, commercial banks and other financial institutions in their allotted districts.
2. To survey and identify the unbanked districts and take initiatives to open bank branches.
3. To estimate the deposits potential and the credit gaps and fill the vacuum in the districts.

Which of the roles given above is/are correct?

- (a) only 1 (b) 1 and 3
(c) 2 and 3 (d) All of the above

27. Consider the following statements

1. Industrial Development Bank of India (IDBI) was established as a wholly-owned subsidiary of the Reserve Bank of India.
2. IDBI was set-up in the Third Five Year Plan of the Indian Economy.

Which of the statement (s) given above is/are correct?

- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

28. Consider the following statement: Inflation is an increase in the average level of prices. This implies that

1. the price of essential commodities outstrips income
2. money supply grows at a higher rate than GDP in real terms.
3. the exchange rate of a currency fails.
4. fiscal deficit exceeds balance of payment deficit.

Which of the statement (s) given above is/are correct?

- (a) 1, 2 and 4 (b) Only 2
(c) 1 and 4 (d) 1, 2, 3 and 4

29. Consider the following statements regarding the National Agricultural Policy, 2000.
1. It seeks to promote sustainable agriculture.
 2. Emphasis on the development of animal husbandry, poultry, dairying and aquaculture.
 3. It accepts the need to tax farm incomes
 4. It recognises women's rights in land
- Select the correct answer using the codes given below
- (a) 1 and 3 (b) 3 and 4
(c) 1, 2 and 4 (d) All of these
30. With reference to the National Mission on Sustainable Agriculture (NMSA) consider the following statements
1. It seeks to transform India agriculture into a climate resilient production system.
 2. It will provide carbon credit to organic farmers.
- Which of the statement (s) given above is/are correct?
- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2
31. Which of the following pairs are correctly matched?
- | Programmes | Implementing Departments |
|-------------------------------------|---------------------------------|
| 1. Pradhan Mantri Gram Sadak Yojana | Department of Rural Development |
| 2. Haryali | Department of Land Resources |
| 3. National Mission on Bio-Fuels | Department Bio-Technology |
| 4. Desert Development Programme | Department of Land Resources |
- Codes
- (a) 1, 2 and 3 (b) 1, 3, and 4
(c) 1, 2 and 4 (d) All of these
32. Portfolio Investment consists of the following
1. Foreign direct investment
 2. Foreign institutional investment
 3. American depository receipts
 4. Global depository receipts
- Which as the statement (s) given above is/are correct?
- (a) 1 and 2 (b) 2, 3 and 4
(c) 1 and 4 (d) 1, 2 and 3
33. Consider the following statements with regard to India's Current Account Deficit (CAD)
1. It is mainly due to trade deficit
 2. It is due to both trade deficit and deficit in the invisibles account
 3. It is mainly due to deficit in the invisibles account.
 4. It puts pressure on the capital account
- Which of the statement (s) given above is/are correct
- (a) 1 and 4 (b) 2 and 4
(c) Only 3 (d) 3 and 4
34. Consider the following statements
1. Under Applications Supported by Blocked Amount (ASBA) System, an IPO investor can block the application money in his bank account which is debited after selecting application.
 2. The investor earns no interest on this blocked amount.
- Which of the statement (s) given above is/are correct?
- (a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2
35. Consider the following statements

1. Under Applications Supported by Blocked Amount (ASBA) System, an IPO investor can block the application money in his bank account which is debited after selecting application .
 2. The investor earns no interest on this blocked amount.
- Which of the statement (s) given above is/are correct?
- (a) 1, 2 and 3 (b) 1 and 2
(b) (c) 1 and 3 (d) 2 and 3
36. To know whether the rich are getting richer and the poor getting poorer, it is necessary to compare
- (a) The wholesale price index over different periods of time for different regions
(b) The distribution of income of an identical set of income recipients in different period of time
(c) The distribution of income of different sets of income recipients at a point of time
(d) The availability of foodgrains among two sets of people, one rich and the other poor, over different period of time.
37. Which of the following are the objectives of the Commission for Agricultural Costs and Prices (CACP)?
1. To stabilize agricultural prices
 2. To ensure meaningful real income levels to the farmers
 3. To protect the interest of the consumers by providing essential agricultural commodities at reasonable rates
 4. To ensure maximum price for the farmer
- Select the correct answer using the codes given below
- (a) 1, 2 and 3 (b) 1, 2 and 4
(c) 1, 3 and 4 (d) 2, 3 and 4
38. Which one of the following statements is not correct?
- (a) Under the Targeted Public Distribution System the families below Poverty Line are provided 50 kg of foodgrains per month per family at subsidized price
(b) Under Annapurna Scheme, indigent senior citizens of 65 years of age above eligible for National Old Age Pension, but not getting pension can get 10 kg of foodgrains per person per month free of cost.
(c) Ministry of Social Justice and Empowerment has a scheme in which indigent people living in welfare institutions like orphanages are given 15 kg of foodgrains per person per month of BPL rates
(d) Ministry of Human Resource Development gives financial support to mid-day meal scheme for the benefit of Class I to V students in government or government – aided school.
39. With reference to the governments welfare schemes, consider the following statements
1. Under the Antyodaya Anna Yojana the foodgrains are available to the poorest of the poor families at Rs. 2 solidus kg for wheal and Rs. 3 solidus kg of rice.
 2. Under the National Old Age Pension Scheme the old and destitute are provided Rs. 75 Solidus month as Central Pension, in addition to the amount provided by most State governments.
 3. Government of India has allocated 25 kg foodgrains per below poverty line family per month, at less than half the economic cost.
- Which of the statement (s) given above are correct?
- (a) 1 and 2 (b) 1 and 3
(c) 2 and 3 (d) 1, 2 and 3
40. With reference to the Indian Public Finance, consider the following statements.
1. External liabilities reported in the Union Budget are based on historical exchange rates
 2. The continued high borrowing has kept the real interest rates high in the economy
 3. The upward trend in the ratio of Fiscal Deficit to GDP in recent years has an adverse effect on private investments.
 4. Interest payments is the single largest component of the non-plan revenue expenditure of the Union Government.
- Which of the statement (s) given above are correct?
- (a) 1, 2 and 3 (b) 1 and 4
(c) 2, 3 and 4 (d) All of these

MAINS PRACTICE SET

Q. 1 "MUDRA Bank is aimed at the twin objectives of financial inclusion and growth promotion." In light of this statement, write a short note on the Bank.

Ans. As per the GoI, large industries provide employment to only 1.25 crore people in the country while the micro units employ around 12 crore people. There is a need to focus on these 5.75 crore self-employed people (owners of the micro units) who use funds of Rs. 11 lakh crore, with an average per unit debt of merely Rs. 17,000. Capital is the key to the small entrepreneurs. These entrepreneurs depend heavily on the 'local money lenders' for their fund requirements. Looking at the importance of these enterprises, GoI launched (April 2015) the Micro Units Development and Refinance Agency Bank (MUDRA Bank) with the aim of funding these unfunded noncorporate enterprises. This was launched as the PMMY (Prime Minister Mudra Yojana). Important features of the MUDRA Bank are as given below:

- Under this banking model, the micro units can avail up to Rs. 10 lakh loan through refinance route (through the Public and private sector banks, NBFCs, MFIs, RRBs, District Banks, etc).
- The products designed under it are categorized into three buckets of finance named Shishu (loan up to Rs. 50,000), Kishor (Rs. 50,000 to Rs. 5 lakh) and Tarun (Rs. 5 lakh to Rs. 10 lakh).
- Though the scheme covers the traders of fruits and vegetables, in general, it does not refinance the agriculture sector.
- There is no fixed interest rate in this scheme. As per the GoI, presently, banks are charging the interest rates between Base Rate plus one per cent to 7 per cent per annum. Interest rates on the loans are supposed to vary according to the risk involved in the enterprises seeking loans. There is no general subsidy offered on interest rates except if the loan is linked to some other government scheme.

This way, the Mudra is aimed at twin objectives-

- (i) it will make funds available to a large number of small enterprises (financial inclusion) which by now were not getting any such support from the organised financial system of the country;
- (ii) by providing the scarce funds it will enhance the income and growth prospects of such a large number of firms—helping around 12 crore people earning livelihood in them.

Q.2 Briefly discuss about the recently agreed Trans-Pacific Partnership (TPP) and also highlight its simplifications for India.

Ans. The TPP (Trans-Pacific Partnership) is a new mega-regional agreement—signed late 2015 by the 12 Pacific Rim nations (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam). The block accounts for around 40 per cent of global GDP and around 60 per cent of merchandise trade. In terms of economic size, it is larger than the existing NAFTA (North America Free Trade Area). It is likely to set higher standards for goods and services trade and is considered to be a pioneer in many ways and is likely to be a game-changer for the world economy and global trade—it not only encompasses the scope of tariff-eliminating mega regional trade pacts, but also aims at-

- (i) setting higher global standards for international trade through lower benchmarks for non-tariff barriers;
- (ii) more stringent labour and environment regulation;
- (iii) higher IPRs (intellectual property rights) protection;
- (iv) greater transparency in government procurement and limiting advantages to state-owned enterprises (SoEs);

- (v) transparency in health care technology, competitiveness and supply chain.
- (vi) includes new and emerging trade issues and cross-cutting concerns such as internet and digital economy and participation of Soes in global trade and investment.

In the short run, the trade impact of the TPP may not be seriously adverse but careful analysis is required for adapting and responding to the challenges in the long run. Several recent international studies and research papers have highlighted a range of implications for India—major ones may be summarised as given below:

- (i) India could experience huge export gains of more than US\$500 billion per year—a 60 per cent increase—from joining an expanded TPP or participating in a comprehensive Free Trade Area of the Asia Pacific (FTAAP), now being considered by the Asia-Pacific Economic Cooperation (APEC), and Indian national income would expand by 4 per cent (over US\$200 billion).
- (ii) The estimates show that India's exports would rise by around US\$5.3 billion annually. However, India's imports would rise by US\$10.4 billion, leaving a net deficit in balance of trade of US\$5.1 billion.
- (iii) India is most competitive in services trade and reduction of trade barriers in services among TPP members will result in growth in India's services exports.
- (iv) the possible risks of not joining the TPP are difficult to quantify, but some of the research has highlighted the possibility of trade diversion and raised concerns about erosion of India's share in exports. India not being its founding member, it will have to join on the terms already set by the TPP with India getting least manoeuvrability. It is really a difficult choice to make for India. Majority of the experts suggest India to do as its competitors are doing. But there is no doubt in it that India seriously needs to get competitive to the emerging world out there, in every possible area.

Q. 3. "The NBFCs are fast emerging as an important segment of Indian financial system and are complementing the banking sector". Give your comments in light of the regulatory framework for the NBFCs.

Ans. NBFCs (Non-Banking Financial Companies) are fast emerging as an important segment of Indian financial system. It is an heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They cannot have certain activities as their principal business, agricultural, industrial and sale-purchase or construction of immovable property. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons. In this way, they have broadened and diversified the range of products and services offered by the Indian financial sector. Gradually, they are being recognised as complementary to the banking sector due to their-

- customer-oriented services;
- simplified procedures;
- attractive rates of return on deposits; and
- flexibility and timeliness in meeting the credit needs of specified sectors.

RBI, the regulator of the NBFCs, has given a very wide definition of such companies (a kind of 'umbrella' definition)—"a financial institution formed as a company involved in receiving deposits or lending in any manner." They are classified into two broad categories:

- (a) deposit-taking NBFCs (NBFC-D), and
- (b) non-deposit taking NBFCs (NBFCND).

It is mandatory for a NBFC to get itself registered with the RBI as a deposit taking company. For registration they need to be a company (incorporated under the Companies Act, 1956) and should have a minimum NOF (net owned fund) Rs. 2 crore.

There are certain other category of the NBFCs which are regulated by other financial regulators—venture capital fund, merchant bank, stock broking firms (SEBI registers and regulates them); insurance company (registered and regulated by the IRDA); housing finance company (regulated by the National Housing Bank); nidhi company (regulated by the Ministry of Corporate Affairs under the Companies Act, 1956); and chit fund company (by respective state governments under Chit Funds Act, 1982).

The Union Budget 2016-17 has proposed to facilitate the process of their strengthening as they are seen to be a big fund-provider to the infrastructure sector.

Q. 4 Write a note on the current policy regarding the use of disinvestment proceeds and also justify the same.

Ans. The current policy regarding the use of the disinvestment proceeds are of January 2013. The proceeds of disinvestment proceeds with effect from the fiscal year 2013-14 are credited to the existing 'Public Account' under the head NIF and they remain there until withdrawn/invested for the approved purpose—to be decided by the Union Budgets. Currently, the proceeds are used for the following purposes:

- (i) Subscribing to the shares being issued by the CPSE including PSBs and Public Sector Insurance Companies, on rights basis so as to ensure government ownership in them at 51 per cent.
- (ii) Recapitalization of public sector banks and public sector insurance companies.
- (iii) Investment by Government in RRBs, IIFCL, NABARD, Exim Bank;
- (iv) Equity infusion in various Metro projects;
- (v) Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.;
- (vi) Investment in Indian Railways towards capital expenditure.

Till the Union Budget 2016-17 was presented we find the Govt following the same policy to use the proceeds of disinvestment—using the funds for acquiring new assets (for capital expenditures). The policy looks suitable to the time as capital expenditures have been shrinking due to lower investment coming from the 'debt-stressed' and 'profit-hit' private sector. As the policy is to be decided by the Union Budget, it gives enough flexibility to the government.

Q. 5. Write a note on the official criteria regarding the term 'willful defaulter' and also discuss the regulatory norms which apply on such individuals/ entities.

Ans. There are many individuals/entities who borrow money from lending institutions but fail to repay. However, not all of them are called willful defaulters. As per the provisions of the RBI, a willful defaulter is one who does not repay a loan or liability, but apart from this there are other things that define a willful defaulter –

- (i) Who is financially capable to repay and yet does not do so;
- (ii) Or one who diverts the funds for purposes other than what the fund was availed for;
- (iii) Or with whom funds are not available in the form of assets as funds have been siphoned off;
- (iv) Or who has sold or disposed the property that was used as a security to obtain the loan.

Diversion of fund includes activities such as using short-term working capital for long-term

purposes, acquiring assets for which the loan was not meant for and transferring funds to other entities. Siphoning of funds means that funds were used for purposes that were not related to the borrower and which could affect the financial health of the entity.

If an entity's or individual's name figures in the list of willful defaulters, the following restrictions get in action on them—

- (a) Barred from participating in the capital market.
- (b) Barred from availing any further banking facilities and to access financial institutions for five years for the purpose of starting a new venture.
- (c) The lenders can initiate the process of recovery with full vigour and can even initiate criminal proceedings, if required.
- (d) The lending institutions may not allow any person related to the defaulting company to become a board member of any other company as well.

Q. 6. Briefly discuss the concept 'Divisible Pool' regarding the devolution of resources by the Finance Commission and also highlight the changes which occurred in it in recent times.

Ans. The 'Divisible Pool' is that portion of gross tax revenue which is distributed between the Centre and the States. The divisible pool consists of all taxes, except surcharges and cess levied for specific purpose, net of collection charges. Before the 80th Constitution Amendment (2000), the sharing of the Union tax revenues with the states was in accordance with the provisions of articles 270 and 272, as they stood then. This amendment altered the pattern of sharing of Union taxes in a fundamental way—dropping the Article 272 and substantially changing the Article 270. The new Article 270 provides for sharing of all the taxes and duties referred to in the Union List putting all in a 'divisible pool'. There are some exceptions to it—the taxes and duties referred in the Articles 268 and 269 of the Constitution, together with surcharges and cesses on taxes and duties (referred in the Article 271) and any cess levied for specific purposes—do not fall under this 'pool'.

The new arrangement of tax devolution came as a follow-up to the recommendations of the 10th FC (1995-2005) which the FC termed as the 'Alternative Method of Tax Devolution' (AMD). A consensus between Union and States was advised by the FC for such an arrangement to be effected. States were going to get extra 5 per cent share in the Union taxes in the AMD, thus, a serious demand came from them—ultimately, the AMD was accepted by the Centre. To make the AMD irreversible, the GoI went for the 80th Amendment in the Constitution.

Q.7. Write a short note on the revised liquidity management framework (LMF) put in place recently by the RBI. Also describe the rationale behind this revision.

Ans. In August 2014, the RBI announced a revised Liquidity Management Framework (LMF). Major features of the LMF is as given below:

- RBI started conducting 14-day term repurchase auctions four times a fortnight, up to an aggregate amount equal to 0.75% of the system's deposit base or net demand and time liabilities (NDTL).
- Unlike earlier, RBI has announced a fixed schedule for these 14-day term repo operations, which are used by banks for their day-to-day liquidity requirements. One-fourth of the total amount of 0.75 per cent of NDTLs would be put up for auction in each of the four auctions, RBI said in a statement.
- No change in the amount that banks can access from the liquidity adjustment facility (LAF) window at fixed repo rate of the time. Banks are currently allowed to borrow up to 0.25 per cent of their deposit base or NDTL from the LAF window.
- Additionally, RBI conducts overnight variable rate repo auctions based on an assessment of

- liquidity in the system and government cash balances available for auction for the day.
- The revised policy framework has been put in place to check volatility in the inter-bank call money markets, where banks lend to each other, and also allow the lenders to manage their liquidity needs better. Better interest signaling and medium-term stability in the loan market are other objectives of it.

Q. 8. What are tax-havens and how are they promoting corruption in India?

Ans. 'Tax havens' are nation-states or dominions imposing low or no taxes on personal and corporate incomes, and as a consequence tend to attract wealthy individuals and corporates seeking to minimise their tax liabilities. Other than saving taxes these havens are also used as a safe hub for parking 'black money' created in different countries. As per the data of the OECD, there are at present over 70 such destinations in the world—popular ones are British Virgin Islands, Cayman Islands, Cook Islands, Dubai, Isle of Maw, Liechtenstein, Marshall Islands, St. Kitts and Nevis, Switzerland, Mauritius, US Virgin Islands etc.

The tax havens are promoting corruption in India in so many ways:

- They have emerged safe hubs for parking money earned in India.
- As there are such parking centers, the black money individuals and corporate make in India, are easily hidden with no risk of getting caught.
- Many Indian corporates have their operations in such places which they use for transfer pricing.
- The parked funds get back to India in the form of 'hedge funds' destabilizing the economy.
- As corruption is supposed to be very high in India, even politicians are believed to park their black money.
- They accelerate hawala, bribery etc., in India.

Recently, we have seen some effective actions being taken by the victim nations to unearth their funds parked in these havens such as the USA, Germany and many of the OECD nations. The Government of India has also started such initiatives recently.

Q. 9. Write a note on the present situation regarding current and capital account convertibility of rupee.

Ans. In the Union Budget 1992-93, the liberalised Exchange Rate Mechanism Scheme (LERMS) was announced. Since then, India has always been moving ahead in the direction of greater rupee convertibility, which may be seen as given below:

- In August 1994, rupee became fully convertible in the current account.
- In August 1994, the rupee became partially convertible in the capital account (60:40).
- The current policy regarding the capital account convertibility in India stands as given below:
 - Rupee got full convertibility on Indian corporate's proposal of foreign investment up to US\$ 500 million— put in automatic route approval.
 - Rupee became fully co avertible in case of corporates intending to prepay their external commercial borrowings (ECBs) above US\$ 500 million— automatic route.
 - In May 2015, the government allowed individuals to invest abroad with an upper limit of US\$ 2,50,000 per year.

As India is becoming self-dependent in earning foreign exchange we may hope that in the near future, the government might be announcing rupee's full convertibility in the capital account. India's cautious moves towards full capital account convertibility has been appreciated by the IMF.

Q. 10. What is the term 'balance of payment'? Write a note on recent policies regarding BoP management in India.

Ans. Balance of Payment or BoP is the overall statement of a country's economic transactions with the rest of the world over a period, generally a year. The statement shows receiving from the world and the payments to the world basically shown in the current and the capital accounts. This statement is based on the principles of accounting similar to the balance sheet of a company. It might turn out to be favourable or unfavourable. If it is unfavourable and the economy is incapable to pay it, this is known as a BoP crisis. In such situations, the IMF remains as the last source of rescue.

- India had to rely on emergency operations from abroad to cope up with periodic BoP crises in 1973, 1979, 1981, and 1991. But after the economic reform process started, the situation started to improve.

As India started 'opening up' after 1991, as the part of the external sector reforms, its BoP has become favourable with each succeeding year. Major policies in this direction could be summed up as given below:

- (i) Steps in the direction of opening the economy for healthy levels of foreign investments (FIs)—FDI as well as the (FI Is).
- (ii) Optimum levels of convertibility to rupee in the current and the capital accounts.
- (iii) Accelerated disinvestment of the prospective PSUs, including 'strategic sale' to the foreign bidders, too.
- (iv) Follow up of LERMS (Liberalised Exchange Rate Mechanism System) in 1992-93.
- (v) Modifications in FERA-FEMA
- (vi) Prudential management of the financial market with inputs of the required kind of reforms—money market, banking, insurance, stock markets etc.
- (vii) Required kind of trade policy etc.

Q.11. Write a note on the prospects and challenges to Indian agriculture in the WTO regime.

Ans. As the provision of the WTO came into effect, experts rightly visualised great prospects and at the same time some serious challenges for the Indian agriculture sector. As far as the extent of the prospects are concerned, immense export potential is visible in the following areas:

- (i) Cotton textile, yarn, readymade garments, etc.
- (ii) Agricultural products, cereals, fishery products and forest goods.
- (iii) Processed foods, beverages, and soft drinks. A joint projection of the OECD and the GATT did put an increase in the world merchandise trade by US \$745 billion up to 2005 once the WTO provisions get implemented. As per the projection, 99 per cent of this trade almost falls in the agriculture sector. As India has been an agrarian economy and enough prospects for agricultural expansion are possible, it can encase this opportunity (NCAER survey supported this in 1993-94).

We may see the possible major challenges in the WTO regime:

- (i) Food self-sufficiency: As cheaper food-grains will have unrestricted flow into India, we might become almost dependent upon import supplies for our food requirement—our self-reliance is badly threatened.
- (ii) Price-stability: The price stability aspect of agricultural products, especially the sensitive food grains, will be in great risk as fluctuations in the imports are natural (agriculture being highly prone to weather and climatic variations) hurting the poor people.
- (iii) Cropping pattern: Cropping pattern of India might go in for a major shift in favour of

- (iv) profitable crops threatening the fragile ecosystem and the balance of biodiversity. All the above given challenges could be dealt with the suitable type of timely agricultural and trade policies—but WTO provision does not give such kind of sovereign choices to its member countries. It means we need to go for flexibility in the provisions of the WTO.
- (v) Weaker sections: Weaker sections of the society will again miss the train of globalisation for their upliftment as the process of globalisation is not neutral to area, crop and the individual. We will need a more focused distributive kind of economic policies to do it.
- (vi) Commitments towards the WTO: Our agricultural subsidy cannot cross the 10 per cent mark of the agricultural GDP, any year. Though this is still not alarming, the higher subsidies forwarded by the USA and the EU is diluting the competitiveness of Indian agricultural goods—the 'Blue Box' and the 'Green Box' subsidies need redefinition immediately.

Agricultural provisions of the WTO have always been a matter of great concern for the developing nations and the ministerial negotiations were stalled on several occasions due to them. In the last and the 10th Ministerial Conference of the WTO (Nairobi, Kenya, December 2015), certain consensus emerged regarding the sector— agricultural subsidies to be rationalised by the developed nations; permanent solution for public stockholding of food crops; subsidies to continue on fisheries (Economic Survey 2015-16).

Q. 12. 'Hedge funds and black money in India's economy look intertwined'. Comment.

Ans. Hedge Funds are privately owned huge external funds with swift movement tendencies dedicated to minimise the financial risks of external investments. Every economy with high growth rate as well as a vibrant stock market is a possible destination for it. As per a recent IMF report, such funds together amount to over US\$1,500 billion. Attractive foreign investment policies of the countries are the main reasons for their inflows, provided there is liberal outflow policies too.

In the case of India, these funds have been blamed to generate black money, by the experts. The government has also taken steps to reign them. The main instrument via which these funds look intertwined with the generation of black money in India has been the 'participatory notes' (PNs) through which an FII may invest into India's share/stock market without disclosing the source of the funds to SEBI. Similarly, Overseas Derivative Instruments (ODIs) are other routes frequently used by the 'Hedge funds' to channelize black money into India, which are kept overseas in major tax-havens. Finally, these funds are not only giving Indian black money a legal re-entry, but also a route to finally exit India.

Q. 13. Write a short note on India's policy steps regarding harnessing the 'demographic dividend'.

Ans. There has been a marked decline in the dependency ratio (ratio of dependent to working age population) in India. The ratio fell down from 0.8 in 1991 to 0.73 in 2001 and is expected to further decline sharply to 0.59 by 2014. This decline sharply contrasts with the demographic trend in the industrialised countries and also in China, where the ratio is rising. It is projected that the proportion of population in the working age group (i.e., 15-64 years) in India will increase from 62.9 per cent (2006) to 68.4 per cent in 2026.

Low dependency ratio and a high proportion of the working population gives India a comparative cost advantage, and a progressively lower dependency ratio will result in improving India's competitiveness in the global economy. The Government of India seems fully aware of this advantage and that is why the Eleventh Plan (2007-12) is implementing a three-pronged strategy to tap demographic dividend:

- (i) Ensuring proper healthcare to all,
- (ii) Emphasis on skill development (knowledge industry), and
- (iii) Encouragement of labour intensive industries.

The proportion of economically active population (15-59 years) has increased to 57.7 per cent during 1991 to 2013 (latest National Sample Registration-2013). Projections suggest that the working age group population share will continue rising till about 2035-2040, meaning that India has another 25 years to exploit this dividend (Economic Survey 2015-16). Demographic dividend is an 'opportunity not destiny'—India needs to plan to reap its benefits.

Q.14. What is Double Taxation? Write a current note on the situation of the Double Taxation policy followed by India.

Ans. The situation of double taxation occurs when an individual is required to pay two or more taxes for the same income, asset, or financial transaction in different countries—mainly due to overlapping tax laws and regulations of the countries where an individual operates his business. When an Indian businessman makes a profit or some other type of taxable gain in another country, he may be in a situation where he will be required to pay a tax on that income in India, as well as in the country in which the income was generated. To protect Indian tax payers from this unfair practice, the Indian government has entered into tax treaties, known as Double Taxation Avoidance Agreement (DTAA) with 65 countries, including U.S.A, Canada, U.K, Japan, Germany, Australia, Singapore, U.A.E, and Switzerland. DTAA ensures that India's trade and services with other countries, as well as the movement of capital are not adversely affected. Such agreements are known as "Double Tax Avoidance Agreements" (DTAA) also termed as "Tax Treaties" (TTs). The statutory authority to enter into such agreements is vested in the Central Government by the provisions contained in Section 90 of the Income Tax Act. The Income Tax relief against double taxation is provided in two ways:

- (i) **Unilateral Relief:** Under Section 91, the Indian government can relieve an individual from double taxation irrespective of whether there is a DTAA between India and the other country concerned. Unilateral relief may be offered to a tax payer if:
 - a. The person or company has been a resident of India in the previous year.
 - b. The same income must be accrued to and received 1337 the tax payer outside India in the previous year.
 - c. The income should have been taxed in India and in another country with which there is no tax treaty.
 - d. The person or company has paid tax under the laws of the foreign country in question.
- (ii) **Bilateral Relief:** Under Section 90, the Indian government offers protection against double taxation by entering into a DTAA with another country, based on mutually acceptable terms. Such relief may be offered under two methods:
 - (a) **Exemption methock** This ensures complete avoidance of tax overlapping.
 - (b) **Tax credit methock** This provides relief by giving the tax payer a deduction from the tax payable in India.

In this regard, India articulated the GAAR (General Anti-Avoidance Rule) in 2010 like several other countries i the world. But due to certain reasons, the rules have be postponed several times—the GoI announced to implement it from the financial year 2017-18 (Union Budget 2016-17).

Q. 15. What are tax-havens and how they are promoting corruption in India?

Ans. 'Tax havens' are nation-states or dominions imposing low' or 'no taxes' on personal and corporate incomes, and as a consequence tend to attract wealthy individuals and corporates seeking to minimise their tax liabilities. Other than saving taxes, these havens are also used as a safe hub for parking 'black money' created in different countries. As per the data of the OECD, there are at present over 70 such destinations in the world—popular ones are British Virgin Islands, Cayman Islands, Cook Islands, Dubai, Isle of Maw, Liechtenstein, Marshall Islands, St. Kitts and Nevis, Switzerland, Mauritius, US Virgin Islands, etc. The tax havens are promoting corruption in India in so many ways which may be understood in the following way:

- They have emerged safe hubs for parking money earned in India.
- s there are such parking centres, the black money individuals and corporate generate in India are easily hidden there with no risk of getting caught.
- Many Indian corporates have their operations in such places which they use for 'transfer pricing'.
- The parked funds get back to India in the form of 'hedge funds' destabilizing the economy.
- As corruption is supposed to be very high in India, even politicians are believed to park their black money there.
- They accelerate hawala, bribery, etc. in India.

Recently, we have seen some effective action being taken by the victims nations to unearth their funds parked in these havens such as the USA, Germany and many of the OECD nations. Recently, the Government of India has also started such initiatives.

Q.16. "To build fiscal capacity, it is essential for India to create legitimacy in the state"
Comment.

Ans. Tax reform was an integral part of India's economic reform programme which commenced in 1991. The tax base of India is still not adequate.

To build fiscal capacity the government needs to put in place a better tax regime which is only possible once the government is able to enhance its 'legitimacy' among the citizens—following steps are advisable in this regard (Economic Survey 2015-16):

- The spending priorities of the government must include essential services which are consumed by all citizens. Rai- that matter, action needs on public infrastructure, law and order, less pollution and congestion, etc.
- Reducing corruption must be a high priority. This is needed not just because of its economic costs but also because it undermines legitimacy of the state. The more citizens believe that public resources are not wasted, the greater they will be willing to pay taxes. Improving transparency through efficient auctioning of public assets will help create legitimacy, and over time strengthen fiscal capacity.
- Subsidies to the well-off need to be scaled back. At present, it is estimated to be around Rs. 1 lakh crore. Phasing down these bounties and targeting subsidies for the poor important in strengthening legitimacy.
- Property taxation needs to be developed. As property taxes are 'progressive' they are desirable. It makes more sense because evading this tax is difficult as they are imposed on immovable (non-mobile) assets. This could be good source of funds for the local bodies. Smart cities require smart public finance and for India's urban future a sound property taxation regime will be vital.

The Union Budget 2016-17 has already begun this process—exemption limit for individual income tax has been left unchanged together with a programme to link corporate tax cut and phase out of the exemption regime existing for the companies.

Q.17. Briefly discuss the factors due to which we find a gap between the WPI- and CPI-based inflation in the country. Will this bias always be there?

Ans. A big gap between the inflation based on CPI and WPI is often seen as a cause of concern and confusion. The gap between CPI- and WPI based inflation during 2015-16 had been significantly wide – the WPI-based inflation continues to be in the negative zone for 17 months in a row (from November 2014 to March 2016), while the CPI-based inflation averaged 4.8 per cent during the same period. The gap between the two inflation estimates was as high as 9 per cent in September 2015.

This gap has been there due to the difference in scope, structure and purpose of these two indices which can be understood in the following way (Economic Survey 2015-16):

- The WPI series mainly tracks the movement of producer and bulk transaction prices (at the wholesale level) and its weights are based on the value of output in different sectors of the economy. The is like the 'producer price indices' compiled in other countries.
- The CPI is based on consumer expenditure estimates and tracks inflation at retail level (the prices consumers pay).
- The base years of the two series are eight years apart – the WPI has the base year 2011-12 and CPI has 2011-12 as its base year.
- The weighting diagrams of the two series also vary significantly. The weight of food items is 24.3 per cent in the WPI as compared to 45.9 per cent in the CPI. As the global commodity prices declined (particularly crude prices) during the last one and half years it caused the WPI to decline. While the CPI has negligible weight of petroleum products.
- The CPI consists of commodities as well as services like health and education which are not included in the WPI.
- Once the WPI is revised to a more latest base year, the bias will decline. Similarly, to have lesser gap, India needs to improve the supply chain which is not organised at the consumer level. Again, till there will be asymmetry in the weights of the items and their inclusion and exclusion in the indices, the bias has to be there, but it will go down as things improve.

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