CONTENT

1. Basic Concepts in Economy

The applied science of economics can be broken down into A) Macro Economics which includes macro economic variables like GDP, employment, poverty investment and savings rate, Balance of Payments forex reserves etc. B") Micro Economics which studies the output trends of individual industries, consumer behavior, labour wage etc. C) Meso economics which studies intermediate level of organization of economic activity like institutions, regulatory framework etc. In welfare economics, the focus is on the study of man and human welfare i.e., not just generations of wealth but also its distribution. Keynesian economics of John Maynard Keynes (famous for his work - General Theory of Employment, Interest and Money.of 1936) declares that state should intervene in the economic system when growth slows down. The state should then increase money supply in the economy (an expansionary policy) to stimulate revival of growth. Neoliberal economics is part of Laissez Faire economics and advocates free markets and declares that human well being can be advanced by creating an environment which liberates individual entrepreneurial freedoms and skills within an institutional framework supported by strong private property rights, free markets and free trade. Socialist economics calls for state ownership of means of production to'achieve equality between individuals and groups. This can be done via a centrally planned economy where private ownership is not allowed and economic activity is at the command of the state.

The economy of any country/region is its capacity to produce goods/services. The purpose of economic development and growth is the well being of Mar),.' The production of goods/services and their consumption are basic economic activities. The factors of production are land, labour (including the entrepreneur) and capital. Factor incomes refer to rent of land, wages of labour (including profits of the entrepreneur) and interest paid on capital. The cost of production is the sum of the factor incomes. The activity of economic production, leads to output of goods/ services whose value in monetary terms is income.

Some basic variables of an economic system are :

- **Gross Domestic Product :** The measure of the total flow of goods and services produced in a country or region within the domestic territory, both by residents and non-citizens in a year. It is obtained by valuing outputs of'goods and services, at market prices and then aggregating them. InG.D.P., all intermediate products are excluded and only goods used for final consumption or capital goods are included.
- **Gross National Product:** The Gross Domestic Product plus income to domestic residents from investment abroad minus income earned by foreign investors in domestic market and sent out. That is, it is the production of goods by nationals of a given country both resident as well as non-resident. (Like money earned abroad by Indian investors). G.N.P. is a measure of the national income of a country. It may be noted that the value of output of all units of production is not equal to national income because the output also includes intermediate goods which are used to produce goods for final consumption. While GDP focuses on location of production, GNP focuses on who produces it. In an open economy where more number of its citizens carry out economic activity abroad compared to non-citizens working within that country, the GNP is larger than GDP.

  (a) GNP by Income Method : It takes into account all incomes (including wages, rents, profits etc.) which result from the production of goods and services and hence excludes incomes like pensions.

  (b) GNP by Output Method : It adds the value of all outputs from mining, manufacturing, construction, transport and also output of services like public administration and banking. It only takes into account the net value of output i.e., excludes the value of raw materials. It also excludes the income earned from Indian investments abroad.

(c) **GMP by Expenditure Method :** It adds up all expenditure on goods and services in a year by its people. It takes into account only final expenditure i.e., excludes expenditure on intermediate goods. It excludes investment income from abroad.

Note : GNP by Income Method and GNP by Output Method give GNP at Factor Cost while GNP by Expenditure method gives GNP at market prices. GDP at factor cost includes subsides but excludes the value of indirect taxes). While GDP at market price includes indirect taxes but excludes government subsides.

- **Gross National Product at Factor Cost :** gnp at market prices minus all indirect taxes.
- **Net National Product :** This is Gross National Product minus Depreciation. Depreciation is the amount of output (usually denoted in monetary terms i.e., amount' of capital generated from the output) that is kept aside as investment to maintain the productive capacity of the plant and machinery so that the productive capacity remains the same. Hence depreciation is not part of disposable income. Depreciation :is also called .Capital Consumption Allowance. Note : Net National Product at factor cost is equal to Net National Product at market prices minus net indirect taxes (Net indirect taxes is equal to total indirect taxes minus the value of subsidies)
- **Per Capital Income :** Net National Product divided by total population of a country.
- **National Income :** Net National Product minus indirect taxes.
- **Nominal National Income :** This is national income at prevailing market prices but not at prices of the base year. Base year is any year with normal trends of production i.e., an year with neither overproduction nor underproduction.
- **Total Factor Productivity :** This is.the output of an economy from each unit of labour used. It is an index of productivity of all factors of production.
- **Economies of Scale :** This is reduction in the average cost per unit of output as the size of production goes up.
- **Capital Output Ratio:** This shows the relationship between the value of capital (including the value, of the factors of production) versus the value of output. It is a measure of the productivity of the economy.
- **Incremental Capital Output Ratio (ICOR) :** This is a ratio of additional units of capital required to raise the production by one unit. It measures the efficiency of the production process.

Green GDP: This is. estimate of GDP after considering the value of loss of ecosystem resources like forests, soil, water and also taking into account the value of loss of ecosystem services in the course of producing goods/services.

Real Vs Nominal GDP - Real GDP measures change in output with respect to a reference .period. Nominal GDP measures change in output as well as change in prices of goods/services compared to a reference year.

Net Factor Income from Abroad (NFIA) : The difference between income from Indian citizens abroad and income of foreign citizens working in India.

Genuine Progress Indicator (GPI) : It is based on concepts of green economics and welfare economics and has been suggested as an alternative to GDP to measure economic growth.

GPT seeks to measure whether a country's economic growth has actually improved the well being .e. welfare of its people.

Gross National Happiness (GNH): A concept advocated by the former king of Bhutan Jigme Singye Wangchuk in 1972. The GNH is based on the argument that true development is one where material and spiritual development proceed simultaneously. GNH seeks to capture this development by measuring

- Equitable and sustainable socio-economic development
- Preservation and promotion of cultural values
- preservation of natural ecosystems and
- establishment of good governance.

The PQLI (Physical Quality of Life Index): This was developed by Morris in the 1980 s. The indicators used are life expectancy at age one, infant mortality and literacy. For each indicator, the performance of individual countries is rated on a scale of 1 to 100 where lower scores indicate a poor performance and higher scores a good performance. For life expectancy, a value of 77 gets a score of 100 and a value of 28 gets a score of one, for infant mortality the value of 9/1000 gets a score of 100 and a value of 229 gets a score of one and for literacy rates, they are measured in percentages from 1 to 100 and these percentages are directly included in. the scale of literacy. Though a correlation between GDP/GNP and PQLI is not very close, yet countries with low GDP tend to have low PQLI scores.

Recession and Depression: According to economic theory, recession is a condition of contraction of GDP i.e. negative GDP growth for two successive quarters. Depression is a prolonged depression where the GDP contracts by at least 10%. According to Keynesian economics, a recession is due to aggregate fall in demand and hence Keynesian economics calls for state spending on a v large scale to provide stimulus to revive the growth.

Classification of Economies

Economies in Transition : These are emerging economics Iifaj&India, which are characterized by rapid economic growth, transformation from agricultural economies to industrial economies, increasing open market economy characterized by liberal two way movement of FDI, and increasing globalization of their industries.

Least Developed Countries: The UN developed criteria to define LDC's in 1971 and there were 25 LDC's in 1971 rising to 48'now. As per the UN criteria, an LDC a) Is a low income country whose 3-year average per capita Gross National Income is less than 905 US dollars 2) is economically vulnerable and 3) has weak human development based on indicators of nutrition, health, education and adult literacy. Only 3 countries could lift themselves out of the LDC status - Botswana, Cape Verde and Maldives.

G.D.P. and Purchasing Power Parity (PPP): An economy can be measured on the basis of GDP or Purchasing Power Parity (PPP). In the GDP measure, the domestic GDP is converted into GDP in US dollars. Purchasing Power Parity uses inter-country differences in prices. It compares the ability of a local currency to buy a fixed unit of goods in the domestic economy with the ability of the US dollar to buy the same unit of goods in the U.S. economy. India ranks higher on the basis of PPP rather than GDP.

Problems in G.D.P. : Only items entering into the exchange economy are part of G.D.P. ^ Hence : 1) It does not include goods and services that are of a subsistence' nature which do not enter the exchange economy (for e.g., a farmer's output for personal consumption). Hence G.D.P. understates economic position of a Developing Country. 2) Does not include non-monetary satisfactions. 3) G.D.P. makes no distinction between socially productive / useful growth and undesirable growth. 4) G.D.P. growth may sometimes create a false sense of growth.

Human Development : A concept that assesses the impact of economic growth and JJI development not only in terms of the improvement in the material well being of the society but also in terms of improvement in human capabilities (like literacy, health and longevity) and also in terms of the qualitative impact of economic growth (like the equity or lack of it in the distribution of benefits of economic development, and the impact of economic development on creating human capabilities in terms of knowledge, capacity to be healthy and the capacity to be productive).

Human Development Index : A qualitative and a quantitative measure of economic development. Developed by UNDP in 1990, its three components are: Life Expectancy; GNP in US dollars (or per capita GNP in US dollars) and Literacy. India ranks as medium in human development.

Gender Development Index (GDI) : it seeks to assess the opportunities available to women. It measures the same three components oftheHDIbut after adjusting for the inequalities between men and women.

The GDI was included in the Human Development Report of 1995.

Capability Poverty Measure : It assesses the lack of capabilities in a society. It's components are:

- Percent of children under 5 years of age who are underweight.
- Number of births unattended by.trained persons.
- Percent of women above 15 years of age who are illiterate.

Human Poverty Index : It was dveloped by the UNDP in 1997. It's 3 indicators are longevity, decent standard of living and knowledge. It assesses these indicators by measuring :

- Percent of children under 5 years of age who are underweight.
- Percent of population without access to safe drinking water and health services.
- Percent of adults who are illiterate.
- Percent of population dying before the age of 40 years.

Indian economy is the 10th largest in terms of nominal GDP and 4th largest by PPP. But on per capita income basis, India economy ranks 140th based on nominal GDP per capita. India is the 19th largest exporter and the 10th largest importer in the world in 2011-12.

COMPOSITION OF GDP/ SECTORS OF INDIAN ECONOMY

The sectoral composition of any GDP is in terms of 1) The primary sector which includes agricultural proper, forestry and fishery and, mining / quarrying. 2) The secondary sector which includes manufacturing, construction and, electricity, gas and water supply 3) Tertiary sector which includes services, trade/hotels/ restaurants, finance, real estate and insurance, transport, storage and communication.

Sectoral Changes in the Indian Economy: As a result of planned economic development, the sectoral composition of India's GDP has undergone fundamental changes. Before India started economic planning, the primary sector contributed the greatest to India's GDP followed by the secondary sector and the tertiary sector. India today mimics a developed economy in terms of the sectoral composition of the GDP. This transformation is brought out in the following table

	Year	Agriculture	Industry	Tertiary Sector
1.	1950-51	53.1	16.6	30.3
2	1960-61	48.7	20.5	30.8
3	1970-71	42.3	24.0	33.8
4	1980-81	36.1	25.9	38
5	1990-91	29.6	27.7	42.7
6	2000-01	22.3	27.3	50.4
7	2010-11	14.5	27.8	57.7

These trends displayed bv India's economy are a result of the following factors: Planned economic development focused investment on manufacturing and certain crucial areas of the tertiary sector like transport and communications, banking and insurance and also India's foreign trade. In addition, the massive expansion of public administration and the defence sector also contributed to the growth of the tertiary sector. However, manufacturing could not become dominant in terms of its share in India's GDP because of the trend of Indian industry to become capital intensive. Increase in public investment, particularly in infrastructure, increase in the investment rate in the Indian economy due to high level of gross domestic savings. The liberal policies that were started in the sixth five year plan (1980-85) which' involved policies on industry and trade. The economic reforms that were initiated in 1991-92 wjiich deeply liberalised policies on trade, industry and the services sector also are important .factors.

Major Trends in Structural Transformation:

1. The growth rate of the Indian Economy decisively broke out of the Hindu Growth Rate era beginning in_the 6th.5 year plan. As the following table shows, the GDP growth rate till the sixth 5-year plan (1980-85 was the period of the 6th 5 year plan) was well below 5% but decisively crossed above 5% growth in the 6th 5 year plan. The factors for this are
   (i) The capital stock added to the Indian economy, particularly in the industrial economy, due to sustained and focused plan investment in the earlier plans began -to yield returns.
   (ii) The expansion of industrial'arid infrastructural activity accelerated the growth of the tertiary i.e. the services sector of the economy.
   (iii) The plans also focused on development of physical and social infrastructure much more beginning in the 6th 5-year plan leading to faster industrial and services sector growth.
   (iv) The growth of public administration and trade, transport and communications increased the overall pace of economic growth.
2. Faster growth of the economy and per capita income in the period of economic reforms is an importantjeature in the structural transformation of the economy. The GDP growth averaged^576% per anum (pTaTJln the period 1991-2001 and between 2001-2011 it recorded a compound average growth rate of 7.5% p.a. Within this period of 2001-11, the fastest growth period was 2003-04 to 2010-11 when the GDP grew by 8.5% p.a. on an average. In this period the per capita income increased by nearly two-third. In fact, the per capita income recorded a 3-fold increase in the 10 year period 2000 to 2010. This per capita income doubled between 1950-51 to 1991-92 i.e. almost took 40 years to double but it tripled over just 10 years in the period of economic reform. The per capita income of India in 2011 was 1Q75 dollars. The rapid growth of the Indian economy in the period after economic reforms were initiated in 1991-92 is possibly due to
   (i) dynamism of the private sector in economic activity.
   (ii) increasing integration of the Indian economy into the global economy due to increased role of India's foreign trade and liberal receipt of FDI by India.
   (iii) The rapid growth of the tertiary sector particularly due to rapid growth of communications, transport and financial services.
   (iv) Development of infrastructural sectors.
3. Increasing importance of foreign trade in the Indian economy. The period after economic reforms has improved the share of foreign trade in India's GDP. For e.g., exports accounted for 6.3% of India's GDP in 1990-91 rising to 16% in 2010-11. Similarly imports accounted for 8.5% of GDP in 1990-91 rising to 23.5% in 2010-11. This clearly demonstrates the growing importance of the external economy of India.
4. Increasing share of direct tax revenues of the state is also a significant feature of Indian economy's structural transformation. For e.g., direct tax revenues of the state have increased by 15 times in thel5 years before 2012.

Trends in GDP Growth Rate :

Years	1951-61	1961-71	1971-81	1981-91	1991-01	2001-11
GDP Growth Rate	3.9%	3.7%	3.2%	5.4%	5.6%	7.5%
Years	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
GDP Growth	6.7%	8.4%	8.4%	6.9	6.2%	5.0%

(in percent, at 2004-05 prices)

Implications Of These Structural Changes : Though the share of agriculture has come down very sharply in India's GDP, its share in the employment of labour force has not come down proportionately. The occupational structure in Indian economy has therefore not shown any significant change. This implies that number of people in the agricultural sector are increasingly sharing lesser and lesser national income. Manufacturing accounts for only one-tenth of all labour force. Hence benefits of industrial development are accruing to smaller number of people directly, though it has been contributing to the growth of the services sector. The fastest growing areas among the services sector are community / personal and social services followed by financial services. These do not contribute much to the economy as capital creation. In addition, the services sector also does not account for much of the labour force. Hence less number of people have begun to share more and more of the national income.

Negative Features in the Structural Transformation: Though Indian economy has decisively moved into the high growth orbit, there are some concerns in this transformation. These are briefly 1. Increasing income inequality in India. According to some estimates, income inequality doubled in the 20 years between 1990-2010. This is possibly due to lesser and lesser share of a larger workforce employed in agricultural sector whose relative share in India's GDP has sharply come down in the recent decades. In addition, the share of the tertiary sector has increased very sharply in the recent decades but the workforce employed in the services sector is not as large as in the agricultural sector. 2) There has not been a significant shift in the occupational structure of India's workforce as the agriculture sector still accounts for around 52% of the workforce. Hence industrial sector has not been able to create large employment opportunities though the sector has registered an impressive growth in the period of economic reforms. 3) Though the overall value addition in the Indian economy has increased significantly, there is inadequate value addition in many industrial sectors, in exports of India and also in agriculture.

SERVICES SECTOR

This constitutes the tertiary sector of the Indian.economy. The growing importance of services sector is reflected in a series of facts. For e.g., services exports have been growing at 30% per anum (p.a.) while goods exports have been growing at around 20% to 25% p.a. The services sector has been helping in the growth of infrastructure as construction and real estate have been growing at around 10% p.a. It is the rapid growth rate of the services sector which has been responsible for the high growth rate of the, Indian economy in the 10th and 11th 5-year plans. It has also been contributing to growth of employment. For e.g., according to the 61st National Sample Survey, for every 10% increase in the value added in manufacturing, employment increases by 3.8%, while in the sub-sector of trade, hotels and restaurants, of the services sector, the employment grows by 6%, and by 9.4% in the sub-sector of real estate, insurance and finance. It may be noted that the increasing importance of the'services sector increases the resilience of the Indian economy because of increasing diversification. Today the services sector accounts for roughly 25% of the workforce within which the biggest employer is transport, storage and communication followed by hotels and restaurants and community', social and personal services.

The share of services in India's foreign trade increased from 3.3% of GDP in 1990 to 9% of the GDP in 2011. In fact, IT and ITES exports account for one third of India's exports today. Within services, construction, housing, real estate have been growing at a faster pace. The growing importance of the services sector in 'the Indian economy has mixed implications. For e.g., it has been accelerating the growth rate including increasing contribution to exports. It also reflects diversification of the economy. It has also made an impact on poverty and unemployment. However, it has worsened inegualities in distribution of wealth because it accounts for 25% of workforce but makes up 59%pf the GDP. The rapid growth of the sector also leads to misallocation of investible resources. In addition, some sectors of the services economy have a high COR compared to industry and hence investment is going into capital intensive sectors. In addition, a few sub-sectors in the services sector do not add much to the capital stock of the economy.

Reasons for Growth of Service Sector: 11 rapid growth of India's foreign trade 2) significant receipts of FDI 3) high growth rate of manufacturing 4) rapid growth of the services sector. The lower contribution of industry was due to its lower share in the GDP. Services exports have been growing at the rate of 30% per annum against goods exports which have been growing at 25% per annum. The rapid growth of the services sector is because of factors such as 1) rise in wages 2) rapid growth of sectors like IT/ITES and telecom 3) large receipts of FDI 4) significant growth of India's foreign trade 5) rapid growth of manufacturing has created demand for a large number of services.

The Negative Implications of the Growing Importance of the Service Sector: It is worsening income inequalities as the sector accounts for around 59% of the GDP but only 25% of the workforce. It also leads to faulty pattern of investment as more investment flows into the services sector because of its rapid growth. Some sectors of the services sector like non-financial services have a high COR compared to manufacturing hence leading to investment in capital intensive sectors. In addition, unlike agriculture and manufacturing, the service sector also does not add so much to the capital stock of the economy

GDP AND OCCUPATIONAL STRUCTURE OF WORKFORCE : Though the share of agriculture in India's GDP has come down very sharply from around 50% of India's GDP in 1950-51 to around 14% today, there has not been any significant change in the occupational structure of the workforce. Agriculture still accounts for around 52% of India's occupational workforce. Hence the occupational structure of the labour force did not undergo a major shift along with a shift in the sectoral contributions to the GDP because : a) Inadequate "increase in agricultural productivity which could have created entrepreneurs from a prosperous agriculture, b) Development of capital intensive industry, c) Inadequate rural industrialisation which could have absorbed workforce from the farm sector, d) High rate of growth of labour force due.to high rate of growth of population. Note : The only change in the occupational structure within the agricultural sector was a decline in the proportion of cultivators and a consequent increase in the proportion of agricultural labour.

CHARACTERISTICS OF THE INDIAN ECONOMY

The following are the characteristics of the Indian economy as a developing economy:

1. Low per capita income.
2. The occupational pattern is dominated by the agricultural sector. Agriculture accounts for around 14% of GDP and 52% of the workforce.
3. High growth rate of population. Growth rate of population as per 2011 census is 1.64% p.a.
4. High incidence of unemployment and underemployment. This is due to rapid growth of population, and hence the more rapid growth of labour force than the growth rate of the economy.
5. Low rate of capital formation. Capital formation is indicated by the level of investment.
6. Inequality in the distribution of assets.
7. Poor quality of human capital. This is reflected in
   (i) the high levels of illiteracy. Low levels of literacy are due to poverty and inadequate expenditure of the state on education.
   (ii) High levels of undernourishment and malnourishment.

   The demographic characteristics of under-development in India are :

   (i) High infant mortality rates.
   (ii) High growth rate of population.
   (iii) Large percent of population in the age group of 0-15.
   (iv) Adverse sex ratio.

PRIMARY SECTOR-AGRICULTURE

Importance in the Indian Economy : The following bring out the importance of agriculture in the Indian economy.

1. Contributes around 14% to the GDP.
2. Accounts for 52% of the labour force.

3. Supplies bulk of the wage goods to the non-farm sector.
4. Meets requirement of industrial raw material.
5. Generates demand for industrial goods and helps in industrial growth.
6. Has a low ICOR compared to other sectors. Agriculture in India witnessed rapid growth due to the Green Revolution. The Green Revolution was introduced under an experimental project in 1961 as Intensive Agriculture Development Programme (IADP).

Benefits Of Green Revolution : It led to expansion of area under High Yielding Varieties (HYV) of seeds, expansion of irrigation, growth of fertiliser, agri-chemical industry and seed industry, growth of banking sector in rural areas to extend credit to the farm sector and expansion of rural electrification.

Impact of Green Revolution: It led to self-reliance in India's foodgrain output, increased the value of agricultural sector, led to a sharp rise in the productivity of the farm sector, helped the growth of a rural entrepreneurial class who became industrialists, increased employment in agriculture and helped in the decrease of seasonal unemployment in Green Revolution regions. The crops which benefited due to the Green Revolution are rice, wheat, bajra, maize, sugarcane and potato.

Trends and Crisis in Indian Agriculture :

The following table shows the trends in agricultural growth rate.

Year	Growth Rate of Agriculture
1999- 2000	2.67%
2000- 2001	0.25%
2001-2002	6.25%
2002- 2003	7.24%
2003- 2004	9.66%
2004- 2005	0.05%
2005- 2006	5.14%
2006- 2007	4.16%
2007- 2008	5.8%
2008- 2009	(-) 0.15%
2009- 2010	0.44%
2010-2011	5.41%
2011-2012	6.2%
2012-2013	1.8%

Factors for Crisis in Agriculture :

1. Development of capacity and capital in India's agriculture has been slow and has been adversely affected by a sharp fall in investment in the sector. Total investment in the sector has fallen from 7.07% of the agro GDP in 1976-1980 to around 6.69%'of agro GDP today. Declining investment has slowed down addition of capital stock to agriculture arid hence slowing down agriculture growth rate.
2. Inadequate development of livestock sector as it accounts for only 32% of agro GDP.
3. Inadequate modernization which is reflected in low chemical use like pesticide / fertilizer (for e.g., in India pesticide use is 0.33% kg per hectare while it is 15 Kg/ha in USA, UK and Canada) and also in the fact that only 49% of cultivated land is irrigated. Around 350 million hectare meters of rainwater flows wastefully into oceans from India's landmass.
4. Inadequate availability of credit to agricultural households.
5. There is grossly inadequate development of the backward linkages like storage / warehousing, grading facilities, extension services.
6. Inadequate development of food processing industry. This is reflected in the fact that only 11% of agro produce is processed (as of 2009).
7. The problem soils in agriculture have been increasing. This has sharply cut into the yields.
8. Area under food crops has bee- coming down sharply.
9. Average growth rate of GDP in agriculture and allied sectors hascoe down from 3,6% p.a. in 81-91 to 2.7% in 91-2001 and further declined to around 2% per annum in the last decade.
10. The growth of agro output in the 8th Plan was 4.7%. In the 9th plan, the growth of agricultural output fell to 1.2% i.e., fell below the population growth rate.

The sharp fall is due to the sharp fall in the yield growth rate (from 2.6% p.a. in the 80's to 1:t p.a. in the 90's). Low productivity is due to the small size of holdings. The small size of holdings impedes application of modern inputs and also adoption of scientific land, soil and water management practices.

11. Land reforms, particularly consolidation of holdings and distribution x of land to the landless, have failed. This is clearly seen in facts like
    (i) Only 4.9 million acres were distributed in 60 years of independence
    (ii) Small size of holdings (holdings below 2 ha) make up 63% of all holdings. Failure of land reforms have impacted on security of agricultural households and modernisation of the farm sector.

12. The share of agriculture in India's GDP has come down to around 14% in 2011-12 but it still accounts for nearly 52% of the occupational workforce. Hence poverty in agricultural households has intensified.

Year	**Population Growth Rate (%)**	**Food grain Growth Rate (%)**
1961-71	2.24	2.83
1971-81	2.33	1.8
1981-91	2.16	3.13
1991-2001	1.95	1.1
2001-2011	1.65	.1.03

Trends in Foodgrain Output

Year	2005-06	2006-07	2007-08
2008-09	2009-2010	2010-2011	2011-2012
Output	208.6 m.t.	217. 28 m.t.	230.78 m.t.
234.47 m.t.	218.11 m.t.	244.78 m.t.	257.44 m.t.

(in million tonnes)

(Advance estimates)

Pricing Policy : The Commission on Agriculture Costs and Prices (CA.CP) determines the support price and procurement price for 25 crops. Minimum Support Price (MSP) - is the price at which the government of India buys grain from the farmers if. the market price of the grain drops below the MSP. Procurement Price - is the price at which the government of India buys grain from the farmers voluntarily to meet the requirement of buffer stocks and the public distribution system.

Employment Structure in Agriculture : Full employment in agriculture is 270 days (at the rate 8 hours a day). Punjab and Haryana provide full employment in farm sector. Unemployment and under-employment in agricultural sector is highest in U.P. followed by Bihar, A.P., and Tamil Nadu.

Size of Agricultural Holdings :

- **Marginal Holding :** This includes holdings below 1 3 hectare. This group covers 15% of all agricultural land.
- **Small Holding :** This includes holdings which are between 1-4 hectares. This group covers 41% of the total agricultural land.
- **Medium Holdings :** This group includes holding between 4-10 hectares. It accounts for 27% of the total agricultural area.
- **Large Holdings :** This group includes holdings which are 10 3 hectares and above. It accounts for 17% of the total agricultural areci. Studies have shown that the number of small and medium holdings had increased and account for a major percentage of all holdings. The states with the largest average size of holdings in the descending order are:
  (i) Rajasthan
  (ii) Maharashtra
  (iii) Gujarat
  (iv) M.P.

NAFED : This stands for National Agricultural Cooperative Marketing Federation of India Ltd. It 5 the apex cooperative organisation at the national level. It deals in procurement, distribution and export / import of select agricultural commodities. It also promotes inter-state trade and export trade in farm produce. NAFED is the central nodal agency to undertake price support operations for pulses and oilseeds.

Credit for Agriculture : The Primary Agricultural Credit Societies (PACs) provide short term and medium term loans to farmers. The average membership of a village level PAC is around 14000. The Land Development Banks. These provide long tem credit.

The structure of LDB's is, at the state level are the State Cooperative Agricultural Rural Development Banks (SCARDBs) and at the lower level, the Primary Cooperative Agricultural Rural Development Banks. The main function of the LDB's is to grant loans on the security of agricultural properties. The rural branches of commercial banks and the Regional Rural Banks provide both short term and long term loans to the agricultural sector.. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance to all the agencies mentioned above. In rural areas the cooperative credit structure is as follows: 1. At the lowest level are the Primary Agricultural Credit Societies (PAC's). These give loans for short periods of time on soft terms. Since 1970, the commercial banks are making funds available to the PAC's. 2. At the next level are the District Central Cooperative Banks. These are federations of PACs. Their main task is to fund PAC's. .3. At the highest level are the State Cooperative Banks. They control the working of District Central Cooperative Banks and finance them and also provide funds to PAC's.

National Agriculture Insurance Scheme (The New Crop Insurance Scheme) : A new agriculture insurance scheme was launched in 1999. This replaced the Comprehensive Crop Insurance Scheme launched in 1985. The chief points about the new crop insurance scheme are :

1. It will provide insurance cover" to all crops - both food and cash crops.
2. Insurance cover is available to loanee as well as non-loanee farmers. However, the insurance scheme is optional for non-loanee farmers but compulsory for loanee farmers (i.e., those who have availed credit from banks).
3. No ceiling on insurance cover.
4. Insurance claims and financial liability on account of premium subsidy to be shared equally between the centre and the states.
5. The funds under the scheme to be equally contributed by the centre and the states.
6. An Indian Agriculture Insurance Corporation has been set up to manage the scheme.
7. It will be based on the area approach. That is, all the farmers in an area affected by a calamity will be entitled to insurance claims.

Weather Based Crop Insurance Scheme (WBCIS) : This was introduced in 2003 Kharif on'a pilot basis in some states. The weather Based Crop Insurance Scheme (WBCIS) aims to reduce the hardship of the insured farmers against the likelihood of financial loss on account of anticipated crop loss due to adverse weather conditions like drop in temperature, abnormally high temperature or humidity, high wind speeds etc. Weather based crop insurance is built on the fact that adverse weather.conditions affect crop production even when a cultivator has taken all the care to ensure a good harvest. Payout structures are developed to compensate cultivators to the extent of losses deemed to have been suffered by them (based on correlation of crop yields and weather parameters). In India, WBCIS operates on the basis of the area approach, (i.e., for the purpose of compensation, a reference unit area is deemed to be a homogenous unit of insurance). The reference unit area is notified by the state government before the commencement of the seasonTThe sum insured is pre declared per unit hectare by the AIC at the beginning of the crop season (and could be different for differentorops). Premium rates depend"on the expected loss which in turn depends on patterns of weather parameters for a historical period of 25-100 years in the context of ideal weather requirements of a crop. However, the premium rates are limited for the cultivator, and the premium rates beyond the cap are shared by the centre and states on a 50:50 basis. The scheme is open to loanee and non-loanee framers, tenant farmers and also share croppers It is implemented by Agriculture Insurance Company of India Limited (AIC).

The New Agricultural Policy : The New Agricultural Policy announced in 2000 aims at a growth rate of 4% per annum,for the agricultural sector. Its major objectives are:

1. A growth rate of 4% per annum for the agricultural sector.
2. Efficient use of resources and conservat of of soil, water and biodiversity.

3. Growth with equity i.e., growth which is widespread across 'eg c-s and farmers.
4. Agricultural exports to be promoted.
5. Agricultural growth to be sustainable technologically, environmentally and economically.

Objectives:

1. An agricultural grov.th case; an efficient use of resources and widespread growth across regions and farmers.
2. A demand driven growth.
3. A growth that is technologically, environmentally and economically sustainable
4. Agricultural growth to.be 4% per anum.

Features:

1. Conjunctive use of surface and subsurface water.
2. Measures to be taken to reduce biotic pressure an land.
3. To control indiscriminate conversion of agricultural land to non-agricultural use.
4. Unutilised wastelands to be put to agricultural use and afforestation.
5. Shift of government policy from support measures to agriculture to a policy of asset formation in agriculture.
6. To restructure National Seeds Corporation and State Farms Corporation of India for efficient utilisation of investment and manpower.
7. Liberalisation of domestic agricultural market and all controls/regulations, to increase income of farmers. Restriction on movement of agricultural products to be gradually removed.
8. Private sector participation in agriculture to be encouraged (like contract farming/land leasing arrangements) for technology transfer and developing markets for crops.
9. Promote private sector investment in agriculture like agricultural R&D, marketing and post-harvest management.

Criticisms:

1. Too many priorities simultaneously
2. Does not spell out strategies to reach the goals like for e.g., the contribution of various inputs like seeds, fertiliser, irrigation for attainment of the growth rate of 4% for the agriculture sector from the present 2% p.a., has'not been worked out.
3. The policy does not address the disturbing trends that have emerged in Indian agriculture (like decrease in size of holdings, fluctuation in price of products, inadequacies in the extension system, inadequate credit and the fact that share of public investment in agriculture has been coming down).
4. The risk factor in Indian agriculture (the monsoon factor for example) has not been taken into account while setting the high growth rate.

National Policy on Farmers - 2007 : The National Commission on Farmers was set up under th chairmanship of M.S. Swaminathan in 2004. It submitted its final report in 2006. The National Policy on Farmers was framed based on its recommendation in 2007. The main points are

1. Focus on human dimension i.e. the economic well being Of farmers rather than just on production and productivity. This will be the principal determinant of the policy on farmers
2. To promote asset reforms among farmers to ensure that every man and woman in villages, particularly the poor, either posses or have access to a productive asset
3. To promote awareness and efficiency of water use by maximizing yield and income per unit of water in all crop production programmes
4. To implement a drought code, a flood code and a good weather code in drought prone and flood prone areas and arid areas respectively to maximize benefit from monsoon arid also be prepared for likely contingencies
5. use of modern technologies to enhance productivity per unit of land, water, particularly bio-tech, ICT and renewable energy technology to launch an evergreen revolution.
6. A national agricultural bio-security system to be set up to organise a coordinated agricultural bio-security programme

7. To promote use of good quality seeds including disease free planting material particularly to raise small farm productivity
8. To develop support services for women in farms like creches, child care centers and provision of nutrition
9. Credit counseling centers to be established in areas with severe farmer indebtedness to enable them to come out of the debt trap
10. A comprehensive national social security scheme for farmers to be implemented to ensure livelihood security, to provide for insurance cover on account of old age, illness etc
11. The minimum support price to be implemented effectively to ensure remunerative prices for agro produce
12. The market intervention scheme (a scheme of Department of Agriculture and Cooperation where on request by state governments, there is procurement of horticultural and agriculture commodities of a perishable nature which are riot covered by the minimum support price mechanisnn) to be. strengthened
13. Setting up farm schools to promote farmer learning and strengthening farmer learning and strengthening extension services, setting up of Gvan Choupals in villages, to use ICT for farmer services and setting up community foodgrain banks
13. To promote the establishment of a single national market by relaxing controls on inter-state and intra-state movement of agro-produce
14. expanding the grain basked of the PDS to include nutritious crops like bajra, jowar, ragi etc. and
15. setting up.a cabinet committee on food security. The policy to be implemented by the National Commission on Farmers set up in 2004.

The National Food Security Mission : This was launched by the Department of Agriculture and Cooperation, Ministry of Agriculture. It will be a centrally sponsored programme to increase the production of rice, wheat and pulses by 10, 8 and 2 million tonnes respectively over the existing levels by the end of the 11th 5-year plan. This will be achieved through area expansion, increase in productivity, restoring soil fertility, creating employment opportunities and enhancing farm level economy. The mission seeks to distribute quality seeds of HYV and hybrids, popularizing newly developed varieties, increase support for micronutrients and farmer training. The identified districts will enjoy flexibility to adopt any local area specific intervention as part of the strategic Research and Extension Plan prepared for t|ne identified districts. Each district will get 2 crore in the 11th plan for two or more crops identified in the mission i.e., from rice, wheat and pulses and 1 crore for any one of the two crops. The total outlay in the 11th plan is 4882 crore and it is being implemented in 312 districts of 17 states.

HORTICULTURE : Horticulture covers a group of crops such as vegetables / fruits, plantation crops, aromatic and medicinal plants. The horticulture sector contributes roughly 25% of agro- GDP from around only 8% of the cultivated area. It provides nutritional and livelihood security, helps in poverty alleviation ‘and employment generation. India is 2nd in the world output of fruits and vegetables. India is blessed with both tropical and temperate climates which are well suited for horticulture and plantation crops. In addition, these crops,can be raised on marginal and degraded lands which are unsuitable for other crops. The thrust in horticulture development is expanding area, improving productivity, reducing cost of production, extending marketing support, developing cold chains and strengthening credit and organizational support.

Importance :

1. Increases supply of nutritive foods like fruits / vegetables.
2. Improves rural economy by generating employment / income, particularly for the small and marginal farmers.
3. Contributes to foreign exchange without much liability on the import front.

Measures Taken : Horticultural Board set up in Gurgoan in 1984 to promote the integrated development of horticulture industry. The National Horticulture Mission seeks to facilitate the holistic development of horticulture by promoting latest technologies including providing good quality planting material , promoting organic farming including development of post-harvest technology and management, marketing support and developing processing facilities. The cluster approach under the mission is to help in the establishment of food processing units for fruits and vegetables. The government has launched two centrally sponsored programmes:

1. The Technology Mission for Integrated Development of Horticulture in Northeastern states and Sikkim in 2001-02. This has been extended to the Himalayan states of J & K, Himachal Pradesh and Uttarakhand in 2003-04.
2. The National Horticulture Mission was launched in 2005-06 in the remaining states. In 2006-07, development of modern terminal markets has been introduced as a new component in the National Horticulture Mission.

The National Horticulture Board is implementing many programmes to reduce post harvest losses. A capital investment scheme called Gramin Bhandaran Yojana for construction and renovation of rural godowns is being implemented. The Vishesh Krishi Upaj Yojana has been launched to promote export of fruits / vegetables and flowers besides minor forest produce, and their value added products. This providesifor duty rebates. The 11th plan proposed to set up 30 mega food parks which will have state of art technology and supply chain for food processing units linked to them. These will be state owned.

National Horticultural Mission (NHM) : This aims at holistic development of horticulture by using latest technologies (including production / supply of good quality planting material through tissue culture, expansion of area with improved plants, rejuvenation of senile orchards, organic farming, integrated nutrient management and development of post - harvest management and marketing).

Vision 2015 for Food Processing Industry : This was launched at 2005 to increase the level of food processing of perishables from 6% to 20% and to increase value addition of perishables from 20% to 35% by 2015. The vision also seeks to improve share of India in global food trade from 1.6% to 3% and to increase processing of fruits and vegetables to 15%. The 11th plan programmes for giving a thrust to food processing industry include.

1. Mega Food Park Scheme with an outlay of 1575 crore.
2. Modernization of Abattoirs with an outlay of 825 crore.
3. Development of Integrated Cold Chain Facilties with an outlay of 210 crore.

Loan Waiver Scheme : This was a major initiative to reduce the distress of indebted farmers, particularly the small and marginal farmers. This was announced in 2007. Under the scheme, all loans owed by small and marginal farmers to Regional Rural Banks, scheduled commercial banks and agriculture cooperative credit societies upto 31-3-2007 and overdue on 31-12-2007 were waived. The interest not paid on investment loans and due on 31-12-2007. Were also waived. For large farmers, a one time settlement for loans overdue on 31-12-07 was offered if they paid 75% of the overdue loan. For small farmers, the waiver was for those holding upto 2 hectares, and where the crop loan was not more than 1 lakh rupees as an investment loan. This benefitted 3.69 crore small and marginal farmers and 1 crore other farmers.

Kisan Credit Card Scheme: This was introduced in 1998 1999 to provide timely and flexible availability of production credit to farmers. All categories of farmers including tenant farmers, share croppers and oral tenants are eligible for the card. Commercial banks, Regional Rural Banks (RRB) and cooperative banks implement the scheme. The credit is repayable within one year. The card includes a micro - insurance policy of 50,000 rupees providing for insurance Coverage upon death and disability upon payment of a premium of Rs. 5 per year. The interest rate is 7% per anum.

Rashtriva Krishi Vikas Yoiana: This was launched in 2007 to provide incentives to the states which'increase investment in agriculture. The 11th 5 year plan allocated 25,000 crore to the scheme. It will be a state plan scheme and the eligibility of a state under the scheme would depend upon the additional amount allocated by the state over and above the base line percentage expenditure incurred on agriculture and allied sectors. The funds under the scheme are provided to the state as 100% grant by the centre. The RKVY aims at achieving 4% average annual growth in agricultural sector during the 11th 5-vear plan. The objectives of the scheme are

1. To provide incentives to states so that they increase public investment in agriculture and allied sectors.
2. To provide autonomy and flexibility to states in planning / executing schemes, in agricultuVe / allied sectors.
3. To help states develop agricultural plans for districts and states based on agro-climatic conditions, availability of technology and natural resources.
4. To ensure that local .needs and local crops along with local priorities are reflected in their plains.
5. To achieve the goal of reducing the yield gap in important crops.
6. To maximize returns to farmers.

RIDF : Rural Infrastructure Development Fund (RIDF) was set up in 1995-96 to provide loans to state governments and state owned corporations for projects in minor / medium irrigation, soil conservation, watershed management and for projects in rural physical infrastructure (like roads, market yard,s). ‘Investment projects in social infrastructure such as construction 6f health care centres, schools, drinking water projects are also.supported by RIDF. The RIDF is managed by NABARD. The RIDF is financed from monies from banks to the extent of their shortfalls in priority sector lending targets.

Trends in Farm Wages: During 2001-01 to 2006-07, real farm wages varied between 117 rupees per day in 2001-02 to 111 rupees per day in 2006-07. But since 2007- 08, real farm wage has been rising from a.low of 111 rupees in 2006-07 to 154 rupees a day in 2011-12 with an average annual growth rate of 6.8% per anum. This is because of high growth of agro GDP in the 11th plan (Where the growth rate was 3.4% p.a. compared to 2.4% per anum in the 10th plan), rising prices of agro products, increase in minimum support price of major crops and the impact of Mahatma Gandhi National Rural Employment Guarantee Programme.

Agriculture Produce and Marketing Committee Act : The apmc Act in each state requires all agricultural products to be sold only in government regulated markets like mandis. These markets impose substantial taxes on buyers in addition to commission and fee taken by middlemen. The Act also makes contract farming illegal and companies cannot directly buy from the farmers as they have to buy from government.regulated market. Though the main aim of the Act was to prevent exploitation of farmers by intermediaries, the controls under the Act have acted as disincentives to farmers, traders and industries. Hence the central government enacted a model Agriculture Produce Marketing (Development and Regulation) Act-2003 which provides for direct marketing by farmers, contract farming and setting up of agricultural markets both in private and cooperative sectors. Many states have repealed their APMC Acts and are in the process of framing aws in accordance with the model Act of the centre, as agriculture is a state list subject.

Mega Food Parks : These are to be set up under Infrastructure Development Scheme. Each park must benefit 6,000 farm products and at least 25,000 to 30,000 farmers indirectly. These should generate 40,000 jobs directly or indirectly. Each will be set up with an investment .of 100 crore to leverage an additional investment of 250 crores. Annual turnover of each project should be 500 crore. Each park should have 30-40 food processing industries. 15 such parks are already being set up and 15 more are to be set up.

Mahila Kisan Sashaktikaran Pariyojana (MKSP): it is a sub-component of the National Rural Livelihood Mission. The primary objective is to empower women in agriculture by making systematic investments to enhance their participation and productivity and, create/sustain agriculture based livelihoods for rural women. The specific objectives are

1. Enhance productive participation of women in agriculture.

2. To create sustainable agricultural livelihood opportunities for women in agriculture.
3. To improve skills/capabilities of women in agriculture to support farm and non-farm activities.
4. To ensure food and nutrition security at the household and the community level.
5. To enable women to have better access to inputs and services of government and other agencies.
6. To enhance managerial capacities of women in agriculture for better management of bio-diversity.

Strategy: The project implementing agency under MKSP is expected to follow the following strategy

1. Use of locally adopted, resource conserving knowledge-centric, farmer-led and environment friendly technologies.
2. Coprdinated action by communities and community based institutions such as SHG, NGO's, farmer groups
3. Inculcating community mobilization skills among women in agriculture
4. To enhance skill base of women in agriculture to help them pursue their livelihoods on a sustainable basis. The capacity building and skill upgradation to be through formal and vocational courses.
5. To strategise MKSP to target the poorest of the poor women and most vulnerable women such as SC/ST women, landless women and women of primitive tribal groups
6. Priority to be given to single woman headed households and women groups engaged in agriculture.
7. Participatory approach and bottom up planning will constitute core values of the scheme.

Recent Budgets and Initiatives for Agriculture : In budget 2011-12, 400 crore was given to improve rice agriculture in eastern states (Assam, West Bengal, Odisha, Bihar, Jharkhand, Chhattisgarh and Eastern U.P.) under the Rashtriya Knshi Vikas Yojana. Around 1200 crore was allocated for increasing production of pulses, oil palm, vegetal the Tusters and millets. A national programme to increase protein production with an outlay of 300 crore was also announced, The credit to agriculture was raised from 3.75 lakh crore in 2010-11 to 4.75 lakh crore. The outlay for RIDF was raised from 16000 crore in 2010-11 to 18000 crore in 2011-12. In the budget 2012-13, the credit for agriculture has been raised to 5.75 Takh core. It also introduced a programme of improved delivery of subsidy in 50 districts on a pilot basis in which subsidy will be paid to farmer accounts. The outlay to support rice agriculture in the east was raised to 1000 crore. A National Mission on Food Processing to,be launched. An Irrigation and a Water Finance Company to be started. The outlay for Mahila Kisan Sashaktikaran Pariyojana was raised to 3918 crore. Around 200 crore has been set aside for agricultural research.

2. National Income

- Father of Accounting of National Income is Simon Kuznets.
- In 1868, the first attempt was made by Dada Bhai Naoroji. He in his book 'Poverty and Un-British Rule in India', estimated India per capita annual income at a level of Rs. 20.
- Dr. V.K.R.V. Rao was made the first scientific estimate of National Income.
- After Independence, the Government of India appointed the National Income Committee in August, 1949 under the chairmanship of prof. P.C. Mahalanobis to compile authoritative estimates of national income.
- The government established central statistical organization (CSO) which now regularly publishes national income data.
- National income includes the contribution of three sectors of the economy.
  1. **Primary Sector:** Agriculture, Forest, Fisheries, Mining.
  2. **Secondary Sector:** Industry :

     Industry → Manufacturing

     Industry → Construction

  3. **Tertiary Sector:** Trade, Transport, Communication, Banking, Insurance, Real estate, Community and Personal Services.

Concepts of National Income

- **Gross National Product (GNP) :** Gross National product refers to the money value of total output or production of final goods and services produced by the Nationals of a country during a given period of time, generally a year.
- **Net National Product (NNP) :** NNP is obtained by subtracting deprecing value from GNP.

  NNP = GNP – Depreciation
- **National Income :** National Income is calculated by subtracting net indirect taxes from NNP at market prices. When NNP is obtained at factor cost, it is known as National Income.

  $= NNP_{MP}$ – Indirect Taxes + Subsidy
- **Per Capita Income :** Per capita income level is obtained from dividing national income by the total population of the country.

  According to CSO per capita income has crossed Rs. 50,000 level and reached Rs. 52835 per annum in 2010-11.

  During 2010-11, country's per capita income registered 17.9% growth.
- **Foreign Exchange Reserves:** Foreign exchange reserves of a country includes foreign currency. Assets and interest bearing bonds held by it. In India it also includes SDR and value of gold.
- **Free Trade:** It implies absence of any protective tariffs or trade barriers by any economy with respect to export and import.
- **Laissez – Faire:** It is an economic doctrine which emphasizes superiority of 'free trade' and 'free markets over state's interference in economics affairs.
- **Budget Deficit:** When the expenditure of the government exceeds the revenue, the balance between the two is budget deficit.
- GDP (Gross Domestic Product) - Gross dometic product is the market value of all officially recognised final goods and services produced with in a country in a year. Father of Accounting of National Income is Simon Kuznets.

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3. Indicative Planning

Background : Indicative plannihg was adopted by the 8th plan as a framework against the backdrop of: slow capital formation, vibrant growth of the private sector, persisting regional disparities and neglect of rural economy, lack of technological progress, poor performance of trade and the public sector, and finally, the positive impact of liberalisation efforts of the seventies and the eighties.

Indicative planning was conceptualised by France after World War-II. Known as the Monet Plan, the indicative plan of France helped the Government to identifgKhose sectors of the economy which needed development. In France, indicative planning is complWientary to the market - making up for its weaknesses guiding it and ensuring that its operations are compatible with the country's social cohesion and economic growth.

Salient Features of Indicative Planning :

- It is a way to promote rapid and orderly economic growth without the coercion of the bureaucracy. It is a way to reconcile economic planning with a decentralized decision-making private enterprise.
- The two fundamental features of indicative planning are: providing a promotional stimulus by raising incentives to invest or to adopt production in new directions and, group agreement about objectives of economic growth established through consultation between industry and the Government.
- Indicative planning pinpoints areas in which advance action should be taken to avoid serious bottlenecks and also identify sunrise industries.
- In Indicative planning, attempts are made to influence the market forces by fiscal / monetary means and leaving the market forces to primarily determine the resource allocations.
- A core plan provides the economic vision and there are several complementary plans on sectors and regions which are linked to the core plan.
- The indicative plan will have clearly defined goals for each sector and the Government will be concerned with only removing the bottlenecks, orienting, regularising and accelerating development. There is clear prioritisation of goals leading to reduction in production bottlenecks and hence making possible higher rates of growths.
- The emphasis will be to develop the core sector through allocation of funds and ensuring growth of economy through policy packages, and giving greater responsibility to states for the development of the social sector.
- The plan will provide a clear picture of effects of changes in Government policy on the entire economy. The implications of contemplated changes in Government policies are made apparent. This leads to more rational decisions and more coherent policies. This is of great importance since uncertainties about future demand tend to reduce investment and expansion in the private sector. Indicative planning will thus reduce such uncertainties and provides a climate conducive for higher investment and rapid expansion.
- The Government will lay down parameters for decision making instead of taking all the decisions about investment. That is, the Government guides, rather than directing/regulating the private sector.

Continued Relevance of Planning: Planning is relevant in the context of

- Centre-State coordination in crucial areas of development like infrastructure investment which also requires FDI and hence centre has to persuade states to frame appropriate policies to invite FDI into such areas
- The need-to direct investment to backward regions by corporate sector and FDI
- To plan for environmental goals
- In the context of globalization, state has to plan'to create appropriate institutions, legal services and

also provide information into private sector to safeguard the interests of different sections of the society

- Planning is relevant for inter-sectoral balance in economic growth
- Planning by state is required for inclusive and equitable growth.

THE 12th 5-YEAR PLAN (2012-17)

The Draft Approach to the 12th 5-year plan was approved.by the NDC in January 2013. The theme of the Approach Paper is Faster, Sustainable and more Inclusive Growth. The key features of the 12th 5-year plan are spelt out in 25 crore indicators, for rapid, sustainable and inclusive growth.

Economic Growth: The real GDP growth to be 8.2% p.a. 'which is to be achieved by a 9% growth in the last 2 years of the plan. In the first year of the plan (2012-13) the growth is likely to be 6.7%. The agricultural growth rate to be 4% p.a. and manufacturing to grow at 10% p.a. Every state to achieve a higher average growth rate in the 12th plan comparable to the 11th plan.

Poverty and Employment: The poverty rate based on Head Count Ratio of consumption to be reduced to 10% of the population by the end of the plan. Around 50 million new work opportunities to be created in the non-farm sector. Around 50 million people to be endowed with skills to meet the skill needs of the economy.

Education : The mean years of schooling to be raised to 7 years by end of 12th plan. 2 million new additional seats to be created in higher education aligned to the skill needs of the economy. To eliminate gender and social gaps in school enrolment (i.e. between girls/boys, between SC's / ST's Muslims and the rest of the population.

Health: To reduce Infant Mortality Rate to 25 / 1000 and maternal mortality rate to 1/1000 live births. To raise child sex ratio to 950 by the end of the plan. To reduce Total Fertility Rate to 2.1 by end of the plan. To reduce under nutrition of children aged 0-3 years to half of the prevailing levels by the end of the plan.

Infrastructure: To increase investment in infrastructure to 9% of the GDP by the end of the plan. To increase gross irrigated area from 90 million ha to 103 million ha by the end of the plan. To provide electricity to all villages and reduce Aggregate Technical and Commercial Losses in power sector to 20% by end of the plan. To connect all villages with all weather roads by the end of the plan. To upgrade national and state highways to the minimum two-lane standard by the end of the plan. To complete eastern and western dedicated freight corridors by the end of the plan. Increase rural tele-density to 70% by the end of the plan. To ensure that 50% of rural population has access to piped water supply and that 50% of gram panchayats achieve the Nirmal Gram status by the end of the plan.Environment arid Sustainabiiitv: To enhance forestry by 1 million hectare each year, add 30,000 mw of renewable energy capacity, reduce emission intensity of GDP by 25 to 20% over 2005 levels by 2020, all by the end of the 12th 5-year plan.

Service Delivery: To provide banking services to 90% of India's households by end of 12th 5- year plan. Major subsidies and welfare related beneficiary payments to be shifted to direct cash transfer using Aadhar linked bank accounts.

The 12th 5-year plan proposes that"70% of investment will be by the private sector. The plan outlay for the centre will be 47, 69,841 crore (around 6.98% of GDP. It was 5.96% of GDP in 11th 5-year plan). The outlay for the states is put at 37,16,385 crore, coming to 5.44% of GDP (it was 5% of the GDP in 11th 5 year plan). The investment rate to be 35% of the GDP in the last year of the plan. The current account deficit to be kept at an average of 2.9% of the GDP for the entire 12th 5-year plan. The private sector investment in infrastructure to be 48% of the estimated 56.3 lakh crore from 38% in the 11th 5-year plan. Merchandise exports are targeted to grow at 17% p.a. in the 12the 5- year plan.

GROSS DOMESTIC SAVINGS IN THE INDIAN ECONOMY

The savings rate of any economy influences economic growth by affecting the investment rate and also the demand for goods/services. The factors affecting savings rate in the Indian economy are:

- Inflation - low levels of inflation promote savings as the prices of goods/services are lower.
- Taxation levels - modest levels of direct and indirect taxes not only promote savings by keeping the prices of goods/services lower, but also by leaving more money with the people in the form of savings after paying direct taxes.
- Economic growth rate - high levels of economic growth increase the per capita income and hence promote savings.
- Financial sector policies - these refer to the interest rates and money supply factors. If the interest rates are lo«r, they promote savings by high growth rate of economy due to high levels of investments. ^Role of capital markets - if the capital markets perform well on a sustained basis, they attract more investment by the people and hence accelerate the growth rate and hence increase the per capita incomes of the people.

Composition of Gross Domestic Savings in India: Gross Domestic Savings includes :

- Public Savings which are savings in government administration, savings of public sector enterprises and savings of statutory corporations of the government (like Posts and Telegraphs).
- Private Savings-which are household savings and private corporate savings (include savings of cooperative societies).

Trends in Gross Domestic Savings in the Plan Period:

- IN 1950-51 tine savings rate was 10% of GDP. The savings rate of the economy rose to an all time high of 36.85% of GDP in 2007-08, dropping to 32.3% in 2010-11.
- Much of the increase in savings is due to rise in private savings.
- The composition of household savings is increasingly showing a shift towards financial savings from savings in physical assets.
- In the recent times, the savings of PSE's has begun to improve due to public sector reform.
- Government dissavings have increased due to high growth rate of non-developmentai expenditure by government.
- The savings rate picked up sharply beginning in the second half of 80's due to relatively rap j economic growth, liberalisation of economy, growth of capital markets and improvement - the financial sector.

Trends In Public Savings : In the initial decades of planning (1950-1977), public savings increased due to greater tax effort. After 1977, public savings declined continuously. The only component in public savings that has showed a positive trend is savings o f non-departmental enterprises and corporations of the government. There has been huge' dissavings in government. The public savings were negative in the period 1998-2002. Public sector savings were minus 2.04% in 2001-02 turned positive to 2% in 2005-06 and reached a high of 5% of GDP in 2007-08. The public savings dropped sharply to 1.7% of GDP in 2010-11, hence contributing to overall drop in savings rate of the economy. This was because of the excess government spending on the stimulus package to boost the-economy due to the financial crisis. Public savings and corporate savings reached an all time high in 2007-08.

Trends in Private Savings : Household savings make up bulk of private savings. Household savings as a percent of GDP have remained at around 22% to 23% of GDP since 1999- 2000. The share of private savings in gross domestic savings has always improved very sharply since 1950-51. There has been a decline in net financial savings of households from 10.6% of GDP n 2007-08 to 10% in 2010-11, to 7.8% of GDP in 2011-12, the lowest in 11 years. The largest component of household savings is in the form of currency and bank deposits. Household savings are increasingly being invested in financial rather than physical assets,. Savings by the private corporate sector have been improving in the post-reform period.

The following brings out the changes in the composition of the gross domestic savings in the period of planned economic development. In 1950-51, household savings accounted for 69.7% of the gross domestic savings while private corporate savings accounted for 10.1% and public sector savings around 20%. The share of household savings in gross domestic savings has come down from 80% in 2002-03 to around 60% in 2010-11. Most of the household savings are in the form of bank deposits The share of household savings in capital markets has come down from a high of 9% of their total savings to less than 8% today. Around 50% of household savings are in the form of bank deposits and around 32% of household savings are in the form oUnsurance premiums and pension amounts. Private corporate savings dropped from 9.4% of GDP i®007-08 to 7.9% in 2010-11. The high growth of per capita income at 7.2% per anum in 2002-03 to 2007-08 compared to 3.7% p.a. in 1992-93 to 2002-03 was an important factor in the high growth rate of savings. The high savings rate was in turn creating the basis of higher growth of the economy in this period.

A noticeable trend in Indians savings and investment rate is the sharp increase in the savings in the investment rate but also a sharp increase in the investment rate. The following clearly brings out these trends.

Trends in Savings & Investment Rate : The investment rate fell to below 30% of GDP in 2011-12, for the first time since 2004-05. The investment rate reached a high of 38% in 2007- 08 before dropping to 35.1% in 2010-11. The rise of the investment rate closed the savings - investment gap. In fact, the investment rate exceeded the savings rate in all the years beginning in 2004-05 till 2010-11.

Year	Savings (% of GDP)	Investment Rate (% of GDP)
1999-00	24.8	25.9
2004-05	32.4	32.8
2005-06	33.4	34.7
2006-07	34.6	35.7
2007-08	36.8	38.1
2008-09	32.0	34.3
2009-10	33.8	36.6
2010-11	32.3	35.1
2011-12	30.8	

It is clear from the above that the savings - investment gap has closed and the investment rate has exceeded the savings rate. The sharp increase in savings and investment rate in the Indian economy in the recent times is because of factors such as

1. Doubling of per capita income growth rate.
2. Good growth rate of the economy.
3 Large capital inflows into India in the form of FDI and FII receipts.
4. A declining dependency ratio i.e. a fall in the population of the old and also of those below the age of 15 years along with an increase in the number of workers.
5. Tax rates have come down hence increasing household savings and private corporate savings
6. Good performance by the industrial sector with higher profits.

Trends in Domestic Savings in 2011-12: The domestic savings rate of economy in 2011-12 was 30.8% of the GDP. The decline in savings is due to drop in household financial savings from 10.4% in 2010-11 to 8% in 2011-12, decline in private corporate savings from 7.9% in 2010- 11 to 7.2% in 2011-12'and a further drop in public savings from 2.6% in 2010-11 to 1.3% in 2011- 12.

4. Banking Sector and Financial Sector Reforms

Differential Rate of Interest Scheme : This was launched in 1972. Under the scheme, all scheduled commercial banks extend loans to select low income groups at 4% interest. The low income aroups who are eligible are, poor borrowers whose family income is not more than 18000/ year in rural areas and 24000/ year in non-rural areas. In rural areas, the eligible borrowers should not have more than 2.5 acres of unirrigated land or more than one acre of irrigated land. The borrowers are given 15000 as term loan and working capital loan for productive purposes.

Bank Rate : This is the rate of interest charged by RBI-eri loans given to scheduled commercial banks, usually the loans are for a longer period. Banks in India can borrow 1% of their net demand and timelieposits (NDTL) by paying a little more interest rate than the repo rate. The SLR of the borrowing bank is reduced by 1%. Bank Rate in India also acts as a penal rate charged on banks which fall short of their reserve requirements.

Scheduled Bank : These are commercial banks and are of two types - Scheduled and Non- scheduled. Scheduled Banks are the ones included in the 2nd Schedule of .the Reserve Bank of India Act - 1934. The commercial banks which are eligible to be included in the 2nd schedule are two satisfy 2 conditions. 1) They should have a minimum paid up capital and reserves of at least 5 lakhs 2) They must satisfy the RBI that their affairs are not conducted in a manner detrimental to"the depositors. The schedule banks enjoy certain benefits like financial assistance from RBI, refinance frorrTRBI etc. All scheduled banks have to maintain reserve requirements as laid down from time to time by the RBI. The SBI and associates, the nationalized banks, foreign banks in India, private sector banks, cooperative banks and RRB's are all scheduled banks. Non-scheduled banks are not included in the 2nd schedule of RBI Act and dp not have to comply with the conditions of the Act and do not enjoy the benefits of Scheduled banks from the RBI.

Cooperative Banks: They are organized and managed on the principle of. self-help and cooperation. % They operate on the basis of one vote for one member and no profit and no loss principle. These were the first government sponsored and government subsidized financial institutions in India. They belong to the money_ market by offering short termjoans and -capital market by offering long term loans. Some cooperative banks are scheduled banks (like State CodperaTivS Banks and Urban Cooperative Banks while some are not). Cooperative banks perform all commercial banking functions (like collection of deposits, supply of credit, remittance facilities etc) but unlike other commercial banks, provide limited banking functions. These banks are subject to the reserve requirements prescribed by RBI (CRR and SLR) but the reserve requirements are less than those for other commercial banks. The main aim of cooperative banks is to provide cheaper credit to their members and they are allowed to tap the money market to improve their income.

Urban Cooperative Banks: These are set up under license from the RBI under the Banking Regulation Act - 1949. They should have paid up capital and reserves of one lakh. These are considered to be urban arms of cooperative credit societies. Their banking functions, interest rate structure and area of operation are decided by the RBI while registration and management is by state governments jnder respective acts of the state governments. The UCB's are to maintain both SLR and CRR. Till 1996, the UCB's were allowed to lend money only for non-agricultural purposes.

Commercial Banks and Development Banks: Commercial Banking as defined by Banking Regulation Act-1949 is a banking company is one which accepts deposits, for the purpose of investment Jending. Hence the bank maintains deposit accounts, issues / pays cheques'and collects cheques fzr bank's customers.Commercial banks are both banks and financial intermediaries. As financial -:ermediates they moderate between depositors and borrowers. It is a bank because it provides all commercial, bank functions opening and maintaining accounts, giving loans, buying corporate and go ernment bonds. The assets of commercial banks are loans and bonds while liabilities are deposits. De. e.'opmental Banks in general are non-commercial banks whose objective is to provide long term finance to remove non-developmental barriers like poverty, lack of infrastructure etc. The opmental banks assist societal development by providing long term loans for infrastructure development of industries and agriculture. The first development bank that was set India was IFCI set up under the Industrial Finance CorporatiorTAct -1948. However the distinction developmental banks and commercial banks has reduced because of development of universal banking. The S.H. Khan Committee of RBI set up in 1997 advocated universal banking in India functions - developmental and commercial, to be provided under one roof. The universal offer a wide range of financial services like mutual funds, merchant'banking, retail loans, ance functions etc. ICICI was the first universal bank after the development bank ICICI merged with its subsidiary, ICICI Bank.

Merchant Banks: These are specialized financial institutions that deal with international finance, :erm loans and underwriting of public issues of companies. Merchant banks usually deal with other banks and large financial institutions.

Banking Ombudsman: The office was created in 1995. The Banking Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency of service. Complaints can be launched against banks for non-adherence to banking codes of Banking Code Standard Board of India (BCSBI). The BCSBI is an autonomous body created by RBI to monitor how banks render services. The customer can launch a complaint within one year of the event taking place and after receiving response from the bank, thecomplaint must be resolved with one month and if it is not resolved, the complaint can be made to the Banking (Ombudsman. For credit card related complaints, the Ombussman can award a maximum compensation of one lakh for mental agony.

Reserve Bank Of India: The RBI has its origins in the recommendations of the Hilton-Young Commission of 1926 (the Royal Commission of Indian Currency and Finance). The RBI Act was passed in 1934 and became operational on 1st April 1935. The RBI as a banker to the government was started with a paid up capital of 5 crore and a corporate. The entire capital was owned by private shareholders as the British Indian government held shares of nominal value only. The central'office of RBI was originally in Kolkata and was shifted to Munibai in 1937. The RBI Act - 1934 provided for appointment of the Governor and 2 deputy governors by the central government. In 1949, the RBI was nationalized under RBI (Transfer of Public Ownership) Act -1949. After this, the RBI is wholly owned by the government of India. It is made up of

- Central Board of Directors
- Committee of the Central Board
- Board for Financial Supervision
- Board for Payment and Settlement Systems
- Subcommittees of the Central Board.
- Local Boards.

The Central Board of Directors oversees the entire functioning / business of RBI.

It delegates functions to its committees / sub committees. The Central Board of Directors is made up one governor, 4 deputy governors, four non-official directors (who are nominated by the union government and who represent the local boards of RBI located at Delhi, Chennai, Kolkata and Mumbai), 10 non official directors nominated by the RBI and one Representative of the Central Government. The Central Board of Directors holds a maximum of 6 meetings each year. The Board for Financial Supervision is chaired by the Governf Oflt of the R'BI. Board for Payment and Settlement System was set' up in 2005 as a committee of the Central Board. It is chaired by Governor of RBI and all 4 deputy governors are members along wjth two non-official directors of the Central Board. The Board for Payment and Settlement Systems (BPSS) lays down policies relating to regulation and supervision of all types of payment / settlement systems besides setting standards for them. Electronic, non-electronic, domestic and cross border payment and settlement systems which affect the domestic transactions are regulated by the BPSS. Local Boards representing the 4 regions of the country are in Mumbai, Kolkata, New Delhi and Chennai. The Local Board members are appointed by the central government for 4 year terms and represent regional economic interests, interests of cooperatives and indigenous banks. The sub-committees of the central board include those pn Inspection and Audit, Staff, and Building. The focus of each sub- committee is on specific areas of operations. RBI operates through 27 regional offices and 26 departments.

The RBI has training centres at

- RBI Staff College, Chennai
- College of Agricultural Banking, Pune
- Zonal Training Centres located at 4 regional centres to train non-executive staff

- Indira Gandhi Institute of Deyelopment Research, Mumbai
- Institute of Development and Research in Banking Technology - Hyderabad. The last three mentioned above are RBI funded institutions.

Functions of RBI : Issue of Currency : Under the RBI Act - 1934 RBI has the sole right to issue bank notes of all denominations. Till 1935, Controller of India managed the issue of currency. RBI issues notes of 5, 10, 20, 50, 500 and 1000 though it can issue notes of 5000 and 10,000 also. The RBI can issue coins up to the denomination of 1000, under the Coinage Act - 1906. The coins are minted by the government of India but the distributionjs by the RBI. The issue Department of the RBI is in charge of all issues and the assets / liabilities of the department are separate from the Banking Department. The currency management function is carried out by the Department of Currency Mariagement whose central office is in Mumbai with 19 other issue offices. The RBI authorizes select branches of banks to establish currency chests and coin departments. The currency chests are storehouses where bank notes and rupee coins are stored on behalf of the RBI. Deposits in the currency chests are treated as reserves with the RBI and are included in the CRR. The Security Printing and Minting Corporation of India (SPMCIL) a wholly owned company of the government of Incfia, has presses for currency notes at Dewas (M^P.) and Nasik. Bharatiya Reserve BanleNote Mudran Pvt. Ltd fBRBNMPL) is'a wholly owned subsidiary of RBI which has presses at Mys~ore ancT SaLboni (W. Bengal). The mints of SPMCIL are at Mumbai, Noida, Kolkata^and Hyderabad. RBI currently issues Star Series notes of 10, 20, 50 and 100 denomination to replace defective~printed notes. The star series have an additional character of a Star and the notes in the bundle are not in series. RBI as a Banker to the Government / Debt Manager to the Government: As per the RBI Act- 1934, the central government entrusts the RBI with all its money, remittance exchange and banking transactions in India and also manages the public debt of government of India. The central government deposits all its cash balances with the RBI. The central government is required to maintain a minimum cash balance with the RBI (which is currently 10 crore on a daily basis and 100 crore on Fridays and 100 crores at end of March and July). Earlier, RBI was handling the banking transactions of the individual ministries of the central government but now the ministries do this via public sector banks.. However, if the ministries nominate the RBI, it handles their banking functions. RBI as Bankers Bank - RBI acts as a bank for all banks in India. As per Banking Regulation Act-1949, all banks have to keep a portion of their net demand and time deposits as cash reserves with the RBI and hence for this purpose banks have to maintain accounts with RBI. This function of RBI (bankers bank) is delivered through Deposit Accounts Department of RBI at regional offices. In addition, it is also a banker's bank because scheduled banks can borrow from the RBI on the basis of eligible securities or any other arrangement during a need or crisis and hence RBI works as a lender of last resort to banks. RBI And Management of Exchange Rate. Before,rupee convertibility was introduced in India, RBI would determine the exchange rate of the Indian currency with foreign currencies. However, this function has become less important after the rupee has been made convertible. Nevertheless, RBI intervenes in the forex market by buying and selling foreign exchange to influence the exchange rate. This function becomes prominent when there is high volatility the exchange rate of the rupee. Supervisory Role : RBI is the top financial regulator of India. It regulates the Indian banking system including developmental financial institutions, non-banking finance companies, primary dealers, credit information companies and also select segments of the financial markets. These regulatory powers of the RBI are sourced from the Banking Regulation Act - 1949 (for regulating banks) and RBI Act-1934 (for regulating other entities) and'Credit Information Companies Act - 2005 (for credit information companies). RBI's Responsibility of Monetary and Credi this function of RBI is based on the powers given.............. the RBI Act - 1934. RBI is responsible for monetary stability and economic growth via influencing monetary policy. RBI announces a monetary policy each year in April and also announces 3 Quarterly Reviews in July, October and January. However, RBI at its discretion can announce policy measures any time. RBI uses the following istruments in its monetary policy. It manages credit that promotes maximum output and employment and also to impart price stability (control inflation). This function is done through instruments like Bank Rate Policy (the rate at which R.B.I, lends to commercial banks); Open Market Operations (which involves R.B.I, selling and.purchasing government securities); Statutory

Liquidity Ratio (SLR mch is the statutory minimum liquidity that commercial banks have to maintain) and Cash Reserve Ratio (CRR by which commercial banks have to maintain a statutory minimum cash reserve oftfielr net demand and time deposits on a fortnightly basis.

Reserves of RBI: RBI is required to maintain' gold and forex reserves of 200 crore of which at east 115 crore should be in gold. This is called minimum reserve system. RBI is the 10th largest order of gold reserves among central banks of the world after it purchased 200 tonnes of gold from t-e IMF in 2010.

RBI and State Governments: RBI may act as a banker to state governments under an 2:-eement. Except J & K andjlikkim, RBI acts as a banker to all states. However state governments :: not keep a fixed^mTnimum reserve with RBI because the minimum reserve of a state with RBI :e:e"ds on the size of the economy of a state. RBI has a Ways and Means Advances (WMA) scheme to ~e.p states which have a temporary mismatch between receipts and payments. The WMA are z .2" :o states for a period of 90 days. If the state is taking WMA based on its 3 year average of 2::revenue and capital expenditure it is called Normal WMA. If the state government takes WMA by giving its government securities, it is called special WMA. If the state exceeds WMA limit, ca ed on overdraft. A state can have an overdraTTfor a maximum of 36 working days in a liter. The states cannot borrow above overdraft. The interest rate for WMA is linked to the rate RBI also helps the states to manage their debt, design new loans, issue and retirement of oans etc.

THE FINANCIAL STABILITY AND DEVELOPMENT COUNCIL

Proposed Functions :

- To engage in macro-prudential supervision of the economy
- Supervise the functioning of large financial conglomerates
- Look -into inter-regulatory coordination issues
- Focus an financial literacy and financial inclusion
- Look into issues relating to financial development periodically.

The Council will be chaired by the finance minster and will have a sub-committee chaired by the Governor of RBI, Experts have pointed°out that such a body will deprive RBI of its independence / authority as the financial regulator. It is also argued that it will encroach on the powers of the regulatory institutions as the FSDC will act as a super regulator. The first inter- regulatory dispute taken up by the FSDC was the issue between SEBI and NCDX (on the issue of NCDX starting a stock exchange).

BASE RATE AS A SUBSTITUTE OF BENCH MARK PRIME LENDING RATE

The Bench mark prime lending rate (BPLR) was the maximum rate of interest chargeable by banks on loans upto 2 lakh and the minimum rate for loans above that. The base rate replaces BPLR. It is arrived at by taking into account cost of funds, possible costs due to SLR / CRR requirements, administrative costs, profits and cost of overheads. It would be applicable for all new loans from July 1, 2010 and also loans that come up for renewal. RBI will allow banks upto end of 2010 to move over to it. Implications:

- Small borrowers will not subsidise large borrowers because the difference between the highest and lowest rate of interest will narrow down.
- Any future changes in loan rate will be affected by varying the base rate and hence rate hikes will be uniformly passed to all borrowers.
- Base rate will include ail elements of lending rates that are common to all classes of borrowers and hence will make interest rates non-discriminatory and transparent
- It will promote allocative efficiency of lending including financial inclusion by making more credit available to agriculturemand small enterprises
- The freedom in loan pricing and transparency will reflect the relative efficiency of banks 6) It will serve as a benchmark for floating rates of interest.

Capital of Banks : Thisis categorized into Tier-1 and Tier-II for the purpose of capital adequacy.

A) **Tier-I Capital :** This includes equity to set up the bank plus retained earnings. In India, Tier-I includes the owned funds of banks minus its investment in shares, debentures bonds, loans and" advances

B) **Tier-II Capital :** This is made up of preferential shares, undisclosed reserves, revaluation reserves and subordinate debt.

Undisclosed reserves refer to profits made by a bank but has not been disclosed in retained profits. A revaluation reserve is an asset owned by a bank whose value has increased. Subordinate debt is junior to senior debt in Tier-I but is senior to equity.

The Liquidity Adjustment Facility : This is made up of the Repo Rate.and Reverse Repo Rate. The repo rate is"the rate at which banks borrow from the RBI by pledging some recognized securities, usually government securities. The repo rate makes up the ceiling of LAF. The reversj repo rate (which is the floor of LAF) is the rate at which RBI borrows from the banks by transferring government securities. If RBI increases the Repo Rate, it increases the interest rate at which banks borrow from the RBI and hence in turn they have to raise their lending rates.- If the RBI raises the reverse repo rate (which today is linked to the repo rate), it encourages banks to put their surplus money in the RBI and hence helps RBI in absorbing excess liquidity with the banks. When banks borrow at repo rate, they pledge government securities in excess of .the SLR and hence their SLR remains unchanged. The banks can borrow up to ,0b of their net demand and time liabilities under repo window. Normally banks make us of the LAF to balance day to day mismatches in liquidity.

Marginal Standing Facility: This was introduced in May 2011 as another window from which banks can borrow overnight from RBI. Banks can borrow up to 1% of the NDTL by pledging government securities from their SLR. Hence the reduced by 1% if the bank borrows one percent of its NDTL. The rate of interest is 1% above the repo rate. It is a penal rate because bank is borrowing by pledging a part of its SLR. As per the RBI decision to introduce MSF, it has been decided that MSF will be one percent above repo rate and repo rate will be one percent above reverse repo rate.

Open Market Operations (OMO) of the RBI: This refers to sale and purchase of government securities by the RBI. There are two types of OMO.

1. Outright buying and selling of government securities to either inject money or to absorb money
2. Repo and reverse repo transactions.

Other Instruments to Control Money Supply: The other instruments to control money supply are Bank Rate, Cash Reserve Ratio, SLR and other select credit controls. CRR is the percent of NDTL of a bank that has to be kept with the RBI in the form of cash on which the RBI does not offer any interest. The CRR is a percent of NDTL of banks on a fortnightly basis. The SLR (Statutory Liquidity Ratio) is the percent of NDTL of a bank that have to be kept in designated liquid assists like government securities, RBI approved securities, gold, current account balances withbther banks.lt may bejTOtedJhatjjnder the amended RBI Act - 1934 (as amended in 2006) the minimum and maximum limits for both CRR and SLR have been abolished. Both SLR and CRR are statutory reserves as part of fraction - reserve banking concept which is a universal practice of banks. Select credit controls take the form of fixing the quantity of bank deposits, directing the allocation of credit and so on. These are not used-in the liberalized financial system in India though RB.Icould resort to their use via priority sector lending norms.

Priority Sector Lending Norms: The priority sector lending by banks is also called directed credit as it is the credit to be given to certain sectors identified by the government of India and directed by the RBI. The RBI sets the targets for different sectors' to which the banks have to lend up to the targets. These sectors within priority sector would not otherwise have access to credit from the formal financial system or would not afford to pay the commercial rate of interest. The rate of interest charged by banks is less than the commercial rate. The targets / sub targets for priority sector lending are

1. For Indian Banks (both public and private) - 40% of total bank credit is to be given to priority sector while for foreign banks in India it is 32% of their total bank credit.
2. The total loans to agriculture to be 18% (of the 40% of net bank credit) for Indian banks while no sub- target is laid out for foreign banks in India
3. For small scale industry, the for banksjnIndia are to lend 10% of their net bank credit while there is no target for domestic Indian banks
4. Export credit for foreign banks to be 12% of their total credit while there is no such sub-target for domestic Indian banks.
5. Loans to weaker sectionsto be 10% of net bank credit for domestic banks, while no such sub-target

has been laid for foreigTTFanks in India. In 2012, the RBI declared that foreign banks with 20 or more branches.will be brought under priority sector lending norms over 5 years beginning on 1st April 2013. However, foreign banks with less than 20 branches will have no subtargets under the overall target of 32% for priority sector lending.

New Priority Sector Norms: The Nair Committee recommendations on priority sector lending, accepted by the government and RBI, are as follows

1. Foreign banks with 20 or more branches to be brought under priority sector lending (PSL) in 5 years from 1st April, 2013. The overall priority sector lending will remain at 32% (earlier only foreign banks with more 20 branches were to follow PSL but now priority sector [ending (PSL) is applied to all foreign banks). Overall limit of PSL is retained at 40% and agricultural loans will be also given to SHG and Joint Liability Groups
3. Now loans up to crore for micro and small enterprises will be part of priority sector
4. Loans to micro, small manufacturing units up to 25 lakh will be part of PSL
5. Loans for housing above 10. lakhs in metros and above 15 lakh in other cities are now under PSL
6. Loans to food and aqro processing uTifts are now under PSL
7. Educational loans including for vocational course, upto 10 lakh for studies in India and up to 20 lakh for studies aboard, are now part of PSL
8. Loans for housing projects exclusively for economically weaker sections and low income groups", with a ceiling of SJajdi, per house, is part of PSL
9. loans to distressed farmers indebted to non-institutional lenders are now part of PSL
10. Loans to individuals for setting up off-grid (i.e. private) solar and other renewable energy systems are now part of PSL.
11. Loans to prepay debt to non-institutional lenders would now be part of PSL

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Regional Rural Banks (RRB's): To increase credit to weaker sections and farmers, the Narasimham Working Group - 1975 recommended RRBs. The RRB Act-1976 paved the way for the establishment of RRB's. The RRB's came into being with the formation of Prathama Grameen Bank in 1975. The RRB's were specifically supposed to take banking to unbanked rural areas, mobTTiieTural savings and channelise the savings into creating productive capacity in the rural areas. The sponsors of the RRB'saccording to the 1975 Act will be 50% of paid up capitalby the centre, 15% of paid up capital by the state government and 35% by the sponsor barnr^hichwas" always to be a public sector bank. The RRB's were conceptualized as institutions to lend only to weaker sections of rural society, charge lower interest rates, open branches in remote and rural areas and keep a low cost profile. With 6 RRB's in 1975, the number rose to 196 by March 31, 1990. However, the RRB's began to incur losses as clearly indicated by their worsening credit deposit ratios (CDR) and rising NPA's The Khusrau Committee -1989 called for merger of RRB's with their sponsor bank. The Narasimhalnrr Cbrnmittee-I of 1991 also called for merger of RRB's with sponsor banks and also recommended that RRB's should be allowed to engage in all types of banking business and should not be forced to restrict their operations to target groups. Hence the RBI allowed the RRB's to lend to non-target groups but not more than 40% of their fresh lending which was raised to 60% in 1994. Hence RRB's began to lend to non-priority sector like home loans, consumer loans, goldToans etc. In 2005, the RRB were asked to maintain a CRAR of 5% and slowly align themselves to Basel-1 standards. Guidelines have also 'been issued so that RRB's function on the basis of a Development Action Plan, drawn in consultation with sponsor banks and NABARD. The Government of India is recapitalising the RRB's in a phased manner. In 2007",”the government of India decided to recapitalize the RRB's by 1857 crores, of which 928.5 crores will be borne by the centre. Guidelines have been issued so that the RRB's cannot make fresh recruitments till they turn around. The government started consolidation and amalgamation of RRB's in 2005 and hence their number came down to 82 from 196 in 2010. By November 2012, the nurnber of RRB's reduced to 71 and the government wants to reduce them to 64 by March, 31, 2014 and 46 eventually based on the 2nd amalgamation plan of 2011. The government wants each RRB to have at least 400 branches. It may be noted thatTripura, Nagaland, Manipur, Mizoram, Arunachal Pradesh, Meghalaya and Puducherry have state level RRB's. West Bengal legislative assembly in 2004 decided to have a state level RRB by 2004.

Lead Bank Scheme : The Gadgil Committee of early 1960's suggested the concept of lead bank scheme. The Gadgil Committee recommended'an area based approach for credit deployment in rural areas. The F.S: Nariman Committee recommended the district as the baslc unit for the area approach. Each district to be allotted to a particular bank (either public or private sector) which would perforrrrtheTole of a Lead Bank. The" Lead Bank would be the leader of all the banks in the district (a consortium leader) which would coordinate the efforts banks in the dTstrTcfin matters like credit planning and branch expansion. The District Consultative Committees were createdjn each district to facilitate coordination of activities of all the banks and financial institutions in the districfon one hand, and the government departments on the other. The Lead BanlTwould prepare District Credit Plan which would be the"basis to provide credit to identified target groups in the district. However, the Lead Bank Scheme became ineffective due to lack of interest of commercial banks in the scheme", due to lack of coordination between district planning authorities and banking institutions operating ih~the district on one hand, and between NABARD and the Lead Bank on the ot Tier side. In 2009, the Usha Thorat (she was deputy governor of RBI then) committee was set up to revitalize the Lead Bank scheme. The committee recommended the continuation of the scheme and also suggested that private banks should be given greater role in the Lead Bank Scheme. Based on the Usha Thorat Committee's recommendations, the RBI issued guidelines in 2010 for the continuation of the scheme and for quarterly meets of the District Consultative Committees.

Bancassuranee: When Banks sell insurance products it is called Bancassurance.. It originated as a business model in France in the 1980s. It helps both the banks and insurance companies because banks can use their network of branches to reach many clients and insurance companies can sell more insurance prodifcts. In India, banks entering banacassurance have to obtain a license from IRDA to work as a Composite Corporate Agent of an insurance company or to have a Referral Arrangement with an insurance company. Banks in" India can undertake banacassruanc under the Banking Regulation Act-1949. Any scheduled commercial bank is permitted to undertake insurance business as an agent of an insurance company on the basis' of a fee but not by sharing the risk. However banks which have a minimum net worth of 500 crore and a CRAR of least 10% can enter into banacassurance. If there is FDI in banacassurance, the foreign partneiican participate only up to,-26% of the equity and with approval of IRDA and FIPB. More than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance company as a joint venture but, this bank to form a joint venture and hence share the risk of insurance, it has to have a minimum net worth of 500 crore and a CRAR of at least 10%. All banks entering into banacassurance require prior approval of RBI and have to^be IRDA compliant. In January 2012, the IRDA allowed banks to tie up with different insurance companies in different.states unlike the earlier restriction where a bank had to tie up with only one life insurance company and only one general insurance company. The IRDA guidelines of 2012 have divided the country into geographic zones and have also allowed insurance companies to partner with different banks and NBFC's in different states. The draft norms of IRDA have divided the country into 3 zones for this purpose.

Banking Laws Amendment Bill-2012 : This was passed by parliament in December 2012. The chief provisions of the bill are

1. Voting rights for shareholders raised from 10% to 26% in private banks while in public sector banks, it has been raised from 1% to 10%.
2. Banks will not be allowed to participate in futures tradi ng in commodity markets.
3. RBI can supersede boards of private banks.
4. Competition Commission of India to look into competitive practices in banking including mergers and acquisitions in banking sector.
5. RBI to give new licenses for setting up private banks.

New Norms for Setting Up Private Banks: The following norms have been drafted for setting up private banks

1. The private banks will be set up under Company's Act-1956 with a mjnjmum capital of 500 crore.
2. FDI up to 49% of paid up capital to'be allowed.
3. The private banks to be registered with RBI as NBFC.

4. The private bank will not have aggregate exposure of more than 20% in any single company of its promoter group and not more than 10% in promoter group.
5. The promoter group to hold 40% of paid - up capital of the private bank for 5 years from the date of licensing. The shareholding of the promoter group in excess of 40% to be brought down to 20% in 10 years and 15% in 12 years from date of licensing
6. It should have 25%.of its branches in unbranched rural settlements
7. The promoter group should have a 10 year track record of running sound business and should not have more than 10% exposure to real estate.
8. The private banks to have CAR of 12%

BANKING SECTOR PRIOR TO INDEPENDENCE AND NATIONALISATION :

1. Money lenders and indigenous banks constituted the core of the financial system prior to nationalisation, accounting for nearly 90% of the credit in 1930.
2. Non-banking companies were also carrying out quasi-banking business.
3. There was no socially desired distribution of credit. The pattern of distribution of credit was skewed in favour of industry, especially large industrial houses. Priority sectors like agriculture, small industries and expdrts were neglected.
4. The monetary arid credit situation was not under unified control.
5. There was limited scope of banking business. Commercial banks had not entered the rural sector.
6. Co-operative sector as a source of finance in the rural areas hardly met 3% of the credit requirement of farmers and as a result, this class was subject to exploitation by traditional money lenders.

In view of all this, the government moved over to the concept of social control over the banking sector.

1. R.B.I, was nationalised in January 1949.
2 Based upon the recommendations of the All-India Rural Credit Enquiry Committee, the Imperial Bank was nationalised in 1955 and renamed as State Bank of India. The SBI was specifically desired to contribute to rural credit and provide finance to small scale industries.
3. In 1959, eight major state associated banks were converted into subsidiaries of S.B.I. The State Bank of Saurashtra was merged with SBI in 2008. The State Bank of Indore was merged with SBI in 2010. Now the associate banks of SBI are State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Bikaner and Jaipur and State Bank of Travancore. The SBI ranks 60th list of top 1000 banks in world in 2012. If the associate banks are merged with SBI, it could be in the top 10 banks in the world.

NARASIMHAM COMMITTEE-II RECOMMENDATIONS

The report was submitted April 1998. The recommendations are :

1. Increase in capital adequacy ratio to 9% by 2000 and to 10% by 2002 A.D. The R.B.I, should have powers to raise capital adequacy for individual banks.
2. Merger of strong banks with strong banks but not with weak banks.
3. The minimum shareholding of Government in equity of nationalised banks and SBI to be brought down to 33%.
4. Government may consider conversion of public sector banks into companies under the Companies Act.
5. Government guaranteed advances that have turned into bad debts should be treated as'NPA's. Income recognition, asset classification and provisioning norms should be applied to government guaranteed advances.
6. The associate banks of SBI should be constituted like nationalised banks with a chairman-cum-managing director and two wholetime directors.
7. The paid up capital for new private banks to be raised from 100 crore.
8. The minimum start-up capital for foreign banks should be raised from 10 million dollars to 25 million dollars. The foreign banks should be allowed to set up subsidiaries / joint ventures in India and should be treated on par with private banks.
9. An Asset Reconstruction Company should be set up. All non-recoverable NPA's should be

transferred to it and the company would issue NPA swap bonds to banks.

10. Weak banks to be confined to narrow banking.

NARROW BANKING : This was a concept outlined by Narasimham Committee-II. Narrow banking is a concept applied to a weak bank (a weak bank as defined by Narasimhan Committee-II is one where total accumulated losses of the bank and net NPA's have exceeded the net worth). Hence to restore the weak bank to health, narrow banking is applied as a concept. Narrow banking requires banks to invest their deposits in-safe and liquid government securities. Banks which place their funds only in'short terrrfrisk free assets or banks whose demand deposits are matched by safe liquid assets are called narrow banks :— The concept of narrow banking for weak banks was first recommended by Tarapore Committee. It,.recommended that incremental SLR for weak banks should be raised to 100% and for banks which are very weak, there should be a limit on advances / deposits with all their incremental resources being invested in government securities.

BANK NATIONALISATION : 1969

OBJECTIVES :

1. Progressively meet and serve the needs of development of the economy in conformity with the national policies and objectives.
2. Secure the territorial and regional spread of the banking system.
3. Secure faster mobilisation of financial savings.
4. Re-orient credit deployment in favour of small and disadvantaged.
5. Eliminate pre-emption of bank credit by large borrowers.
6. Remove the control of business houses on banks.
7. Professionalisation of bank managements.
8. Provide adequate training and reasonable terms of service of bank staff. Thus, the objective behind nationalisation in 1969 was to convert class and commercial banking into mass and social banking. In pursuit of this, 14 major banks were nationalised in July 1969. In 1980, 6 more banks were nationalised.

Impact of Nationalisation: Population per branch was 82000 in rural areas and 33000 in Urban areas in 1969. In 2007, the population per branch improved to 1 branch per 17000 in rural areas and 1 branch per 13000 in urban areas. In 1969, only 17% of the bank branches were rural and in 2007, it rose to 32%.- For public sector banks, the rural branches in 2008 were 35% of their total branches.

1. The amount of advances of banks to various sectors of the economy has increased.
2. The banking sector today meets most credit requirements of the priority, sector.. Priority sector lending today is between 33 to 40% while it was only 14.9% in 1969 on the eve of nationalisation.
3. Nationalisation of banks has played a key role in improving the rate of savings in the country, enabling it to launch massive programmes of development of industry and agriculture.
4. Spectacular ncreases have been recorded in aggregate deposits of banks in the post-nationalisation period.
5. The post-nationalisation period is also marked by a huge upsurge in several other banking parameters in the country.
6. A number of region specific programmes have been evolved over the years with the help of the banking sector to help the poorer sections of the society with gainful employment and asset creation. Thus, to the extent of building up financial infrastructure, extensive coverage of the country with banking facilities, mobilising resources and deploying credit to a wide spectrum of economic activities, the nationalisation of banks has served the purpose very well and achieved the objectives to an admirable extent.

PROBLEMS OF THE BANKING SECTOR :

1. Priority Sector Lending : The priority sector lending averaging between 35% to 40% of all lending by the banks has eaten into the vitals of the financial viability of banks. Prior to 1990, all priority sector lending was below the market prices of interest rates-i" The banks were asked to cross-subsidise these lendings from profits in their other operations. In addition, the recoveries are very poor in this sector. The problem was further Compounded by the Loan Waiver Scheme by the Janata Dal Government in 1990. The other problem with priority sector lending is the administrative and default costs associated with such lending. Finally, till the reforms were taken up, there were nearly 50 lending categories in the priority sector which have now been reduced to 3.

2. Bank expansions were usually on considerations other than commercial. A recent survey has brought out that thousands of rural and semi-urban branches are unviable
3. High growth of expenditure (establishment costs mostly) of the public sector banks.
4. Low profits of banks. The ratio of profit to working capital is relatively less in India.
5. Faulty money supply and credit policies of the R.B.I, in the past. The two major instruments of controlling credit by R.B.I, i.e., the S.L.R and the C.R.R. have added to the problems of commercial banks. At certain points of time, the S.L.R. and the C.R.R. accounted for nearly 63% of the liquidity of banks (net time and demand deposits) leaving little space for banks to diversify into non-traditional areas andfotherhigK yielding investments. For e.g., the C.R.R. steadily went up due to the budget pressures of the Government on R.B.I. In addition, the repeated borrowing of the Government from nori^R.B.I. sources led to upward adjustment' of .S.L.R. thereby forcing the banks to inves^an Increasing proportion of their resources on low yielding Government securities.
6. Poor state of Regional Rural Banks. The R.R.B.'s which were started in 1975 are in a bad shape.
7. Inconsistent interest rate policy of nationalised/ scheduled banks as a result of which alternatives like Indira Vikas Patrika, PSU bonds and UTI Schemes have been attracting more deposits.
8. The bank deposits as a proportion of household savings have also peen declining due to the increasing share of the share and debenture market. In addition, the financial institutions other than banks have also been extending short term credit which was the monopoly of commercial banks.
9. Banks have also frequently flouted the consortium lending guidelines.
10. State governments also flout R.B.I, guidelines thereby affecting the banking sector. For e.g., the State Governments guarantee bonds of Government undertakings carrying high interest rates (higher than government securities).;
11. Paucity of funds of developmental banks like IDBI/ICICI because of public sector bonds tapping the capital market while R.B.I, fixes the quota of bonds that these development banks can issue.In addition, IDBI/EXIM Bank, NABARD are under the control of the Banking Department of the Finance Ministry but not RBI,
12. There is no control by RBI on financial institutions like insurance companies which are involved in direct lending. For e.g., the LIC lends 200-300 crore per year to the corporate sector.

FINANCIAL SECTOR REFORMS : In 1991, a beginning of radical reforms in the banking sector was made with the setting up of the Committee on Financial System (Narasimham Committee) which made certain far reaching recommendations to strengthen the Indian' banking industry. The report of the committee.which was submitted in November 1991 has called for alignment of Indian banking with the international environment by adopting prudential norms pertaining to capital adequacy, income recognition, provisioning, investing, forex management, transparency in financial reporting, disclosure etc. The next two years witnessed these norms being extended to the banks in India. The various reforms undertaken are :

Prudential Norms :

1. **Capital Adequacy Ratio :** The level of capital adequacy was prescribed in 1992 (April). All Indian banks are expected to reach a 4% capital to risk assets ratio (CRAR) by March 31, 1993 and an 8% CRAR by March, 1996. Banks with overseas branches should reach an 8% CRAR by March 31,1394. Foreign banks should reach the 8% CRAR by March 31, 1993. (This simply means, for every Rs.100 lent, the banks have to provide Rs.8 as capital adequacy).
2. **Income Recognition :** All commercial banks should observe income recognition beginning with financial 19931 This means that banks would recognise interest only when it is actually receive.
3. **Asset Classification :** Banks have to classify advances into 4 categories i.e., standard, sub-standard, doubtful and loss assets. Banks should thereafter make provisions to the fullest possible extent for bad and doubtful assets before March 31, 1994.

Rationalising and Deregulation of Interest Rates : Interest rates structure has been substantially rationalised and the number of lending categories have been reduced from 50 to 3 in the priority sector (loans up to 25,000 will have an interest of 12%, loans between 25,000 to 2 lakhs will have a fixed interest rate of 15% and loans'over 2.lakhs will have a minimum interest rate of 15%).

- Minimum rate on loans has been sharply reduced.
- Permission to close loss making rural branches of commercial banks in rural areas and semi- urban areas with two branches.only.
- S.L.R. has been reduced from 38.5% to an effective 25%.
- The Recovery of DeBts due to Banks and Financial Institutions Act has been passed. Under this act, Special Tribunals of Recovery are being set up at 10 places (Delhi, Bombay, Madras, Calcutta) which will take up cases where the-debt amount to a consortium of banks/financial institutions is rupees 10 lakhs and above. Once a case comes up before a tribunal, it has to be settled within 6 months. The tribunals have been given wide powers including arrest of promoters in case of non- compliance of its orders. It can also attach properties mortgaged to financial institutions and banks and appoint recovery offices for disposal of assets.
- Banking Companies (Acquisition and Transfer of Undertakings) Act has been amended to facilitate banks to raise their own capital from the market.
- The Government has decided to bring down its equity in public sector banks to 51% (hence offload 45%).
- 50 Regional Rural Banks are to be restructured. These 50 loss making R.R.B.'s will be merged with branches/subsidiaries of commercial banks.
- To protect the viability and financial health.of the banking system, 5700 crore in the 1993-94 and 5600 crore in the 1994-95 budget were provided by the Union to recapitalise the nationalised public sector banks. The money will be available to only those public sector nationalised banks which enter into a Moll with the R.B.I, in respect of certain norms.
- A Board for Financial Supervision has been set up in the R.B.I.

Private Banks : In January 1993, the R.B.I, issued guidelines for setting up of new private banks. In fact, there was no legal ban earlier in establishing the private banks but the R.B.I, did not give any license for the last 24 years. The setting up of private banks follows the Narsimham Committee report on financial sector reforms in so far as it relates to introducing an element of competition in the banking sector.

Objectives of Setting Up Private Banks :

- Introduce competitiveness, efficiency and provide financial intermediation services to the society at large.
- Upgrade technology, make the banking system in India financially viable and introduce state-of-art technology / services in the banking sector.
- Improve quality of financial services, customer satisfaction and efficiency.

Guidelines for Private Banks - 1993 :

- Private banks will be registered as public limited companies under the Companies Act - 1956. The R.B.I, wiling rant license under Banking Regulation Act - 1949 on a case by case basis. The R.B.I, may include t|}te'private banks in the second schedule of the R.B.L Act - 1934 at the appropriate time. 3oth licensing and scheduling will be at the discretion of the R.B.I.
- The new private banks "will have a minimum paid up capital of 100 crores. Their will be listed on the stock exchanges and will be controlled by SEBI guidelines.
- The private banks will be governed by the provisions of the R.B.I. Act - 1934, Banking Regulation Act - 1949 and other directives of R.B.I, with respect to their management, liquidity requirements and scope of their activities. Hence the new private banks will not be free from R.B.I, controls/regulations.
- The new private banks will haveTo observe all the prudential norms from their inception like capital adequacy ratio, asset classification, income recognition and provisioning for bad / doubtful assets.
- Preferably, the new private banks will have their head-quarters in centres where no head-quarters of any other bank is located. This to avoid concentration of Tieid- quarters of banks in metropolises.

- The new private banks will not be allowed to set up their subsidiaries or mutual funds during the initial 3 years.
- The banks should achieve priority sector lending targets. However, modifications may be made in priority sector list / targets for these banks in the initial 3 years. The new banks will, also be required to open branches in rural / semi-urban areas.
- The new private banks shall make use of modern infrastructural facilities in office equipment, computer and telecommunication in order to provide good customer service.
- The new private banks will be given licenses to deal.in foreign exchange if they desire.

Negotiable Instruments : The Negotiable Instruments Act - 1981 (amended in 1989 and 2002 applies to entire territory of union including J & K. The Act has provision's covering negotiable instruments, suciv'as promissory notes, checks, drafts, bills of exchange, Negotiability means transfer of an instrument from a person/entity to another. The transfer should be in good aith and restriction. Briefly,these negotiable instruments are

- **Promissory Note :** a paper where a person promises to pay money in writing to a specific person. The paper is tamped in accordance with the Indian Stamp Act and revenue stamp is affixed on the promissory note signed by the promissory. Promissory notes are of two types - Demand promissory note which has to be paid on demand and Usance Promissory Note where the money has to be paid after a certain period of time.
- **Bills of Exchange :** This is an unconditional order.which is signed by the maker and directs a certain period to pay a certain some of money to the bearer. The person who orders to pay is a drawer, the person who is directed to pay is a drawee and the person authorized to receive the payment is the payee. A minor can be a drawer but not a drawee. A bill drawn and paid in India is an inland bill. A bill riot drawn in India but is payable in India to a person who is in India and is an Indian or foreigner is a foreign bill. A cheque is a bill of exchange where the drawee is the bank, the account holder is the drawer and th'e receiver of payment is payee.
- A demandjjraft is also a negotiable instrument and is an order to pay money by one office' of a bank in another office of the same bank. Ajjemand draft cannot be paid to a bearer. It is similar to a bill of exchange but not a cheque. Once-the payee gets the demand draft, the payment cannot be stopped (unless ordered by a competent court). The differences between a cheque and a demand draft are - a cheque can be made payable to a bearer but not a demand draft, a demand draft can be cleared in a specified branch of the issuer bank but a cheqiie can be cleared in any bajik other than the issuer bank including the issuer bank, a cheque may not be honored~butTa demanded'raft "is always honored. An issue party of the cheque is liable for the cheque and hence is not backed by a bank guarantee, but a demand draft is backed by a bank guarantee.

Cheque Truncation System (CTS) : This was approved by RBI in 2010 afterthe Negotiable Instrument Act was amended to include an electronic cheque as a cheque. The clearing of cheques by banks on the bass of electronic cheques is called cheque truncation. In cheque truncation, afte? a~cheque is presented to the bank, an electronic image is generated" by the receiving bank and passed on to the drawee bank without physically sending the cheque to the drawee bank. This improves operational efficiency, removes the possibility of loss/damage of cheque in transit, faster clearance of cheques and removes the geographic limitations of the existing clearing system. The CTS-2010 is mentioned on the cheque leaves along with bank details and logo on the face of the cheque. Please sign above is written on the cheque and the void pantograph i.e. a wave-like design where the account number is printed is on the cheque. From January 1, 2013, cheques which do not conform to CTS-2010 would not be honored by the banks. .

The Sri Krishna Committee on Financial Sector Legislative Reforms Commission: The major recommendations are

- Key regulators like- IRDA, RBI, SEBI etc. to be unified into a single, Unified Financial Agency.
- A Financial Redres'sed Agency to be set up to redress consumer complaints against all companies with the financial sector.
- An Independent Debt Management Office to be set up

- A Financial Sector Appellate Tribunal (FASI) to hear appeals against regulators to be set up
- A Resolution Corporation to be set up to address inter-regulatory issues. The Sri Krishna Committee was set up in March 2011..

Libor : This stands for LondonJntejiBank offered Rate ofTnterest. It is used to calculate the cost nf_fn£H5_ij in inter-bank borrowing for overnight loans to loans of 12 months. Each bank/financial institution sets its own Libor. The Euribor is equal to Libor in Euro. The Libor today is used for borrowing and securities contracts worth 300 trillion dollar loans and financial transactions. Barclays Bank and UBS have been recently fined for manipulating Libor to suit their positions in December 2012.

Quantitative Easing: This .is an unconventional form of use of monetary policy by central banks to stimulate the revival of economy when conventional monetary policy has become ineffective. In quantitative easing, a central bank buys financial assets from commercial banks (like their bonds) and other private institutions hence injecting a pre-determined quantity of money into the economy via these commercial banks. Quantitative easing increases the excess reserves of the banks and raises the prices of financial .assets that banks issue to the central bank. Usually central banks resort to quantitative easing”dtiring deflation as part of a recessionary trend or when there is low inflation due to low demand.’ The Federal Reserve of US has been resorting to quantitative easing since 2008 to lower interest rates in the economy. The first QE was launched in 2008 under which the Federal Reserve bought mortgage backed bonds and also Treasury bonds. The second QE was launched in 2010 under which t”he Federal Reserve bought Treasury bills. The third QE was launched in September 2012, under which the Federal Reserve would buy 45 billion dollar treasury bills and 40 billion dollar worth mortgage backed securities each month for the rest of the year.

Deposit Insurance and Credit Guarantee Corporation (DICGO: This is a wholly owned subsidiary of RBI. All commercial banks, including branches of foreign banks in India, local area banks, and RRB’s are insured by DICGC. In addition, state, central and primary cooperative banks (or urban cooperative banks) are’also covered under deposit insurance of DICGCF. But PACS , are not covered by DICGC. The DICGC insures all deposit accounts - savings, fixed, current and recurring deposits except_deposits of foreign governments, deposits of central and state governments. The maximum amount per depositor insured is 1 lakhTncluding principal and interest. The insurance cost is borne by the bank which is insured by DICGC.Credit Default Swap(CDS): It is a contract which provides for insurarice_ag_ainst default ofj^ loan. For e.g., an investment firm (a bank or any investment company) buys a corporate bond or government bond. This investment firm enters into a contract (called CDS) with another company, i.e., a 3rd party by which it seeks to insure against the loan it h.ad given to the corporate or government against their bonds. The third party is paid interest and or premium by the investment firm (where the investment TboughFthe CDSTrom the 3rd Party company). If the corporate or government default on the loan, the investment firm gets the loan amount from the 3rd company. Hence the investment firm is insured against the likelihood of default on the loan it had given in return for the bond it bought. The 3rd party company (usually a hedge fund) gams only the premium and or interest if there, is default on the loan as it has to pay the loan amount to the investment firm. CDS has been allowed by RBI in India “recently. RBI has laid down guidelines for CDS. For e.g., the company (Hedge fund) selling CDS should have enough capital and the buyers of the CDS cannot buy CDS for a value more than the loan they have given.

MONETARY AND CREDIT POLICY OF THE RBI

This is a set of macro-economic tools used by the RBI to influence inflation, interest rates and credit rates. The traditional objectives of the monetary and credit policy are economingrowth, price stability and financial stability (i.e., exchange rate stability and interest rate stability). The related objectives are to balance.investment and savings and generation of employment. The monetary and credit policy is called expansionary when the RBI uses the policy rates to increase liquidity in the economy. This is usually resorted to in times of slower growth or a trend towards recession. An expansionary policy is to stimulate growth and employment. A contractionary policy is usually to fight inflation. The tools ofThe monetary and credit policy and A) Reserve Requirements - these take theTorrrTof CRR and SLR. Cash Reserve Ratio is that percent of deposits that a. bank has to keep with the RBI in the form of cash on which” there is no interest. Under the’RBI Act 1934" and the Banking

Regulation Act - 1949, the minimum and maximum CRR were 3% and 20%^respectively. This has-been deleted by an amendment to both the Acts in 2006. If the RBI raises the CRR, the banks have relatively less money to lend and hence the money supply comes down relatively. In addition, the interest rates also rise making loans costly. The statutory liquidity ratio (SLR) is that percent of deposits of a bank / financial institution that has to be kept in the form of approved securities approved by the RBI (usually government securities) and also in the form of gold. The bank keeps SLR reserveswith itself. If the SLR is raised, the money supply coraes down and vice versa The minimum and maximum SLR rates of 25% and 40% under the RBI Act"and Banking Resolution Act have been abolishgd in 2006. B) Liquidity Adjustment Facility (LAF) - This is made up of repo and reverse repo. Repo rate is the rate at which the RBI lends to banks and hence banks get money from the RBI. If the repo rate is lowered, the cost of borrowing by the banks from the'RBI comes down and hence banks are likely to borrow liberally. This is turn increase money supply. The inverse is true if repo rates are raised. Reverse repo is the rate at which RBI borrows from the banks. If the reverse repo rate is higher, banks are likely to put their money with RBI which is turn can reduce the money supply C) Selective Credit Controls (SCC) :. These are direct orders of the RBI to banks directing them to give mote credit to some sectors or less credit to some others or orders specifying the detailed deployment of credit by banks and orders which regulate interest rates..When the RBI uses selective credit controls, the total quantum of credit remains the same (unlike in CRR or SLR changes) but the available credit is rationed for different sectors,'along with determination of interest rates,

The monetary and credit policy has the delicate task of balancing. growth with inflation and may sometimes have to tilt in favour of either of the two. For e.g., when the economy is overheated with high growth and high wages leading to high demand, inflation may appear. The input prices go up and hence production costs also rise. Eventually the demand drops due to inflation and hence growth automatically slows down. As prices stabilize, growth picks up and seeks to achieve a higher base. In such times, RBI has to trade inflation for growth or vice-versa, but only in the short term.

NPA'S OF BANKS

What are NPA's fNon Performing Assets of Banksl : NPA is a loan asset of a bank financial institution where interest and / or principal installments are in arrears (in due) beyond 90 days. After prudential norms were extended to the banks and financial institutions by the Government based on the recommendations of the Narasimham Committee recommendations, the NPA's in India are sub-classified into: Sub-standard NPA's: Substandard NPA is a loa.n which is overdue in terms of principal and interest for a period of more than 90 days from the duejjaje. A sub-standard NPA becomes a doubtful NPA after 1 year called Doubtful Asset-

1. It remains classified as a DA-1 till one_ year_and after which it is classified as DA
2. It remains as DA-2 till 3 years after which it is classified as DA
3. For agricultural loans, a loan by a bank is classified as an NPA if interest and principal installment is not paid for 2 crop seasons from the due date, if it is a loan for a short duration crop. However, if it is a long duration crop, the loan becomes on NPA if principal installment and interest has not been paid for more than one crop season fromtfie due date. For non-agricultural loans, a loan becomes on NPA if principal installment and interest have not been paid for more than 90 days after the end of a quarter.

Trends in NPA's: The NPA's of Indian banks were 23.2% of all loans in 1993 and came down to 2.2% in 2011 (though the absolute value of NPA's has gone up). On March 31, 2012, the NPA's rose to 2.9% of all loans and further to 3.25% on June 30, 2012. The NPA's of Indian banks is set to rise because of increasing number of corporate debt restructurings. Around 14% of restructured debt amount is said to have become NPA by March 31, 2012. Loans to agriculture and MSME account for 36% of all NPA.

Causes For NPA's :

- Priority Sector Lending: Banks are mandated to extend upto 40% of their total loans to the priority sector (Ifke export promotion, SSI, sponsored schemes of the Government like Prime Minister's Rozgar Yojana and other government sponsored self-employment schemes). The NPA levels in priority sector lending is high than the industrial sector. In addition, the recovery in case of sponsored programmes is only 15% of total loan extended to them.

- Fraudulent management practices of industries lead to willful deliberate default of liabilities to financial institutions.
- Inability of banks to discriminate'between sound and fraudulent borrowers because of poor rating skills.
- Banks also lend at higher rates to borrowers who have a lower credit rating which may trigger default by the borrowers.
- The legal framework in India offers no mechanism for immediate action against defaulters.
- The long drawn procedures of BIFR impedes loan recovery.
- The provisioning method of classifying NPA's (sub-standard, doubtful, loss) allows for phased disclosure of NPA's by banks and does not take into account the entire impact of a likely default at one go. 8. Creation of Debt Recovery Tribunals has made only a marginal impact.

Steps Taken To Bring Down NPA Levels:

- Prudential norms have been mandatorily imposed on banks in 1992 and 1993. [The prudential norms are : Capital adequacy ratio - this is 8% for all banks / F.I.S. Capital adequacy of 8% simply means that for every 100 rupeeslent, the banks should set aside 8 rupees frdm their profits as capital adequacy; Income Recognition: All banks are to observe income recognition .from 1993 i.e. in accounting procedures banks should recognise interest only after it is actually paid within 180 days period from due date. Asset Classification: Banks to classify loans into standard, sub-standard, doubtful and loss assets. Banks should provide to the fullest possible extent to cover bad (loss) and doubtful assets from their profits].
- Rationalisation of nterest.rates in priority sector lending. The number of lending categories under priority sectq havfl been brought from 50 to 3 with rationalisation of interest rates.
- The Parliament passed the Recovery of Debts due to Banks and FI's Act in 1993. Under this Act, Debt Recovery Tribunals have been set up to take up cases involving recovery ofToa'ns in excess of 10 lakhs. This is for speedy settlement of cases (within 6 months).
- To improve the financial health of public sector banks the union government injected around 11,000 crore in two phases in 1993 and 1994.
- RBI has brought down SLR from around 38.5% to 25% now and CRR from 25% to around 10% now.
- Definite steps have been taken to bring down the lending rates of banks (like reduction of bank rate by RBI and permitting private sector banking to infuse competition).
- Permission has been given to commercial banks to close loss-making rural branches in rural / semi-urban areas (which have a minimum two bank branches).
- In the budget of 98-99, the Government has decided to reduce its equity in public sector banks to reduce interference and increase competitiveness and autonomy.
- Banking Companies Act has been amended to permit banks to raise resources from capital markets.
- Interest rates on deposits have also been deregulated in general.

NPA's and Asset Reconstruction Companies: Banks can sell their NPA's to Asset Reconstruction Companies after the loan has remained an NPA for at least 2 years. The purchasing bank or company pays for the purchase in cash and will have to retain the NPA in its account for at least 15 months before it can sell it to some other company or bank. The purchasing bank classifies the NPA as a standard Asset for 90 days after the purchase.

Basel Norms : The Basel norms are a set of norms evolved by the Basel Committee on Banking Supervision based in Basel, Switzerland. These norms basically are to protect the financial worth of banks/ financial institutions and also represent a set of best business practices to be followed by banks. The Basel-I norms evolved in 1988 called upon banks worldwide to maintain a capital to risk adequacy rat To (CRAR) of 8% of the assets weighted to risks (CRAR is basically provisioning by banks to deal with likely RPA's). The Basel-II norms were evolved later which noLaqly. raised the CRAR but also provided for certain a new, risk category in bank investment and lendinq operations. For e.g., under Basel-I, all debts to government carried zero risk weightage and all debt to corporate was given the same risk weightage of 100%

without regard to the different risks associated with different types of corporate. Basel - II however provides for

1. **Risk Classification into**
   a) credit risk .vhere principal and interest can be defaulted
   b) Market risk where bankd investments in government securities or gold or other approved securities can undergo price changes and may cause erosion of their investments.
   c) operational risks which can be a loss of bank capital due to internal processes like fraud, or risks to capital in course of bank processes but which are not risks of the market or of loans.
2. Under Basel-II banks are to get their risks rated by external agencies.
3. Basel - II proposes a 3 - pillar concept to strengthen banks which are
   a) new standards for minimum capital requirement along with a clear methodology to assign risk weightage to credit risk, market risk and operational risk
   b) increased role for bank supervisors
   c) defining in higher standards and requirements for higher disclosures by banks on their capital adequacy, asset quality and other risk management practices
   d) Higher capital norms in Tier-I and Tier-II of bank capital (Tier-I capital of banks includes paid up capital / equity and retained profits while Tier-II capital includes preferential share equity capital plus subordinate debt). The Basel-I norms were begun to Ije adopted in 1992 by Indian banks based on the recommendations of the Narasimham Committee-I under which a CRAR of 8% was prescribed but RBI mandated it at 9%. RBI also mandated a shift to Basel-II by Indian banks beginning in 2009.

Basel-Ill Norms: These were announced in September 2010.

1. Tier-I capital of banks to be raised to 4.8% (from earlier 2%) beginning in January 20.13.
2. 2.5% of deposits of banks deposits to be maintained as a capital conservation buffer by 2019.
3. Capital reserveslaqainsTjlsky assets' raised from 5% to 7%. The Indian banks (public and private may have to set aside 6 lakh crore to meet Basel-Ill norms. However; the time period is relatively long i.e., 2013 and 2019, hence trie Indian banks have welcomed it

Takeout Financing: This is a system of helping banks to lend to infrastructure projects where the loans are of a large size and for long durations. Banks in India cannot exceed exposure limits (the limit for a bank to lend/invest in a given category like loans to infrastructure projects or investment by a bank in equity shares in the capital markets. The exposure limit is set by RBI for banks). In takeout financing, a financial institution takes over the loan of a bank (given to infrastructure projects) Tpart or ijfvvhole on a pre-determined, fcaslsTafter a" certain period of time. The banks remove these loans from their account books and also get money to lend afresh to other infrastructure projects. Takeout financing therefore helps banks to make available long duration/large debts to infrastructure projects, to deal with asset liability mismatches and also to deal with exposure limit issues. The Indian Infrastructure Finance Company Ltd (IIFCL) set up in 1956 has been designated as a takeout financing institution in India in 2010. Financial Inclusion and Microfinance.

Bank Recapitalization : The 2010-11 budget provided 15000 crore for bank recapitalization. Another 6000 crore was provided in December 2010 for recapitalization of 10'PSU banks. The union government also decided to raise the equity capital of SBI by 7900 crore. SBI to issue preferential shares to the central government including the premium. In October 2011, Moody's Rating had downgraded SBI's credit rating as it did not have CRAR of 8% of its tier-I capital. The government also decided to recapitalize Punjab National Bank by .1285 crore for which PNB would issue preferential shares with premium to the central government. The Budget 2012-13 provided 15888 crore for recapitalization of public sector banks, NABARD and RRB's. In the next five years begining in fiscal 2012-13, PSU banks would require 1.5 lakh crore as additional equity and a non-equity capital of 2.60 lakh crore to comply with Basel-Ill norms.

Recent Trends in Banking : The banking sector in India has improved in terms of many parameters.

For e.g., the return on assets improved form 0.87% in 2000 to 1% in 2009. The world average is between 0.25 to 1.25%. The ratio of bank deposits to GDP was 44% in 2000 improving sharply to 74% in 2009. The net NPA 's of net advances in 1997-98 for Indian banks was 9% which has sharply come down to 1% in 2007-08. The cost to income ratio of the banks has come down from 61.22% in 2001 to 48.9% in 2007-08.

COMMERCIAL PAPER

INDRODUCTION

Commercial paper is a borrowing instrument that banks and other financial companies .make use of to finance short-term investments. Usually banks and large corporations use CP to manage working capital or to purchase inventory. CP is an instrument to raise capital for a short time period, which is usually less than a year. It is a discounted instrument having a face value and a maturity value. The purchaser of a commercial paper buys it at the discounted rate which is equal to the maturity rate minus the interest CP carries. These commercial papers have a rating that is indicative of their safety and security and reflects the confidence of the investors in these instruments.

In India, companies having a net worth of at least four crores are allowed to raise capital by issuing these commercial papers.

DIFFERENCE BETWEEN COMMERCIAL PAPER AND COMMERCIAL BILL:

- Commercial paper and commercial bill are both financial instruments used by banks.
- Commercial paper is used by banks to raise finances for a short time period. The buyer gets CP at a discounted rate, while he gets face value on maturity While commercial bill is an instrument that helps companies to get advance payment for the invoices they raise after making sales to their customers.
- Commercial paper is used by banks to meet their short-term obligations, while commercial bills help companies to get money in advance, for sales they make.

CREDIT RATIONING

Credit rationing refers to the situation where lenders limit the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates. It is an example of market imperfection, or market failure, as the price mechanism fails to bring about equilibrium in the market. It should not be confused with cases where credit is simply "too expensive" for some borrowers, that is, situations where the interest rate is deemed too high. On the contrary, the borrower would like to acquire the funds at the current rates, and the imperfection refers to the absence of equilibrium in spite of willing borrowers. In other words, at the prevailing market interest rate, demand exceeds supply, but lenders are not willing to either loan more funds, or raise the interest rate charged, as they are already maximisirjg profits.

Two main types of credit rationing can usually be distinguished.

- "Redlining" refers to the situation where some specific group of borrowers, who share an identifiable trait, cannot obtain credit with a given supply of loanable funds, but could if the supply were increased. More importantly, they would not be able to get loans even if they were willing to pay higher interest rates.
- "Pure Credit Rationing" refers to the situation where, within an observationally indistinguishable group, some obtain credit, while others do not, and will not receive credit even if they are willing to pay a higher interest rate.
- A third and less interesting type is disequilibrium credit rationing, which is a temporary feature of the market, due to some friction preventing clearing.

CRR (CASH RESERVE RATIO

DEFINITION:

Cash reserve Ratio (CRR) is the amount of funds that the banks have to keep with RBI. If RBI decides to increase the percent of this, the available amount with the banks comes down. RBI is using this method (increase of CRR rate), to drain out the excessive money from the banks.

CRR AS A TOOL OF CREDIT CONTROL:

CRR was introduced in 1950 primarily as a measure to ensure safety and liquidity of bank deposits, however over the years it ha^become an important and effective tool for directly regulating the lending capacity of banks and controlling the money supply in the economy. When the RBI feels that the money supply is increasing and causing an upward pressure on inflation, the RBI has the option of increasing the CRR thereby reducing the deposits available with banks to make loans and hence reducing the money supply and inflation.

PENALTY ON DEFAULTING OF CRR BY ANY SCHEDULED BANK:

The RBI has the authority to impose penal interest rates on the banks in respect of their shortfalls in the prescribed CRR. According to Master Circular on maintenance of statutory reserves updated up to June 2008, in case of default in maintenance of CRR requirement on daily basis, which is presently 70% of the total CRR requirement, penal interest will be recovered at the rate of three 3% per annum above the bank rate on the amount by which the amount actually maintained falls short of the prescribed minimum on that day. If shortfall continues on the next succeeding days, penal interest will be recovered at a rate of 5% per annum above the bank rate. In fact if the default continues on a regular then RBI can even cancel the bank's licence or force it to merge with a larger bank.

CTS (CHEQUE TRUNCATION SYSTEM) 2010

CONCEPT:

- Truncation is the process of stopping the flow of the physical cheque issued by a drawer to the drawee branch.CONTEMPORARY ECONOMY
- The physical instrument will be truncated at some point en-route to the drawee branch and an electronic image of the cheque would be sent to the drawee branch along with the relevant information like the MICR fields, date of Presentation, presenting banks etc.
- Thus with the implementation of cheque truncation, the need to move the physical instruments across branches would not be required, except in exceptional circumstances.
- This would effectively reduce the time required for payment of cheques, the associated cost of transit and delay in processing, etc., thus speeding up the process of colledtion or realization of the cheques.

REASONS FOR INTRODUCTION IN INDIA:

- speeds up collection of cheques and
- therefore enhances customer service,
- reduces the scope for clearing related frauds,
- minimizes cost of collection of cheques,
- reduces reconciliation problems,
- Eliminates logistics problems etc.

With the other major product offering in the form of RTGS Real Time Gross Settlement, the Reserve Bank created the capability to enable inter-bank payments online real time and facilitate corporate customer payments.

The other product, National Electronic Funds Transfer, is an electronic credit transfer system. However, to wish away cheques is simply not possible and that is the reason why the Reserve Bank of India, decided to focus on improving the efficiency of the Cheque Clearing Cycle. Cheque Truncation is the alternative.

Moreover contrary to perceptions, Cheque Truncation is a more secure system than the current exchange of physical documents in which the cheque moves from one point to another, thus, not only creating delays but inconvenience to the customer in case the instrument is lost in transit or manipulated during the clearing cycle.

UNIQUENESS OF THE CHEQUE IMPARTED TO THE IMAGE:

- The images captured at the presenting bank level would be transmitted to the Clearing House and then to the drawee branches with digital signatures of the presenting bank.
- Thus each image would carry the digital signature, apart from the physical endorsement of the presenting bank, in a prescribed manner.
- In order to ensure only images of requisite quality reach the drawee branches, there will be a quality check process at the level of the Capture Systems and the Clearing House Interface. This would ensure only images of requisite quality secured with the digital signatures of the presenting banks reach the drawee branches.

PATICIPANTS :

The criteria for banks participating in the Cheque truncation system are:

- Membership of the clearing house in the NCR (As CTS is still live only in NCR - New Delhi.
- Membership of the Indian Financial Network (INFINET)

PARTICIPATION OF NON-INFINET MEMBER BANKS IN THE CTS:

- In respect of banks who are not members of the INFINET, the following alternatives are available:
- They may become the sub-members of the direct members or such banks may use the infrastructure

of the other banks having INFINET membership without being the INFINET members themselves and there clearing settlement can be done either directly or through the member through whom they are participating.

SUMMARY OF BENEFITS:

a) Faster clearing cycle;

b) Better reconciliation/verification process

c) Better Customer Service Enhanced Customer Window

d) T+0 for Local Clearing and T + 1 for inter-city clearing.

e) Elimination of Float Incentive to shift to Credit Push payments.

f) The jurisdiction of Clearing House can be extended to the entire country. No Geographical Dependence.

g) Operational Efficiency will benefit the bottom lines of banks Local Clearing activity is a high cost no revenue activity.

h) Minimises Transaction Costs.

i) Reduces operational risk by securing the transmission route.

Cheque Truncation System (CTS) in India, was launched as a Pilot Project in NCR-New Delhi, in February 2008. The next step for Cheque Truncation System (CTS) is Chennai.

However, before CTS is introduced in Chennai, Reserve Bank of India, DPSS has laid down the Road Map for CTS - 2010 i.e Standardization (Consistency, Equality) and Enhancement (Enrichment).

DOORSTEP BANKING FOR POOR

FINO introduces Doorstep banking for poor. Financial Inclusion Network and Operations (FINO) operates through a network of 20,000 field force — also called Bandhu (friend in Hindi). This field force serves as a doorstep bank and electronic teller machines in areas where banks are yet to reach or have any ATM. FINO works with 24 banks, several of the state government bodies and insurance firms like LIC, ICICI Prudential and ICICI Lombard. Each of the bandhus is equipped with handheld biometric devices that have GPRS connectivity. Every time a customer is enrolled, she is provided with a smart card. For any future banking activity like depositing, checking balance or withdrawals, they are done through the system.

Financial Inclusion Network and Operations (FINO), based in the financial capital of India, is an integrated technology platform and delivery channel, enabling sourcing and servicing micro customers on a large scale.

The company is also foraying into mobile payment segment. The services called m-Rupya will soon be tested on a pilot basis with 20,000 customers. This service will be launched by the end of the next quarter.The company has developed the software platform for its mobile payment service through its in-house research and development team. The company plans to offer this service to its 36 million customers in India. At a time when the micro-finance industry has been shrouded in controversy, FINO has been successful in showing an alternative mode of achieving financial inclusion. FINO was formed by ICICI Bank. The idea was to create a technology firm that could provide solution catering to the financial inclusion space.

E-GOLD

CONCEPT:

e-gold is a digital gold currency operated by Gold & Silver Reserve Inc. under e-gold Ltd., and allowed the instant transfer of gold ownership between users until 2009 when transfers were suspended due to legal issues, e-gold Ltd. is incorporated in Nevis, Saint Kitts and Nevis but the operations were conducted from Florida, USA. e-gold was founded in 1996 by Dr. Douglas Jackson and Barry K. Downey.

IN INDIA:

The National Spot Exchange Limited (NSEL) has introduced E-series products in commodities. To start with, they have launched E-Gold and E-Silver. Later on, they also plan to cover few other metals and also some agricultural commodities in the same series. Trading in E-Gold has been on since 17th March 2010. E-Gold units can be bought and sold through the exchange (NSEL) just like shares. Here one unit of e-gold is equal to 1 gram of gold.

REQUIREMENTS FOR E-GOLD:

To buy E-Gold units, the individual needs to open a demat account (beneficiary account) with one of the impaneled Depository Participants (DP). Retail individual can place buy and sell orders for e-gold units with their broker through phone or through the internet (broker's website). Investing in E-Gold or other metals opens up one more asset class for retail individuals to diversify their investment portfolio. It provides a means to buy, accumulate and sell E-Gold as well as to convert the same into physical gold.

FIDUCIARY ISSUE

The fiduciary issue is the part of the issue of notes and coins that is not backed by gold. In the past bank notes were issued and were backed by gold. You could always redeem your notes and have gold back in exchange. However, the system quickly developed so that the value of notes issued exceeded the amount of gold. That part of the note issue in excess of the amount of gold was the fiduciary issue. In other words the amount of money issued on trust. Today the whole note issue is fiduciary.

92. FINANCIAL STABILITY REPORT (DECEMBER 2011)

INTRODUCTION:

The Reserve Bank of India presented its half-yearly assessment of the health of India's financial sector in its Financial Stability Report (FSR). The FSR embodies the Reserve Bank's continuing endeavour to communicate its assessment of the incipient risks to financial sector stability. The FSR was first released in March 2010, followed by December 2010 and June 2011.

The FSR holistically assesses soft spots in India's financial sector from a systemic perspective. It outlines the key risks arising from macroeconomic environment, financial markets and institutions and regulatory and other infrastructure. It also seeks to assess the position in respect of continuing vulnerabilities even as new ones are emerging.

There are two distinguishing features of this FSR vis-a-vis the earlier ones. It represents the collective views of the Sub-Committee of the Financial Stability and Development Council (FSDC) on

risks to systemic stability and hence is a more holistic assessment of financial stability. The FSR also showcases the Reserve Bank's endeavour to constantly upgrade its tools to identify and measure systemic risk through a new chapter describing them. In addition, stability maps and indicators have been designed for every segment to present a bird's eye view of the assessment of risks and their evolution in various segments over the previous period.

HIGHLIGHTS:

- FSR for December 2011 shows that the domestic financial system remains robust.
- This was attested by the confidence reposed by the respondents of the Systemic Risk Survey in the financial system:
  - Over half the respondents were 'confident' or 'very confident' about the stability of the Indian financial system.
  - Respondents identified risks arising from asset quality as the biggest concern, followed by market volatility and global risks.
- A series of macrofinancial stress tests, which assess the resilience of the banking system to adverse macroeconomic developments found that banks' capital adequacy remains above regulatory requirements even under severe stress scenarios.
- The Financial Stability Map and Indicator - quantitative tools designed to measure movements in risk dimensions affecting the entire financial system - however, point to some heightening of risks.

FINANCIAL STABILITY REPORT (JUNE 2011)

- The Reserve Bank of India (RBI) released its third Financial Stability Report (FSR) on 14 June 2011. The report reflected RBI's continuing endeavour to communicate its assessment of the incipient risks to financial sector stability. It stated that the Indian financial system remains stable in the face of some fragilities being observed in the global macro-financial environment.
- According to the FSR, the uncertainties in global environment with persistently high energy and commodity prices contributed to a slight moderation in India's growth momentum as well. The macro-economic fundamentals for India continue to stay strong despite the prevailing inflationary pressures and concerns on fiscal fronts.
- The FSR focussed on risks to the system arising out of interplay of the disparate elements of the financial sector infrastructure namely- the macroeconomic setting, policies markets and institutions.
- The report pointed out that economies around the world slowed down even as the risks from global imbalances and sovereign debt crises remained.

India's growth momentum too slackened mainly due to the uncertainties in the global environment characterised by high energy and commodity prices.

FSR FINDINGS:

1. The banking sector in India by far the most dominant portion of the Indian financial sector continues to be stable and
2. The domestic financial markets have remained stress free recently. However, a few caveats are in order.

The report however did not mention that those Indian firms are relying increasingly on external sources of finance, mostly euro-commercial borrowings. The reliance resulted in currency mismatches. The well-known problem in the derivatives segment in which uninformed companies sold unhedged products has had disastrous consequences. The aggressive selling of an essentially speculative product cost the banks dear.

FSR does mention though the other great risk arising out of an unbridled access to foreign currency borrowings by Indian companies. Many of them who issued foreign currency convertible bonds (FCCB) may face refunding risks at the time of conversion by March 2013. The conversion price of these FCCBs is said to be substantially higher than the prevailing market price and the differential is unlikely to narrow.

Banks had aggressively expanded their credit portfolio to accommodate their borrowers. In the process they came to rely on high cost funds such as those mobilised through certificates of deposits (CDs). Resource mobilisation on those terms is generally for shorter periods and hence contributes to the risk of asset-liability mismatch.

Incremental credit, the FSR pointed out tended to concentrate on a few sectors such as retail lending (including home loans), commercial real estate and infrastructure. Although, the banks are not over-exposed to these sectors, the fact remains that lending to some of these sectors has become a fashion even among public sector banks.SECTION

The FSR is a mine of credible, well researched information that are of immense benefit to many sections.

ABOUT FINANCIAL STABILITY REPORT:

The Financial Stability Report is published twice a year under the guidance of the interim Financial Policy Committee. The report includes Committee's assessment of the outlook for the stability and resilience of the financial sector at the time of preparation of the Report, and the policy actions it advises to reduce and mitigate risks to stability.

HOT MONEY

CONCEPT:

- "Hot money" refers to funds that are controlled by investors who actively seek short-term returns. These investors scan the market for short-term, high interest rate investment opportunities. A typical short-term investment opportunity that attracts "hot money" is the certificate of deposit (CD).
- Banks usually attract "hot money" by offering relatively short-term certificates of deposit that have above-average interest rates. As soon as the institution reduces interest rates or another institution offers higher rates, investors with "hot money" withdraw their funds and move them to another institution with higher rates.
- The "hot money" concept is not reserved solely for banks. Investors can move their funds to different countries to take advantage of favorable interest rates.
- "Hot money" can have economic and financial repercussions on countries and banks, however. When money is injected into a country, the exchange rate for the country gaining the money strengthens, while the exchange rate for the country losing the money weakens. If money is withdrawn on short notice, the banking institution will experience a shortage of funds.

INFRASTRUCTURE DEBT FUND

- Four banking and financial services giants — ICICI Group, Life Insurance Corporation, Citicorp Finance India and Bank of Baroda —joined hands to launch India's first infrastructure debt fund (IDF) to be structured as a non-banking finance company (NBFC).
- The Memorandum of Understanding for setting up this IDF was signed in the presence of the Finance Minister, Mr Pranab Mukherjee, and the Planning Commission Deputy Chairman, Mr Montek Singh Ahluwalia, in New Delhi.
- This company will have an initial equity share capital (tier-l) of ?300*rore. Taking into account

the tier-ll capital and the ability to borrow, it can set up a fund of about $2 billion, Ms Chanda Kochhar, Managing Director, ICICI Bank, said here after the MoU signing event.

- As for the equity contribution, ICICI Group will take 31% stake, Bank of Baroda 30 %, Citicorp Finance India 29 % and LIC 10 %.
- While ICICI Bank will take a stake of 30 %, an ICICI Group entity will take the other 1 %. Citicorp Finance India is a wholly-owned entity of Citigroup.
- The funds will be invested in public-private projects in ports, railways, roads, highways and other such infrastructure projects, which have already commenced commercial production. Implementation risk will hardly be there and that will be the investment profile of this fund.
- The IDF managers would not only have expertise in infrastructure finance, but also the ability to access domestic and global funds.
- It will attract participation from entities that have so far not participated in the infrastructure development of India — long-term insurance and pension funds domestically and globally and many other global funds, including sovereign wealth funds. There is also scope to attract foreign institutional investors in the debt part of the fund.

LIQUIDITY

This refers to how easily securities can be bought or sold in the market. A security is liquid when there are enough units outstanding for large transactions to occur without a substantial change in price. Liquidity is one of the most important characteristics of a good market. Liquidity also refers to how easily investors can convert their securities into cash and to a corporation's cash position, which is how much the value of the corporation's current assets exceeds current liabilities.

NATIONAL SMALL SAVING FUND

CONCEPT:

Small Saving schemes have been always an important source of household savings in India. Small savings instruments can be classified under three heads. These are:

(i) postal deposits [comprising savings account, recurring deposits, time deposits of varying maturities and monthly income scheme(MIS)];

(ii) savings certificates [(National Small Savings Certificate VIII (NSC) and Kisan Vikas Patra (KVP)]; and

(iii) social security schemes [(public provident fund (PPF) and Senior Citizens' Savings Scheme(SCSS)].

A "National Small Savings Fund" (NSSF) in the Public Account of India has been established with effect from 1.4.1999. A new sub sector has been introduced called "National Small Savings Fund" in the list of Major and Minor Heads of Government Accounts. All small savings collections are credited to this Fund. Similarly, all withdrawals under small savings schemes by the depositors are made out of the accumulations in this Fund. The balance in the Fund is invested in Central and State Government Securities. The investment pattern is as per norms decided from time to time by the Government of India.SECTION

The Fund is administered by the Government of India, Ministry of Finance (Department of Economic Affairs) under National Small Savings Fund (Custody and Investment) Rules, 2001, framed by the President under Article 283(1) of the Constitution. The objective of NSSF is to de-link small savings transactions from the Consolidated Fund of India and ensure their operation in a transparent and self-sustaining manner. Since NSSF operates in the public account, its transactions do not impact the fiscal deficit of the Centre directly. As an instrument in the public account, the balances under NSSF are direct liabilities and constitute a part of the outstanding liabilities of the Centre. The NSSF flows affect the cash position of the Central Government.

OPERATION:

All deposits under small savings schemes are credited to NSSF and all withdrawals by the depositors are made out of accumulations in the Fund. The collections under the small saving schemes net of the withdrawals are the sources of funds for the NSSF. NSSF invests the net collections of small savings in the special State Government securities (SSGS) as per the sharing formula decided by the Government of India. The remaining amount is invested in special Central Government securities (SCGS) with the same terms as that for the States. These securities are issued for a period of 25 years, including a moratorium of five years on the principal amount. The special securities carry a rate of interest fixed by GoI from time to time. The rate of interest has remained unchanged at 9.5 % per annum since April 1, 2003. The NSSF is also permitted to invest in securities issued by IIFCL.

The income of NSSF comprises of the interest receipts on the investments in Central, State Government and other securities. While the interest rate on the investments on the Central and State share of net small saving collection is as per the rates fixed from time to time, the interest rate on the reinvestment of redeemed amounts are at market rate for 20 year Government Securities. The expenditure of NSSF comprises interest payments to the subscribers of Small Savings and PPF Schemes and the cost of operating the schemes, also called management cost.

PLASTIC NOTES

INTRODUCTION:

Polymer banknotes were developed by the Reserve Bank of Australia (RBA), Commonwealth Scientific and Industrial Research Organisation (CSIRO) and The University of Melbourne and were first issued as currency in Australia in 1988. These banknotes are made from the polymerbiaxially-oriented polypropylene (BOPP) which greatly enhances durability of the banknotes. Polymer banknotes also incorporate mainy security features not available to paper banknotes, making counterfeiting much more difficul t.

Trading as Securency, the RBA together with Innovia Films market BOPP as Guardian' for countries with their own banknote printing facilities. Note Printing Australia (a subsidiary of the RBA) prints commemorative banknotes and banknotes for circulation and has done so for 20 countries.

PLASTIC NOTES IN INDIA:

- The RBI is in the process of starting a pilot project for issue of plastic currency notes, wherein plastic notes of ?10 denomination would be distributed through the central bank's five regional offices.

  The proposed shift to plastic currency notes, instead of the normal paper notes, is primarily aimed at checking the high cost associated with printing of paper currency, as they need early replacement due to soiling and mutilation.

  Besides studying the potential cost savings through plastic notes, the pilot project will also look into the environmental impact of the proposed plastic notes.

  At a time when the government is trying to balance the twin challenges posed by climate change and achieving economic growth, the Survey called for steps to ensure that green growth strategies do not result in slow growth.

  Terming cost and longevity as important for currency management, it needs to be pointed that India was the second largest producer and consumer of currency in the world after China. Producing such a large amount of currency was expensive and one option to cut the costs was replacement of paper currency with plastic notes. Some of the countries to have moved to plastic currency notes include Singapore and Australia.

  In April, 2010 the RBI floated a tender seeking supply of one billion plastic notes of ?10 denomination. Later in August, the central bank said in its annual report for 2009-10 that it was exploring methods to increase the life of currency notes, especially those of lower denomination, which have a much shorter life.

PRIORITY SECTOR LENDING

TARGETS UNDER PRIORITY SECTOR LENDING:

The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are furnished below:

	Domestic banks (both public sector and private sector banks)	Foreign banks operating in India
Total Priority Sector advances	40 percent of NBC	32 percent of NBC
Total agricultural advances	18 percent of NBC	No target
SSI advances	No target	10 percent of NBC
Export credit	Export credit does not form part of priority sector	12 percent of NBC
Advances to weaker sections	10 percent of NBC	No target

{note: NBC denotes net bank credit}

COMPOSITION OF NET BANK CREDIT:

The net bank credit should tally with the figure reported in the fortnightly return submitted under section 42(2) of the Reserve Bank of India Act, 1934. However, outstanding deposits under the FCNR(B) and NRNR Schemes are excluded from net bank credit for computation of priority sector lending target/ sub-targets.

PRIORITY SECTOR:

Broadly, the priority sector comprises the following:

(i) Agriculture

(ii) Small scale industries (including setting up of industrial estates)

(iii) Small road and water transport operators (owning upto 10 vehicles).

(iv) Small business (Original cost of equipment used for business not to exceed ?20 lakh)

(v) Retail trade (advances to private retail traders upto ?10 lakh)

(vi) Professional and self-employed persons (borrowing limit not exceeding ` 10 lakh of which not more than ` 2 lakh for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are ` 15 lakh and lakh respectively and purchase of one motor vehicle within these limits can be included under priority sector)

(vii) State sponsored organisations for Scheduled Castes/Scheduled Tribes

(viii) Education (educational loans granted to individuals by banks)

(ix) Housing [both direct and indirect - loans upto lakhs (direct loans upto ?10 lakh in urbaa metropolitan areas), Loans upto lakh and ^2 lakh for repairing of houses in rural/ semi-urbar and urban areas respectively].

(x) Consumption loans (under the consumption credit scheme for weaker sections)

(xi) Micro-credit provided by banks either directly or through any intermediaty; Loans to self help groups(SHGs) / Non Governmental Organisations (NGOs) for onlending to SHGs

(xii) Loans to the software industry (having credit limit not exceeding crore from the banking system)

(xiii) Loans to specified industries in the food and agro-processing sector having investment in plant and machinery up to crore.

(xiv) Investment by banks in venture capital (venture capital funds/ companies registered with SEBI)

TYPE OF INVESTMENTS MADE BY BANKS ARE RECKONED UNDER PRIORITY SECTOR:

- Investments made by the banks in special bonds issued by the specified institutions could be reckoned as part of priority sector advances, subject to the following conditions:
- State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs)
- Subscription to bonds exclusively floated by SFCs & SIDCs for financing SSI units will be eligible for inclusion under priority sector as indirect finance to SSI.
- Rural Electrification Corporation (REC)
- Subscription to special bonds issued by REC exclusively for financing pump-set energisation programme in rural and semi-urban areas and the System Improvement Programme under itsCONTEMPORARY ECONOMY Special Projects Agriculture (SI-SPA) will be eligible for inclusion under priority sector lending as indirect finance to agriculture.
- NABARD
- Subscription to bonds issued by NABARD with the objective of financing exclusively agriculture/ allied activities and the non-farm sector will be eligible for inclusion under the priority sector as indirect finance to agriculture/ SSI, as the case may be.
- Small Industries Development Bank of India (SIDBI)
- Subscriptions to bonds exclusively floated by SIDBI for financing of SSI units will be eligible for inclusion under priority sector as indirect finance to SSIs.
- The National Small Industries Corporation Ltd. (NSIC)
- Subscription to bonds issued by NSIC exclusively for financing of SSI units will be eligible for

inclusion under priority sector as indirect finance to SSIs.

- National Housing Bank (NHB)
- Subscription to bonds issued by NHB exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be eligible for inclusion under priority sector advances as indirect housing finance.
- Housing & Urban Development Corporation (HUDCO)
- Subscription to bonds issued by HUDCO exclusively for financing of housing, irrespective of the loan size per dwelling unit, will be eligible for inclusion under priority sector advances as indirect housing finance.
- Investment in special bonds issued by HUDCO for on-lending to artisans, handloom weavers, etc. under tiny sector will be classified as indirect lending to SSI (Tiny) sector.

WEAKER SECTIONS WITHIN THE PRIORITY SECTOR:

- Small and marginal farmers with land holding of 5 acres and less and landless labourers, tenant farmers and share croppers.
- Artisans, village and cottage industries where individual credit limits do not exceed 50,000/-
- Beneficiaries of Swarnjayanti Gram Swarojgar Yojana (SGSY)
- Scheduled Castes and Scheduled Tribes
- Beneficiaries of Differential Rate of Interest (DRI) scheme
- Beneficiaries under Swarna Jayanti Shahari Rojgar Yojana (SJSRY)
- Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavangers (SLRS).
- Self Help Groups (SHGs)

ACTION TAKEN IN THE CASE OF NON-ACHIEVEMENT OF PRIORITY SECTOR LENDING TARGET BY A BANK:

Domestic scheduled commercial banks having shortfall in lending to priority sector / agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established in NABARD. Details regarding operationalisation of the RIDF such as the amounts to be deposited by banks, interest rates on deposits, period of deposits etc., are decided every year after announcement in the Union Budget about setting up of RIDF.

In the case of foreign banks operating in India which fail to achieve the priority sector lending target or sub-targets, an amount equivalent to the shortfall is required to be deposited with SIDBI for one year at the interest rate of 8 percent per annum.

TIME LIMIT FOR DISPOSAL OF LOAN APPLICATIONS:

All loan applications upto a credit limit of ^25,000/- should be disposed of within a fortnight and those for over ?25,000/- within 8 to 9 weeks

RATE OF INTEREST FOR LOANS UNDER PRIORITY SECTOR:

As per the current interest rate policy, in the case of loans upto lakh, the interest rate should not exceed the prime lending rate (PLR) of the bank, while in the case of loans above ?2 lakh banks are free to determine the interest rate.

MONITORING OF PRIORITY SECTOR LENDING BY THE RESERVE BANK:

Priority sector lending by commercial banks is monitored by Reserve Bank of India through periodical Returns received from them. Performance of banks is also reviewed in the various form set up under the Lead Bank Scheme (at State, District and Block Levels).

RATINGS OF THE INDIAN BANKS

THE United States-based ratings agency Moody’s recently revised Syndicate Bank’s local currency deposit ratings and all its debt ratings to negative from stable. In justification, the Moody’s Investors Service cryptically noted that “the revision in the rating outlook factors in the increasingly challenging operating environment for Indian banks. As Syndicate Bank has a weaker franchise than other Indian banks, its rating is more vulnerable to potential deterioration in financial strength in the current environment.”

That the country’s macroeconomic milieu, amid the slowdown of the economy, is none too encouraging is evident from the Reserve Bank of India’s (RBI) half-yearly Financial Stability Report (FSR) released in the last week of 2011. The RBI noted tersely that all components of domestic demand (private and government, consumption and investment) had decelerated and cautioned that if gross domestic product (GDP) growth slowed down, there could be some “downstream impact on asset quality”. This could be construed rather elliptically to mean that borrowers may balk at repayment citing general infirmities attendant upon a slowing economy. The year-on-year growth rate of non- performing assets (NPAs) at 30.5% as at end-September 2011 has outrun the credit growth of 19.2%. In fact, the latest update showing a credit offtake of 17% for the period ending January 6,2012, against the corresponding period in 2011, means that 13 policy rate hikes have wrought a deleterious impact on growth and investment.

The apex bank also did not desist from stating that additional capital would need to be raised owing to the compulsions of implementation of Basel III, even as higher provisioning requirements (due to higher slippages) and increased interest expenses already impacted on the profitability of the banking sector. Key sectors that led the trend of rising NPAs include the priority sector, retail, real estate and infrastructure. The gross NPA ratio rose from 2.3% to 2.8% between March and September 2011. This includes lump of loans extended to a spate of troubled sectors ranging from telecom and airlines to power, which have remained caught in either scams or policy inertia for far too long.

The bugle of caution was sounded out when Moody's revised its outlook for India's banking industry from stable to negative, citing concerns of rampant inflation, monetary tightening and rapidly escalating interest rates. This downward revision arose out of an increasingly challenging operating environment for the banking system that is bound to exert adverse pressures on the system in terms of asset quality, capitalisation and profitability. With the country's money market remaining stringent on the back of rising interest costs, Moody's foresaw that Indian banks' asset quality might get worse over the next 12-18 months even as it reckoned that bank loan growth would plunge from 21 % in 2011 to a range of 16-18 % in 2012 and 2013. Moody's expected the profitability plank of the banks to weaken owing to lower interest margins as deposit rates are repriced, thanks to the liberalisation on savings deposit rates by the central bank in October last.

It is not that Moody's has suddenly woken up to the worsening operating milieu of Indian banks to issue a raft of revisions on the ratings. It began the downgrade with the rating on the State Bank of India's (SBI) financial strength on October 4, 2011. This was assailed by critics as they saw little substance in such ratings by global agencies that had not clothed themselves with any glory, having miserably failed to detect the global financial meltdown of 2008 when so many fancy financial instruments played havoc with the financial institutions in major economies of the West.

Despite such criticism of patent lapses in their own backyard, Moody's revision on the SBI, in retrospect, did not appear to be an unduly false alarm. The subsequent publication of the SBI results showed that the bank's gross NPA grew by 2 % between June and September 2011, against 19 % in the case of other public sector banks. There was also a spurt in non-performing loans aggregating to 4.19 % of the total advances, with loans amounting to ?8,000 crore slipping from the standard category (asset on which there is no default) to the substandard category (marked by defaults). What is causing flutters is that the SBI's core capital, or Tier-I capital (in terms of capital adequacy norms as set by the central bankers' central bank, the Basel-based Bank for International Settlements), had slipped to 7.4 % in the quarter ending September 2011 against the mandated 8 %.

Though the domestic banking industry has not been jolted because of the constant revisions by overseas ratings agencies on Indian banking, the fact remains that the economic slowdown and the lack of appetite for investment either to start a new one or expand the existing ones mainly due to the prohibitively high cost of credit by financial institutions might pose problems in terms of asset quality and risk-taking spurs by the banks in particular. Industry analysts too contend that given the sort of stickiness of the system as a whole due to assets and liabilities mismatch, concerns over the quality of loans and the general economic slowdown, the banking industry will be on a sliding board if it does not get its act together.

The year 2011 proved to be a year of hardships in terms of persistent inflation and a year when the Sensex fell by 25 %. The rupee declined by a staggering 16 %, rendering it the worst performing major Asian currency, besides making import-dependent energy cost expensive and pushing the price of other imported essential inputs. It is small wonder then that the investors, particularly institutional investors from abroad, were actively pulling their funds from India. Net outflows were $380 million in 2011, after rising to a hefty $29 billion in 2010.

Given the reality that the economy's return to a consistently high growth path would take a couple of years, the banking industry has a greater responsibility in the recovery process of the real sectors of the economy in keeping the credit spigot ajar. But it is precisely when the need for greater capital infusion is imperative that the banks have been directed by the authorities to go for financial inclusion for lending to many welfare programmes.

Against this development, the RBI has released draft guidelines on the proposed implementation of global norms of capital adequacy (Basel-Ill), requiring banks to go in for capital infusion during the next five years. How far the domestic banking industry will be able to meet the challenges of taking a proactive part in the recovery to high growth while simultaneously beefing up its capital base to meet the international norms of capital adequacy ratio will determine not only its fortunes but also its ability to survive and thrive.

The moot issue is whether the government should allow public sector banks the requisite operational autonomy to meet both ends.

RBI'S NEW BANK LICENSING NORMS

The Reserve Bank of India released the Draft Guidelines for "Licensing of New Banks in the Private Sector".

KEY FEATURES OF THE DRAFT GUIDELINES:

i. **Eligible promoters:** Entities / groups in the private sector, owned and controlled by residents, with diversified ownership, sound credentials and integrity and having successful track record of at least 10 years will be eligible to promote banks. Entities / groups having significant (10 % or more) income or assets or both from real estate construction and / or broking activities individually or taken together in the last three years will not be eligible.

ii. **Corporate structure:** New banks will be set up only through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as a non-banking finance company (NBFC) which will hold the bank as well as all the other financial companies in the promoter group.

iii. **Minimum capital requirement:** Minimum capital requirement will be ' 500 crore. Subject to this, actual capital to be brought in will depend on the business plan of the promoters. NOHC shall hold minimum 40 % of the paid-up capital of the bank for a period of five years from the date of licensing of the bank. Shareholding by NOHC in excess of 40 % shall be brought down to 20 % within 10 years and to 15 % within 12 years from the date of licensing of the bank.

iv. **Foreign shareholding:** 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.

v. **Corporate governance:** At least 50 % of the directors of the NOHC should be independent directors. The corporate structure should be such that it does not impede effective supervision of the bank and the NOHC on a consolidated basis by the Reserve Bank.

vi. **Business model:** Should be realistic and viable and should address how the bank proposes to achieve financial inclusion.CONTEMPORARY ECONOMY

vii. Other conditions:

- The exposure of bank to any entity in the promoter group shall not exceed 10 % and the aggregate exposure to all the entities in the group shall not exceed 20 % of the paid-up capital and reserves of the bank.
- The bank shall get its shares listed on the stock exchanges within two years of licensing.
- The bank shall open at least 25 % of its branches in unbanked rural centres (population upto 9,999 as per 2001 census)
- Existing NBFCs, if considered eligible, may be permitted to either promote a new bank or convert themselves into banks.
- In respect of promoter groups having 40 % or more assets / income from non-financial business, certain additional requirements have been stipulated.

REVOLVING CREDIT

CONCEPT:

Revolving credit is a type of credit that does not have a fixed number of payments, in contrast to installment credit. Examples of revolving credits used by consumers include credit cards. Corporate revolving credit facilities are typically used to provide liquidity for a company's day-to-day operations. They were first introduced by the Strawbridge and Clothier Department Store.

CHARACTERSTICS:

- The borrower may use or withdraw funds up to a pre-approved credit limit.
- The amount of available credit decreases and increases as funds are borrowed and then repaid.
- The credit may be used repeatedly.
- The borrower makes payments based only on the amount they've actually used or withdrawn, plus interest.
- The borrower may repay over time (subject to any minimum payment requirement), or in full at any time.
- In some cases, the borrower is required to pay a fee to the lender for any money that is undrawn on the revolver; this is especially true of corporate bank loan revolving credit facilities.

RUPAY

National Payments Corporation of India-a Reserve Bank of India initiative-is set to replay the ATM revolution in the cards business with the launch of RuPay debit cards, which undercut Visa and Mastercard on processing fees on transactions.

Four large public sector banks State Bank of India, Bank of Baroda, Bank of India and Union Bank of India launched the first set of RuPay cards in India. The RuPay card is meant to be on the lines of China Union Pay-a Chinese government promoted payments and settlement platform for card transactions that broke the Visa-Mastercard stranglehold.

This project had been conceived by Indian Banks Association and had the approval of Reserve Bank of India. The objectives to be fulfilled are:

1. Reduce overall transaction cost for the banks in India by introducing competition to international card schemes.
2. Develop products appropriate for the country particularly for financial inclusion.
3. Provide card payment service option to many banks who are currently not eligible for card issuance under the eligibility criteria of international card schemes.
4. Build environment whereby payment information of the country remains within the country
5. Shift Personal Consumption Expenditure (PCE) from cash to electronic payments in a growing economy with a population of 1.2 billion

NPCI will soon provide a full range of card payment services including the RuPay ATM, RuPay MicroATM, Debit, Prepaid and Credit Cards which will be accepted in India and abroad, across various channels like POS, internet, IVR and mobile etc. Initial focus of NPCI would be to approach those banks who have not been issuing any payment card at all. Regional Rural Banks and urban co-operative banks are ideal.

RuPay is a coinage which indicates coming together of 'Rupee' and 'Payment' to announce the launch of a new world-class retail payment system in India. The new system is simple to use, affordable, state-of- the -art and easily accessible even in the remotest corner of India round-the-clock.

The RuPay Visual Identity is a modern and dynamic unit. The orange and green arrows indicate a nation on the move and a service that matches its pace. The Indian colors connote that it's deeply rooted in India. The color blue stands for tranquility and peace which is precisely the sense that people must get from the brand 'RuPay'. The bold and unique typeface grants solidity to the whole unit and symbolizes a stable entity.

SLR (STATUTORY LIQUIDITY RATIO)

Statutory Liquidity Ratio is the amount of liquid assets, such as cash, precious metals or other short-term securities, that a financial institution must maintain in its reserves. The statutory liquidity ratio is a term most commonly used in India.

Statutory Liquidity Ratio refers to the amount that the commercial banks require to maintain in the form of cash, or gold or govt, approved securities before providing credit to the customers. Statutory Liquidity Ratio is determined and maintained by the Reserve Bank of India in order to control the expansion of bank credit.

SUBSIDAIRY ROUTE FOR FOREIN BANKS IN INDIA

KEY POINTS:

Six. years after laying down the road map for foreign banks in India, the country's central bank is set to allow them a bigger role in the world's second fastest growing major economy. The Reserve Bank of India is in favour of foreign banks taking the subsidiary model — which has clear advantages over the branch model despite certain downside risks — while setting up their operations in India. As no foreign bank has approached the RBI for setting up a subsidiary under the existing policy, there may be a need to incentivise subsidiary form foreign banks by liberalising the branch expansion policy.

All new overseas entrants in the Indian banking space will have to locally incorporate themselves, and existing players, particularly the systemically important ones, will be encouraged to go in for local incorporation and act as subsidiaries of foreign parents , as mentioned by RBI.

Systemically important banks are those whose assets become 0.25% of the total assets of all commercial banks as on 31 March, as stated by RBI. Going by this definition, 8 foreign banks, including Citibank NA, HSBC Holdings Pic and Standard Chartered Bank fall under this category.

As an incentive to set up wholly owned subsidiaries, RBI may allow them to raise rupee resources in the form of non-equity capital, adding that it will extend a “less restrictive branch expansion policy” to foreign players by allowing them to operate in semi-urban areas.

Noting that it may not be possible to mandate conversion of existing players into subsidiaries, the regulatory expectation would be that those foreign banks which meet the conditions and thresholds mandated for subsidiary presence for new entrants would opt for converting their branches into wholly owned subsidiaries.

On capital adequacy for new players, subsidiaries of foreign banks will be treated at par with new private sector banks and shall maintain a minimum capital adequacy of 10% of their risk- weighted assets.

Once the policy is in place, will be more liberal in its branch licensing policy, but it is difficult to award “full national treatment” to foreign banks because this could lead to unintended consequences for the banking sector.

They will then be treated virtually on par with their domestic peers in terms of branch expansion regarding which the banking regulator has all along been following a restrictive policy.

Currently, there are 34 foreign banks in India and collectively they have at least 310 branches, 0.43% of the 71,998-strong branch network across the nation.

Under the WTO agreement, RBI needs to give 12 new branch licences to foreign banks every year, including those given to new entrants and existing players, but the Indian regulator has all along been allowing foreign banks to open more branches, going beyond its commitment, but not as many as the foreign banks want.

TEASER HOME LOAN SCHEME

TEASER LOAN:

An adjustable-rate mortgage loan in which the borrower pays a very low initial interest rate, which increases after a few years. Teaser loans try to entice borrowers by offering an artificially low rate and small down payments, claiming that borrowers should be able to refinance before the increases occur.

Teaser loans are considered an aspect of subprime lending, as they are usually offered to low- income home buyers. Unfortunately, when these borrowers try to refinance the loan before the rate increases, most will not qualify for standard mortgages. This leaves borrowers with increased monthly payments, which many cannot afford. This method of loaning is considered risky, as default rates are high.

IN INDIA:

Mortgage Company LIC Housing Finance has joined the teaser home loan group by introducing ‘New Advantage 5’, under which the interest rate for home loans would remain fixed for the first five years. New Advantage 5 is offered at fixed interest rates for the first five years and thereafter at floating rate

The scheme was available till December 31 2011, with a condition that the first disbursement should be availed by the customer on or before January 15, 2012. LIC Housing Finance is the third lender to offer such a scheme. Earlier HDFC and ICICI had launched such a product in the market.

According to reports LIC Housing Finance has said that loans amounting to up to ?30 lakh will have a fixed interest rate of 11.15 % for a five-year period. The loans ranging from ?30 lakh to ?75 lakh will have fixed interest rates of 11.40 % and ?75-150 lakh loans will attract 11.65 % for a five-year period.

TOTAL BANKING STATE

Kerala has been declared as the first ‘total banking state’ in India, successfully completing the campaign for total financial inclusion plan (FIP) ensuring banking facility to all families.

The declaration was made as every household in all the 14 districts in the state having at least one bank account and the facility for need-based credit.

This campaign started 4 years back when Palakkad district had achieved the status of Total Banking district. The banks which participated under this Total Financial Inclusion Campaign have been rewarded with certificate from Kerala Government.

5. Basic Concepts of A Company and Capital Makets

A company is a, legal person. The Companies Act - 1956 provides for 3 types of companies - unlimited, compart Timited by a guarantee and a company limited by shares. In an unlimited company, there is no limit on the liability of its members i.e. if the company suffers losses and the assets of the compffrry are not enougFTto"payiJrf1ts debts, the private property of its members is used to pay the debts / claims of creditors. In India, there are no. unlimited companies instead, there are proprietary businesses. In a company limited by a guarantee, the liability is limited by the guarantee given by itTnThe event of payment of liabilities. In a company limited by shares, the liability of the members is limited tcTt'he extent of nominal value of shares held by each of the members. But if a member has already paid the full amount of his shares, he is not liable to pay any more amount., But if a member has paid only part of the amount, he can be forced to pay the remaining amount during the existence of the company as well as in the course of liquidation o.f the company. A company limited by shares is of two varieties

1. Private Limited Company - This is a company witFTa-minimum-paid up.share capital of one lakh (or higher capital as required by the Companies Act -1956). It is a closely held company with the minimum members being 2 and maximum members being 50. It has at least two directors. It restricts shareholding among its members. This company cannot offer it shares to the public and also cannqLaccept deposits from people except its members, directors and relatives. There is no obligation for a private limited company to hold meetings statutorily and there is no restriction on managerial remuneration i.e. the directors can receive any remuneration as decidec by the Company.
2. A Public Limited Company this is one which has minimum paid-up capital of 5 lakhs and is to have minimum number of 7 members. There is no limit on the maximum number of members and also on transfer of its shares. A public limited company has to hold board of directors meeting statutorily and the minimum quorum for the meeting 2 members. The remuneration of directors of this company cann0t exceed more than 11% of its net profits. A public limited company can be listed or unlisted i.e. listed company is listed with the stocffexchanges and unlisted company is not listed on the stock exchanges.

Funding of Companies: The total capital of a company is always called share capital. The share of investors and promoters is maintained in a single consolidated capital account called the s"are capital account. The share capital is associated with the following terms.

1. **Authorized Capital :** This is called registered or nominal capital and is the maximum capital that the company raise in its life of existencer
2. **Issued Capital :** This is a part of the Authorized Capital which is offered to the public in a public issue of shares
3. **Subscribed Capital :** It'is part of issued capital which has been bought by people in a public offer of shares. The shares'bought by the people are called outstanding shares,' while the shares offered by the company.but not bought by the people but by the company are called treasury shares.
4. **Called up Capital :** This is that part of subscribed capital which the company has actually called upon the shareholders to pay. Hence called up capital includes the amount paid by the shareholder from time to time on allotment of shares. The remaining rat of the subscribed capital not yet called upon is called as uncalled capital.
5. **Paid-up Capital :** The called up capital may not be fully paid as shareholders may pay only pa rt of amount required to be paid. Hence paid-up capital is part of called - up capital which is actually paid by shareholders. The remaining part of the called-up capital which is still to be paid by shareholders is called Calls in Arrears.
6. **Reserve Capital :** The share capital subscribed (bought) by. the people as mentioned earlier is called subscribed capital. However, if the company has not called upon the shareholders. The been allotted the shares to pay, this part of subscribed capital is called uncalled capital. The company in a special resolution can convert a part

of the uncalled capital into reserve capital (vihich may not be called up except during winding up of the company). Reserve Capital is kept reserved for the creditors in case of winding up of the company.

7. **Cbpital Reserves :** These are created from capital profits of the company. Capital profits are not earned profits but may accrue to the company because of sale of fixed assets, revaluation of fixed assets, premiums called by company on shares and debentures, profits on redemption of debentures and profit earned by the company prior to incorporation. Capital reserves cannot beused for distribution of dividends.

INVESTMENT UNITS OF A COMPANY : Shares are units of total capital of a company and veated as goods under the Sale of Goods Act 1930. Hence they are movable property.

1. **Equity Shares :** Also called ordinary shares, represent units of total-capital of a company. These carry voting rights. All shares which are not preferential .shares are called equity shares.
2. **Preferential Shares :** These do not carry voting rights and get dividend at a fixed rate. These are not traded in stock exchanges. These havea higher right to paymentof capital on winding up of the company. In addition, the preference shares may carry some more more rights sucn as right to participate in excess profits or the right to receive a premium when the company redeems the preferential shares. In general, preference shares are generally issued by companies to institutions instead of retail investors. The preference shares are not liquid assets because they are not traded in stock exchanges. After a fixed period, preference sell their shares back to the company, unlTke qrdinary~shares which can only be sold back to the company if it announces a buyback.
3. **Debentures :** It is a debt instrument given by a buyer to a company. Debentures by definition, represent corporate debt instruments. The debenture instrument acknowledges the loan, the nterest payable, repayment of principal amounfby the company and also gives charge on the assets of a company. Normally, debentures are secured and issued against the assets of a company.

   The chief types of debentures are

   (i) **Naked Debentures :** These are not issued against security of assets of company. Hence when the company is wound up, naked de.benture holders are.treated as unsecured creditors.

   (ii) **Secured Debentures :** These are issued against the security of assets of the company. Hence the holder of this debenture has right to recover outstanding loan and interest. The secured debentures are issued by the company under an agreement deed called the Mortgage Deed which is registered with the Registrar of Companies.

   (iii) **Redeemable Debentures** are taken back (redeemed) by the company after a specified date by repaying the debenture amount

   (iv) **Irredeemable Debentures :** The're is. no fixed date after which the company buys back the debenture and the holder of the, debenture cannot demand repayment from the company as long as it is a mpning company

   (v) **Convertible Debentures :** These can beTconverted into equity shares, either fully or partly after a specified time.

   (vi) **Non-convertible Debentures :** The holders of these debentures do not have the right to convert them into equity shares.

   (vii) **Bearer Debentures :** These are like bearer cheques and can be freely transferred and the interest is given on producing coupons attached to them.

   (viii) **Registered Debentures :** These can be transferred only bytransfer deed. The interest is paid only to those whose name appears in the register. Debentures unlike equity shares, do not have voting rights and are in general, are secured, unlike equity shares.
4. **Bonds :** These are debt instruments which can be issued by companies, financial institutions, municipal bodies and governments. Normally, they'are not issued against the security of assets of the body issuing it. In Indian Securities .Market, the term bond is. used for debt instruments issued by the central and state governments and public sector organizations while debenture is used for instruments issued by private corporate sector.

Differential Voting Rights Shares: Differential-Voting Rights (DVR) shares were introduced by an amendment to the Companies Act - 1956. A DVR is like an ordinary equity share but has fewer voting rights for the shareholder. The objective of DVR is to prevent hostile takeover~and dilution of voting rights. It also helps strategic investors who' do not want to control but are looking at reasonably big investments in a company Companies also issue DVR shares to fund new large projects because even a big issue does not create the possibility of a takeover.

Bonus Shares : When profit making companies desire to convert their profit into share capital, they may issue bonus shares. Bonus can be of two types -

1. Making partly paid shares into fully paid by declaring bonus without requiring shareholders to pay for the same
2. Issue of fully paid equity shares as bonus,shares to existing shareholders.

Rights Issue: A company can issue additional shares by passing on ordinary resolution at its General Meeting; However such additional shares must be first offered to existing equity shareholders in proportion to the shares already held by them. Such additional shares are called Rights Shares. These are part of Authorized Capital. Rights sharescan be issued two years after formation of a company or one year after first allotment of shares.

Limited Liability Partnership (According to LLP Act-2008) : An LLP is a corporate body and is a leqail entity separate from its partners. The corporate body has the power to acquire, own and dispose moveable / immoveable property. The body will have perpetual Succession eveji if the partners change. The partners of an LLP can be an individual or a body corporate, the LLP should have at least 2 partners and there is no Ijmjt on the maximum number of partners. The LLP would be liable to the full extent of its assets. The liability of partners would be limited to agree contributions to the LLP. No partner would" be liable for independent / unauthorized actions of other partners. Of the minimum two partners of an LLP, one should be necessarily be a resident Indian. The advantages of an LLP are, it is a flexible form of a business company suitable for professionals, small enterprises and for investment, firms like venture capital funds. The limited liability of the partners makes it an attractive from of a corporate structure. The LLP in India as per the finance act 2009 enjoys tax advantages like a lower rate of corporate tax," exemption from MAT and dividend stribution tax. The partners are not personally liable but liability arises out of acts of omission or . ong doing. A partner for more than 6 months is personally liable for the liabilities of the company. One of the two partners has to be a resident Indian. The share of the partners is tax free. Under the LLP Act - 2008, foreign companies and individuals can set up LLP.

Concepts in Capital Markets : A stock exchange is an institution for the purpose of trading - shares and other financial instruments like derivatives. The first modern stock exchange was the Amsterdam Stock Exchange set up in 1602 when the Dutch East India Company sold its shares first. A stock broker is an intermediary who buys / sells capital market instruments on behalf of nvestors for a fee and also arranges the transfer of stock from a seller to a buyer. In India, stock exchanges are defined by the Securities Contract (Regulation) Act-1955. According to this Act, any oody of individuals, incorporated or not, constituted for the purpose of assisting and controlling the trading in shares and securities, is called a stock exchange. The stock exchange may be a regional stock exchange whose area of operation is specified at the time of its recognition, or a national stock exchange (like NSE) which are permitted to have nationwide trading.,A'stock market is owned : . the brokers. The broker members are owners and also traders on the exchange and also manage the exchange. In a mutual stock exchange the three functions of ovi/nership, management and trading are concentrated in a single group. In a demutualised stock exchange, the three functions are separated. Stock exchanges play an important role in a modern industrial economy because

1. they provide mechanisms for companies to mobilize money from the people
2. provide an opportunity for people to save and invest their savings
3. they provide for efficient functioning for the corporate orm of organization
4. they compel the listed companies to work with discipline and for profitability
5. they are major instruments to attract foreign investment. The following are some terms in capital markets:
   a) **Market Capitalization of a Company:** The current price per share of that company

multiplied by total number of shares of that company.

b) **P/E Ratio :** Price earnings ratio or P/E ratio is the latest closing price of a share of a company divided by the earnings per share. A high P/E ratio reflects high expectation of a company's performance.

c) **Earnings per share (EPS) :** This is the portion of .a company's profit assigned to each of the outstanding shares of the common share capital. The net earnings of the company divided by the number of outstanding shares of the common stock gives the EPS.

d) **Market Depth:** The ability of the capita mpact on market price of shares is called caprtaTmarket is capable of handling large' adverse impact on market price of shares. market to handle trade volumes in terms of its

e) **Market Breadth :** The proportion of overall market (i.e., the companies), participating n the lower and higher performances of the market. The greater the market
the more the participating companies.

f) **Dividend Yield :** The dividend got by a share of a given company versus the share price. gher the dividend yield, higher the profits of the company.

g) **Bears :** These are investors who expect the value of shares and securities in the capital market to fall and wait to invest till they fall.

h) **Bulls:** These are investors who are optimistic of the increase in the-overall value of shares :n the capital markets and hence continue to invest.

i) **Bear Market :** A prolonged period within which the market prices of shares / securities in the capital market fall. This indicates poor economic performances, low investor sentiment and possibly a recessionary phase.

j) **Buii Market :** A sustained period of rising prices of shares / securities in capital markets, representing good economic performances, investor optimism of vibrant gains from capital markets.

k) **Blue Chip Company :** A company that has a long track record of good performance, regular payment of dividends and whose shares and other securities are liquid!.e., always in demand. The shares of such companies are called Blue Chip.

I) **Insider Trading :** An insider is an officer, director-or holder of a given percent of shares of a company who has confidential price influencing informaTion and purchases or sells shares to make short term profits.

Qualified Institutional Placements: It is placing of share capita by a company at a fixed price with a buyer and henpe is a method of raising money by companies. According to SEBI guidelines, only companies listed on stock exchanges with nationwide quoting of their shares in terminals of BSE and NSE can resort to QI.P's. The buyers of shares through QIP's can be venture funds, mutual funds, FII's provident funds and pension funds. QIP's are issued at price which is the average price of theshare^riceoyer the immediate preceding two weeks. Investors related to promoters of the issuing company cannot subscribe to a QIP. If the issuing company seeks to raise to capital up to 250 crore or less, then there should be to at least 2 bidders and no single bidder can there should be at least 5 bidders. If a buying company or buyer acquires at least 5% of the share capital of the company issuing a QIP, the buyer has to disclose this to the issuing company under the guidelines of the takeover code. The buyer can convert the share capital acquired through a QIP to equity share in a period of 60 months. No company can issue in a single year more than 5 times its net worth. The QIP's have come popular in India due to the depressed capital markets and also due to the inability of banks to lend liberally to the cooperates in the prevailing economic uncertainty in addition, the QIP's offer a long period of 60 months for conversion is not equity shares and hence assure less volatility in valuation of the issuing or follow on public offers. Unlike a GDR, the company need not convert accounts to International Financial Reporting standards. QIP's are cheap compared to listing fee of GDR's.

Initial Public Offering (IPO) : When an ujiNsted^cornpanylists and makes a fresh issue of its securities or anjpffer of its existing securities or both for the first time to the public, it is called an IPO. When a company comes out with an IPO, it decides the issue price in constitution with the merchant banker ejpr|ce may be fixed by the company and a lead merchant bank, which is called the fixed price or the price may be fixed via book building. In book building, the merchant bank and the company fix the ceiling price and floor price, the investors are invited to make the bids between the floor and ceiling price or at these floor and ceiling prices'. The offer price is determined after the bid closing date.

Follow on Public Offer (FPO): It is also called a further issue. An already listed company either makes a fresh issue to the public or an offer of sale to the public through an offer document.

Draft Offer Document: After a company seeking to float a public issue discloses information in accordance with SEBI guidelines in a prospectus, it also comes out with a Draft Offer Document. This contains all relevant information to investors about the company and should be filed with SEBI at least 30 days prior to the reqistratiorupf the Red Herring Prospectus. SEBI may specify changes in this Draft offer Document. The draft offer document is put on'SEBI website for public comments for a period of 21 days from the date of filling of the document

Red Herring Prospectus : A company making a public issue has to file a Draft Red Herring Prospectus with SEBI, through an eligible merchant banker prior to filling the prospectus with the Registrar of Companies. The prospectus gives information to potential investors before the selling price has been set. The prospectus is so called because of a statement printed on it printedJn red, declaring that the issue had not yet been approved by SEBI. The Red Herring prospectus is revised be forest he final version is issued.

Stock Market Index (like the BSE or NSE) : An index is calculated with reference to a base period and a base index value. The initial market value of a base year is the base index ajue. For e.g., if the total market capitalization of all shares of a stock exchange is 1000 crore and if the current market capitalization is 1100 crore, then the index is up 110 points (1100/ 1000 multiplied by 100, where 100 is the base index value). Some of the famous stock market indices are

1. **New York Stock Exchange (NYSE) Index :** This is made up of the 32 most traded stocks. The NYSE is made up of Dow Jo'nes Industrial Index (DJIA), the Dow Jones Transport Average (DJTA) and the Dow Jones Utility Average (DJUA).
2. **NASDAQ :** (National Association of Securities Dealers Automated Quotation System). An index of US capital markets, which is an electronic exchange that provTcTes' price quotes online in an electronic form. It is the first digitized stock market m the_world and many of the stocks traded via NASDIAQ are technology company stocks.
3. **Standard and Poor :** 500 Index is made up of 500 listed companies of USA and is much more representative of the US corporate sector.
4. **The FTSE :** 100 is made up of the 100 most highly capitalized companies listed on the London Stock Exchange. The Index is also called Footsie and is maintained by the FTSA Group, an independent company and a joint venture of the Financial Times and the London Stock Exchange. The others are CAC-40 of France, DAX of Germany,'H'ang Seng of Hong Kong, Kospj of South Korea, the Straits Times Index of Singapore, the Bovespa of Brazil, the Nikkei - 225 of Japan, the RTS Index - 50 of Russia, the SSE (Shenzen) Composite Index of China, the Shanghai Stock Exchange (SSE) Composite - China, the NSE - 50 and BSE - 30 of India

The Bombay Stock Exchange : It is the oldest stock exchangeof Asia set up in 1875. The BSE accounts for the 5th largest stocks traded in world stock exchanges. It regained the number one rank in the number of companies listed in October 2012. The BSE's sensex-30 was introduced in January, 1986 and is made up of 30 most capitalized stocks of 30 companies of India. For a company to be listed within sensex-30, its shares should be regularly traded, and the company should be in the top 75 in terms of market capitalization. BSE includes automatic online trading system called BOLT that offers online trading in equity, debt and derivativeTi^trumeritsTln 2005, BSE became a corporate body. Greenhex is made up of 20 companies listed on BSE-100 which meet energy efficiency norms and Was introduced in February 2012. Carbonex is a new index of BSE-100 which monitors the 100 companies covered by BSE 100 in terms of their commitment to GHG emissions recjctions and was introduced in 2012,

National Stock Exchange (NSE): It was recommended by the Pherwani Committee of 1931 and the union,government authorized its establishment by IDBI in 1992. iTwas incorporated eading financial institutions in 1992, recognized as a stock exchange in. 1993 and commenced cperations in 1994. It is the third largest stock exchange by trade in the world and is located in Mumbai.

Interconnected Stock Exchange of India (ISE): it is promoted by the regional stock cranges as a national level stock exchange

Indonext: It is an index promoted by BSE, Federation of Stock Exchanges and 18 regional stock exchanges. It is to bring attention and liquidity to stocks that are listed on regional stock exchanges.

Tie Over The Counter Exchange of India (OTCEI): It is an incorporated company under the Companies Act-1956 as a public limited company. It allows listing of small and medium companies and and has been promoted by the Unit Trust of India, IDBI, Bank of India, IIFCL and is a recognized stock exchange.

Derivatives: These are contracts in the nature of financial instruments whose value is based op an underlying asset like equity shares, index, forex, gold or any other commodity. The derivatives can be Forwards, Futures, Options or Warrants.

1. **Futures Market :** A futures contract is between two parties to exchange a specified asset (of a given quantity / quality) for a price agreed today which is called the strike price or futures price. These contracts are traded on a futures exchange. The party agreeing to buy is said to be long and the party agreeing to sell is said to be short. The futures exchanges requires both the parties to put up an initial amount of cash called the margin. Since the futures price changes daily, the difference between the agreed price in the contract and the daily futures price is also settled daily. The futures exchanges withdrew money from one party's margin money and puts it in the others. On the delivery date, the amount exchanged is not the agreed price agreed in the contract but the price on the delivery date. A Forward Contract is like a futures contract but is not traded via exchanges.
2. **Options Contract :** An options contract is a variety of futures contract which gives the right but not the obligatiomto buy or sell the underlying asset on a specified date. The buyer of an option pays the premium and buys the right to exercise his option, the seller of an option is the one who receives the options premium and is therefore obliged to sell or buy the asset if the buyer exercises it. Options premium is the amount of money paid acquiring the right to buy or sell. It is a price paid by the option buyer to the' option seller for acquiring the right to buy or sell. These have to be paid where entering into the contract. Investors can take the role of options seller or buyer. Options are of two types A) Calls - This gives the buyer the right but not the obligation to buy the underlying asset at the given price before or on the specified date B) Puts : This gives the buyer the right but not the obligation to sell the underlying asset at a given price on or before the specified date. The options traded generally have lives up to one year and are settled on a monthly basis.
3. **Warrants :** These are longer dated options.

Example of Options Trading : The following gives an example of options contract. A person X believes that the share price of a company A is likely to fall from its present price of 700 Rs. per share. This person X can now buy a put option of acquiring the right to sell the share at 690 rupees. An options contract has a minimum number of shares as the underlying asset. For example, if the person X buys a put option of 100 shares and if as expected if the share price of company A falls to 675 rupees, then he makes a profit of 15 rupees per share because he has already acquired the right to sell it at 690 though the current price is 675 rupees. An option buyer acquires a right while the option seller takes on an obligation. Itjsthebuyer's privilege to exercise the right and the seller has to honor it.

A call option can also be stild. If one sells a call option, he acquires an obligation to deliver the underlying asset. If one sells a put option, he acquires an obligation to buy the underlying asset. Option premium is the money paid as consideration by the option buyer to the option seller (also called The optior writerpThis,premium is kept by the seller regardless of whether the right acquired in the options contract is'exercised or not by the buyer of the option. The options contracts are bought and sold through the stock exchange where the buyers and sellers do not deal with each other personaliy. The sellers (or writers) of put and call options are the ones who are taking the risk and hence pay some amount to the stock exchange called margin money. But the buyers of cail and put options only pay the options premium.

Role of Futures Market in an Economy : The futures market helps in price discovery of traded entitles. In addition, it also helps in hedging price risk. The hedger has an interest in the underlying asset and is trying to protect himself from risk of price changes by entering into a futures contract. However, the futures market also has participation of speculators who only seek to make a profit but have no interest in selling or buying the under lying asset.

Commodity Futures in India : The first organized futures market was established in 1875 as Bombay Cotton Trade in cotton. The futures market in commodities grew rapidly between the First and the Second World Wars. However in mid-1960's, commodities futures trading was banned in most commodities in India, except a few like pepper, turmeric etc. Today, once again, India has a growing commodity futures market in many commodities. The national level commodity exchanges are NCDEX (National Commodity and Derivatives Exchange) MCX (the Multi Commodity Exchange), The National Multi-Commodity Exchange, the Indian Commodity Exchangee ltd. (ICX) and Ace .atives and Commodity Exchange.

The Forward Markets Commission (PMC) : This was set up in 1953 under Forward Ccrrracts (Regulation) Act - 1952. The FMC is the chief regulator of forwards and futures markets in India. The FMC is headquartered in Mumbai and functions under the Ministry of Consumer Affairs. I: consists of 2 to 4 members, nominated by the union government. The FMC allows commodity :rac ng in 21 exchanges including 5 national exchanges. The FMC's functions are

1. To advise the central government on matters of granting recognition / withdrawing -recognition to / from any association in any matter arising out of the administration of the Forward Contracts Act - 1952.
2. To keep vigil over forward markets and take necessary action whenever required as a regulator
3. To collect / publish information regarding trading conditions of goods and also periodical reports on orking of forward markets in India 4) To inspect accounts of recognized association whenever necessary.

The National Board of Trade: This was set up in 1999 and is a regional commodity exchange. I: 5 one of the fastest growing commodity exchanges and functions under the FMC.

Currency Futures in India: This was allowed in India in 2008. A currency future is a future contract to exchange one currency with another at a specified date at a price fixed no. The trade unit of each contract is a certain amount of the other currency. In India^ currency futures are permitted only in rupee and US dollar. The size of the contract is at least 10 0 0. d o 11 a rs and is" op en only to "persons resident in India. The Multi Commodity Exchange - SX (McX - SX) is the premier exchange for currency futures in India.

The Securities and Exchange Board of India: It was set up in 1988 and was given a statutory status in 1992 following SEBI' Act -1992. The powers of SEBI were enhanced In 2002 which raised the strength of the SEBI Boardjrom to 6 to 9 and to give enhanced powers of search and seizure. The SEBI Board of 9 includes 2 government nominees and one nominee of RBI. The Board has power to impose penalties, pass cease and desist orders, suspend registration of a broker and also file criminal prosecution in a court of, law. The functions of SEBI are

1. protect nterests of investors in securities
2. regulate the working of stock brokers, merchant bankers and give approval for mutual funds and also register FII. SEBI also enforces corporate disclosures, registers / regulates venture^{v}capital funds, enforces code of conduct for all credit rating agencies in India.

National Securities Depository Ltd: This has been set up under the Depositories Act - 1996. The NSDL, holds securities of depository accounts and also offers facilities like dematerialization Converting physical shares into electronic shares) rematerialization etc. It has been promoted by IDBI, UTI and NSE.

The Depositories Act - 1996 : It provides for establishment of depositories in securities with the aim of free transferability of securities with speed and accuracy. It provides for

1. making securities of all public limited companies freely transferable (subject to some exceptions).
2. Dematerializing securities in depository mode
3. Maintenance of ownership records in a book entry form.

4. Transfer of ownership of securities electronically. A depository is like a bank where securities an electronic form are maintained. The depositors hold the securities of account holders in a cemat account. A depository participant is an agent to provide depository services. The depository participant is appointed by the depository and as per SEBI regulations, banks, financial institutions and SEBI registered trading members can become depository participants.

Securities Contracts (Regulation) Act-1956: This act provides for direct/indirect control of ail aspects of securities trading and running of stock exchanges. It aims to prevent undesirable r-ansactions in securities. It gives the central government regulatory jurisdiction of

a) stock exchanges through a process of recognition and continued supervision
b) Contracts in securities and
c) listing of securities in stock exchanges.

A stock exchange complies with conditions prescribed by the central government through the stock exchanges determine their own listing regulations.

The Takeover Code: It is a set of rules of SEBI which determine whether or not acquisition of shares of a company amounts to a takeover attempt. The aim of the takeover code is to ensure that the acquirer gives an opportunity to invesjors in a company to exit if they feel that a change in the management control,of a company is not in the best interests of the company. The takeover code is part of SEBI rules, first formulated in 1994. An acquirer is any person who directly or indirectly agrees to acquire by himself or through Persons Acting in Concert (PAC) with him, the shares or voting rights or control over a target company. Persons Acting in Concert (PAC) refers to persons who with a common purpose of acquisition of shares or voting rights or control over a target company. The PAC can be a company, its holding company, subsidiary company under the same management group, or immediate relatives of promoters, members of the promoter group. Control includes the. right to appoint majority of directors or to control the management or policy decisions. Under the new Takeover- Regulations 2011, if acquirer acquires a shareholding of 25% of a listed firm, he has to make a public offer (the earlier threshold for a public offer was 15%). The public offer should be acquisition of an additional 26% of shareholding (earlier it was 20%).

Creeping Acquisition norms have also been changed. For e.g. when an acquirer holding 25% or more shares but less than 75% of the shares will have to mandatorily make a public offer if he acquires more than 5% of voting rights. According to the new guidelines the offer price of the acquirer to buy additional shares will be the higher of the following

1. highest negotiated price per share of the target company for any acquisition under the agreement attracting the public announcement of an open offer
2. the volume weighted average price paid or payable for acquisitions whether by the acquirer or any Person Acting in Concert with him, during 52 immediate preceding weeks before the'date of public announcement
3. the highest price paid or payable for any acquisition., whether by the acquirer or by any Person Acting in Concert with him, during 26 immediate preceding weeks before the date of public announcement. The Takeover Code also allows existing acquirers holding more than 25 stake in the company, to make a voluntary offer of acqujring an additional minimum 10% of the total shares of the target co'mpany but, the post-offer shareholding of this acquirer should not exceed 75% of total shareholding and also only if he has not acquired shares of the target company in the previous 52 weeks without attracting an open offer.

Buyback of Shares: This is allowed under the Companies Act-1956. Under the Act, a company can buy back its own shares, other specified securities from its free reserves, from the money of its securities premium account' or from monies raised through a previous buyback. The buy back should not be for more than 25% of the paid up capital and free reserves. "A special resolution of the company is required to authorize buyback and the company should discJose^{s}'the purpose of buyback. Companies are allowed two buybacks each year. After the '.buyback, the company should have a 2:1. debt equity ratio. The company which has come' out" with a buyback cannot reissue shares for another 24 months. A company can buyback its share from the existing shareholders through a tender offer, through reverse book building or through a stock exchange and from odd lot holders. A company can buyback its \shares without shareholder resolution to the extent of 10% of its paid up capital and reserves. However, if a company tends to buyba shares to the extent of 25% of paid up capital and reserves, it has to be approved by a shareholder resolution. In the tender offer method, the company sends a tender offer form to the shareholder. According to SEBI guidelines, at least 5% of the shares the company buys back shall be bought back from small shareholders whose shareholding has a maximum market value of 2 lakh rupees.

Mutual Funds: A mutual fund operates as a Financial intermediary. It sells units to people and invests these sums in market securities including government securities. It provides an opportunity to an ordinary investor to invest in good securities along with expert selection and professional monitoring of investment. The other benefits to investors are

1. red uced risk by diversification of portfolio (or instruments of investment).
2. provide expert investment advice which ordinary investors lack
3. low commissions of mutual funds
4. encashing units whenever required if it is an opene ended scheme.

An open ended mutual, fund issues its shares (units of investment) at all times and the investors can withdraw from it by encashing the units any time. The price of the unit is based on the Next Asset Value (the market worth of a unit calculated on the basis of various assets in which the fund has invested minus the expense). A closed ended., mutual fund issues its units as an IPO (which is usually called a New Fund offering) These are traded on exchanges and price of units of the fund are determines not by NAV but by investor demand.. The shares are not redeemable until the fund is liquidated. The'mutuaT fund has a 3 fold structure - a sponsor, a trust and an asset management company. An AMC is hired by the sponsor to invest in accordance with the objectives of the fund. The sponsor requires the approval of the SEBI. The fund is managed by a Board of Trustees in whose favour a trust deed is executed by the sponsor. The'AMC actually manages the funds.

India's Mutual Fund industry started with UTI's Act-1964. US-64 under the utl Act-1964. US-64 was the a'gest mutual fund with crores of investors. In 1985, the UTI Act was amended to allow UTI to invest in assets such as term loans and real estate in addition to capital market securities. In 2003 UTI was broken down into 4 new companies

1. UTI Infrastructure Service to manage properties of UTI across the country
2. UTI Pension and Portfolio Management Services which is its mutual fund
3. UTI Distribution Company - which distributes-financial services/products of UTI
4. UTI Asset Reconstruction Company whose function is for recovery of sticky assets.

Index Fund: It is a mutual fund which invests in all the securities of an index (like the securities of sensex-30). Hence it does not produce better results than the index it invests in, The main benefit is greater diversification at lower costs and is also much less risky than a normal mutual uund. Index funds have low expense ratios compared to mutual funds and hence provide superior eturns in the long term.

Venture Capital Funds: These are investment companies which provide equity support to P'ojects being launched by first generation entrepreneurs who are setting up enterprises with commercially untested but sophisticated technology, Venture funds invest in a company before the company goes for a~public issue of share. The period of investment is medium to long term and -eturns are in the form of capital appreciation of the company funded.

Sweat Equity : These are equity shares issued at a discount to market price or for a consideration ether than cash to a person for providing know how or an intellectual property right. These are usually used as instruments of entrepreneurship building. Under Companies Act - 1956, only when 75% of sharesholders in an Annual General Body Meet support a special resolution, the company can issue sweat equity.

Corporate Governance : Corporate Governance refers to a set of norms to be following by managemnts of corportates to secure objectives such as

1. Fair treatement of shareholders
2. Prevent insider abuse so that corporate resources are not squandered

3. Safeguared the interests of shareholders, particulary minority sharesholders and of the general society at large.

The SEBI under clause 49 provides for corporate governance norms. For all companies which are listed, if the chairman is not an excecutive director, one third of the board of directors of the company should be independent. should be independent. The Sarbanes Oxley Act of US isa the model for the corporate governance clause of SEBI.

Employees Stock Options (ESOP) " This is given by companies to their employees as an incentife. The ESOP confers on the holders the right to buy the shares of that company, but not an employee can exercise his right to buy. Normally the specified period is between 1 to 9 years. If the holder of the ESOP resigns, the ESOP rights are lost if they are due after the date of resignation. ESOPS are given to retain talent by a company.

Anchor Investor: Under the SEBI guidelines, anchor investors are individuals who have bid for at least 10 crore worth of shares in a public issue. Such anchor investor can be allotted around 30% of the portion reserved for qualified institutional investors. The anchor investor cannot be a promoter under the SEBI guidelines.

Bimal Jalan Recommendations for Stock Exchange Demutualization: The major recommendation are

1. stock exchanges should be for reasonable profit
2. Demutualised stock exchanges shouldn't list their shares on themselves
3. Equity shareholding of brokers to be maximum 5%
4. Public financial institutions and banking companies with at least 1000 crore net worth to invest up to 24% in stock exchanges
5. The solar of top management of a demutualised stock exchange to be fixed.

Performance of NSE and BSE: The NSE and BSE accounted for 99.8% of cash turnover of all recognized stock exchanges in 2011-12. The turnover in the cash segment of all stock exchanges fell by 25% in 2011-12. For NSE and BSE, the turnover in the cash segment fell by 21.4% and 39.6% respectively. The cash turnover of NSE in 2011-12 was 28.10 lakh crore and of BSE was 6.67 lakh crore. The market capitalization of NSE and BSE fell by 9% and 9.1% in 2011-12 respectively compared to 2010-11.

6. Industrial Sector

Industrial Policies : The need for an industrial policy in independent India was in the context of

1. To correct the lopsided industrial development in the colonial period.
2. Lay down the desired pattern of industrial investment.
3. Determine the pattern of industrial development over space and time.
4. To reduce inequalities among people and regions. Hence in light of the above factors, the government of India formulated the Industrial Policy Resolution in 1948. The chief objectives of the Industrial Policy Resolution (IPR) - 1948
   (i) To lay the basis for a mixed economy.
   (ii) To enable the state to assume the responsibility of industrial development in accordance with nationally determined goals.
   (iii) The policy divided industries into 4 categories.

CATEGORY A : Industries under this category to be a state monopoly (like Atomic Energy, Railways etc.)

CATEGORY B : This included the mixed industrial sector. The state to set up new capacity i the industries under this group while existing capacity of the private enterprise would be allowed for 10 years.

CATEGORY C : Industries under this category to be in the private sector but subject to close governmental control. The state may also set up capacity in this category.

CATEGORY D : Industries under this to be left to private enterprise subject only to general governmental control,

The Industries (Development and Regulation) Act-1951 was enacted tb give effect to the Industrial Policy Resolution- 1948. It provided for licensing for new industries and also for expansion of existing capacity (no license would be required for units with less than 100 workers and where investment was less than 10 lakhs). It empowered the government to prescribe prices, volume of output and distribution of output. It also empowered the government to take over the management of private industry if it failed to act .in accordance with the guidelines laid down in the IPR-1948 and the Industries Act-1951. The act also provided for intervention by the government to investigate industrial activity.

The Industrial Policy Resolution -1956 : This was to give effect to the goal of establishing a socialist pattern of society. This was based on the Mahalonobis strategy of development. The classification of industries was more clear and the coverage of indu'st^es: was more broader in terms of the role of the State. Under IPR-1956, more industrial groups were' brought under public sector and industrial licensing was made mandatory. The IPR-1956 grouped,, industries into three schedules.

Schedule A : Included 17 Groups of industries. These will be the monopoly of the State.

Schedule B : Included 12 Groups of industries. Capacity in these would be increasingly set up by the State but private sector would be allowed at the discretion of the State. The schedule B industries were to be developed by the states. However, in-schedule B industries, the private sector was expected to supplement the efforts of the state governments. Hence, schedule B industries will not be monopolies of state governments.

Schedule C: Included all other industries. These were to be developed by the private enterprise subject to control by the government under economic legislations like the IDRA- 1951. Schedule C industries will also be subject to licensing under IDR Act -1951.

Review of Industrial Development under IPR -1956 : The government set up the Hazari Committee in 1966 to review the working of industrial licensing. The committee submitted its report in 1967. The Subimal Dutt Committee was also set up in 1967. This was the Industrial Licensing PoHcy Inquiry Committee. It submitted the report in 1969. Both these committees concluded that the licensing authorities ignored the objectives of industrial licensing. The Dutt Committee recommended the concept of the joint sector. It also recommended identification of core industries. From these, those in Schedule A should be reserved for the State.

Liberalisation of Industrial Licensing : Based on the findings of the Hazari and Dutt committee Reports, liberalisation of industrial licensing was initiated. This .took the form of series of Industrial Policy Statements. These were :

(i) Industrial Licensing Policy 1970 (Industrial Policy Statement-1970) : It identified 8 core industries. Of these, those in Schedule-A should be reserved for public sector and in others, private enterprise should be allowed. The industries were divided into 4 sectors -

1. core sector - Which included critical and strategic industries such as steel, coal, cement, atomic energy, clear minerals etc. The core sector units were to have investment in fixed assets of at least 5 core.
2. The Middle Sector or Medium Sector : This would be include units with an investment of oe:.veen 1 crore to 5 crore in fixed assets.
3. Non-core sector : This was also called the joint sector a"d would include some core industries with an investment of 5 crore
4. Delicensed sector : These would include industries which do not require a license. It also identified industries for the joint sector, heavy industrial sector and medium industrial sector.

(ii) Industrial Licensing Policv-1973 (Industrial Policy Statement-1973) : It identified industries for development in the Joint Sector and also identified the priority industries. This defined core industries as basic industries or infrastructure industries which would fefe also is? developed by private enterprise (subject to licensing) and with an investment of at least 20 crore. The Joint Sector as an instrument of public private partnership was also visualized. The core industries identified for the private sector included iron and steel, crude oil exploration, Oil refining, cement, coal, and electricity. The 1973 licensing policy also provided for entry of multinational companies into India on a limited basis.

(iii) Industrial Licensing Policv-1975 (Industrial Policy Statement-1975) : This was a major step in delicensing of a large number of industries. This permitted unlimited expansion beyond licensed capacity and delicensed 21 groups of. industries.

(iv) Industrial Licensing Policv-1977 (Industrial Policy Statement-1977) : it expanded the list of industries for the small scale sector. It also proposed the establishment of District Industries Centres (DIG) to help the Small Scale Sector (SSI). It also introduced the Tiny Sector TTTTs" prohibited foreign investment in non-priority industries. The policy expanded: the number of items reserved for the SSI from 180 to more than 500. It defined tiny units as those which would have investment in fixed assets of not more than one lakh and would be set up in villages and towns with up to or less than 50,000 population as per the 1971 census. It also declared that foreign companies that reduced foreign equity to 40% of total paid up capital would be treated on par with Indian companies.

(v) Industrial Licensing Policv-1980 (Industrial Policy Statement-1980) : This provided for regularisation of excess capacity particularly for FERA/MRTP companies. It also sought to promote export oriented units. This exempted some key industries from the provisions of MRTP Act.

(vi) Industrial Licensing Policy-1985 (Industrial Policy Statement-1985): This aimed to encourage the growth of large industries. It raised the limits on investment infixed assets for the purpose of the MRTP Act. It also introduced Broadbandinq as a device to liberalise industrial licensing. Broadbanding covered machine tools, paper, automobile and other industries.

(v) Inindustrial Licensing Policy -1988 (Industrial Policy Statement-1988) : This was another major step towards delicensing Indian industry. Non-MRTP and Non-FERA companies were exempted from licensing if they set up capacity in industrially backward areas. It also proposed the establishment of Growth Centres. Non-FERA and Non-MRTP companies were exempted from licensing if they set up industries with fixed investment of not more than 50 crore in backward areas.

Industrial Policy Resolution -1991 : This represents a new economic philosophy with emphasis on competitiveness of Indian industry, growth of large enterprises, accelerating the rate of industrial Investment and the development of an export oriented Indian industry. The chief features of IPR-1991 are : 1) Abolished industrial licensing except for few industrial groups, (Note : Today licensing is required for 6 industrial groups. These are : i) distillation / brewing of alcoholic drinks, ii) manufacture of cigar/ cigarette, tobacco substitutes, iii) electronic, aerospace and defence equipment, iv) Industrial explosives and detonating elements, v) Hazardous chemicals, vi) drugs and pharmaceutical products) 2) Dereserved 9 industrial groups from the 17 reserved for the public sector (Note : Today, 3 industries are reserved for the public sector. These are : i) Atomic energy, ii) Nuclear materials/substances specified by the department of atomic energy, iii) Rail transport). 3) It opened Indian industry to Foreign Direct Investment (FDI). 4) The IPR-1991 declared that Foreign Exchange and Regulation Act (FERA) would be amended to attract FDI. 5) It places responsibility of industrial development on the private enterprise.

SMALL SCALE INDUSTRY

The Small Scale Sector (SSI) Includes : 1) Ancillary Units : These are industres which sell at least 50% of their output to other industrial units. The ceiling on investment infixed assets is one crore. 2)Tiny Units : Defined by Industrial Licensing Policy of 1977. The investment ceiling in fixed assets is 25 lakhs. 3) Small! -Scale Units ; These are units with a ceiling on investment in fixed assets being not more than one crore. Based on the Abid Hussain Committee's recommendations, the investment ceiling in fixed assets was increased to 3 crore for small scale units. However, it has been reduced later to one crore. 4) Small Scale Service Business Enterprises: Are those with a maximum investment of 10 lakh. These produce industrial services for industry.

THE IMPORTANCE OF THE MEDIUM SMALL AND MICRO ENTERPRISES (MSME): The MSME account for 40% of India's exports, 45% of India's manufacture output and provide direct employment to 70 million people. The MSME also contribute to more than 90% of India's non-traditional exports. India today has around 3.11 crore units in the MSME. These account for 95% of all enterprises. Their economic significance is in terms of

1. Have low ICOR compared to big medium industry.
2. Add value to the agricultural output.
3. Are labour intensive
4. Help in rural industrialisation.
5. Have low import intensity
6. Are labour intensive and capital saving (India is labour surplus and has inadequate capital). For example, SSI create more.employment per unit of investment (15 times more than the employment generated by medium and big industry).
7. SSI tap hidden resources, idle rural savings and also rural enterpreneurial ability.
8. They reduce income inequalities and reduce regional imbalances.
9. They also help in preservation of inherited skills because they manufacture non-traditional items (for e.g. 90% of exports of SSI are made up of non-traditional items).

Problems:

1. 96% of units in SSI have fixed assets less than 5 lakh but account for 60% of output of the SSI sector. (These do not enjoy economies of scale and have obsolete technology and production process). Only 4% of units of SSI with Investment in plant and machinery above 5 lakh account for 40% of output from the small scale sector.
2. Though the definition of SSI is on the basis of investment in fixed assets according to the Industries Development and -Regulation Act - 1951 (the earlier definition of SSI on the basis of investment and employment criteria was modified to exclude employment criteria), still the SSI come under the purview of the Factory Act - 1948 for labour purposes. This leads to harassment by

labour inspectors. Many units within the tiny sector (which is part of SSI) with an investment of- 2 - 3 lakhs in fixed assets and with 10-12 workers are subject to Factories Act and other labour laws, hence leading to harassment by inspectors.

3. Encroachment by big industry is another serious problem. The medium and big industry have entered the SSI on one pretext or the other to produce the items reserved for the SSI and to avail concessional credit by banks.

Measures for the Promotion of SSI in India :

l. **The Small Industries Development Organisation (SIDO)** was set up in 1954 to formulate, co-ordinate and monitor programmes and policies for the promotion and development of SSI in India.

2. **Reservation of items for SSI :** The government has reserved around 836 items to be manufactured and produced by the SSI. Encroachment by medium/large industries on these reserved items is penalised. This policy of reservation is under'constant review and hence items may be added or deleted from the reserved list. To review the reservation policy, the government has constituted an "Advisory Committee on Reservation" in 1951. The items reserved for the production by the SSI however can be produced by the large and medium sectors only if they export 75% of their production.

3. **Marketing Assistance :** The "National Small Industries Corporation" has been set up in 1955 which helps the SSI in obtaining greater share of government and defense purchases, In fact, the government is the single largest purchaser from SSI The "Small Industries Development Organisation" (SIDO) provides indirect support to the marketing efforts of the SSI by preparing "Area Survey Reports", Industry Prospect Sheets: for their guidance.

4. **Financial Assistance :**

(a) The National Small Industries Corporation (NSIC) at the national level and its counterparts at the state level supply machinery to the SSI on a hire-purchase basis.

(b) Financial Institutions like IDBI (Industrial Development Bank of India), NABARD, ICICI (Industrial Credit and Investment Corporation of India) provide refinance to banks (i.e. reimburse the amount given to SSI by other banks) for financing the SSI.

(c) The Small Industries Development Fund within the IDBI has been set up in 1986 with a paid up capital of 2500 crores. The fund caters to finance the expansion/ diversification programmes of SSI.

(d) The "National Equity Fund" has been set up in the IDBI to provide equity support to small scale enterpreneurs for setting up new projects and also for rehabilitation of potentially sick units, e) The "Small Industries Development Bank of India" was set up in 1989. It is an apex bank (which became operational in April, 1990) to cater to financing, development and promoting the SSI. It has an authorised capital of 250 chores, and is a subsidiary of IDBI.

5. **Technological Assistance :**

(a) Items of machinery/ equipment for the SSI and the VSI (village and small industries) are put -in the "Open General License" (OGL). (Items in the OGL do not require an import license i.e., they can be freely imported).

(b) SSI enterpreneurs are entitled to import machinery/equipment upto 3 lakhs for setting up capacity.

(c) The "District Industries Centres" (DIC) assist the SSI with respect to information about technology.

(d) The National Equity Fund, SIDO help the SSI in technological modernisation.

(e) In 1990 - 91 budget "Tool Rooms""Process and Product Development Centres" have been under SIDO for the technological upgradation and modernisation of SSI.

(f) Again in the 1990 budget, a "Department of Small Scale, Agro and Rural Industries" at New Delhi has been set up to harness innovtive technology for achieving value addition to agricultural/horticultural produce and also raise the level of rural technology in village industries.

(g) In 1992, a Small-Scale Industrial Policy was announced which assured timely and proper finance for growth, technological upgradation, removal of labour irritants and ending the inspector raj.

Other Problems of the Small Scale Sector :

1. Lack of assured supply of credit/inadequate financial assistance.
2. Inadequate supply of raw material : The SSI are starved for assured supply of raw material because the medium and large sectors get most of the raw material since they have adequate resources at their disposal to buy up huge quantities of raw material.
3. Encroachment by big/medium industry : On an average, 95% of the SSI have assets worth less than 5 lakhs i.e., units having assets more than 5 lakhs each are usually controlled/owned by big/ medium industrial houses.
4. Poor R&D : Small sector has practically no R & D. Though ICICI lends money for R & D and also provides expertise, its schemes attract few takers. The IDBI has provision to fund only common testing facilities for the small sector. The government should therefore step up investment in R & D for SSI.
5. Inadequate development of rural markets : The total size of the rural market for packaged goods is huge, in which the share of SSI is very low. The factors impeding the growth of rural markets include widespread dispersal of villages, inadequate road network in rural areas frail communications, low purchasing power, scant marketing research and inadequate number of retail outlets. Hence there rs no adequate demand for the goods produced by SSI.
6. Cumbersome procedure: The procedures are still cumbersome and the inspector raj is far from eliminated. A large number of inspectors from various organizations still keep coming to SSI units on some pretext or the other thus slowing down the production process.
7. Inadequate utilisation of installed capacity : Most of the units do not use their installed capacity to the fullest. This is owing to the reason that they believe that there is no market if they produce the maximum possible by them.
8. Lack of proper counselling facilities : The small industrialist starts his unit without full information regarding the viability of the unit A. As a result some units fall sick.
9. Delayed sanctioning of loans : Though credit facilities exist, a lot of time is lost in sanctioning loans due to the cumbersome procedures.
10. Frequent changes irf fiscal levies : Small scale enterpreneurs are subject to varying tax structures which retards their progress.
11. High rate of interest : SSI pay a high rate of interest on borrowings which the industrialist can ill-afford. Apart from this, banking institutions also collect service charges, commission for discounting bills, handling charges etc.
12. Infrastructural problems : Frequent breakdown or shortage of power is a major impediment that effects the health of the unit.
13. Lack of effective marketing back-up : Because of poor managerial skills and sub-standard quality of goods the SSI find it difficult to market their output.
14. SSI is catering to elite sections of the society : Contrary to the objectives of producing wage goods and goods of mass consumption, the products of SSI are catering to the elite sections of the society and hence are not fulfilling their role in harmony with the objectives.

Suggestions :

1. Simplification of procedures
2. Implementation of the single window system.
3. Development of marketing surveys and outlets

4. Sanctioning of loans within a stipulated time.
5. Introduction of a single tax like VAT.
6. Modernization of the plant.
7. Provision of Infrastructure

Reforms for the SSI:

1. The Abid Hussain Committee was set up in 1997 and it suggested many reforms.
2. Based on the Abid Hussain Committee's recommendations, the government has started dereserving items reserved for the SSI. In the 1997-98 budget, for the first time 14 items were dereserved. Based on the same committee's recommendations, the distinction between export - oriented and non-export oriented SSI has been abolished, the investment ceiling on fixed assets of SSI have been raised and norms for loans by banks to SSI have been laid down.
3. Big ncustry can participate in the equity of SSI upto 49% of the total equity.
4. FDI is allowed upto 24% of the equity of SSI.
5. Export obligation of big industry producing items reserved for SSI -as been brought down from 75% to 50% of total output.
6. Small and Medium Enterprises Fund nas been set up under SIDBI and is operational since April,2004. 7) The S.P. Gupta Study Group on Development of Small Enterprises was set :up in 1999. It gave a 3-fold definition of tiny, small and medium enterprises. Tiny units are to be defined as those with investment not exceeding 10 lakhs in plant and.machinery. Small units are those with investment on plant and machinery being between 10 lakhs to one crore. Medium units are those with .investments on plant and machinery between one crore to ten crore. For the first time the Study Group defined the investment ceiling for plant and machinery for medium units. 8) In 1997, the RBI set up the S.L. Kapoor Committee to make recommendations on the problems of untimely and inadequate credit to the small scale sector.

Small and Medium Enterprises Development (SMED) Act, 2006: The salient features of the Small and Medium Enterprises Development (SMED) Act, 2006 are :

1. Enterprises are classified into manufacturing enterprises and service enterprises.
2. Both have been further sub-classified into micro, medium and small based on their investment in plant and machinery, if it is manufacturing, and based on equipment, if it is a service enterprise.
3. Manufacturing enterprises are:
   (a) Micro enterprises with an investment of upto 25 lakh rupees
   (b) Small enterprises with an investment of between 25 lakh and 5 crores
   (c) Medium enterprises with an investment above 5 crore and upto 10 crores.
4. Service enterprises are :
   (a) Micro enterprises with an investment upto 10 lakh
   (b) Small enterprises with an investment between 10 iakh and 2 crores.
   (c) Medium enterprises with an investment between 2 crores and 5 crores. The Act provides for a consultative body at the national'level with representation to all stakeholders, an Advisory Committee to assist the Central and state governments.

The Act also provides for:

(a) Specific funds for the promotion of competitiveness of these enterprises.
(b) Progressive credit policies.
(c) Preference in government purchases from them.
(d) Address the problem of delayed payments to these enterprises by big industry.
(e) Simpler procedures for closure of these enterprises.

Abid Hussain Committees Recommendations on SSI: The Abid Hussain Expert Committee on Small Enterprises has made the following recommendations.

1. Scrap reservation policy for SSI (836 items are reserved for production of SSI. Medium and big

industry can enter into these areas only if they undertake to export 75% of output).

2. Scrap 24% limit on foreign equity participation in units producing these items.
3. Raise investment limits in plant and machinery for tiny sector to 25 lakhs (now 5 lakhs).
4. Tax concessions to existing units producing reserved items for a 5 year transition period.
5. Government to provide 2500 crore as financial assistance to SSI in a five year transition period.
6. Pending scrapping of reservation policy, the export obligation of non-SSI unis producing items reserved for SSI to be brought down from 75% to 50%.
7. Public and private partnership for setting up support systems for SSI.
8. Redirect SSI to backward regions based on the cluster approach.

Credit Guarantee Fund Scheme for Micro, Small and Medium Enterprises : It was launched in 2000 by the SIDBI and Ministry of Micro Small and Medium Enterprises. The government of India and SIDBI contribute to the corpus of the fund in the ratio of 4:1. The corpus of the Fund was raised to 2500 crore by end of the 11th plan. The eligible institutions to lend are scheduled commercial banks, select RRB's, National Small Industries Corporation Limited (NSIC), and SIDBI. The credit facilities are given to new and existing units for both term loans and working capital upto 1 crore per borrowing unit, without any collateral. If the credit is more than 50 lakhs, the Trust will guarantee credit up to 50 lakh only. The credit should be availed by the borrowing unit from a single lending institution. The guarantee cover by the Trust will be up to 75% of sanctioned credit amount but guarantee cover is upto 80% for micro enterprises for loans upto 5 lakh, micro and small enterprises owned by women and for loans in the North East Region.

Nationai Manufacturing Competitiveness Programme : This was launched in 2005 with the objective to support the small and medium enterprises to help them become competitive. The components of the programme have been worked out by the National Manufacturing Competitiveness Council (NMCC). This began to be implemented in 2006-07 financial year. The 5- year programme of National Manufacturing Competitiveness to be executed in a public private partnership mode, includes marketing support to SME's, support for entrepreneurial / managerial development of SME's through incubator approach, building awareness on intellectual property rights, setting up of mini tool rooms by ministry of MSME, training in quality management, support for design expertise, technology and'quality upgradation support etc. These schemes were to be implemented in the 11th 5 year plan.

India Opportunities Venture Fund: This was announced in budget 2012-13. This will be within SIDBI with a fund size of 5000 crore. This fund is to enhance availability of equity capital to MSME.

National Eguitv Fund Scheme: This provides loans to MSME for projects upto 50' lakh. The concessional loan for such projects is 25% of the project cost subject to a maximum of 10 lakhs per project. The NEF loans are at 5% interest.

Credit Linked Capital Subsidy Scheme: This is to facilitate technological upgradation of MSME. The scheme provides for 15% subsidy an capital expenditure on induction of proven technologies. Under the scheme the maximum loan is 1 crore of which 15 lakhs is subsidy given. Term Loans sanctioned under CLCSS are only eligible for subsidy.

Other Initiatives for MSME: Two SME Exchanges have been set up in Mumbai in 2011 to enable these enterprises to have greater access to finance. The government also approved a policy under which ministries and central PSE's are required to make a minimum of 20% of their annual purchase from micro and small enterprises. 4% of this purchase will be from MSE's owned by SC and ST entrepreneurs.

THE INDEX OF INDUSTRIAL PRODUCTION

Any index like the IIP or the wholesale price index is a composite or a summary indicator whose absolute numbers are free from units of measurement. The 1st IIP of India had a base year of 1937. The Central Statistical Organization started Compiling IIP with the base year as 1946. The IIP measures growth of a basket of industrial goods which are most important to the industrial economy of India. The basket does not include all industrial groups because data of output may not be consistently available and / or because the contribution of some industrial groups is not significant to the overall industrial economy of India. The current IIP includes 682 items in its basket clubbed into 399 item groups (manufacturing includes 397 item groups, mining and quarrying include one item group and electric power production, one item group). Of the 682 items, 620 belong to manufacturing, 61 belong to mining and quarrying and one to electric power production. The items are also clubbed into use based groups i.e., basic goods, intermediate goods, consumer goods. All groups of the basket that the IIP includes are assigned weights which refer to the gross value added by that activity. The pfresent IIP is based on 2004-05 as base year in which manufacturing has a weight of 75.53%, mining / quarrying a weignt or 14.16% and electricity production a weight of 10.32%. In use based classification, basic goods have a weight of 45.68%, capital goods a weight of 8.9%, intermediate goods a weight of 15.7% and consumer goods a weight.of 29.8%. The IIP includes 8 core industries with a combined weight of 37.9%.

New Electronics Policy and Electronic Industry: The chief features of the Electronic Hardware Manufacturing Policy 2012-17 are 1. Under Electronic Manufacturing and Modified Special Incentive Scheme (M-ships) promoters setting up electronic Manufacturing clusters which offer basic infrastructure to enable concentration of units producing components sub-assembly, other products in the value chain will get 50% of the project cost with a ceiling of 50 crore for every 100 acres and for a maximum of 200 such plusters. For units"TrTSEZ, a 20% subsidy on capital expenditure will be given.'Fortirownfield clusters, 7B% of project cost will be given subject to a ceiling of 50 crore. For units outside SEZ, a subsidy of 25% of the project cost will be given if they manufacture any one of the 29 identified product categories, without any ceiling on project cost. For non-SEZ units, there will be refund of counter-vailing duty and excise duty paid on capital equipment. There will be an Electronic Development Fund with a corpus of 10,000 crore which will be for promoting electronic hardware manufacturing. This fund will'also finance many other funds under it to identify deserving R&D projects. The Electronic Development Fund will have 25 to 100% equity exposure in these other funds.

India's electronics production by March 31 2012 was 70 billion USD and is expected to grow to 400 billion USD by 2020. The 30,000 crore policy will be distributed across

(i) 10,000 crore for EDF
(ii) 10,000 crore as financial support for development of electronic manufacturing clusters.
(iii) 10,000 crore for financial support to large units.

INDUSTRIAL SICKNESS

Definition of Industrial Sickness : The Sick Industrial Companies Act - 1985 defines industrial sickness. According to the SICA - 1985, a medium and large company- (i.e., a non-SSI Company) is deemed to be sick if:

1. It has been registered for not less than 7 years.
2. If at the end of any financial year it has accumulated cash losses equal to or exceeding its entire net worth.
3. Has also suffered cash losses in the current financial year.
4. Has. suffered cash losses in the immediate preceding financial year.

This definition excluded government companies (PSE's), shipping companies, small scale and ancillary units. In 1989, the small scale sector wasTjTougfit unae the purview of SICA. A sick small scale Unit is one which, at the end of any financial-year, has'accumulatedTosses equal to or exceeding 50% of its peak rie't worth. A potentially sick unit is one whose accumulate cash losses have eroded 50% of the net worth. Weak Units are defined by. the Sick Industries Companies Act - 1985 as units where 50% of net worth has been eroded.

That is, any unit which has accumulated losses which are equal to or exceeding 50% of its peak net worth in the immediately preceding five accounting years and which has also suffered cash losses in the immediate preceding financial year, is a weak unit. The Boaxd of Lndustriaj and Financial Reconstruction (BIFR) was set up under SICA in 1987. BIFR has the power to make inquiries" to determine whether a company is sick or otherwise. In 1991, the scope of BIFR was extended to cover sick PSE's. In 1994, SICA was amended to permit BIFR to investigate potentially sick units. To deal with sickness, the Industrial Reconstruction Corporation on and was changed to Industrial Reconstruction'Bank of India. In 1993, the government appointecfthe Goswami Committee to examine industrial sickness.

In 1992, the Government of India under a cabinet decision set up the National Renewal Fund (NRH with a corpus of 2500 crore. The fund is to meet the needs of industrial restructuring in India. In 1994, the NRF has been extended to cover companies in the private sector. In 1995, the NRF has been extended to cover workers of state public sector enterprises Note : The NRF has been scrapped,in 2000).

Changed Definition of Sickness for MSME : in November 2012, the norms for sickness for Micro, Small and Medium enterprises have been revised. According to the new definition, any ' %1SME is deemed to be sick if the loan and interest payable by the enterprise is overdue for 3 months or more (earlier it was 6 months or more). In addition the unit need not be in commercial producflorvfor at least 2 years to be declared sick. The revised norms are to be implemented from lst April 2013.

SARFAESI ACT : The Securitization of Assets, Reconstruction of Financial Assets and Enforcement of Security Interest Act or simply the SARFAESI Act - 2002, which came into force in 2003, provides for three methods of recovery - securitizing the asset, asset reconstruction and enforcement of The provisions of the Act are not applicable when the due outstanding to the bank is less than 20% of the principal and interest. According to the Sick Industries Companies (Repeal) Act -2003, the NationaLCompany Law Tribunal wilMnvestigate sick units, not the BIFR. Under the Act

1. Banks to acquire assets under a decree from a tribunal without intervention of courts.
2. Civil courts have no jurisdiction over the Act.
3. A bank having 75% of dues owned by borrowers can seek repayment within 60 days.
4. In case of failure to repay, bank can take over the company and its management.
5. Bank can sell assets of defaulters.
6. Defaulters can appeal to Debt Recovery Tribunals against banks which have seized assets.

PUBLIC SECTOR ENTERPRISES

The public sector enterprises were set up under the Industrial Policy Resolution-1956. The IPR-1956 provided for the expansion of the public sector in order that it would occupy the commanding heights in the mixed economy visualised for India. In fact, the public sector was to be the major instrument to achieve a socialistic pattern of society. The IPR-1956 therefore divided the industries into three categories :

1. **Schedule A :** This had 17 groups of industries whose development would be the exclusive responsibility of the state. The reserved category of industries include defence industries, heavy industries, minerals, transport and communication, and power.
2. **Schedule B :** This had 12 groups of industries. The state would increasingly establish new units in these groups but private sector participation would not be denied and private sector could expand the existing units. The group includes aluminium and other non-ferrous metals not included in Schedule-A, machine tools, ferroy alloys, tool steels, basic chemicals and intermediates, anti-biotics and other essential drugs, fertilisers, synthetic rubber, road and sea transport.
3. **Schedule C :** This contains residual industries whose future development'was left to the initive and enterprise of the private sector.

The Objectives of the Public Sector : The broad objective was that the public sector would be the instrument for implementing the socio-economic policies of the government to achieve a socialistic pattern of society and lead to a welfare state. The specific objectives are :

1. To develop infrastructure for industrialisation of the country.
2. To remove regional imbalances in development.
3. To promote self-reliance.
4. To control basic and strategic sectors of the economy.
5. To prevent concentration of economic power and establish an industrial democracy.
6. To prevent domination by foreign capital.
7. To generate employment and be a model employer.
8. To provide essential consumer goods at reasonable prices.

As a result of the conscious policy of expanding the public sector, it came to function in the key areas of industries such as coal, steel, minerals/metals, heavy equipment, power etc. The public sector also came to operate in the fields of foreign trade, shipping, tansportation, construction, tourism, development of small scale industries etc. In addition, it came to occupy key position in crude oil, basic metals, fertilisers, electrical equipment. The public sector in India on the eve of economic reforms in 1991 accounted for 70 percent of the paid-up capital of the corporate sector in industry trade, agriculture and services. From only 5 enterprises in 1951 with a total investment of just 29 crores, the number rose to over 249 enterprises today. Practically, one can find the public sector in almost every area of economic activity. India today has 249 PSE's of the centre of which 217 are operational and 158 are profit making. There are around 55 central PSE's which are listed in India's capital markets.

Profile of Public Sector : The top sectors in Central government PSEs in terms of investme-: are: Enterprises producing goods got around 61.1% of investment by the State. Within, this most investment went to power, petroleum, coal /lignite and fertilizer. Enterprises producing services received roughly 37% of the investment. Within this most of the investment went to Financ a Services. The top enterprises of the central government on the basis of gross turnover are Indian Oil Corporation, Hindustan Petroleum Corporation Ltd., Food Corporation of India, Bharat Petroleum Corporation Ltd. In terms of gross profit of PSE's, the petroleum companies yielded the highest followed by telecom, power and financial services.

Achievements : The contribution of the public enterprises to the economy, notwithstanding their problems, has been impressive.

1. It has been accounting for the major portion of the output of basic metals including steel, fuel, fertiliser and electric equipment.
2. Developed the services sector such as shipping, transporation, construction, consultancy, tourisn foreign trade, insurance and banking.
3. It lead to the growth of a vibrant private sector by providing infrastructure and by creating a market, has made significant contributions in the public sector R&D through 40 national labs, especially in space, atomic energy and defence.
4. On an average, it has contributed about 24% of the G.N.P.
5. It has been making substantial contributions to the government exchequer through payment of dividends, corporate tax, excise/customs duties and other levies.
6. Undoubtedly the public sector has contributed to reduction in regional imbalances and creation of large employment opportunities in the past.
7. It has indirectly helped in the growth of small and ancillary industries.
8. Public sector intervention led to country becoming self-sufficient in foodgrain requirement of the country. The public sector, in a nutshell, transformed the colonial underdeveloped economy into a developing economy.

The problems and hence the compulsion to reform the public sector enterprises:

1. Poor return on investments : The public sector in terms of overall profitability, has a poor record.
2. Public sector has not been able to generate internal resources and has been increasingly depending upon the budgetary support of the 'government, which has been at the cost of other developmental projects.
3. The PSUs are overstaffed

4. The PSUs have become inefficient in terms of production/productivity and hence their operations have become-high cost. They have thus led to a high cost structure of the economy because they supply basic/critical inputs to other sectors at high prices.
5. Mounting sickness 6. The rate of saving of the nation contributed by the public sector is as low as 8%.

The Underlying Causes for the Problems:

1. **Over-expansion of the Public Sector :** Over the years, the public sector had extended its operations to sectors which have been traditionally for the private sector i.e., the non-infrastructure areas. Deviations like HMT, a machine tool unit, producing watches and bulbs and other such public enterprise unrelated to the welfare,of the people led to all kinds of distortions. For e.g., it led to rnisallocation of resources. Being handicapped in several ways relative to the private sector (management style, pricing, political and bureaucratic interference, etc.) it could not function as a truly corporate business entity in these areas. This led to losses, requiring budgetary support. The resources of the government were now being spread over vast areas and without any justification. In simpler terms, had not the public sector entered into non-infrastructure areas, the government would have been left with larger resources which could have been more gainfully deployed in meeting requirements of other developmental projects and also for meeting the investment requirements of on-going projects and for public enterprises in the core sector, to meet their technological upgradation/ modernisation/ expansion plans. In fact, many long and medium term inyestment plans of the public enterprises were turned down by the planning commission on grounds of paucity of resources. The net result was : cost and time overruns of many on-going projects, corporate needs of profit making companies, especially in terms of investment, not met (profit making companies like BEL, BHEL, BEML, SAIL etc.), led to sub-critical investment in new projects planned - a major reason for sickness both in the private sector and public sector being the low paid-up capital i.e., under capitalization and, rnisallocation of resources into non-priority areas.
2. **No linkage between National plan and Corporate Plans of Public Sector :** The resources of the public sector units including their depreciation provisions, are considered as national resources (by the Union Finance Ministry and the Planning Commission) available for plans. This led to neglect of maintenance norms and also needs for modernisation of many public enterprises. In fact, the long term corporate plans of even healthy public enterprises were neglected by the Planning Commission (the basic reason again being the unmanageable expansion of the public sector) hence no linkages existed between national plans and corporate plans of public enterprises.
3. **Lack of Autonomy :** At present, right from the appointment of chief executives and the nomination of directors to minutest details like rules on T.A., L.T.C., medical benefits, house rent etc., the government controls everything, leading to lack of freedom in unit management. Bureau of Public Enterprises guidelines/instructions/ procedures are uniformly applicable to all the enterprises irrespective of the fact whether they are loss or profit making or whether they are in the core sector with high technology or otherwise. The respective administrative ministry under which the public enterprise functions, by playing the role of ownership and monitoring, interferes on a day to day basis under the guise of parliamentary accountability. The Chief Executive, full and part time directors in the Board of Directors are appointed by the administrative ministry. Though only the representatives of the Finance Ministry and the concerned administrative ministry are called government directors, the fact remains that all directors on the board, full and part time, are in effect, government directors. Another problem is the lack of

participation of the two government directors in the decision-making process. A bureaucratic work culture has thus been created in the management structure of the public enterprises. Though the Public Enterprises Selection Board was constituted in the seventies to select the Chief Executives and full-time directors, its recommendations are usually ignored. In addition, all short and long-term investment decisions are taken by the concerned administrative ministry in consultation with the Union Finance Ministry and the Planning Commission, resulting in a subordinate-superior relationship. Another problem is multiplicity of audit which stultifies the decision-making process (audit by chartered accountants as per questionnaire given by CAG, followed by test audit of this questionnaire, followed by comprehensive review of public enterprises by CAG and in addition, direct scrutiny of public enterprises by the Committee on Public Undertakings).

Increasing managerial autonomy has been an explicitly stated goal but still the autonomy is non-existent. In 1969, Mrs. Gandhi's government took a policy decision not to depute IAS officers to run the public enterprises. This practice re-surfaced during the Janata Government and since then , has not been discontinued. Other efforts to give autonomy were also experimented like forming holding companies or appointment of independent directors to boards of public sector units like for e.g. to those of Indian Airlines and Air India. In 1984, as per the recommendation of the Arjun Sengupta Committee, the device of MOU was also implemented. The Senqupta Committee recommended MOU only for holding PSUs and apex companies for a period of 5 years (to be reviewed/updated every year). The MOU was intended to be a'contract between equal partners with mutual responsibilities and obligations instead^of treating PSUs as subordinate entities. This was supposed to ensure an appropriate balance between autonomy and accountability without disturbing ownership nor reducing government control. The government was to be concerned with only fulfillment of an overall plan contained, in the-MOU without interfering in the day-to-day affairs of PSUs. An MOU signing company was granted'certain enhanced delegation of powers in matters like wage revision, incentive related schemes, voluntary retirement scheme, transfer of directors within the organisation and approval of projects in which capital investment was less than 100 crores. The problems with MOUs are: bureaucratic structure, government is non-committal in its obligations/responsibilities while obligations/targets of PSUs are spelt out, evaluation of MOU is one sided i.e., only obligations/ targets of PSUs in the MOU are evaluated but not the government's, MOU has become an additional step over and above the existing system of reporting and monitoring and finally, chief executives of big organsiations like ONGC/SAIL are able to negotiate a satisfactory MOU while small PSUs have to practically accept stipulations of the administrative ministry. The MOU has increased accountability but has not significantly enhanced accountability. In spite of this, the MOU process has now been extended to cover more PSE's since 1993-94.

4. **Misguided Technology Acquisitions :** Except those public sector units in the strategic and high technology sectors who could acquire the state-of-art technologies, the other public sector units in general, suffered from misguided technology acquisitions. Quite often, the technology acquired either domestically or from external sources, was of a sub-standard nature because of political and bureaucratic considerations in the acquisition of technology and also because of lack of capital for upgradation and modernisation. The technological obsolescence manifested itself in the form of low productivity and high cost of operations.'

5. **Poor Location Decisions :** Due to the stated objective of developing tne backward areas of the country, the public sector units came to be located in areas which lacked even basic infrastructure facilities for their corporate functions. This

resulted in enhanced project costs which included the de. eiopment of infrastructure to a certain extent and later on, higher operational costs. In addition, the iocation decisions were often influenced by political leaders who could succeed in most cases to i ocate the public sector units in their respective constituencies.

6. **Conflicting Objectives :** A look at the objectives of the public sector in India mentioned earlier, shows that they are mutuall conflicting. For e.g., the public sector is expected to generate arge surplusses while at the same time, it is supposed to protect the interests of the disadvantaged sections of the society and also provide essential commodities to the people at reasonable prices. In the hierarchy of priorities, profitability and business activities on a commercial basis occupied a lower rung.

Thus, all the above factors, to name the few most important, led to what is today described as the public sector inefficiency problem.

MAJOR POLICY CHANGES ON PSE's

Policy Changes: The policy changes are due to the problems of'"PSE's, and also due to factors like globalisation / liberalisation of economy, resource crunch of the government, and compulsion to increase competitiveness of Indian Industry. The major policy changes are:

1. **IPR 1991 :**
   - (i) Government equity in PSE's to be di sin vested to increase autonomy / competitiveness.
   - (ii) BIFR to be extended to PSE's
   - (iii) Extending MRTP to PSE's
   - (iv) Extend and strengthen the MOU system
   - (v) Reduce budgetary, support
   - (vi) Professionalise boards of PSE's
   - (vi) Compel PSE's to compete with private sector where social considerations are not paramount.

   As a follow up to this new policy
   - (a) Sick Industries.Companies Act - 1985 was. amended in 1991 to extend BIFR to PSE's.
   - (b) Government launched a disinvestment programme in 91-92 budget.
   - (c) Efforts were made to reduce budgetary support to PSE's.

2. **Plan's Changed Policy on PSE's :**
   - (i) PSE's to be withdrawn from non-infrastructure and non-priority areas.
   - (ii) Fresh PSE investment only in infrastructure, security and defence / strategic sectors, high tech areas and for population control, education and health.
   - (iii) PSE's to concentrate in areas relating to preservation of basic resources like land, forests, water and environment.

3. **Access to Capital Markets :** PSE's were permitted to access the capital markets (both within India and abroad) to raise equity.

4. **Navratna Package :** Autonomy Package for 9 important PSE's (Navratnas) was announced in 1997 which is considered the most important initiative since the MOU system recommended by Arjun Sengupta in 1984. The Bureau of PubHc Enterprise^uses 6 parameters to confer Navratna status which are
   - (i) Total manpower cost as a percent of total cost of production
   - (ii) Profit before depreciation, interest and taxes (PBDIT) as a percent of capital employed
   - (iii) Inter sectoral performance
   - (iv) PBDIT to turnover ratio
   - (v) Earnings per share
   - (vi) Net profit to Net worth.

   In addition, the PSU should be a miniratna, must have 4 independent directors in its Board before it is chosen as a mahar&tna. For Navratna status to be given, the PSU must get a score of at least 60 on the total 100 based on the above parameters. The Navratna status empowers the management to nvest upto 1000 crore or 15% of the net wortji on a single project without seeking approval from the government. "However the overall ceiling on such investment in all projects put together must not exceed 30% of the net worth of a Navratna.

No ceilings on capital expenditure. Can raise debt from domestic capital markets / borrow from international debt market (subject to approval by RBI or Department of Economic Affairs). Autonomy in Personnel Policy (structuring and implementing schemes related to personnel and human resource management, training, voluntary or compulsory retirement schemes). Organisational restructuring (for appropriate marketing, including opening of offices in India / abroad). Government to induct professional, non-official directors to the Board. Committee of Secretaries to monitor the autonomy, The aim is to make these Navratnas global giants.

5. **Autonomy Package for Mini Ratrsas :** Another autonomy package for consistently profit making PSE's called the Mini-Navratna Package was also announced. The details of this package are :

   (i) **Category I Mini Ratnas :** Th.is will have PSE's which made profits for three immediate previous continuous years. The pre-tax profit should be a minimum of 30 crore in any one of the 3 preceding years. The PSE's should not have availed of budgetary support and also should not have defaulted on government loans in the 3 years. The units should have a positive net worth. The category-I PSE's under the Mini-Ratna deal will be permitted to incur capital expenditure upto 500 crore or equal to their net worth without government approval (to buy new equipment, modernise or invest in new projects). They can structure their own HRD schemes and professionalise their boards (by including 3 private experts as part-time directors).

   (ii) **Category-II Mini Ratnas :** These should have made profits for immediate proceeding 3 years and should have a positive net worth. PSE's under this will be permitted to incur capital expenditure (on new projects, modernisation, new equipment) upto 300 crore or 50% of their net worth (whichever is lower). They can enter into a joint venture with an equity participation upto a specified limit. They can structure their own HRD schemes and professionalise the boards.

6. **Relaxing BPE Guidelines:** The Union Government has accepted the Vittal Committee's recommendations on BPE guidelines. As a result, from 892 BPE guidelines, only 171 are to be retained.

7. **Liberalising Salaries and Wages:** The Government has appointed the Justice Mohan Qommittee to examine issues relating to pay, financial management, audit procedures~etcTof' PSE'S.

8. **Professionalizing Boards:** The government has allowed inclusion of outside professionals as part time non-official directors. It has also restricted the number of government nominated directors to one-sixth of the strength of the Board of Directors subject to a maximum of 2 directors. It has also allowed including of functional directors upto a limit of 50% of the strength of the board of directors.

9. **Restructuring and Revival:** The Board for Reconstruction of PSE set up in 2004. This will recommend .measures for restructuring and reviving the sick PSE's, recommend cases for disinvestment, closure or outright sale is to be considered. As of 2008-09, about 70 firms have been referred to the Board.

Impact of PSE Reforms : The profitability i.e., profits to total paid up capital employed, has doubled from 10.9% in 1991 to around 21% in 2010-2011. The navratnas have come to develop the status of Indian MNC's (like for e.g., BHEL or ONGC). The PSE's listed on the stock exchanges have shown a sharp irrcrease in their profits and revenues. The government has been moving rapidly in completing many ongoing PSE's in different stages of being commissioned. The cost overruns of central PSE's to be commissioned have been brought down from 62% in 1991 to 12% in May 2010.

Norms for Maharatnas : The following are eligibility conditions for a central government PSE to be chosen as a Maharatnas.

1. It should be a navratna.
2. It should be listed on India's stock exchanges with minimum prescribed public shareholding under SEBI regulations.
3. It should have an average annual turnover of 20,000 crore during three immediate preceding years.
4. It's average annual net worth should be 10,000 crore.
5. It average annual net profit after tax should be more than 5000 crore during each of the 3 immediate preceding years.
6. It should have a significa global presence and international operations.

Benefits enioved by Maharatnas : The boards of management of Maharatnas in addition :: exercising all benefits of Navratna boards will enjoy additional powers like 1) they are allowed to ~ake equity investment to set up joint ventures and wholly owned subsidiaries in India or abroad 2 they can undertake mergers and acquisitions in India or abroad subject to a ceiling of 15% of :-e:r net worth in the project or an absolute ceiling of 5000 crore. However, the overall ceiling on equity investment in mergers and acquisitions in all projects put together not to exceed 30% of the ~et worth of the given Maharatnas. The boards will have autonomy in creating below management board posts upto to a given level.

The National Investment Fund : This was set up in 2005 with a fund of 994J32 crores. The government set up three Asset Management Companies to .manage the fund (these are the UTI Asset Management Company Private Limited) the SBI Funds Management Private Limited and the LIC Mutual Fund Asset Management Company Ltd.). The objectives of the NIF are: proceeds from disinvestment of central PSE's will be put into NIF which will be outside the CFI and the money in the fund will be of a permanent nature. The NIF will be professionally managed to provide sustainable returns to the government without eroding the fund size. Around 75% of the annual income from the NIF will be used to finance select social sector schemes particularly in. education, health and employment. The balance 25% of the income from the NIF will be used to meet the capital investment requirement of profitable and revivable central PSE's with a view to enlarge their capital base and to finance expansion and diversification. In January 2013, it has been decided that NIF will use its funds to buy shares of central PSE's. The NIF money to be used for recapitalization of public sector banks and public sector insurance companies. Proceeds of disinvestment of government equity in PSE's to be credited to NIF in the Public Account of India. The idea of NIF to buy PSE shares and shares of PSE banks is to~ensure that government shareholding in these does not go down below 51,%. The NIF will issue preferential shares to central PSE's so that government shareholding does not drop to below 51%. Currently, most money of NIF is being used for social sector programmes, tnough it was to be used for social sector programmes, meet investment needs of profitable PSE's and revival of sick PSE's.

PRIVATISATION AND DISINVESTMENT OF PSE's

DISINVESTMENT OF CENTRAL PSE'S: The policy of disinvestment of government equity in central PSEs was announced in the IPR-1991. The objectives disinvestment are

1. To make the PSEs competitive and autonomous
2. To mobilize resources in a non-inflationary manner
3. To deploy these resources to complete various central government public sector projects in different stages of being commissioned.

The Government of India set up the Disinvestment Commission in 1996 to evolve a comprehensive policy on disinvestment. The first round of disinvestment was held in 1991-92. It may be noted that whenever a particular public sector ' company is being aisinvested via the mechanism of Strategic Sale, the government transfers 74% of its equity to private enterprise and retains the remaining 26% equity. In this method ofdisinvestmentTthe errTrifeht'Transfers decision-making power in all policy matters and operational control to the private sector. In Book Building as a. method of disinvestment of government equity, there is public offer of shares based on SEBI guidelines. The issue price of share is determined on the basis of bids received from investors but not by the issuer or merchant banker. The Bids can be made between the floor price (minimum price) and ceiling price (maximum price). All bidders get sha_res^at the bid price till the offer is exhausted. Book building retains government control over management unlike strategic sale. French Auction : The bidder is asked to bid for shares being disinvested above the floor price upto the ceiling price (which are pre-determined). The bidders are offered shares at the price they have bid till the offer is exhausted. Institutional Placement ProgrområneTnd Offer of Shares: These were approved by the SEBI in January 2012 to disinvest government equity in central PSE's. In Institutional Placement Programme, the government can offer shares of PSE's being disinvested to a maximum of 10 qualified Institutional Buyers (like banks, foreign and domestic mutual funds, insurance companies like GIC/LIC/domestic and foreign venture capital funds registered with SEBI etc). In offer of shares, the shares are offered to people as well as institutions via the stock exchanges. This was resorted to in December 2012 for disinvesting Hindustan Copper Ltd and NMDC. Buyback of Shares : The government aisols~thinking of buyback of shares by the PSE from the government. That is,, the PSE buys back its own shares from the government using its cash surpluses.

The government of India had set up the Rangarajan Committee to recommended an appropriate policy of disinvestment. The Rangarajan Committee laid down the following norms :

1. The government to disinvest upto 49% of government equity in industries reserved for PSE's.
2. Disinvest upto 100 % in rest.
3. Disinvest 49% of government equity in arms / defence production, atomic energy, nuclear minerals and rail transport. For purpose of disinvestment, in 1999, there was classification of PSE's. into strategic and non-strategic.

   The strategic sectors include : arms and ammunition, defence equipment, atomic energy, rail transport. The government to disinvest only up to 49% of the equity in the strategic sectors.

Privatisation of public sector has to be understood in the context of the structure of Public Enterprises, in India. There are public enterprises which are Departmental Undertakings and are extensions of Central / State Government departments like Chittaranjan Locos or Integral Coach Factory. Then we have Public Corporations which have been created by Acts of Parliament like the Damodar Valley Corporation and lastly the public sector enterprises which are Government owned companies set up under^the Companies Act - 1956 and which for all practical purposes, are corporate entities. The focus of privatisation are the Government Companies set up under the Companies Act and to a certain extent, the corporations, set up under Acts of Parliament.

Rationale of Privatisation :

1. Private sector can manage public sector efficiently and offer better services to society.
2. Liberalisation and globalisation of Indian economy demand restructuring of PSU's since the PSU's in their present form will not be able to compete with the private sector.
3. Failure of PSU's to deliver and mounting losses. Hence the need to use resources efficiently.
4. Generate competition by reforming the PSU's which have led to the development of a high cost industrial structure for lack of effective competition.
5. Resource crunch of the Government and hence its inability to offer budgetary support to inefficient PSU's.
6. Emphasis of liberalisation on market forces and private enterprise demands reform of PSU's.

NATIONAL MANUFACTURING POLICY AND NIMZ

National Manufacturing Policy : The policy seeks to increase the share of manufacturing sector in

GDP from 16% to 25% within a decade. To achieve this goal, the policy proposes.

1. Setting up of National Investment and Manufacturing zones
2. Promote labour intensive industries.
3. Add value to industry, by use of local technologies
4. Develop industries which are of strategic importance and have competitive advantage
5. Encourage small and medium enterprises (SME's)
6. Simplify / rationalize business regulations
7. Speed up the development of infrastructures.

The National Investment and Manufacturing Zones (NIMZ):

1. These will be mega industrial clusters to create lOOjnjnion jobs by 2022, make Indian manufacturing comparable to China and Japan, and increase tTrelHiare of industryTrom 16% to 25% of GDP by 2022.
2. The clearance for unitsin the NIMZ will be coordinated by a speciafpurpose vehicle
3. UnitsTrTthe NIMZ have to provide job loss compensation either through insurance or a dedicated fund in case of closure of the unit. The special purpose vehicle will help find alternative employment such labour
4. Private enterprises will be encouraged to set up training centres for skill development of labour. These will get tax deduction of 150% of the capital expenditure on setting up the centres.
5. There will be no subsides for units in NIMZ
6. Around 12 NIMZ will be set up initially
7. NIMZ will not enjoy any unique tax benefits like SEZ'sTT
8. The states will acquire land for NIMZ while the centre will fund the development and infrastructure cost.
9. There will be capital gains tax exemption on sale of plant / machinery for units in NIMZ
10. Individuals will be' exempted from capital gains tax on sale of property to SME's and entrepreneurs which.will be located in NIMZ.

Competition Commission of India: The Competition Commission of India (CCI) is a statutory body set up under the Competition Act-2002. The Act came into force in Octobe r 20C3 and was amended in 2007. The 2007 amendment was to provide a dual structure a Regu ate. Body i.e. the Competition Commission and an adjudicatory body i.e. Competition appellate Tribunal. The Competition Act rules were notified in ,2009.. Hence beginning September 1, 2009, the MRTP Act - 1969 lapsed and the MRTP commission was not to accept fresh filings of cases after a period of 2 years of the enactment of the Competition Act - 2002. The Act is valid throughout India except the state of Jammu andKashmir. The competition Act looks into

1. Anti competition Agreements such agreements are eTWTeTTiorizontal agreements (the agreements between competitors like forming cartel's) or vertical agreements (which are those relating to actual or potential relationships between firms on selling and purchasing from each other, particularly if they are in a position of dominance).
2. Abuse of dominance : i.e. a firm which enjoys a position of strength by which it is able to operate independently of competitive forces of the market or affects its competitors or consumers or the market in its favour, resorts to abuse of the dominant power. Dominance is said to be abused when the enterprise imposes unfair or discriminatory conditions in sale or purchase of goods / services or in the price in purchase / sale of goods /'services. Though the Act does not prohibit / restrict enterprises acquiring dominance, it only prevents abuse of dominance.
3. Acquisitions and Mergers : The Act regulates the operation of acquisitions and mergers. For e.g., domestic mergers and acquisitions have to be informed to the Commission if the combined entity has assets of 1000 crore or a turnover of 3000 crore. If a group of companies acquire another group of companies, the merger has to be informed to the Commission if the combined entity has assets of 4000 crore or a turnover of 12000 crore. The Commission can also scrutinise offshore mergers ^ acquisition only if the

combined entity has a market present in India with assets of 500..crore. 4) Competition advocacy i.e. to create a culture of competition. For e.g., the union government can refer to the CCI for its opinion on the likely effect of a policy under formulation or an existing law related to competition. It can suggest measures to the government on introducing policies that lower the barriers to entry so that there are many market participants, promote deregulation and trade liberalization and other measures that promote competition in the market place. The CCI does not adjudicate on disputes but passes cease and desist orders. These orders can be appealed against in the Competition Appellate Tribunal. The CCI consists of a chairman and 6 other members appointed by the central government. The chairperson and members need not be qualified to be judges of a High Court. The selection committee to select members, chairperson of the CCI to be headed by the CJI or a nominee of the CJI. The Competition Appellate Tribunal will be headed by a chairperson who is or has been a judge of the supreme court or the chief justice of a high court.

Monopolies and Restrictive Trade Practices: Monopolistic trade practices can also be described as dominant firm practices. These refer-to the behavior of an individual firm or a group of not more than three firms which have attained such a dominant position in the industry that they are able to control the market by regulating prices or output or eliminating competition. Restrictive trade practices refer to the action: taken by .a group of two or more firms to avoid competition regardless of whether the market share of the member firms is or is not dominant. The Government of India enacted the Monopolies and Restrictive Trade Practices Act jn 1970, Under the MRTP Act- 1970, a statutory commission called the MRTP Commission was.set up to investigate the effects of such monopolistic and restrictive trade practices and recommend appropriate action. In the case of monopolistic practices, the MRTP Commission was vested with only recommendatory power but in trie cause of restrictivi trade practices, the MRTP Commission was vested with jthe powers of a court cfjaw. The MRTP Act defines a business house in terms of a group of interconnected undertakings. To determine whether or not a company belonged to large business house, the licensing authorities would have to establish

(i) Its interconnection with other undertakings and

(ii) Whether or not the total value of assets of all the interconnected companies added up to 1.00 crore.

Apart from the interconnected large house, the MRTP Act referred to dominate undertakings. These .vere firms whose assets were not less than one crore and which either on their own or along with other interconnected undertakings, supplied at least one-third of any goods or services within India as a whole

The MRTP Act required both the large houses and the dominant undertakings to register with the government under the MRTP Act. Undertakings under the jurisdiction of the MRTP act were required to obtain government approval when they proposed to undertake

1. Expansion of capacity
2. Diversification of existing capacities.
3. Establishment of interconnect undertakings
4. Merger or amalgamation with any undertakings.
5. Takeover of the whole or part of any other undertaking. It may be noted that the Government of India has replaced the MRTP Act with the new competition law

MRTP Act-1970: The Act did not apply to PSE's, trade unions, cooperatives and financial institutions. Any company with assets of more than 25 crore was classified as an MRTP company. However the threshold limit was raised to 50 crore by Industrial Licensing Policy - 1980 and 100 crore by the Industrial Licensing Policy of 1985. The threshold limit was scrapped in 1991 Industrial Policy Resolution. The MRTP Act created the MRTP Commission as an organ of the Department of Company Affairs as a quasi-judicial body. It's major function was to enquire into and take appropriate action in respect of unfair trade practices / restrictive trade practices. The.MRTP Act has ceased to be in force since September 1, 2009. It may be noted that restrictive trade practices are those by t'raders who attempt to block flow of capital into production to maximize their profits. These traders may also impose conditions of delivery to affect the flow of supplies leading to unjustified costs. Any trade practice which indicates misuse of one's power to abuse the market in terms of production and sale of goods, services was defined as monopolistic trade practice. Such practices eliminate competition, can lead to decline in quality of product, reduce technological development and lead to adoption of unfair trade practice. Unfair trade practice refers to false representation and misleading advertisement of goods / services in terms of usefulness, quality/standards and need.

ECONOMIC PLANNING IN INDIA

Economic Planning is to formulate sound macro-economic policies to achieve a pre-determined set of macro-economic objectives.

The Approaches / Concepts in Planning in India :

Physical Planning : The phvsicaj_output targets for different sectors and sub-sectors are ordered in priority along with the development of Inter-sectoral balance. Output targets in physical terms are outlined.

Financial Planning: Plans focus on allocating financial resources to various sectors. This includes setting physical targets for different sectors and sub-sectors in accordance with available financial resources.

Rolling Plan: Within an overall 5-year plan, the sectoral targets and allocation of resources are fixed on a yearly basis. The 5-year plan is extended by one year at a time (rolls on for another year beyond the original 5-year period by excluding each previous year). The plan includes 3 plans made each year

1. AnjaruiuaLpJan which is reflected in the annual budget
2. A 5- year plan whose base year is changed each year in response to changing conditions of the economy.
3. A perspective plan for 10 to 15 years which includes the annual plan and the 5-year plan.

Rolling plan is to meet the needs of an uncertain economic situation due to natural catastrophes or events like war where targets fixed for a given period of time cannot be achieved due to economic instability. The 7th 5 year plan (1985-1990) was integrated with a perspective plan of 15 years and the annual plan was adopted in 1962 in the context of India-China war.

Top Down Approach (Trickle Down Approach): High growth rate of GNP is the objective. Gains of economic growth are expected to trickle down to all sections of society.

Trickle UP Approach : Increasing the minimum purchasing power of people rather than maximisation of GNP. Economic development is geared to meet the demands of bottom 50% of population.

The Mahalonobis Model of Plan Strategy: P.C. Mahalonobis, the deputy chairman of the planning commission in the period of the second 5-year plan outlined a developmental strategy called the Mahalonobis Model. It Is a 4 stage model in which each stage will focus investment on a particular sector. It declares that the initial focus of investment should be on development of basic and capital goods industries (industries producing plant / machinery, equipment which help in the production of other goods and setting up of other industries). The broad base of the basic and capital goods industry would hence facilitate the development of a modern industrial economy. Simultaneously, investment should be made continuously in developing small and cottage industry for producing wage and consumer goods which would also help in development of a new small entrepreneurial class. The model also called for import substitution, and state development of infrastructure industries. The Mahalonobis strategy aimed at self-sustained growth. The strategy included the following as its chief elements

1. Private sector to complement public sector.
2. Use fiscal policy of taxation and public expenditure to achieve two objectives of planning i.e., remove inequalities and self-reliance in savings/ investment.
3. Emphasis is on heavy industry to build capital stock.
4. Village and cottage industry to produce consumer goods. The model was accepted by Nehru and became the basis for the 2nd 5 - year plan (1956-

1961) and hence is called the Nehru - Mahalonobis Model.

Rao-Manmohan Singh Model: This became the basis for structural reforms inaugurated in India in 1991 by P.V. Narasimha Rao the prime minister and Manmohan Singh, the then' Finance Minister. It's focus is on productivity, efficiency, competitiveness and globalization. It specifically calls for increased role for private sector in economic development, reorienting the role of the state from that of developer of the economy to facilitator of ..nomic development along with state investment focused on social and infrastructure development, and development of the external economy of India i.e. foreign trade and two way movement of-foreign direct investment.

Planning Commission: This was set up in 1950 March by a cabinet resolution for formulating five year strategies of economic development (the 5-year plans). The planning commission works under the guidance of the National Development Council and is-chaired by the Prime Minister. The 1950 resolution outlined some functions for the Commission like

1. determine the priorities of economic development and include them in 5 year plans
2. Identify resources (physical, financial and human) for formulating development strategies and also identify the deficiency of India in these resources.
3. Identify hurdles to economic development and suggest strategies to overcome them
4. Identify the administrative machinery to successfully execute the plan projects
5. Suggest corrective steps if the plan projects are not being successfully implemented. The planning commission's deputy chairman (a nominee of the government) has the rank of a cabinet minister and all members of the planning commission enjoy the rank of minster of state of the union council of ministers.

   The Commission is to function like a think tank and develop a series of possible plans in consultation with the state planning boards to eventually finalize a 5 - year plan in accordance with the priorities of the state. The planning commission works through its General Divisions (concerned with the entire economy) and Subject Divisions (concerned with specific fields of economic development). The Programme Evaluation Organization of the Commission monitors the working of plan projects and provides feedback to the commission for better plan, project formulation and corrective steps'to make the existing plan achieve its goals.

Plan and Non Plan Expenditure: Plan expenditure includes central assistance to states and union territories (with state legislatures), central budgetary support to central plan and union territories without legislatures (i.e. directly administered by the centre), and budgetary support to central PSE's. The resources of the centre are made up of budgetary resources (revenue mobilization through taxes, non-tax revenues, borrowings, external assistance routed through budgets and Internal and External Budgetary Resources (IEBR) of central PSE's. Gross Budgetary, support to fund plan investment by the centre includes all the above.

Funding 5 year Plans: The resources to support 5-year plans came from a) central budgetary resources 2) by state budgetary resources 3) Resources of PSE's 4) Investment by domestic private sector 5) External assistance (which is included in Gross Budgetary Support of the centre).The most important sources of plan funds were Domestic Budgetary Sources. These included : contribution of public enterprises; government revenue surplusus; internal borrowings and deficit financing. External assistance was another source of plan funds.

National Development Council : This was set up in 1952 to carry out functions like 1) Lay down guidelines for formulation of the national plan 2) To consider/ examine national plans formulated by the planning commission 3) to assess availability of resources to implement the plan and suggest a strategy to raise the resources 2) To review the working of the 5- year plans in mid-course of implementation and suggest measures to achieve the targets 4) provide a consultative mechanism between the centre and states so as to accommodate state priorities in national plans. The NDC is headed by the prime minister and includes all union ministers with a cabinet rank, chief ministers of all states, administrators of union territories and all members of the planning commission including the deputy chairman of the planning commission. The NDC is the top body to vet (approve) the 5- year plans, Approach Papers to 5-year plans and also considers the mid-term review of the 5-year plans.

Features of Indian Planning :

Indian planning was basically concerned with the allocation of the productive resources of the economy by quantitative apportionment between sectors, regions and over time. It was a centralized physical allocation mechanism in terms of target setting and allocation of real investment in sectors and projects. It was an exercise to allocate resources to priority sectors determined nationally on the basis of social good, and not necessarily based on market demand. It was in the nature of detailed investment planning by which plans went down to details of sectoral plans and micro level / specific industry level investment and execution. Indian 5-Year plans were a combination of physical and financial planning. The plans allocated resources to various sectors in a centralised fashion. The allocation of resources was prioritized across different sectors (the priority sectors are determined nationally but not necessarily on market demand). The plans made use of centalised planning instruments like licensing, reservation of economic activity for public sector, fiscal protection to trade and industry etc to achieve their objectives.

India's 5-vear plans

1. **First Plan (1951-56):** Focus was on agriculture and food security Target growth rate of GDP was 2.1% p.a. but actual growth achieved was 3.61% p.a.
2. **Second Plan (1956-61") :** Focus was on development of infrastructure, core and heavy industry. The plan was based on the Mahalonobis strategy. The target growth was 4,5% but achievement was 4.27%
3. **Third Plan (1961-66):** The objective was self-sustained growth (self reliance) and attempted to develop agriculture and industry. The Third Plan could not achieve the targeted growth due tdjlndia-China conflict (1962) India-Pak conflict (1965) and repeated droughts. The tarqet "was 5.6% but the achievement was 2.84%
4. **Annual Plans (Plan Holiday Period of 1966-69) :** Three one year plans as part of rolling plans were formulated and implemented in 1966-67, 1967-68 and 1968-69.
5. **Fourth Plan (1969-1974) :** This was focused on Growth with Stability and Balanced Regional Development. The target rate of growth of 5.7% p.a. could not be achieved as the growth was only 3.30% p.a.
6. **Fifth Plan (1974-1979) :** The focus was'on Growth with Social Justice. Target growth rate was 4.40/0 p g, but the GDP grew by 4.8% p.a. However the 4th plan was cut short in 1977 by the Janata Party which came to power.
7. **Sixth Plan (1980-85) :** Removal of Poverty (Garibi Hatao) was the top objective. India launched the world's biggest anti-poverty prograrrime, the IRDP. The target growth was 5.2% and the achieved growth rate was 5.06% p.a.
8. **Seventh Plan (1935-90) :** Food, Work and Productivity were the themes. The growth rate of 6.01% of GDP was higher than the target of 5.0%
9. **The Eighth Plan (1992-97) :** The Eighth Plan could not be started in 1990 due to the economic crisis in India and hence was started in 1992. Human development was the focus. The plan for the first time included features of indicative planning. The target was 5.6% but the achievement was 6.78% p.a.
10. **Ninth Plan (1997-2002):** Growth with Social Justice and Equality were the main themes. The target was 6.5% p.a. growth of GDP but the achievement was 5.4% p.a. due to drought and other factors.
11. **The Tenth plan:** Inclusive growth and human development were the focus. The target was 8% p.a. but the achievement was 7.8% p.a.
12. **The Eleventh Plan (2007-12):** The target was 8.1% p.a growth of GDP (as revised later due to

global economic crisis). The focus was development of infrastructure, and inclusive growth. The achievement was 7.9%.

Gadgil Formula: This was formulated in the 4th 5-year plan, named after D.R.. Gadgil, deputy chairman of planning commission. The Gadgil formula recognizes special category states and non- special category states. For a special category states, a lump sum amount is set apart from Central Plan Assistance to states. The balance is distributed a.nong the non-special category states in accordance with the following formula (as revised in 1990 and called the Gadgil-Mukherjee Formula). The weights for different criteria in the Gadgil - Mukherjee formula are 1. Population - 55% 2. Per capita income of state - 25% 3. Fiscal Management - 5% 4. Special problems - 15%. In 2000, performance by states was added to the criteria in Gadgil - Mukherjee formula and given weightage of 7.5%. Hence Fiscal Management weight was reduced to 2% and '5.5% weight would be given to performance and other criteria.

Weaknesses of Indian Planning :

1. The centralized physical allocation mechanism called for elaborate licensing, extensive trade and fiscal protection, different forms of reservation and commercially non-viable operations of the Public Sector.
2. Central planning became over centralized taking the form of over-regulation in industry and trade, which stifled initiative and enterprise and produced unintended inefficiency in the public and private sectors. In the case of the states, over-centralized planning took the form of an array of centrally aided and centrally sponsored schemes, leaving little room for innovatory state- specific thinking on the part of the state governments. Over centralization freezed thinking in states and to a great extent even in the central ministries.
3. Since the Planning Commission allocated resources after the Union Finance Ministry indicated the quantum of central assistance available to the states, the Planning Commission came to be overshadowed by the over-reaching powers of the Union Finance Ministry which determined economic policies and priorities.
4. Detailed investment planning going down to specific industry level investment and execution became the central concern of the Planning Commission leaving little room for evolving sound macro economic policies and priorities.
5. Planning Commission's preoccupation with resource allocation neglected a critical part of economic policy, i.e., finding ways in which resources are to be generated, and hence leaving it to the Finance Ministry.
6. Planning emphasized investment in a manner such that the commanding heights of the economy be dominated by the public sector. This led to uncontrolled or rapid expansion of the public sector leading to sub-critical investment and hence, time and cost overruns. In addition, detailed investment planning was never followed by careful project planning resulting in sub-optimal utilization of resources and deterioration of capital output ratios of many projects.
7. Over-centralization of planning robbed developmental programs of people's participation due to mis-match between needs and plans. Hence, implementation suffered.
8. Planning Commission has not been able to make an impact on the planning process at the state level. In many states, Planning Boards do not have technical and economic experts to prepare the Five Year and Annual Plans and to monitor the implementation. Most boards have become dormant / defunct and hence schemes of importance were therefore not implemented properly. The sector-wise working groups for State plans by central/state experts curbed freedom of states on how agreed plan funds were to be spent.

Non-Plan Expenditure: All governmental expenditure that is not included in a plan is called non-plan expenditure. This can be both developmental and non-developmental. The major items in India's non-plan expenditure are : interest payments; pensions; statutory transfers to states; defence and internal security. Non-plan expenditure in India also includes depreciation and maintenance funds i.e., funds to maintain assets created in previous plans, expenditure on administration and, expenditure on subsidies.

7. Populatioin

First results of Census 2011 have been released. India now has a population of 1-21 billion, comprising 624 million males and 587 million females. This is an increase of 181 million people since the census 2001 which is nearly equivalent to the population of Brazil.

India's population growth rate has decelerated to 17-64 per cent in the decade 2001-11, the slowest rate of growth in the past century with exception of 1911-21 in which India had negative population growth rate.

The preliminary figures of the census 2011 show that India's female population grew by 18-12 per cent over the past decade against 17-19 per cent of males. The sex-ratio (i.e., number of females per 1000 males) has improved to 940 from 933 a decade ago. But a matter of over- whelming concern lies in the fact that the child sex-ratio stands at 914 which is the lowest since India's independence.

India's literacy rate has gone up from 63-83 per cent in 2001 to 74-04 per cent in 2011. Male literacy and female literacy stand at 82-14 per cent and 65 46 per cent respectively. Lite- rates constitute 74 per cent popula- tion aged seven and above.

The density of population has gone upto 382 from 325 of census 2001.

Selected Indicators of Human Development for Major States

S. No.	Major State	Life expectancy at birth (2002-2006)			Infant Mortality Rate (Per 1000 live births) (2007) rate			Birth rate (per 1000)	Death (per (1000)
		Male	Female	Total	Male	Female	Total	2008	2008
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1.	Andhra Pradesh	62.9	65.5	64.4	51	54	52	18.4	7.5
2.	Assam	58.6	59.3	58.9	62	65	64	23.9	8.6
3.	Bihar	62.2	60.4	61.6	53	58	56	28.9	7.3
4.	Gujarat	62.9	65.2	64.1	49	51	50	22.6	6.9
5.	Haryana	65.9	66.3	66.2	51	57	54	23.0	6.9
6.	Karnataka	63.6	67.1	65.3	44	46	45	19.8	7.4
7.	Kerala	71.4	76.3	74	10	13	12	14.6	6.6
8.	Madhya Pradesh	58.1	57.9	58	68	72	70	28.0	8.6
9.	Maharashtra	66.0	68.4	67.2	33	33	33	17.9	6.6
10.	Odisha	59.5	59.6	59.6	68	70	69	21.4	9
11.	Punjab	68.4	70.4	69.4	39	43	41	17.3	7.2
12.	Rajasthan	61.5	62.3	62	60	65	63	27.5	6.8
13.	Tamil Nadu	65.0	67.4	66.2	30	33	31	16.0	7.4
14.	Uttar Pradesh	60.3	59.5	60	64	70	67	29.1	8.4
15.	West Bengal	64.1	65.8	64.9	34	37	35	17.5	5.2
	India	**62.6**	**64.2**	**63.5**	**52**	**55**	**53**	**22.8**	**7.4**

Source : Sample Registration System. Office of the Registrar General India, Ministry of Home Affairs.

a. Data relating to Bihar, Madhya Pradesh and Uttar Pradesh include Jharkhand, Chhattisgarh and Uttarakhand respectively.

India's population accounts for According to UNFPA report the world's 17.5 per cent, second only entitled'State of World Population to China that constitutes 19.5 per cent of world population. India's popula- tion is now bigger than the combined population of USA, Indonesia, Brazil, Pakistan and Bangladesh. Uttar Pra- desh is the most populous state and the combined population of Uttar Pradesh and Maharashtra is bigger than USA. Uttar Pradesh population is estimated at 199 million, being the most populous state while the Laksha- dweep with only 64429 people becomes the least populated.

Another remarking features of the preliminary census results shows that the percentage growth of six most populous states-Uttar Pradesh, Maharashtra, Bihar, West Bengal, Andhra Pradesh and Madhya Pradesh have declined which show another impact of improved literacy and economic growth.

According to 2011 census, the total Indian population at the dawn of 1st March, 2011 was 121.02 crore. India accounts for a meagre 2.4% of teh world surface area of 135.79 million sq. km. Yet, it supports and sustains a whopping 17.5% of the world population.

According to UNFPA report entitled 'State of World Population' world population has touched the height of 6 billion on October 12, 1999. UNO has declared October 12 as **'Day of 6 billion.'**

Indian population growth rate is high enough to draw serious atten- tion. India today possesses about 2.4% of the total land area of the world but she has to support about 16% of the world population. Accor- ding to United Nations Population Fund (UNFPA) estimates, out of an annual increase of 76 million in world population, India alone accounts for as much as 16 million, making a sizeable (21%) contri- bution. India is a second country in the world after China to cross the one billion mark. It is now esti- mated that by 2050, India will most likely overtake China to become the most populous country on the earth with 19-4% population liv- ing here. The United Nations has estimated that the world population grew at an annual rate of 1-4% during 1990-2000, China registering a much lower annual growth rate of population of 1% as compared to that for India, at i-95% during 1991-2001. The first census in India was done in 1872 but a series of census was adopted in 1881. In the year 1881, India's population was 23-7 crore which increased upto the level of 84-64 crore in 1991. According to 2001 census this population level touched the height of 102-87 crore.

India is following the demo- graphic transition pattern of all developing countries from initial levels of "high birth rate-high death rate" phase to the intermediate stage of "high birth rate-low death rate" with high rates of population growth, before graduating to the "low birth rate-low death rate" phase over the last two decades while the crude birth rate declined from 33-9 per thousand persons in 1981 to 23-5 per thousand persons in 2006, the crude death rate also declined from 12-5 per thousand persons in 1981 to 7-5 per thousand persons in 2006.

Cabinet Approves Caste Census Process

The government has finally decided to add caste in the ongoing census process of 2011. The union cabinet has approved the recommenda- tions of the Group of Ministers that the caste of all people as reported by them will be incorporated in the census 2011.

It is also decided that the caste enumeration would be conducted as a separate exercise from June 2011 and completed in a phased manner by September after the Population Enume- ration phase (to be conducted in February-March) of the Census 2011 is over.

According to the cabinet deci- sion, a suitable legal regime for collection of data on castes would be formulated in consultation with the law ministry.

The office of the Registrar Gene- ral and Census Commissioner would conduct the field operations of the caste enumeration. The central govern- ment has decided to constitute an expert group to classify the caste/ tribe returns after the enumeration is com- pleted.

The economy of a country is directly related to the size of its population. In a country like India, where we find a huge population with high population growth rate, develop- ment has become a problem. If deve- lopment rate in an economy lags behind the population growth rate, the country becomes economically weak (It is true in context of India). In such a country, all efforts for planning and investments become meaningless. Under such circumstances, the qualitative aspect of the population also becomes adversely affected. High birth rate supplemented with improved health and medical facili- ties (which makes death rate fall) pushes the economy towards the state of "population explosion". India faces the same situation at present. An increasing difference between birth rate and death rate has created a scene of population explosion in India. This problem in India is not the result of declining death rate alone, which is actually an indicator of social development. But a simul- taneous effort for reducing birth rate should have been made, where we totally failed. The death rate in

India •is continuously falling due to the decline in infant mortality. The infant mortality rate which stood at 146 per thousand of new births in 1991 has come down to 57 in 2006. Improved medical and health service and gradual increase in literacy rates are the other reasons responsible for decline in death rate. The relatively slow decline in birth rate, on the other hand is mainly an outcome of tradi- tional attitudes and institutional fac- tors which take a long time to change.

India's Population Vs. World

- **Country's share in World Population (in %)**

China	19.4
India	17.5
USA4.5	
Indonesia	3.4
Brazil	2.8
Pakistan	2.7
Bangladesh	2.4
Nigeria	2.3
Russian Federation	2.0
Japan	1.9
Other Nations	41.1
Total	**100**

Major Results of Indian Census

Census Year	**Populatin lation** (in crs.)	**Chage per decade** (in crs.)	**Rate of change per decade (%)**	**Compound Average Annual growth rate of Population (%)**	**Female-Male Ratio** (Females per thousand males)
1891	23.60	—	—	—	—
1901	23.84	+ 0.24	—	—	972
1911	25.21	+ 1.37	+ 5.75	0.56	964
1921	25.13	-0.08	-0.31	-0.03	955
1931	27.90	+ 2.77	+ 11.00	1.04	950
1941	31.87	+ 3.97	+ 14-22	1.33	945
1951	36.11	+ 4.24	+ 13.31	1.25	946
1961	43.92	+ 7.81	+ 21.51	1.96	941
1971	54.82	+ 10.90	+ 24.80	2.22	930
1981	68.33	+ 13.51	+ 24.66	2.20	934
1991	84.64	+ 16.30	+ 23.87	2.14	927
2001	102.87	+ 18.23	+ 21.54	1.95	933
2011	121.02	+ 18.15	+ 17.64	—	940

India: Population Projections

(In Million)

	2001	**2006**	**2011**	**2016**	**2021**	**2026**
Total	1,029	1,112	1,193	1,269	1,340	1,400
Below 15 years	365*(364)	357	347	340	337	327
15-64 years	619*(613)	699	780	851	908	957
Above 65 years	45*(49)	56	66	78	95	116

According to the Technical Group on Population Projections constituted by the National Commission on Population (May 2006), annual population growth is expected to gradually decelerate from 1-6% in the five years ending in 2006 to 0-9% in the five years ending in 2026. India's population which is estimated to have gone up from the census 2001 figure of 1029 million to 1112 million in 2006, is projected to increase to 1400 million by 2026.

Selected Health Indicators

	Parameter	1951	1981	1991	Current Levels
1.	Crude Birth Rate (CBR) (Per 1000 population)	40.8	33.9	29.5	22.1 (2010)
2.	Crude Death Rate (CDR) (Per 1000 populatio)	25.1	12.5	9.8	7.2 (2010)
3.	Total Fertility Rate (TFR) (Per woman)	6.0	4.5	3.6	2.6 (2009)
4.	Maternal Mortality Rate (MMR)(Per 100,000 live births)	NA	NA	437 (1992-93)	212 (2007-09)
5.	Infant Mortality Rate (IMR) (Per 1000 live births)	146	110	80	47 (2010)
6.	Child (0-4) Mortality Rate (Per 1000 children)	57.3 (1972)	41.2	26.5	14.1 (2009)
7.	Life Expectancy at birth				
	Total	–	55.5 (1981-85)	59.4 (1989-93)	63.5 (2002-06)
	(i)	Male	37.2 (1981-85)	55.4 (1989-93)	59.0 62.6 (2002-06)
	(ii)	Female	36.2 (1981-85)	55.7 (1989-93)	59.7 64.2 (2002-06)

Source : Office of Registrar General, India. (Shown in Economic Survey, 2011-12)

Literacy Rate in India

Census Year	Males	Females	Male Female gap in literacy rate	Total Per- sons
1951	27.16	8.86	18.30	18.33
1961	40.40	15.35	25.05	28.30
1971	45.96	21.97	23.98	34.45
1981	56.38	29.76	26.62	43.57
1991	64.13	39.29	24.84	52.21
2001	75.26	53.67	21.59	64.84
2011	82.14	65.46	16.68	74.04

RuraL& Urban Population (%) (1901-2011)

Census Year	Per cent	
	Rural	Urban
1901	89.2	10.8
1911	89.7	10.3
1921	88.8	11.2
1931	88.0	12.0
1941	86.1	13.9
1951	82.7	17.3
1961	82.0	18.0
1971	80.1	19.9
1981	76.7	23.3
1991	74.3	25.7
2001	72.2	27.8
2011	68.8	31.2

The improvement in the quality of health care over the years is reflec- ted in some of the basic socio-demo-graphic parameters. The Crude Death Rate (CDR) declined rapidly from 25-1 in 1951 to 7-4 in 2008 vis-a-vis the less sharp decline in Crude Birth Rate (CBR) from40-8 in 1951 to 22-8 in 2008.The document of the 10th plan targeted a reduction in Infant Mor- tality Rate (IMR) to 45 per thou- sand by 2007 and 28 per thousand by 2012, reduction in Maternal Mortality Rate (MMR) to 2 per thousand live births by 2007 and 1 per thousand live births by 2012 and reduction in decadal growth rate of the population between 2001-11 to 16-2%.

In the five decades after inde- pendence, the increase in literacy rate during the period 1991-2001 has been the highest, i.e., from 52-2 to 64-84 per cent, which is an increase of 12-6 percentage points. For the first time, the country witnessed a faster growth in female literacy i.e., 14-9 percentage points (from 39 to 54 per cent) compared to that of males, which increased by only 11-7 percen- tage points (from 64 to 75 per cent). Through this there was a narrowing of the gender gap in literacy, which was 25 per cent in 1991 and to 22 per cent in 2001. There is also, for the first time, a converging trend in the rural-urban literacy gap. Between 1991 and 2001 rural literacy increased by 7 per cent, thereby reducing the urban-rural gap from 28-4 per cent in 1991 to 21-69 per cent in 2001.

Urban-Rural Population Statistics of Census 2011 Released

Government released Census 2011 data related to urban-rural popu- lation on July 15,2011. As per relea-sed statistics, out of country's total population of 121 crore, 37-7 crore population reside in urban areas while the remaining 83-3 crore population belongs to rural areas. Thus, 31-16 per cent population of the country is urban based while the 68-84 per cent population is rural based. As per 2001 Census, urban and rural popula- tion percentage were 27-81 per cent and 72-19 per cent respectively. Dur- ing the period 2001-2011, urban population increased from 28-61 crore to 37-71 crore while rural population went up from 74-26 crore to 83-31 crore. Thus, during the decade 2001- 2011, urban population size increased by 9-10 crore while the rural population went up by 9-05 crore. During 2001-2011, rural population and urban population registered 12-18 per cent and 31-8 per cent growth respec- tively.

According to rural-urban popula- tion data of Census 2011, Tamil Nadu has the maximum urban popu- lation (48-5%) in the country follo- wed by Kerala (47-72%), Mahara- shtra (45-23%) and Gujarat (42-58%).

National Commission on Population

The National Commission on Population was constituted on May 11, 2000 under the Chairmanship of the Prime Minister to provide overall guidance for population stabilisation by promoting synergy between demo- graphic, educational, environmental and developmental programmes.

On May 19, 2005 the National Commission on Population was reconstituted. This commission has now been transferred from Planning Commission to Ministry of Health. The Prime Minister will remain the chairman of NCP while Deputy- Chairman of Planning Commission and Union Minister of Health and Family Welfare will work as Deputy Chairman of NCP. The membership of NCP has also been reduced from 131 to 44.

Birth Rate and Death Rate in India

(Per Thousand Population)

Year	Birth Rate	Death Rate
1950-51	39.9	27.4
1960-61	41.7	22.8
1970-71	36.9	14.9
1980-81	33.9	12.5
1990-91	29.5	9.8
2000-01	25.4	8.4
2007-08	23.5	7.4
2008-09	22.8	7.4
2009-10	22.5	7.3
2010-11	22.1	7.2

The National Commission on Population has undertaken various ini- tiatives for implementing the National Population Policy such as review of the implementation of National Family Welfare Programme espe- cially in the high fertility States, identification of high fertility districts and preparation of District Action Plans, selection of Social Economic and Demographic Indicators for moni- toring purpose, promotion of policy- oriented relevant research for popula- tion stabilisation and promotion of public private partnership in meeting the unmet needs of family planning services.

Stabilising population is an imperative requirement for promot- ing sustainable development. The main problem concerned in the population stabilisation in the short- term perspective is the high-levels of unmet-needs for contraception in high fertility States of Uttar Pradesh, Bihar, Rajasthan, Madhya Pradesh and Odisha. The focus is on develop- ing area-specific approach for meet- ing the gap in the demand for contraception in these States.

Population Policy 2000

The National Population Policy 2000 provides a policy framework for advancing goals and prioritizing strategies during the next decade to meet the reproductive and child health needs of the people of India. This new policy states that the objec- tive of economic and social develop- ment is to improve the quality of lives people lead to enhance their well being and to provide them with opportunities and choices to become productive assets in society.

The **immediate objective** of this new policy is to address the unmet needs of contraception, health infra- structure, health personnel and to provide integrated service delivery for basic reproductive and child health care.

The **medium term objective** is to bring the total fertility rates to replacement level by 2010.

The **long term objective** is to achieve a stable population by 2045.

In pursuance of these objectives, 14 National Socio Demographic Goals are formulated to be achieved by 2010. The important goals of this category are—

(i) Making School education compul- sory and to reduce dropouts.

(ii) Reduce infant mortality rate to 30 per 1000 live births.

(iii) Reduce maternal mortality rate to below 100 per 100000 live births.

(iv) Promote delayed marriage of girls.

(v) Achieve 80% institutional delive- ries.

(vi) Prevent and Control Communicable diseases.

(vii) Promote vigorously the small family norm to achieve replacement levels of TFR.

The policy speaks about the formation of a National Commission on Population under the Chairman- ship of Prime Minister to monitor and implement population policy and to guide planning implementations.

Policy also suggests some pro- motional & motivational measures to promote adoption of the small family norm. The important are—

(i) Reward Panchayat and Zila Pari- shads for promoting small family norm.

(ii) Incentives to adopt two child norms.

(iii) Couples below poverty line, having sterilisation with not more than two living children will be eligible for health insurance plan.

(iv) Strengthening abortion facility scheme.

Uttar Pradesh Holds One-sixth Population of the Country: Census 2011

The provisional figures of Cen- sus 2011 were released on March 31, 2011. The population of the nation was estimated at 1210-19 million having 51-54% males and 48-46% females. Uttar Pradesh stood at top place being the most populous state which accounted for the largest share of 16-49 per cent. Uttar Pradesh holds about one-sixth population of the nation. The percentage decade growth rate in Uttar Pradesh has declined during 2001-11 compared to 1991- 2001. In 1991-2001, this growth was 25-85% which declined to 20-09% in 2001-2011. Uttar Pradesh holds 29-7 million children population in the age group of 0-6 years.

Uttar Pradesh Census 2011 Few Figures : At a Glance

- **Total Population:** 199581477
  Male : 104596415, Female : 94985062
- **Two Most Populous Cities**
  Lucknow : 2815033, Kanpur : 2769413
- **Top Five Populous Districts**
  Allahabad : 5959798, Moradabad : 4773138, Ghaziabad : 4661452, Azamgarh : 4616509, Lucknow : 4588455
- **Top Least Populous Districts**
  Mahoba : 876055, Chitrakoot : 990626, Hamirpur : 1104021, Shravasti : 1114615, Lalitpur: 1218002
- **Districts having Highest Literacy**
  Ghaziabad : 85%, Gautambudh Nagar : 82.2%, Kanpur City : 81.3%, Orai : 80.3%, Etawah: 79.9%

- U.P. possesses about l/6th, population of the country's population.
- Shravasti is the least literacy having district.
- State's literacy 69.72%.
- Gautambudh Nagar registered highest while Kanpur City had the least population growth in 2001-2011.
- Sex Ratio in U.P. (per 1000 males): 2001 : 898 females, 2011 : 908 females
- Three districts show sex-ratio in favour of females (per 1000 males)—Jaunpur (1018), Azamgarh (1017) and Deoria (1013).
- Two districts having least sex ratio (per 1000 males—Gautambudh Nagar (852) and Hardoi (856).
- Two districts having highest density : Ghaziabad (3954), Varanasi (2399)
- Two districts having least density :

  Lalitpur (242), Sonbhadra (270)

National Population Register to Start Bio- metrics Data Collection from Dec. 2010

The National Population Regis- ter (NPR) will start collecting bio-metrics data of the country's entire adult population between December 2010 and January 2011.

NPR will be the biggest bio- metric database—including face, fingerprint and iris recognition of the over 1 billion Indian population—that has ever been made. The Unique Identification Authority of India (UIDAI) has been established by the government to implement the scheme and assign unique numbers to all citizens.

UIDAI has made ageement with The Registrar General of India that the NPR exercise under the 2011 census would collect biometrics data as well. At present UIDAI is in the first phase of NPR which gets the basic information of an individual. The biometrics data will be covered under the second phase.

Gender Disparities Declined in India

According to a study made by the Ministry of Woman and Child Development, the gender-based disparities in the country have shown a decline over a period of 10 years from 1996 to 2006. Both the Gender Development Index (GDI) and the Gender Empowerment Index (GEI) —the two key parameters of women's development—have shown better results between 1996 and 2006. The GDI scores estimated for India were 0-514 in 1996 and 0-590 in 2006 showing an increase of 0-076 points.

The GDI is the Human Develop- ment Index (HDI) adjusted for disparities between men and women and the estimated GDI score for India are lower than the HDI score at both years 1996 and 2006 due to the existence of gender-based disparities in all three dimensions i.e., health, literacy and standard of living. GDI having these three dimensions also reflects an increase over the decade, thereby implying that progress has been in each of these areas.

Besides, the Gender Empower- ment Index which measures political participation and decision-making power, economic participation power over economic resources, also shows the increased score from 0-416 in 1996 to 0-497 in 2006.

An analysis of the data for states and Union Territories shows that Kerala has the highest score of 0-721 in the country. However, in 2006, it was ranked second in the GDI with a score of 0-745.

Chandigarh has been ranked second on both GDI and HDI in 1996, but attained the highest HDI and GDI scores in 2006 at 0-784 and 0-763 respectively.

Goa was ranked third on both HDI and GDI in 1996. It improved its rank to second on HDI and GDI in 2006.

None of the states has a GDI less than 0-5 except Bihar.

Global Gender Gap Report Puts India on Poor Front

The World Economic Forum's Global Gender Gap Report assesses gender equality in 134 countries looking at economic participation and opportunity, educational attain- ment, political empowerment, health and survival. The report examines both men and women's access to resources and opportunities rather than the levels of resources and opportunities available in a country.

Iceland, Norway, Finland, Swe- den and New Zealand are the top 5ranking nations in global gender gap assessment. Lesotho, in sub-Saharan Africa ranks at 8th place showing smaller gender gap than UK which gets 15th ranking in the list.

India has been ranked on poor front in the list Report puts India at 112 ranking out of 134 nations. Last year in 2009 India's ranking was 114th in the list. Both the rankings are almost same showing no improve-ment in gender equality. India's rank-ing is the lowest even among BRIC nations. Moreover, India's gender equality performance remains the worst in the region with Sri Lanka and Bangladesh got 16th and 82nd ranking.

The Global Gender Gap 2010 Ranking

Top 5 Nations

Nation	Rank
Iceland	1
Norway	2
Finland	3
Sweden	4
New Zealand	5
BRIC Nations	
Brazil	85
Russia	45
India	112
China	61
South Asia Nations	
Pakistan	132
Sri Lanka	16
Bangladesh	82
Nepal	115

At the bottom of the ranking table of gender equality are nations— Yemen (134th), Chad (133rd) and Pakistan (132nd).

Family Welfare

India is following the demo- graphic transition pattern of all developing countries from initial levels of 'high birth rate-high death rate' to the intermediate transition stage of 'high birth rate-low death rate' which manifests in high rates of population growth, before graduating to 'low birth rate-low death rate'.

The current high population growth rate is due to—

(i) The large size of population in the reproductive age-group (esti- mated contribution 60%);

(ii) Higher fertility due to unmet need for contraception (esti- mated contribution 20%); and high wanted fertility due to prevailing high IMR (estimated contribution 20%).

The goal of population stabilization is achieved only when child survival issues, maternal health issues and contraception issues are addressed simultaneously and effec- tively. Actual success in containing the growth of population would how- ever, depend upon: Publicly stated support by the community leaders; Resources available for the Family Welfare Programme; Efficiency and accountability in the state Health System for ensuring effective deli- very of services to citizens; as also Women's education and status in the family. All these inputs have so far not been uniformly available to the required extent for the Family Wel- fare Programme, thereby not allow- ing the optimal and potential/best possible benefits to be reaped from the same.

Important Highlights of National Family Welfare Survey (III Round)

- Indian families are giving prefe- rence of not having children more than two.
- Total Fertility Rate (TFR) came down to 2-7 in 2006 from 2-9 obtained in 2000. In urban areas TFR stands at 2-1 in 2006.
- Eight states still have TFR more than 3 while four states (Bihar, Uttar Pradesh, Meghalaya and Nagaland) have TFR more than 4.
- The target for replacement level in 2000 policy was 2-1 but a few states show this level to be much higher-Bihar (4-22), U. P. (4-13), Meghalaya (4-38), Nagaland (4-15), Madhya Pradesh (3-34) and Jharkhand (3-69).

World's Population

According to the UNO's agency UNDP report the world population, which stood at 6-9 billion in May 2011, is estimated to cross the level of 7-0 billion this year. UNDP report has mentioned a proposed date of crossing 7-0 billion level to be October 31, 2011. UNDP has announced its count down to begin from October 24, 2011. It is worthnoting that the world's population had crossed 6 billion mark on October 12,1999 and 5 billion level mark on July 11,1987.

This report of UNDP has also projected world's population at 9-31 billion by the year 2050. Earlier UNDP had projected world population at 9-15 billion in the year 2050.

Projected Indian Population Scenario After 20 Years

The Technical Group of National Population Commission constituted in July 2000 has presented the projected scenario of Indian popula- tion after 20 years i.e., 2026.

The highlights of projections are—

- Total projected population (in 2026): 140 crore.

  Birth Rate : 16 per thousand. Infant mortality rate : 40 per thou- sand.

  Sex ratio : 930 females per 1000 males.

  Population density : 426 persons per sq. km.

  Population growth during (2001-26) : 36%.
- Highest population growth (2001- 26): In Delhi (102%).
- Lowest population growth (2001 — 26) : In Tamil Nadu (15%), in Kerala (17%).
- Population growth (2001-26) : Bet- ween 40-50% in Haryana, Rajas- than, Uttar Pradesh and Madhya Pradesh.
- Population growth (2001-26) : Bet- ween 20-30% in Himachal Pradesh, Punjab, West Bengal, Odisha, Andhra Pradesh and Karnataka.
- Out of 31-7 crore additional popu- lation during 2001-26 50% contribu- tion will alone be made by seven states—Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Rajasthan, Uttar Pradesh and Odisha.•

  With 24-9 crore population Uttar Pradesh will maintain its status of the most populace state.

National Rural Health Mission (NRHM)

The NRHM was launched in 2005 to provide accessible, affordable and accountable quality health servi- ces to rural areas with emphasis on poor persons and remote areas. It is being operationalized throughout the country, with special focus on 18 states, which include eight

Empowered Action Group States (Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Uttara- khand, Odisha and Rajasthan), the eight north-eastern States, Himachal Pradesh and Jammu & Kashmir. Among major innovations of the NRHM are the creation of a cadre of Accredited Social Health Activists (ASHA) and improved hospital care, decentralization at district level to improve intra and inter-sectoral convergence and effective utilization of resources through PRIs, NGOs and the community in general. The NRHM further aims to provide an overarching umbrella to the existing programmes including the Repro- ductive Child Health Project (RCH-II), Integrated Disease Surveil- lance and other programmes for treat- ment of malaria, blindness, iodine deficiency, filaria, kala azar, TB and leprosy by strengthening the public health delivery system at all levels. The SCs, PHCs and CHCs are proposed to be revitalized through better human resource management, including provision of additional man-power, clear quality standards, revamping of existing medical infra- structure, better community support and untied funds to facilitate local planning and action so as to achieve the goals laid down in the National Population Policy 2000. Further, the Mission, in a sector-wide approach addressing sanitation and hygiene nutrition and safe drinking water as basic determinants of good health seeks greater convergence among the related social-sector departments, i.e., AYUSH, Women and Child Deve- lopment, Sanitation, Elementary Education, Panchayati Raj and Rural Development. The expected outcomes of the Mission include reduction of IMR to below 30 per 1,000 live births, MMR to below 100 per 1,00,000 live births and TFR to 2-1 by 2012.

National Rural Health Mission (NRHM)

Vision of NRHM

- To be implemented throughout the country with special focus on 18 States with weak public health indicators and/or weak infrastructure.
- To improve the availability of and access to quality health care.
- To build synergy between health and determinants of good health like nutri- tion, sanitation, hygiene and safe drinking water.
- To mainstream the Indian Systems of Medicines to facilitate comprehensive health care.
- To increase the absorptive capacity of the health delivery system to enable it to handle increased allocations.
- To involve the community over the planning process.
- Upgradation of infrastructure.
- Capacity building.
- Increasing the fund allocation for health sector.

Target Outcome

- IMR to be reduced to 30/1000 live births by 2012.
- MMR to be reduced to 100/100,000 live births by 2012.
- TFR reduced to 2.1 by 2012.
- Malaria Mortality to be reduced by 50 per cent by 2010 and 60 per cent by 2012.

- Elimination of Kala Azar mortality by 2010.
- Filaria to be reduced by 70 per cent by 2010. 80 per cent by 2012 and elim- inated by 2015.
- Dengue mortality to be reduced by 50 per cent by 2010 and sustaining it at that level till 2012.
- Cataract operations increasing to 46 lakh per annum.
- Leprosy prevalence rate to be reduced from 1.8 per 10,000 in 2005 to less than 1 per 10,000 thereafter.
- TB DOTS series-maintain 85 per cent cure rate through entire Mission period.

Achievement Under NRHM

- **ASH As Link Workers :** So far 7.36 lakh ASH As have been selected, 6.92 lakh trained at least in the first module and there are 4.95 lakh with drug kits in their respective villages.
- **Addition of Human Resources :** Under the NRHM, 2,474 specialists, 8,782 MBBS doctors, 26,253 staff nurses, 46,296 auxiliary nurse midwives (ANMs), 12,485 paramedics have been employed on contract.
- **Conversion of Health Facilities into 24 X 7 :** A total of 14,716 Additional Primary Health Centres (APHCs), PHCs, CHCs and other sub-district facilities are functional 24x7.
- **Janani Suraksha Yojana Beneficiaries :** Over 2 crore women have so far been covered under the Janani Suraksha Yojana (JSY).
- **Rogi Kalyan Samitis (RKSs) :** So far 573 district hospitals (DHs) 4,217 CHCs, 1,111 other than CHC hospitals and 16,568 PHCs have their own Rogi Kalyan Samitis (RKSs) with untied funds for improving quality of health services. Village Health and Sanitation Committees : So far 4-41 lakh villages (68 per cent) have their own Village Health & Sanitation Committees and each has been provided HIO.OOO as untied grant per year.
- **Village Health and Nutrition Days (VH & NDs) :** There have been 35 lakh VH & NDs in 2006-07, 49 lakh VH & NDs in 2007-08, 58 lakh VH & NDs in 2008-09 and 29 lakh VH & NDs so far in 2009-10 to reach basic health services.
- **Mobile Medical Units (MMUs) :** 343 MMUs functional so far.
- Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy (AYUSH) services have been colocated in 9,608 health facilities and 7,399 AYUSH doctors and 3,110 AYUSH paramedics have been added to the system.

8. WTO

Objective of WTO: To set rules on international trade which would help in the growth of world trade freely, fairly and predictably.

Structure of W.T.O :

(a) Secretariat: Geneva

(b) Ministerial Conference : The top decision making body. This meets once in two years. Decisions by the ministerial conference are by consensus.

(c) General Council of WTO, Geneva : it is made up of ambassadors / delegates of various countries to WTO.

The General Council functions as a Trade Policy Review Body and also a Dispute Settling Body. The General Council includes a) The Goods Council b) The Services Council c) The IPR Council.

Birth of WTO : It is a successor of GATT with a much wider membership and covering more areas of international trade. The last round of GATT negotiations was the Uruguay Round held between 1986 and 1994. (Launched In Punta del Este, Uruguay, 1986). The Uruguay round led to 60 new agreements (i.e., on 60 new areas of world trade, legally binding international rules governed by WTO have been framed). The member countries of GATT met in Marrakesh, Morocco, in 1994 andj& issued the Marrakesh Declaration which signified the end of the Uruguay Round of GATT and the declaration,also named the W.T.O. as the successor body to GATT. The Uruguay Round adopted the Dunkel' Treaty (Which includes all the new agreements concluded as part of the Uruguay GATT including agreements"like TRIPS_and GATSQ.

Principles Of WTO : The WTO agreements are based on some fundamental principles. These are 1. Most Favoufred Nation (MFN)jprincipJe - member countries are not to discriminate between themselves in Interna tip na i trade. If a country gives favourable treatment to some other member country, then it must be extended to all member countries. The exceptions to MFN are preferential treatment within regional trade agreements, including free trade areas, customs unions and also preferential treatment to developing countries under the principle of Special and Differential Treatment. The Generalized System of Preferences (GSP) are an exception to MFN. Under this.ICs can lower import duties preferentially for imports from PC's. The MFN is provided for under Article 1 of WTO for goods, Article II under GATS of WTO for services and Article 4 under TRIPS Agreement of WTO.

National Treatment: This declares that members cannot discriminate between domestic and foreign in terms of products, services and nationals. National treatment applies to internal measures (unlike cross-border or external measures). Internal measures could be domestic taxes and domestic laws, regulations affecting infernal sale transportation or use of products. The purpose of national treatment is to remove hidden domestic barriers to imported products, services or foreign nationals. However thereare some exceptions to national treatment like government procurement, subsides to demestic producers or internal price control measures.

Predictable and Open Trade: Member countries are to eliminate or reduce obstacles to trade and also should not apply measures affecting trade arbitrarily. This will be done by lowering trade barriers.

Transparency : Member countries to inform WTO about their trade regulations to allow other embers countries to be familiar with their trade rules.

Special and Differential Treatment of Developing Countries: Developed member countries can provide preferential treatment to Developing Countries and.LDC's to participate in trade and benefit from it. Developing countries and LDC's are allovyed less.liberal rules than Industrialized countries.

Important Concepts of WTO Trade Rules

1. **Dispute Settlement :** The General Council of WTO functions-as Dispute Setting Body. (GATT Jiad no dispute settlement process). The unique principle-in DSB of WTO is that the rulings given by DSB have to be accepted unless there is.

consensus among all members against its adoption. WTO requires 60 days of consultations between disputing parties to resolve the dispute, failing which, a disputes panel is set up.

2. Trade Remedies: Member countries are allowed trade remedies and depart from WTO rules to remedy an unfair trade situation. These are
   - (i) Anti - dumping measures - members can resort to anti-dumping measures against a product being dumped in their country. (Dumping is sale by a country in.another at a price which is less than cost of production or less than sale price in its own market). The anti dumping measures usually take the form of anti-dumping duties which neutralize the dumping margin.
   - (ii) Applying counter-vailing measures like counter - vailing duties
   - (iii) Resorting to safeguard measures to protect injury to domestic producers due to dumping.
3. **Tariff Bindinqs :** AII member countries are to indicate the maximum' import duty that they would levy on, 10,000 products in harmonized schedule of WTO. However, the actual import duties could be'less than the bound tariff.
4. **Tariff Rate Quotas :** These refer to less import duties for a given product upto a limit (the quota) to allow greater volume of import that product. However above the limit (the quota) a higher or normal import duty is levied.
5. **Plurilateral Agreements :** These are agreements between WTO members who have say of more than 80% in world trade and these agreements are open to all others.
6. **Multilateral Agreements :** These are agreements between 25 WTO members and are binding on these countries only.
7. **Regional Trade Agreements / Arrangements :** These are allowed under article 24 of GATT (where GATT 1994 is part.of WTO)
8. **Special Products and Special Safeguareds :** Special products are either agricultural products of industrial products of particular importance to DC's which seek to protect demestic agriculture and manufacturing. The Hong Kong Ministerial Meet of WTO in December 2005 allowed DC's to name special products and also allows sgecial safeguard mechanisms (SSM). The SSM allow member countries to raise import duties above the bouTuTratis on the import of a particular agro product if there is sudden surge in import of that product into the country. The SSM are available to DC's and LDC's. The SSM agreed to at Hong Kong provides for SSM based on both price and volume triggers i.e. or sudden surge in imports. Developing countries have also been allowed at Hong Kong Ministerial to name some special products in industrial goods which will remain outside the import duty cuts proposed under NAMA.
9. **Safeguard Duties :** These are import duties levied by the importing country when imports (due to WTO obligations or rules) have caused or threaten to cause serious injury to domestic producers of similar products. Hence the importing country can withdraw the WTO obliged import duty to protect its domestic producers temporarily. However the importing country is expected to provide compensation by offering some other concession.
10. **Quantitative Restrictions :** The WTO members are'to eliminate Quantitative Restrictions (QR's) like imposing physical guotas on guantity of imports or banning imports. These non- tariff barriers can be resorted to in exceptional circumstances underWTO rules such as vulnerability of BoP or critical shortage of food etc. But these are to be for a specific period of time.

Trade Policy Review Mechanism. (TPRM): This was agreed to,in the Uruguay Round. The TPRM reviews the member countries domestic trade policies arid practices to enable the other members to understand these policies, to provide the feedback to the member reviewed and to determine if these are in harmony with WTO rules. The TPRM helps the developing countries and LDC's to adjust their domestic policies in compliance with WTO agreements; The TPRM is carried out by the Trade Policy Review Body of the General council

The Uruguay Round and the Dunkel Treaty: The Uruguay Round of GATT led to adoption of the Dunkel Treaty which covers 60 new agreements in addition to the existing agreed rules of GATT till 1994. The important ones among them are briefly discussed below.

Issues in Built-in Agenda : The built-in agenda includes agreements already concluded under the Uruguay Round of GATf but on which further negotiations are to be held. The issues in built-in-agenda are with respect to Agreement on Agriculture and Gejneral Agreement in Trade in Services.

Agreement on Agriculture (AOA) : This defines new rules on trade related agriculture measures. The AOA provides for:

a) **Market Access :** All members of WTO to convert non-tariff barriers on agricultural products to tariffs. Developed Countries are to cut tariffs (i.e., import duties) on agricultural products by 36% whereas developing counties are to cut tariffs by 24%.

b) **Domestic Support :** This refers to subsidies provided by governments to agriculture. The subsidies to agriculture are expressed as Aggregate^ Measure of Support (AMS). The W.T.O. rules classify all farm subsidies into :

(i) **Amber Box subsidies :** These are subsidies provided to farmers (Tike support prices) without imposing any limit on output. These are considered to be trade distorting. The WTO calls for reduction of amber box subsidies.

(ii) **Blue Box Subsidies :** There are subsidies linked to production but unlike amber box subsidies, the blue box subsid"esTmpose limiETon production (in the"form of quotas). These are also considered to be trade distorting.

(iii) **Green Box Subsidies :** These subsidies to the farm sector are considered to be minimally trade distorting or non-trade distorting.

c) **Export Competition :** This is another component of the Agreement on Agriculture. According to this, Developed Countries are to reduce the value opexport subsidies to agricultural products by 36% and reduce the volume of export subsidies to agricultural products by 24% over a 6- year period. The Deyeloping_Countries are to reduce the value and volume of export subsidies by 24% and 10% respectively ove^a 10 year period. One of the most sharply debated issues at the CancurTMinisterial Conference of WTO was trade in agriculture. China. 5. Africa,, India and Brazil formed a group, of 2 1 countries (i.e.. the G-21) in Cancup. This called for reduction in agricultural subsidies in EU and the U.S.A. Initially, the EU was unwilling to discuss a reduction i^fa^m subsidies. Later the EU was willing to cultsubsidies to agriculture but was unwilling to fe^y^import duties on farm products. The U.S. wanted subsidy cuts to be linked to reduction in import duties.

NOTE : THE CAIRNS GROUP : A group of 15 countries (including developed and developing) which calls for reduction of agricultural subsidies and tariffs on agricultural products by the EU and the U.S, ⁻-e CAIRNS Group includes major agriculture exporting countries like Australia. Brazil, New Zealand, Canada, Fiji, Paraguay, Uruguay, Chile, Colombia, Argentina, Malaysia, Thailand, Indonesia, the Philippines etc.

TRIMS Agreement (Trade Related Investment Measures Agreement): This is agreement of the Uruguay Round recognizes that certain investment measurers could cause re- strictive effects on international trade in goods. Under TRIMS, member countries are not to apply trade related investment measurers that are inconsistent with Article III (national treatment) or Article XI (general elimination of quantitative restrictions),of tbeiGATF. Under TRIMS, the following are explicitly prohibited,

a) Local Content requirement ijntfab'er countries requiring foreign enterprises set up in their domestic economy to use domestic products in their production

b) Trade balancing requirements - which call upon foreign enterprise's in the domestic economy to limit use of imported products in proportion to volume or value ofHpcal products that they export

c) Forex -estrictions - which restrict access to foreign.exchange to restrict imports

d) Domestic sales re- quirement - measures that restrict export in proportion of volume or value of local production to campel "firms to sell more in the domestic economy. However, developing countries can retain some TRIMS in accordance with the development needs of their economies.

Agreement on Sanitary and Phvtosanitarv Measures (SPS Agreement): Under the SPS agreement of the Uruguay round, WTO rules impose standards relating to food safety (like content of bacterial contaminants, pesticides, etc) inspection and labeling as well as safety standards for plant health fPhvtosanitary) and animal health. The SPS measures can take many forms like prescribing maximum permissible levels of pesticides in food products, certification that food products, a-imals and plants are from a disease free area and minimum safety / inspection standards. These can be used by member countries to restrict imports on legitimate objectives of protecting human, animal and plant life. The WTO rules on SPS borrow norms of the Codex Alimentations Commission. Under the SPS, the burden of proof to demonstrate scientifically that some product nose import is regulated in dangerous, is on the country imposing the regujation.

Agreement on Technical Barriers to Trade (TBT Agreement): This was renegotiated as part of Uruguay round. It is to ensure that technical regulations, standards, testing and certification procedures do not create obstacles to trade. The agreement covers technical egulations on quality, packaging and labeling. The exporting country normally has to satisfy these technical regulations under the laws of the importing country. However, the TBT empowers the WTO to scrutinize such technical regulations in terms of whether they are legitimate or are aimed to cotect domestic industry (protectionist).

The Singapore Issues : (The New Issues). These are issues which were not discussed in the ,-jguay Round of GATT but were included in the agenda of the WTO in the Singapore Ministerial Conference in 1996. The Singapore Issues are Competition Policy, Multilateral Investment Agreement, Government Procurement and Trade Facilitation. The Developed Countries want the WTO to frame es covering all the Singapore issues while the Developing Countries are opposed to WTO taking tne Singapore Issues for the present. Briefly the Singapore Issues are :

i) Multilateral Investment Agreement (MAI) : This agreement, if reached, will provide for a liberal set of international rules concerning foreign direct investment.

ii) Competition Policy : The WTO to frame multilateral rules concerning fair competition in markets of all WTO members. The Developed Countries argue that unfair trade practices in developing counties (like formation for cartels by domestic companies) is hurting the trade prospects of Developed Countries.

iii) Government Procurement : The Developed Countries want a set of multilateral rules concerning government procurement In many developing countries, governments are major buyers of goods and services. The Developed Countries want a set of transparent rules on the basis of which the governments offer contracts for the purchase of goods and services.

iv) Trade Facilitation : This calls for standardization of customs procedures and documentation for all WTO members.

Implementational Issues: These refer to agreements which have been concluded as part of the Uruguay Round ofGATT and included in the Dunkel text but where the implementation is not satisfactory. Hence these items require review and modification. These include :

1. **TRIPS :** (Trade Related Intellectual Property Rights): The TRIPs agreement of WTO recognises seven forms of intellectual property rights. These are industrial designs, integrated circuits, trade marks, copyrights, geographic indications, patents and trade secrets.

According to the TRIPS agreement:

- Plants andanimais cannot be patented
- Essential biological processes for production of plants and animals cannot be patented.
- Genes, micro-organisms, non-biological processes and microbiological processes to produce plants and animals can be patented.
- Geographic indications (which identify a good on the basis of its origin in a specific region and where the characteristic or / 'and reputation of that good is essentially attributable to that region I Ms a permanentgrjghf (unlike patents which are time bound) and are community intellectual property rights (unlike patents which are individual rights). Under TRIPS, Geographic Indication" FrotectiprTiFavailable to wines and spirits'where the member countries are to prevent the use of geographic indications for wines and spirits by using qualifying names. At the Doha Ministerial in 2000, the WTO agreed to examine the extension of geographic indication protection to products other than wines and spirits. The TRIPS agreement calls upon member countries to provide both process and product patents for pharmaceutical products and agricultural chemicals for a period of 20 years. Tlie industrialisaed countries are to provide product and process patents beginning on January 1, 2000, while the developing counties are to provide the same beginning an 1st January, 2005. At the Doha Ministerial Conference, the TRIPS agreement was amended to provide for Least Developed Countries are to provide product and process patents to agrichemicals and pharmaceuticals beginning on 1sl January 2016 A.D. bythe Doha Declaration on Public Health and Trips provides for manufacture of a patented drug without' approval of the patent holder to meet a public health emergency under cpmpulsory licensing. In August 2003, the Doha Declaration of Public Health and TRIPS was further liberalised to provide for the import of a patented drug by a country which faces a public health emergency but which cannot produce a patented drug under compulsory licensing (because it does not have a pharmaceutical industrial base). This country can import patented drug from another developing member country of WTO which has the capability to manufacture / import the drug.

Data Exclusivity : Industrialised countries want WTO rules to be amended so that clinical test data submitted by pharma companies to patent offices to get market approval for their generic drugs are not disclosed to other producers of generic drugs. The argument of developed countries is that pharma companies producing imitator drugs and get marketing approval for these drugs as patent offices rely on data submitted by the original inventors of the drugs to grant such market approval. This move is being seen as a deliberate attennpt by developed countries to delay competition in generic drugs and hence extend the life of a patented drug indirectly. However, it is also a fact that each new investigation of the therapeutic effects of a drug leads to more data and hence a higher overall safety of the drug. Under article 39.3 of WTO, members are not obliged to grant data exclusively but are to protect clinical data against unfair commercial use.

The Sui Generis system: The TRIPS Agreement of the WTO provides for protection of new plant varieties by protecting their seeds either by Patents or by a Sui Generis System. Sui Generis System of protecting new plant varieties is to"protect them by interpreting plant varieties in the scientifically correct method of describing their botanical characteristics in t'ne form of a sub-species rather than a scientifically incorrect and commercial / industrial description pftheip characteristics. The Sui Generis System of protection of new plant varieties was already part of GATT and has been retained under WTO. The protection of new plant varieties according to WTO rules calls for all member countries of the WTO enacting Plant Breeders Rights Act by 2000 A.D. The

Plant Breeders Rights system will protect new plant varieties invented after 2000 A,D, The Plant Breeders System recognises the rights of farmers, researchers and plant breeders (i.e., the right of farmers to exchange patented seeds and to save a part of the harvest as seed to sow for the next crop, the right of researchers and breeders to use one protected seed to carry out experiments to breed new varieties are recognised under the Plant Breeder Rights System)

Agreement on Textiles and Clothing (ATC) : This is a another trnplementational issue. The ATC is part of the WTO, having been negotiated in the Uruguay Round. It provides for a phased dismantling of the Multi Fibre Arrangement (Mf'A) of the GATT which,governs textile trade. Under the MFA, textile trade between countries "of GATT was based on country-specific quotas, arrived on the basis of bilateral agreements between countries. The ATC calls for dismantling the MFA completely by December 31. 2004 so that textile trade is free from quantitative restrictions beginning on 1st January 2005. The Developing Countries argue that the ATC is not being properly implemented i.e., the phased removal of quantitative restrictions on textile trade is not being adhered to by the Developed Countries.

Agreement of Anti-Dumping Duties: The WTO rules provide for the levy of anti-dumping duties if countries are suspected of resorting to dumping (i.e., selling goods at prices less than the cost price or /and selling goods in other countries at a price less than the sale price of the same good n their own economics). The issue of anti-dumping duties has to do with the frequent resort to anti- dumping duties by Developed Countries against the imports from Developing Countries. At the Doha Ministerial Conference In 2000, the WTO agreed that the implementationa issues will also be discussed n the Doha Round along with the other issues.

Non-Trade Issues: At the Singapore Ministerial of the WTO, the industrialsed countries attempted to include labour standards and environment as part of the agenda of WTO but were successfully prevented by the Developing Countries.

1. **Labour Standards :** This is to evolve a set of minimum rights of labour (like right to collective bargaining, bar on exploitative forms of labour like forced labour/child labour and underpaid labor). After evolving these minimum rights of labour,.W.T.O, should have rules under which it can impose sanctions against a member country which does not abide by the minimum labour standards. The Developing Countries declare that the link between labour standards and international trade is not clear and hence oppose the inclusion of labour standards as part of the agenda of WTO.
2. **Trade Vs Environment :** The Developed Countries want W.T.O. rules providing for sanctions against countries which carry out international trade by destroying the environment (like exporting tropical timber by large scale deforestation of tropical rainforests). The Developing Countries declare that the link between environment and international trade is not clear and hence are opposed to the inclusion of environment in the agenda of WTO. The Doha Ministerial has however set up a committee to examine on whether negotiations can+ake place on trade Vs environment.

NAMA (Non-Agricultural Market Access) : The U.S. and the EU are at the lead in the W.T.Q. as far as NAMA is concerned. The U.S. proposal is that all member countries of W.T.O. should reduce customs duties to zero percent on industrial goods by 2015 A.D. to boost world trade in manufactured goods, The Developing Countries, while not Opposed to this suggestion, call for a longer period of time i.e., for reduction of customs duties to zero percent by 2025. However, the Doha Round has agreed to carry out negotiations on elimination and reduction of customs duties in respect of Seven Categories of industrial goods. The talks are to be completed by Is1 January 2005.

The Doha Round: This was launched in Doha, Qatar in 2001. The key issues in Doha round are related to further liberalization of trade in Agriculture (including implementation issues in Agreement on Agriculture), Non-Agricultural Market Access (NAMA), GATS and some issues in TRIPS. These are briefly

1. **Agriculture :** The talks are focused on substantial reduction in trade distorting domestic support to agriculture (i.e. subsidies) within Amber Box and Blue Box categories, by developed countries. Self-designation of appropriate number ofLspecial''products in agriculture by developing countries, an operational and effective special safeguards mechanism (SSM) and simplification of tariffs and tariff capping by IC's.
2. **Non-Agricultural Market Access (NAMA) :** This covers manufacturing products, fuels and mining products, fish and forestry products. These are not covered by AOA or in negotiations under GATS.
3. **Liberalisation of Trade in Services :** The General AgreementjnJngde in Services (GATS) covers trade in services. The GATS was adopted in the Uruguay Round of GATT and further talks were to be held beginning in 2000 for liberalising trade in services. The services trade is classified under 4 modes. These are :
   - **(i) Mode - 1 :** This involves supply of service from one country to another i.e., cross border supply of services, like International Subscriber Dialling (ISP),
   - **(ii) Mode - II :** This includes services provided in the territory of the service provider (and hence the service is consumed abroad), Examp'lejs tourists consuming services like boarding lodging and transport in the country they visit
   - **(iii) Mode -III :** This includes commercial presence abroad. For example, companies., setting up branches or subsidiaries in another country, like a bank branch ,;^eing-.opined in some other country,
   - **(iv) Mode-IV :** This includes Movement of Natural Personsrto provide some service. Example is movement of labour from one country to another. The developing countries like India want a liberal set of rules concerning mode-IV whereas the developed countries are more interested in a liberal set of rules involving mode-III.
4. **TRIPS :** Further talks on TRIPS are on providing a clear linkage between TRIPS Agreement and Convention in Biodiversity by incorporating specific disclosure norms for patent application and enhanced protection foTgeographical indications in addition to wines and spirits. The other issues in TRIPS are related to evergreening and data exclusivity. Evergreening refers to patents on drug molecules by altering the patented drug molecule only marginally. The developing countries argue that evergreening is only to extend the patent period of patented drug beyond 20 years by the multinational drug companies by altering the patented drug partially and claiming a new patent for a further period of 20 years. This is sometimes referred to as TRIPS plus.

The Anti-Counterfeitinq Trade Agreement (ACTAT) : The ACTA is a proposed plurilateral agreement for establishing international standards on IPR enforcement. That is the proposed ACTA seeks to establish a new international legal framework that would create its own governing body outside existing international institutions such as WTO, WIPO or the UN. The scope of proposed ACTA is very broad, counterfeit goods, generic drugs, copyright infringement on the internet etc. The ACTA draft text requires signatory countries to provide for procedures for customs seizure of goods suspected of infringing trademarks, copyrights and other IPR's against goods in transit. According to ACTA, in-transit includes customs transit and transshipment seizures are to be allowed even when there is mere prima facie case of IPR violations. The ACTA is being criticized by developing countries as a deliberate attempt by developed countries t£Tm£ede legitimate competition, like in the case of generic medicines. India argues that ACTA reduces the power of courts and transfers much power to the owners of IPR's by allowing for seizure of goods withoud court oversinght. The ACTA was originally proposed by USA and Japan but today enjoys support of Canada, the EU, Switzerland, Australia, Mexico, Morocco, South Korea, New Zealand and Singapore.