SRIRAM'S IAS

Old Rajinder Nagar
SRIRAM'S IAS
General Studies
Mukherji Nagar

GENERAL STUDIES

ECONOMIC GROWTH AND DEVELOPMENT – 2

11A/22; 1st Floor; Old Rajender Nagar; New Delhi - 60
Ph. 011-25825591; 42437002
73-75; 1st Floor; Ring Road; Beside GTB Metro Station
Kingsway Camp; New Delhi.
Ph. 08447273027

SRIRAM'S IAS

Indian Economy
Contents

Poverty and Inequality: Concepts, Data, Policy and Analysis

Poverty is deprivation of basic needs that determine the quality of life- food, clothing, shelter, safe drinking water etc. It also includes the deprivation of opportunities to health, education, skills, employment etc.
Many different factors have been cited to explain why poverty occurs. No single explanation has gained universal acceptance. The factors responsible for poverty include:

- Historical factors, for example imperialism and colonialism.
- Overpopulation.
- Growth is not fast enough to eradicate poverty
- Models of growth may be unsuitable for poverty alleviation. For example, capital-intense growth in a labour surplus country
- Poverty itself, preventing investment and development.
- Widespread reliance on traditional methods of agriculture. About 60% of the population depends on agriculture whereas the contribution of agriculture to the GDP is 20%.While services and industry have grown at double digit figures, agriculture growth rate has dropped from 4.8% to 2%
- Geographic factors, for example lack of fertile land and access to natural resources.
- Anti-poverty schemes not being effective due to institutional and other inadequacies
- War, including civil war, genocide
- Lack of education and skills.
- gender discrimination
- Matthew effect— the phenomenon, widely observed across advanced welfare states, that the middle classes tend to be the main beneficiaries of social benefits and services, even if these are primarily targeted at the poor. Matthew effect refers to those already having an asset base benefiting from it while those without it continue to be denied the same.

Eradication of poverty
The strategy of the Government includes the following elements

- The main plank of anti-poverty strategy is reducing poverty through the promotion of economic growth. In India, after reforms began in 1991 when growth rates increased , poverty levels fell quite steeply.(NSSO 2005)
- Socio economic planning
- Food security through the nation wide PDS- largest in the world
- Progressive taxation to garner fiscal resources for spending on poor
- Social safety net like the, National Social Assistance Programme (NSAP)
- Open society in which poverty is recognized as a national challenge and earnest efforts are made to tackle it(Amartya Sen)
- Anti-poverty programmes – NREGA 2005
- Massive social sector expenditure for skill building
- Decentralization through PRIs and Nagarapalikas for better delivery models

Poverty concepts

Types of Poverty
Human Poverty is the lack of essential human capabilities- literacy and nutrition.
Income Poverty: The lack of sufficient income to meet minimum consumption needs.
The World Bank defines extreme poverty as living on less than 1.25 US$ per day, and moderate poverty as less than $2 a day.

Poverty line
It is the level of income below which one cannot afford to purchase all the resources one requires to live. People who have an income below the poverty line have no disposable income.

When comparing poverty across countries, the purchasing power parity exchange rates are used. These are used because poverty levels otherwise would change with the normal exchange rates. Thus, 'living for under $1 a day' should be understood as having a daily total consumption of goods and services comparable to the amount of goods and services that can be bought in the U.S. for $1.

Poverty lines are defined as the per capita monetary requirements an individual needs, to afford the purchase of a basic bundle of goods- only food or food and other goods. The value of this basic basket of goods can be determined in many ways, for example: Absolute Poverty is a fixed measure in terms of a minimum calorific requirement plus essential non-food components, if any. It is used in India. Individuals are considered as poor if the per capita real income/consumption of the household to which they belong is below the benchmark poverty line. In India monetary requirement to consume 2100 calories in urban areas and 2400 calories in rural areas per day per person is the absolute poverty line.

Relative poverty lines set the line in relation to another variable: the average expenditure or income in a country, for example, the line is derived as 60 percent of the country's per capita income.
Headcount ratio

The most common standard indicator is the incidence of poverty (also called poverty rate or headcount rate). This describes the percentage of the population whose per capita incomes are below the poverty line, that is, the population that cannot afford to buy a basic basket of items. In many instances, a different poverty line--a much more austere one that generally only includes food items--is applied to derive the extreme poverty rate.

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

Misery index

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

Agricultural wage earners, small and marginal farmers and casual workers engaged in non-agricultural activities, constitute the bulk of the rural poor. Small land holdings and their low productivity are the cause of poverty among households dependent on land-based activities for their livelihood. Poor educational base and lack of other vocational skills also perpetuate poverty. Due to the poor physical and social capital base, a large proportion of the people are forced to seek employment in vocations with extremely low levels of productivity and wages. The creation of employment opportunities for the unskilled workforce has been a major challenge for development planners and administrators.

Planning Commission and Poverty

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

NSSO and Poverty Estimates

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

History and methodology of Poverty estimate in India

Planning commission initially gave poverty numbers and related data ratios since 1979 based on the Alagh Committee Report of that year. This procedure was subsequently modified by the Lakdawala Committee (1993).The commission in middle of last decade appointed an expert group led by Suresh Tendulkar to suggest a new poverty line for rural areas. It submitted its report in 2009. It used the latest data to construct a new poverty line basket. It moved away from the calorie intake as anchor for poverty estimation and included price indices for health and education. The all-India rural poverty line adopted by the Tendulkar Committee was 446.68 for 2004-05. Tendulkar committee did not deal with the urban poverty as the line was not controversial at that time.

New NSSO findings showed that poverty declined by 1.5 percentage points per annum between 2004-05 to 2009-10. It is the fastest decline of poverty compared to earlier periods. Both growth and public intervention have contributed. The poverty line in 2009-10 was 4,298 per month for a family in urban and 3,364 per month for a family in rural areas. There are questions on whether one can live with this money. 350 million lived below even this minimalist poverty line in 2009-10 in India. This is a matter of concern and the need for increase in incomes for these people is obvious.(read ahead for 2013 data)

The purpose of these estimates at the macro level is to see progress over time (these are already delinked from entitlements). For example, one can examine whether poverty declined faster in the post-reform period as compared to pre-reform period or whether anti-poverty programmes have had an impact on poverty. Which regions/states and social groups benefited during the reform period?

The rate of reduction in Bihar, Chhattisgarh and Uttar Pradesh was low while poverty declined by 20 percentage points in Orissa. Some other findings are: Scheduled Tribes have high poverty ratio (47%) in rural areas while Muslims have the highest poverty (33.9%) in urban areas. Despite the MGNREGS and increase in agriculture wages, the poverty ratio among agricultural labourers was 50%. These are the concerns regarding poverty estimates and have immense policy implications.

The government has taken a decision to appoint a technical group to revise/revisit 'the methodology for estimating poverty in a manner that is consistent with current realities'. The government is also waiting for the socio-economic and caste census, 2011, based on Saxena and Hashim committees. It may be noted that the Planning Commission poverty estimates relate to income poverty estimates based on private consumer expenditure (PCE). The Saxena and Hashim Committee recommendations on deprivation may relate more to non-income indicators.(See ahead).

Exclusive calorie method for estimating poverty can be misleading . Some studies have shown that if we use direct method of calorie deprivation, two-thirds of the population would be poor. Equally, Orissa and Bihar would be richer states than Tamil Nadu and Kerala.

Arjun Sengupta Commission on unorganised enteprises estimated 77% of the population can be categorised poor and vulnerable.

Rangarajan committee has to review, from time to time, the methodologies for measuring poverty in keeping with changing needs of the population.

Rangarajan Committee

The government in mid-2012 announced the formation of a new expert committee under C Rangarajan, to revisit the methodology for estimation of poverty and identification of the poor, months after a poverty line cut-off, based on the method proposed by Suresh Tendulkar, had created a flutter. It will give the report I inn 2013-14 and has 4 members. The panel would also look into the issue of linking poverty estimates with providing benefits under the Centre's social welfare schemes. The panel would also assess whether poverty can be determined on any criteria other than the consumption basket. The panel will also assess if the two (consumption basket and other methods) can be effectively juxtaposed for estimating poverty in rural and urban areas.

The panel would examine the divergence between consumption estimates based on the National Sample Survey Organisation (NSSO)'s methodology and those emerging from the National Account aggregates. It would also suggest a method to update the consumption poverty line, using the national, urban and rural consumer price index data being released since 2011.

The committee would study the various poverty estimation models used across the world and suggest the best alternative for India.

This committee has been appointed due to concern over estimating poverty using the Tendulkar committee's method. We need to look at how to define and measure poverty. So far, the level of consumption expenditure has been used as a way to estimate poverty. This is based on the basket of goods and services, and estimated using the least possible level to sustain someone. It is adjusted for price increases and consumption patterns every five years.

Tendulkar committee's approach is based on updating rural consumption data on prevailing prices, while not revising the urban consumption data simultaneously. Rangarajan committee has see if this is the right way to do it.

Poverty can be estimated in different ways. First, the absolute method, in which one considers how the economy has changed over time and the number of people living below a certain income level. The other is the relative method, in which you consider the current level of average income and the income distribution in the country. This has been widely used in India. So far, we have only looked at consumption expenditure. Now, we will also look at alternative ways—how to combine the current method with poverty estimation techniques used in other countries.

NC Saxena Committee

The rural development ministry in 2008 appointed a committee headed by NC Saxena to look at revising the parameters laid out by the earlier Sanjeeva Reddy committee to calculate the rural BPL figures in the states.

Officially, there are two sets of BPL estimates in India, one made by the Planning Commission using NSSO data on household consumption expenditure and the other by the rural development ministry through a state-level BPL house-to-house census. The mismatch between the two, with Planning Commission progressively lowering poverty estimates while the states push higher numbers, has been a source of controversy. The Centre allocates resources for BPL schemes based on the figures of the Planning Commission.

The committee chaired by NC Saxena recommended that 50% of India's population be given below-poverty-line cards. Thus, it suggests expansion of the social security net which means fiscal and administrative challenges.

While advocating exclusion of large number of families from the BPL lists, the committee has recommended that those families having double the land of the district average of the agricultural land or two wheeler or one running bore well or income tax payers would be deleted from the BPL lists.

While pointing out that the present poverty line which allows only 6.52 crore BPL cards is flawed, the committee has recommended a poverty line that would allow 50% of the country's population to get BPL cards as compared to the 28% at present. The panel has recommended that some disadvantaged communities be given BPL cards automatically. These include chronically vulnerable groups, such as households with members having tuberculosis, leprosy, disability, mental illnesses or HIV/AIDS and others,designated 'primitive tribe', designated dalit groups, homeless household etc.

The Centre has notified 13 new parameters for defining Below Poverty Line (BPL) category of people in the country. It has done away with the earlier definition based on food calories or annual earnings.

The revised definition is based on landholding, type of dwelling, clothing, food security, hygiene, capacity for buying commodities, literacy, minimum wages earned by the household, means of livelihood, education of children, debt, migration and priority for assistance. The matter had been stayed by the Supreme Court and has only now been vacated.

Urban poverty

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

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

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

The expert group is yet to finalise the detailed methodology for an ordinal ranking of the poor on the basis of vulnerability.

BPL survey will be done by staff of municipalities or urban departments in 45 major cities.

In smaller towns, district magistrate will be the nodal officer.

Questionnaire prepared for urban BPL survey will obtain information on several parameters including income, number of members, type of house and availability of amenities.

The survey will also give us information about housing shortage and deficiency in services in urban areas.

It is for the first time that such a survey is being done. This is important in the context of the proposed food security act and the Rajiv Awas Yojana (RAY) which aims to make cities free of slums besides better targeting of other schemes.An estimated 90 million of the 300 million living in India's roughly 45 cities and over 5,000 towns are poor.

JNNURM and RAY

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched in 2005. Within JNNURM, we have urban infrastructure and governance (UIG), basic services to urban poor (BSUP), urban infrastructure and development scheme for small and medium towns (UIDSSMT) and integrated housing and slum development programme (IHSDP).

What's the difference between BSUP and IHSDP? BSUP suggests basic services that may extend to more than integrated housing and slum development. But it is also about housing and slum development. BSUP is restricted to 65 JNNURM mission cities and IHSDP is meant for non-mission cities and towns. That's the only difference.

Under both BSUP and IHSDP, there is provision for infrastructure (water, sanitation, sewerage, roads and street lights).

In 2009, Rajiv Awas Yojana (RAY) was announced, and launched in 2010 to provide housing to the urban poor. Under the ministry of housing and urban poverty alleviation, RAY aims to make the country free of slums by 2014.
States are required to prepare a plan of action based on geographic information system-enabled mapping for specific cities to be made slum-free.
Unlike previous schemes, RAY seeks to provide property rights to slum dwellers.
Tthe government is likely to use the public-private partnership (PPP) model to build infrastructure under the project.

The expenditure will be shared between the beneficiary and states and the central government.

The ministry has also decided to be more inclusive in defining slums and responded positively to the suggestion of an expert committee which said a contiguous area with 20-25 households having slum-like characteristics be considered as slums.

The States would be required to include all the mission cities of JNNURM, preferably cities with more than 3 lakh population as per 2001 Census; and other smaller cities, with due consideration to the pace of growth of the city, of slums, predominance of minority population, and areas where property rights are assigned.

Mortgage Risk Guarantee Fund

The government in 2011 proposed the creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana. This would guarantee housing loans taken by Economically Weaker Sections and Low Income Group households and enhance their credit worthiness.

Pronab Sen Committee

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

- The committee has estimated Slum population in the country in 2001 as 75.26 million and the projected slum population in the country for the year 2011 at 93.06 million.
- For the slum census 2011, the committee has recommended that for policy formulation purposes it is absolutely essential to count the slum population even in cities having less than 20,000 populations. For the purpose of planning for Rajiv Awas Yojana and slum free India it would be necessary to count the population of slums in all statutory towns in the country in 2011.
- The committee has suggested a different definition for slum than the definition adopted by the census of India 2001 and the states. The committee has recommended a normative definition of slum as: "A compact settlement of at least 20 households with a collection of poorly built tenements, mostly of temporary nature, crowed together usually with inadequate sanitary and drinking water facilities in unhygienic conditions."

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

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

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

NSSO 69th round (ahead)
Poverty figures of 2013 (ahead)
Socio-economic caste census (ahead)

POVERTY AND INEQUALITY: II

Inequality

When discussing poverty, inequality often refers to the income gap between the rich and poor of society. The greater the gap, the greater the inequality. It essentially refers to disparities in the distribution of economic assets and income- among individuals and groups within a nation and among nations.

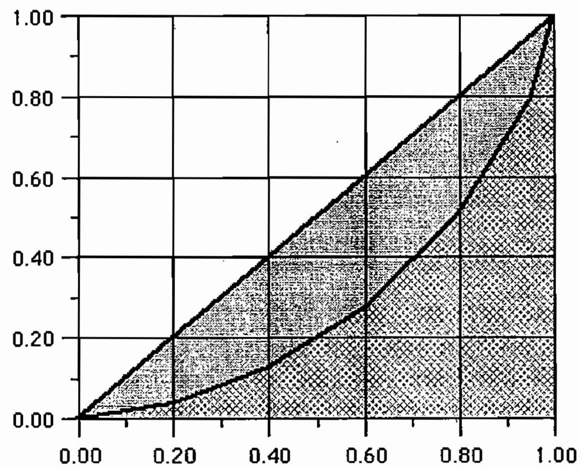
It may result from the operation of the economic system, access to assets, nature of laws, education and skills, social factors like caste and gender etc.

Lorenz Curve

The Lorenz curve was developed by Max O. Lorenz as a graphical representation of income inequality. It can also be used to measure inequality of income or assets or any other facility.

The Lorenz curve is used to calculate the Gini coefficient which is the numerical indicator of inequality in a country. Gini coefficient is derived by taking the following tow

- area between the line of perfect equality and the Lorenz curve(a)
- area between the line of perfect equality and the line of perfect inequality (b) Gini number is arrived when a is divided by b.



Gini Coefficient

To compute the Gini Coefficient, we first measure the area between the Lorenz Curve and the 45 degree equality line. This area is divided by the entire area below the 45 degree line (which is always exactly one half). The quotient is the Gini coefficient, a measure of inequality. The Gini index is the Gini coefficient expressed as a percentage, and is equal to the Gini coefficient multiplied by 100.

For a perfectly equal distribution, there would be no area between the 45 degree line and the Lorenz curve -- a Gini coefficient of zero. For complete inequality, in which only one person has any income (if that were possible) the Gini coefficient would be one. Real economies have some, but not complete inequality, so the Gini coefficients for real economic systems are between zero and one.

Gini coefficients : Sweden 0.250, Germany 0.283, India 0.325, France 0.327, Canada 0.331, Australia 0.352, UK 0.360, United States 0.408, China 0.447 and Russia 0.456.

Ahluwalia-Chenery Welfare Index

GDP may grow and the distribution of wealth may in fact worsen making the rich richer and the poor poorer. Thus, inclusive growth and not merely growth is required. An index that measures how all social groups are impacted by growth is necessary.

This problem was recognized by Montek Singh Alhuwalia. Alhuwalia's solution, the Ahluwalia-Chenery Welfare Index, measures how each social group is impacted from the prosperity. It is an alternative measure of income growth, one that gave equal weight to growth of all sections of society.

Economic reforms, globalization and inequality

In India the LPG since 1991 contributed to prosperity but the rich have become richer faster than the poor improved. That is, even while poverty levels reduced impressively, inequality has grown too.

When inequality is growing, economic growth will not achieve its potential in reducing poverty. Steep inequality damages the long-term prospects for economic growth. by creating conflict or instability, and it also limits growth by restricting the number of people who can participate in markets.

To examine why growth is not reducing inequality: income growth is concentrated in certain urban centers, and those whose incomes increase are usually already above average in income and education. The reality is that those best positioned to gain from new economic opportunities are the educated urban-dwellers. On the other hand, the poor rely mainly on agriculture, and the agricultural sector has not been growing as fast as other sectors in most of Asia.

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

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

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

ICDS, SSA, NRHM, Mahatma Gandhi Backward Region Development Fund, Bharat Nirman etc are the initiatives in public policy by Government to bring down the divides.

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

- stagnation in agriculture while the economy is growing

- discrepancy in investment between urban and rural areas which favoured better-educated, better-off urban populations.
- Improvements in rural infrastructure were being held back by government policies which deterred private investment.

Unevenness in growth in incomes across urban and rural areas, leading and lagging regions in the country, for example coastal and interior, and highly educated households and the less educated are important factors associated with increases in inequality.

Adverse impact of inequality

- Growing inequalities can dampen growth due to potential instability; weaken social cohesion.
- Urban-dominated growth in India has caused social friction as a result of the high levels of migration to cities and a shortage of foreign investment in more isolated areas.
- In societies where wealth is concentrated in the hands of a few, there is danger of policy levers being captured by the rich for their own benefit and a weakening of the institutional foundations of the growth process.

According to the ADB, absolute and relative inequality have widened. Although basic poverty levels have fallen as economy expanded, the living standards of the wealthiest in society have improved at a much faster rate compared to the poor.In a region as dynamic and vibrant as India, low growth in incomes of the poor is reflective of weakness in the pattern of growth. Incomes of the rich or top 20 percent have increased much more than those of the poor or the bottom 20 percent. That is, relative inequality is increasing.

Public Policy Challenge

ADB analyses the challenges to the government as follows:

Inequalities in life start early and they begin with extreme circumstances that deny millions the opportunity to have adequate nutrition, health and basic education. Governments must ensure their health and education programmes were "targeted" and implemented well. More spending is needed on education, training and healthcare to alleviate the situation .Government should implement complementary policies to counter negative impact of market-oriented reforms, such as social protection mechanism and skills and training programmes. There is a need to step up investment through PPPs to develop new economic activities and industries that generate employment opportunities that do not bypass the poor.

Public policy should also focus on radically improving the quality of basic health care and education.The key challenge to public policy here lies on not just increasing the quantum of public expenditures, but the outcomes are satisfactory- the target group is reached.

Summary

The growing wealth and wealth gap are a byproduct of globalization, which has brought higher incomes to urban, skilled, English-speaking workers in China, India and other countries, the bank's report said. The gap could slow the spread of prosperity, because the poorest people have less access to education, health care, bank loans and other things needed to benefit from economic growth.We have to invest in creating opportunities, as well as investing in broadening access to opportunities. Relative inequality refers to proportionate differences in incomes, while absolute inequality refers to actual rupee differences in incomes.

Wealth distribution in India is uneven, with the top 10% of income groups earning 33% of the income. The 2007 report by the National Commission for Enterprises in the Unorganised Sector (NCEUS) found that 25% of Indians, or 236 million people, lived on less than 20 rupees per day.

Inequality in China and Nepal with Gini Coefficients of 47 are the highest in Asia, while India has a Coefficient of 36.

Social security

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

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

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

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

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

- Aam Admi Bima Yojana
- Rashtriya Swasthya Bima Yojana
- Unorganised Workers Social Security Act 2008

MPI

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

Why multidimensional approach?

- **Income alone can miss a lot.** For example, economic growth has been strong in India in recent years. In contrast, the prevalence of child malnutrition has remained at nearly 50 per cent, which is among the highest rates worldwide. HUNGaMA report 2012. Multidimensional measures can complement income.
- **Poor people** describe ill-being to include poor health, nutrition, lack of adequate sanitation and clean water, social exclusion, low education, bad housing conditions, violence, shame, disempowerment and much more.
- **The more policy-relevant information available on poverty, the better-equipped policy makers will be to reduce it.** For example, an area in which most people are deprived in education is going to require a different poverty reduction strategy to an area where most people are deprived in housing conditions.
- **Some methods for multidimensional measurement, such as the OPHI-developed Alkire Foster method, can be used for additional purposes.** In addition to measuring poverty and wellbeing, OPHI's method can be adapted to target services and conditional cash transfers or to monitor the performance of programmes.

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

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

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

Each dimension and each indicator within a dimension is equally weighted.
The MPI is an index of acute multidimensional poverty. It shows the number of people who are multidimensionally poor (suffering deprivations in 33% of weighted indicators) and the number of deprivations with which poor households typically contend.

GII

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

There are three critical dimensions to the GII: reproductive health, empowerment, and labor market participation. The dimensions are captured in one single index.

Reproductive health

GII is a pioneering index, in that it is the first index to include reproductive health indicators as a measurement for gender inequality. The GII's dimension of reproductive health have two indicators: the Maternal Mortality Ratio (MMR),the data for which come from UNICEF's State of the World's Children, and the adolescent fertility rate (AFR), the data for which is obtained through the UN Department of Economic and Social Affairs, respectively. With a low MMR, it is implied that pregnant women have access to adequate health needs, therefore the MMR is a good measure of women's access to health care. The UNDP expresses that women's health during pregnancy and childbearing is a clear sign of women's status in society. A high AFR, which measures early childbearing, results in health risks for mothers and infants as well as a lack of higher education attainment. According to the

UNDP data, reproductive health accounts for the largest loss due to gender inequality, among all regions.

Empowerment

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

Labor market participation

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

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

Poverty and recent achievements.

The record in recent years of the anti-poverty strategies- the heart of inclusive growth- is encouraging. The percentage of the population below the official poverty line has been falling but even as that happens, the numbers below the poverty line remain large. According to the latest official estimates of poverty based on the Tendulkar Committee poverty line, as many as 29.8 per cent of the population, that is, 350 million people were below the poverty line in 2009–10. Questions have been raised about the appropriateness of the Tendulkar poverty line which corresponds to a family consumption level of `3,900 per month in rural areas and `4,800 per month in urban areas (in both cases for a family of five). There is no doubt that the Tendulkar Committee poverty line represents a very low level of consumption and the scale of poverty even on this basis is substantial. An Expert committee under Dr. C. Rangarajan has been set up to review all issues related to the poverty line keeping in view international practices.(Read ahead for detailed examination of issues)

It is well established that the percentage of the population in poverty has been falling consistently but the rate of decline was too slow. The rate of decline in poverty in the period 2004–05 to 2009–10 was 1.5 percentage points per year, which is twice the rate of decline of 0.74 percentage points per year observed between 1993–94 and 2004–05. Normally, large sample surveys used for official estimates of poverty are conducted every five years, but because 2009–10 was a drought year, the National Sample Survey Office (NSSO) felt that it would tend to overstate poverty and it was therefore decided to advance the next large sample survey to 2011–12. The results of this survey – NSSO 68th Round details came out in 2013 June and are discussed ahead). NSSO 68th Round findings on poverty, consumption and inequality in consumption are: Poorest of poor in the country survive on barely Rs 17 per day in villages and Rs 23 a day in cities. According to the data, which relates to 2011-12 (July-June), five per cent population on the bottom rung had an average monthly per capita expenditure (MCPE) of Rs 521.44 in rural areas and Rs 700.50 in urban areas. On the other end of the spectrum, top five per cent of the population had an MPCE of Rs 4,481 in rural areas and Rs 10,282 in urban areas.

The National Sample Survey Office's (NSSO) 68th round of survey is based on samples consisting of 7,496 villages in rural India and 5,263 urban blocks except some remote areas, during July 2011-June 2012, the release said.On an average on the all-India basis, MPCE was around Rs 1,430 for rural India and about Rs 2,630 for urban India. Thus average urban MPCE was about 84 per cent higher than average rural MPCE for the country as a whole, though there were wide variations in this differential across states".

Inter-group Equality

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

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

Balance regional development (BRD) and Inclusive growth

Another aspect of inclusiveness relates to whether all States, and indeed all regions, are seen to benefit from the growth process. The regional dimension has grown in importance in recent years. On the positive side, as the PM mentioned in the 57th

NDC speech(See ahead), many of the erstwhile backward States have begun to show significant improvement in growth performance and the variation in growth rates across States has narrowed. However, both the better performing and other States are increasingly concerned about their backward regions, or districts, which may not share the general improvement in living standards experienced elsewhere. Many of these districts have unique characteristics including high concentration of tribal population in forested areas, or Minorities in urban areas. Some districts are also affected by left wing extremism, making the task of development much more difficult.

In the Twelfth Plan, govt aims pay special attention to the scope for accelerating growth in the States that are lagging behind. This will require strengthening of States' own capacities to plan, to implement and to bring greater synergies within their own administration and with the Central Government. As a first step, the Planning Commission is working with it's counterpart Planning Boards and Planning Departments in all State Governments to improve their capabilities. An important constraint on the growth of backward regions in the country is the poor state of infrastructure, especially road connectivity, schools and health facilities and the availability of electricity, all of which combine to hold back development. Improvement in infrastructure must therefore be an important component of any region- ally inclusive development strategy.

The efforts of the govt in this regard are

- FC criteria
- PC transfers
- special category states
- BRGF
- Green revolution in the eastern region
- North eastern region Vision 2020

Special focus on North east

Holding that infrastructure deficiency in North-East is a "major concern", Prime Minister Manmohan Singh in 2008 announced linking of all state capitals there by rail to ensure better connectivity and earmarking of Rs 31,000 crores to improve roads.
Releasing 'Vision Document 2020 for the North-Eastern Region' he said besides developing rail and air connectivity, the government is also committed to improve road facilities in the Eleventh Plan. For improving air connectivity, he announced that a green-field airport will come up at Itanagar to connect the region with the rest of the country. He said all villages on the Arunachal Pradesh border will soon be electrified at a cost of Rs 550 crore. The Vision Document, approved by the North-East Council, also lays stress on promoting education in the region. Govt is to set up a NTFT and IIT at Shillong.

Green Revolution in Eastern India

The programme gets Rs 1,000 crore in his Budget for 2013-14.It was during Union Budget 2010-11 that for the first time, separate funds were allocated for the eastern parts of the country. The scheme, which comes under Rashtriya Krishi Vikas Yojana, includes Assam, Bihar, Jharkhand, eastern UP, Chhattisgarh, Odisha and West Bengal. Rice was a priority crop under the scheme. The other areas of focus were asset-building activities such as water management, construction of farm ponds and repair of irrigation channels. The main motive behind this project is to ensure food security. The idea is to tap the eastern region for food grains and pulses. The Centre has also allocated Rs 500 crore for encouraging crop diversification to promote technological innovation. The original Green Revolution States face the problem of stagnating yields and over-exploitation of water resources. The answer lies in crop diversification.

BRGF

The Backward Regions Grant Fund Programme (BRGF), launched in 2007, signifies a new approach to addressing persistent regional imbalances in development. The programme subsumed the Rashtriya Sama Vikas Yojana (RSVY).The BRGF Programme covers 250 districts in 27 States, of which 232 districts fall under the purview of Parts IX and IX-A of the Constitution dealing with the Panchayats and the Municipalities, respectively. The remaining 18 districts are covered by other local government structures, such as Autonomous District and Regional Councils under the Sixth Schedule of the Constitution and state specific arrangements as in the case of Nagaland and the hill areas of Manipur.

Objectives

The Backward Regions Grant Fund is designed to redress regional imbalances in development by way of providing financial resources for supplementing and converging existing developmental inflows into the identified backward districts, so as to:

- Bridge critical gaps in local infrastructure and other development requirements that are not being adequately met through existing inflows,
- Strengthen, to this end, Panchayat and Municipality level governance with more appropriate capacity building, to facilitate participatory planning, decision making, implementation and monitoring, to reflect local felt needs,
- Provide professional support to local bodies for planning, implementation and monitoring their plans,
- Improve the performance and delivery of critical functions assigned to Panchayats, and counter possible efficiency and equity losses on account of inadequate local capacity.

The BRGF programme represents a major shift in approach from top-down plans to participative plans prepared from the grassroots level upwards. The guidelines of the Programme entrust the central role in planning and implementation of the programme to Panchayats in rural areas, municipalities in urban areas and District Planning Committees at the district level constituted in accordance with Article 243 ZD of the Constitution to consolidate the plans of the Panchayats and Municipalities into the draft district plan. Special provisions have been made in the guidelines for those districts in J&K, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura which do not have Panchayats, where village level bodies and institutions mandated under other frameworks such as the Sixth Schedule are to plan and implement the programme. The conviction that drives this new locally driven approach is that grassroots level democratic institutions know best the dimensions of poverty in their areas and are, therefore, best placed to undertake individually small, but overall, significant local interventions to sustainably tackle local poverty alleviation. There are three features of BRGF that make it truly unique among central initiatives to combat backwardness. First, the approach of putting the Panchayats and the Municipalities at the centre stage of planning and implementation. Second, no Central funding stream is as 'untied' as the BRGF – the funds can be applied to any preference of the Panchayat/ Municipality, so long as it fills a development gap and the identification of the work is decided with people's participation. Third, no other programme spends as much funds, nearly 11 percent of the total allocation, for capacity building and staff provisioning.

Creation of capacity for effective planning at district and lower level is a key-pre-requisite to participative planning. Hence the BRGF contains a specific component for the capacity building of Panchayati Raj Institutions of Rs. 250 crore per year. A framework that looks upon capacity building in a very comprehensive fashion, encompassing training, handholding and providing ongoing support to Panchayat elected representatives has been developed for States to follow, while undertaking capacity building.

The planning process under BRGF is based on the guidelines for district planning issued by the Planning Commission. The process of integrated development commences with each district undertaking a diagnostic study of its backwardness and a baseline survey by enlisting professional planning support, to be followed by a well-conceived participatory district development perspective plan to address this backwardness during the period of the Eleventh Five Year Plan. Such plans would integrate multiple programmes that are in operation in the district concerned and, therefore, address backwardness through a combination of resources that flow to the district. District Plans received from the various States indicate that the untied fund allocated to the districts are generally being used for filling infrastructural gaps in drinking water, connectivity, health, education, social sectors, electrification, etc. The basket of works taken up includes construction of school buildings /class rooms, health sub-centres, drinking water facility, sanitation facilities, anganwadi buildings, Panchayat buildings, irrigation tanks/channels, street lights, link roads, culverts, soil and water conservation measures, etc. The BRGF has adopted the National Capability Building Framework (the NCBF) which envisages strengthening of institutional arrangements, including the infrastructure as well as software support for capacity building of elected representatives, the functionaries and other stakeholders of PRIs and thereby improving the vigour of grassroots level democracy.

The finance ministry in May 2013 set up an expert committee under the chairmanship of Chief Economic Adviser Raghuram Rajan to look into a composite development index of states for allocation of money under the Backward Region Grant Fund (BRGF). Rajan committee would consider criteria such as the state's positing in national per capita income and human development indicators to evolve a composite index. The panel would have five members but can invite experts as special invitees for deliberations. Finance Mnister Chidambaram in 2013-14 Budget speech said that the criteria for determining backwardness under BRGF are based on terrain, density of population and length of international borders. "It may be more relevant to use a measure like the distance of the state from the national average under criteria such as per capita income, literacy and other human development indicators."

PURA

Provision of Urban Amenities in Rural Areas (PURA) is a Central Sector scheme re-launched by Ministry of Rural Development (MoRD), Government of India during remaining period of the XI Plan with support from Department of Economic Affairs and the technical assistance of Asian Development Bank. MoRD is implementing the PURA scheme under a Public Private Partnership (PPP) framework between Gram Panchayat(s) and private sector partners with active support of the state governments.

The scheme envisages development of rural infrastructure and is the first attempt at delivering a basket of infrastructure and amenities through PPP in the rural areas.
The primary objectives of the scheme are the provision of livelihood opportunities and urban amenities in rural areas to bridge the rural – urban divide.

Core funding shall be sourced from the Central Sector scheme of PURA and complemented by additional support through convergence of different Central Government schemes. The private sector shall also bring into the project its share of investment besides operational expertise. The scheme would be implemented and managed by the private sector on considerations of economic viability but designed in a manner whereby it is fully aligned with the overall objective of rural development.

Inclusiveness and Inequality
Inclusiveness also means greater attention to income inequality. The extent of inequality is measured by indices such as the Gini coefficient, which provide a measure of the inequality in the distribution on a whole, or by measures that focus on particular segments such as the ratio of consumption of the top 10 per cent or 20 per cent of the population to that of the bottom 10 per cent or 20 per cent of the population, or in terms of rural–urban, such as the ratio of mean consumption in urban versus rural areas. An aspect of inequality that has come sharply into focus in industrialised countries, in the wake of the financial crisis, is the problem of extreme concentration of income at the very top, that is, the top 1 per cent and this concern is also reflected in the public debate in India.

Inequality must be kept within tolerable limits (Art.38, DPSP). Some increase in inequality in a developing country during a period of rapid growth and transformation may be unavoidable and it may even be tolerated if it is accompanied by sufficiently rapid improvement in the living standards of the poor. However, an increase in inequality with little or no improvement in the living standards of the poor is a recipe for social tensions. As a society, we therefore need to move as rapidly as possible to the ideal of giving every child in India a fair opportunity in life, which means assuring every child access to good health and quality education.

Inequality adjusted HDI
The HDI represents a national average of human development achievements in the three basic dimensions making up the HDI: health, education and income. Like all averages, it conceals disparities in human development across the population within the same country. Two countries with different distributions of achievements can have the same average HDI value. The IHDI takes into account not only the average achievements of a country on health, education and income, but also how those achievements are distributed among its citizens by "discounting" each dimension's average value according to its level of inequality.

The 2010 UNDP HDR focused on inequalities in human development attainments across countries. To quantify the potential loss because of such inequalities, the

Report introduced three new indices, viz., Inequality-adjusted Human Development Index (IHDI), Gender Inequality Index and Multi-dimensional Poverty Index.
According to the report, the IHDI is a "measure of the average level of human development of people in a society once inequality is taken into account. Under perfect equality, the HDI and IHDI are equal; the greater the difference between the two, the greater the inequality." In that sense, "the IHDI is the actual level of human development (taking into account inequality), while the HDI can be viewed as an index of the potential human development that could be achieved if there is no inequality."

The IHDI, estimated for 134 countries, captures the losses in human development due to inequality in health, education and income. Losses in the three dimensions vary across countries, ranging from 2.9% (Hong Kong) to 52.0% (Chad) in life expectancy, 1.3% (Czech Republic) to 49.7% (Yemen) in education and 4.5% (Azerbaijan) to 68.3% (Namibia) in income. Overall loss in all three dimensions ranges from 5.0% (Czech Republic) to 43.5% (Namibia).

India, HDI and IHDI: Human Development Report 2013
Over the past two decades, India has seen a big improvement in its human development index score, from 0.41 in 1990 to 0.554 in 2012, according to the latest report by the United Nations Development Program (2013). However, despite this improvement, India overtook only four of the countries positioned above it in 1990: Swaziland, Kenya, Cameroon and Congo. The rise in India's HDI score is partly thanks to it starting from a low base (countries with high HDI scores have limited room for improvement), and also a rapid increase in per capita gross national income.

Despite the improvement, India remains in the "medium development" category, 136th in a list of 186 countries that stretches from Norway at the top of the "very high human development" category to Niger at the bottom of the "low human development" group. In 2011, India was 134th in the list.
Since 2011, the UNDP report has included an inequality adjusted HDI, also known as IHDI, which aims to capture the effects of inequality on human development. If there is no inequality the IHDI equals the HDI, while a big difference between the readings means greater inequality. India's IHDI score was nearly 30% lower than its HDI reading.

The most glaring inequality in India is in education, the report says, even though it commends the introduction of the Right to Education Act.
Success stories, such as China, invariably show growth in investment in health and education, with a special focus on rural areas to "enable poor people to participate in growth," the UNDP report says.

India also fared poorly on life expectancy and gender equality.

NSSO 969th Round 2013
There were less numbers of slums in urban India in 2012 than three years earlier. The number came down by 32.3 per cent to 33,150 in urban parts in 2012, compared with 49,000 in 2009, official data show. However, at least 12 per cent of the urban

population still lived in slums in 2012. The figures are based on the National Sample Survey Office (NSSO) report (69th) covering the period between July and December 2012. It was done in 3,832 urban blocks, spread over all states and Union Territories. At the all-India level, 881 slums were surveyed in urban blocks. The previous survey was based on the 65th round of NSSO, covering July 2008 to June 2009. A possible reason for the decline could be that at an all-India level, 24 per cent of slums had benefited from welfare schemes such as the Jawaharlal Nehru National Urban Renewal Mission, Rajiv Awas Yojana and others from state and local governments. Slums, according to the NSSO definition, are identified by the presence of certain undesirable living conditions — overcrowding, lack of hygiene and sanitation, inadequacy of drinking water and poor construction are some. "Any compact settlement with a collection of poorly built tenements, mostly of a temporary nature, crowded together, usually with inadequate sanitary and drinking water facilities in unhygienic conditions, provided at least 20 households lived there, was considered a slum for the survey," it said. About 41 per cent of these slums were notified and 59 per cent weren't. The former category refers to slums recognised by the municipalities or development authorities concerned. Those not notified were also covered in the survey. All-India, 44 per cent of slums — 48 per cent of the notified ones and 41 per cent of non-notified slums — were located on private land. Maharashtra, with an estimated 7,723 slums, accounted for 23 per cent of all slums in urban India, followed by Andhra Pradesh, with 13.5 per cent, and West Bengal with 12 per cent. The report says an estimated 8.8 million households lived in urban slums. Considering a household to be of five members, almost 44 million lived in slums in urban areas. This is 11.7 per cent of India's total urban population of 377 mn. The percentage could be actually more, since many households would have more persons.

Safe drinking water is not within the reach of half the rural households, according to a recent National Sample Survey Office (NSSO) study. According to the NSSO study, 54 per cent of rural households had no supply of drinking water at their homes in 2012. This was, however, a slight improvement compared to 2008-09 when 60 per cent did not have such amenities. The report was based on the 69th round of surveys, which covered a period of July-December, 2012 compared to the previous report based on the 65th round covering July 2008 to June 2009. As a result, large number of people in Chhattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, Odisha and West Bengal had to walk at least half a kilometer to get drinking water.

Poverty levels down 2013

Poverty levels across India decreased by 15 percentage points — approximately 2 percentage year over year — between 2004-05 and 2011-12, as per the latest National Sample Survey Organisation (NSSO) figures. Many economists and government officials say the significant reductions in poverty levels can be correlated to high economic growth rates.

Between 2005 and 2010, the country's GDP grew at an average of 8.5 per cent and the poverty rate (the proportion of the population below the poverty line) registered an average annual decline of 1.48 per cent. The percentage of the country's population living below the poverty line declined from 37 per cent in 2004-05 to 22 per cent in 2011-12, according to NSSO data. The 11th Plan (2007-08 to 2011-12) had targeted reducing poverty by two percentage points by 2009-10, compared to 2004-05. Rural poverty has declined faster than urban poverty during this period.

India still counts nearly 26.89 crore poor among its citizens. According to the data, the total number of people below the poverty line in the country is 26.89 crore as against 40.73 crore in 2004-05. In rural areas, the number has reduced from 32.58 crore to 21.72 crore.

The data also indicate that the steepest decline in poverty was in India's poorer states. "While there has been a national reduction of poverty by two percentage points by 2009-10, compared to 2004-05, different states have performed differently. Bihar, Orissa, Rajasthan, Madhya Pradesh have witnessed a sharp decline. Bihar shows the biggest decline."

Bihar has experienced a substantive decline with the percentage of the population living below poverty line (BPL) coming down from 55 per cent in 2004-05 to some 35 per cent in 2011-12. The figures for Gujarat were 31 per cent in 2004-05 and 16 per cent in 2011-12. In Rajasthan, 0.6 crore were lifted out of poverty in the same period. Andhra Pradesh reveals a noteworthy decline in urban poverty from 23 per cent in 2004-05 to 6 per cent in 2011-12.

The Planning Commission has been estimating the number of people below the poverty line at both the state and national level based on consumer expenditure information collected as part of NSSO surveys since the Sixth Five Year Plan.

According to the Commission, in 2011-12 for rural areas, the national poverty line by using the Tendulkar methodology is estimated at Rs 816 per capita per month in villages and Rs 1,000 per capita per month in cities.

This would mean that the persons whose consumption of goods and services exceed Rs 33.33 in cities and Rs 27.20 per capita per day in villages are not poor.

PUBLIC SECTOR

Evolution, Reforms and Performance

Public sector units in India are wholly or partly owned and controlled by the government. In a public sector enterprise, the majority of equity shares is owned by the government directly or indirectly through governmental institutions and the government has decision making control .Public sector enterprise normally has forms of organisational structure like departmental undertakings(Railways etc);statutory corporations ;companies registered under the Companies Act 1956 mainly Departmental undertakings are not formed by or with the consent of the legislative authority. These are set up by the executive actions of government bodies and are charged with the duty of carrying out specially defined functions. These undertakings are not independent entities. They are subject to budgetary, audit and other controls of the government and are managed by civil servants. They are financed by annual budgets .which also receives their revenues(CFI). A departmental undertaking is best suited where the main purpose of the enterprise is to collect revenue for the state and to provide public utilities and services at fair prices in larger public interest. Some examples of departmental undertakings are the Railway, Postal Department etc.

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

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

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

Government Company is one where the government owns 51% or more of the paid up capital, according to Section 617 of the Companies Act 1956.

In India, we have all these types of PSEs.

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

The objectives of the PSUs are

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

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

- There are about 240 Central PSUs today (excluding insurance , finance and other companies) providing the country with infrastructure in steel , cement , transport , communication , power and so on .
- The record of the PSUs in supplying many goods and services like coal , ,transport ,power , irrigation and so on is commendable
- The PSUs are a model employer providing various facilities like education , housing and so on .
- Establishing industries in MP , Rajasthan , Bihar and so on , the efforts of the PSUs to reduce regional economic imbalances are not insignificant
- Non-inflationary growth process is facilitated because of the PSEs as prices of their goods and services can be administered.
-

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

Public Sector and Economic reforms

Economic reforms were, made necessary to post higher growth rates for poverty alleviation on a war footing. Public sector was in need of competition to unlock its value. Therefore, domestic and foreign capital was invited to force the PSEs to compete and perform. Government recognized the need for PSE reform during the 7th FYP(1985-1990).

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

List of industries reserved for the public sector

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

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

- Dereservation
- withdraw them from commercial and other areas like hotels, bakery, cycles etc
- disinvest a portion of the PSU equity for a variety of purposes
- strategic sale where a PSE is sold over to a strategic partner who buys majority equity and takes over management and may extend ownership further in course of time
- Increasingly they are being subject to market discipline primarily by listing on the stock exchanges which is the direct outcome of divestment
- Globalization - liberal FDI norms and import of capital goods , compel the PSUs to perform .
- The MOU system is being improved with greater weightage being given to the criterion of financial performance
- Navaratnas (1997) are granted financial and managerial autonomy for global competitiveness (14 today, 2014).
- mini –ratnas were taken up for similar reforms (72 today, 2014)
- Maharatnas have been recognized since 2011(7 today, 2014)
- professionalization of boards

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

PSEs 2014

Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of Rs. 29.00crore at the time of the First Five Year Plan, there are as many 248 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs. 6,66,848 crore today(2012).

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

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

Corporation), shipping and trading (eg. Shipping Corporation of India Ltd. and State Trading Corporation Ltd.) and telecommunication (eg. BSNL and MTNL).

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

Performance of CPSEs

The turnover of all 220 operating CPSEs stood at Rs. 14,73,319 crore as compared to Rs. 12,44,805 crore in the previous year. During the year 2010-11, the CPSEs earned foreign exchange equal to Rs. 97,004 crore as compared to Rs. 84,224crore in 2009-10. The foreign exchange outgo on imports and royalty, know-how, consultancy, interest and other expenditure, on the other hand, increased from Rs. 4,24,207crore in 2009-10 to Rs. 5,22,577 crore in 2010-11 showing an increase of 23.19%. The total employee strength in CPSEs was 14.44 lakh (excluding casual labours) in 2010-11 as compared to 14.90 lakh in 2009-10. The total strength of the employees in CPSEs has gone down by 45,981 persons due to superannuation, voluntary retirement etc. The salary and wages in all the CPSEs went up from Rs. 87,792 crore in 2009-10 to Rs. 96.210 crore in 2010-11, showing a growth of 9.58%.

Gross sales/turnover of CPSEs has been robust during 2010-11. The turnover of CPSEs (at the aggregate level) increased by 18.36 per cent in 2010-11 over 2009-10 against decline of 2.10 per cent in 2009-10 over 2008-09. There was, moreover, much variation from industry to industry. There was significant decline in turnover of CPSEs belonging to industries like medium & light engineering, transportation equipment and telecommunications services.

The profit of profit making CPSEs stood at Rs. 1,13,770 crore in 2010-11 compared to Rs. 1,08,434 crore in 2009-10. The loss of loss making CPSEs, on the other hand, was Rs. 21,693 crore in 2010-11 compared to Rs. 16,231 crore in 2009-10. At the aggregate level, the net profit of all CPSEs (aggregate net profit- aggregate net loss) stood at Rs. 92,077 crore in 2010-11 compared to Rs. 92,203 crore during 2009-10.

The best results were achieved by the 'mining' sector with 22.32 per cent growth in profit over the previous year. This was followed by 12.97 per cent growth in profits achieved by electricity sector. The 'services' sector suffered a loss of Rs. 7,639 crore during 2010-11, which was higher than the loss of Rs. 3,279 crore in 2009-10. This was mainly due to the loss suffered by Air India Ltd. in both these years. In the other industry groups, CPSEs belonging to transport services, telecommunication services and consumer goods were equally under stress, and their losses increased during 2010-11. Under the manufacturing sector, steel petroleum and textile showed a decline in profits. CPSEs belonging to medium and light engineering industries, suffered losses during the year in comparison to profit in the previous year. CPSEs in the chemicals & pharmaceuticals sectors, on the other hand, reduced their losses during 2010-11.

Oil & Natural Gas Corporation Ltd., NTPC Ltd., and Indian Oil Corporation Ltd have ranked first, second and third CPSEs respectively amongst the top ten profit making CPSEs. They are followed by NMDC Ltd., Bharat Heavy Electricals Ltd., Steel Authority of India Ltd., Coal India Ltd., GAIL(India) Ltd., Oil India Ltd. and Power Grid Corporation of India Ltd. All the top ten profit making companies are, more or less same in 2010-11 as in

2009-10 (with ranking slightly changed) except for Power Grid Corporation that has replaced the Power Finance Corporation.

Amongst the loss making companies, Air India Ltd., Bharat Sanchar Nigam Ltd. and Mahanagar Telephone Nigam Ltd. were the top three loss making enterprises during 2010-11. They are followed by Hindustan Photo Films Manufacturing Co. Ltd., Indian Drugs & Pharmaceuticals Ltd., Hindustan Cables Ltd., Fertilizer Corporation of India Ltd., Air India Charters Ltd., Hindustan Fertilizer Corporation Ltd. and ITI Ltd. The top ten loss making Companies covered nearly 92.55% of the total loss made by all the (62) CPSEs during the year. The top three CPSEs namely Air India Ltd., BSNL and MTNL alone have incurred a loss equal to 74% of the total loss of all CPSEs in 2010-11. Intense price war and cut-throat competition from new entrants, increase in salary & wages and increase in operating cost as well as increase in interest cost contributed to greater losses during the year. While the loss of Air India and MTNL have gone up by 24% and 54% respectively, the loss of BSNL increased by 145% in 2010-11 over 2009-10.

The share of 'gross value addition' in CPSEs (net value addition + depreciation) in Gross Domestic Product (at current market price) stood at 5.96 per cent in 2010-11 against a share of 6.44 per cent in 2009-10.

CPSEs contribute to the Central Exchequer by way of dividend payment, interest on government loans and payment of taxes and duties. There was, however, a significant increase in the total contribution of CPSEs to the central Exchequer during the year, which increased from Rs. 1,39,918 crore in 2009-10 to Rs. 1,56,124 crore in 2010-11. This was, furthermore, primarily due to increase in contribution towards 'customs duty' and 'excise duty' which increased from Rs. 6,896 crore and Rs. 52,627 crore in 2009-10 to Rs. 14,151crore and Rs. 62,713 crore respectively in 2010-11. There was a significant increase in contribution from corporate taxes as well, which went up from Rs. 38,134 crore in 2009-10 to Rs. 43,369 crore in 2010-11.

Disinvestment and Privatization

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

Definitions are important.

Disinvestment is the sale of shares of the Government to the retail public or employees or mutual funds or the FIIs. In other words, in disinvestment(divestment), there is no change in the management from public to private hands because either the government holds majority equity(51%) or even if the government holds less than 51% of equity, rest of it is sold to various individuals and institutions none of whom holds enough to take over management. It is essentially money-raising exercise with some accompanying benefits.

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

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

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

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

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

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

Advantages of Disinvestment/Privatization

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

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

Criticism of Divestment

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

- They constitute family silver and should not be liquidated

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

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

By 2014, Rs.1.5 lakh crores were raised totally since 1992, approximately.

Divestment Policy
Elements of the policy since 2009 are

- List all unlisted public sector enterprises and sell a minimum of 10 percent of equity to the public, the survey stated.
- It also called for completing the process of offloading 5-10 percent equity in previously identified profit making non-Navratna companies.
- According to the survey, the targeted revenue generation from divestment should be Rs.25,000 crore annually.
- Auction all loss making PSUs that cannot be revived, it added

Valuation of shares
Fixing the price of shares for PSEs is done on the basis of the discounted cash flow (DCF) model. The DCF model is a method of valuing a business today based on the stream of its future profits or cash flows. It is said to be the best of the given methods.
Net asset valuation is not adopted as it applies only to the units that are being wound up and not for running businesses.

Details of the disinvestment proceeds till 2012are given at the end.

Government Policy on Disinvestment /Privatization
As a part of reforming the PSEs, Government's policy on disinvestment and privatization is evolving since the beginning of the reforms in 1991.
Its main elements are: -

- Divest to raise money and other advantages
- Profit-making PSUs will not be privatized
- List the unlisted companies
- Making shares available to a wider section of the public
- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be revived;
- Fully protect the interests of workers.

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

- Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships;

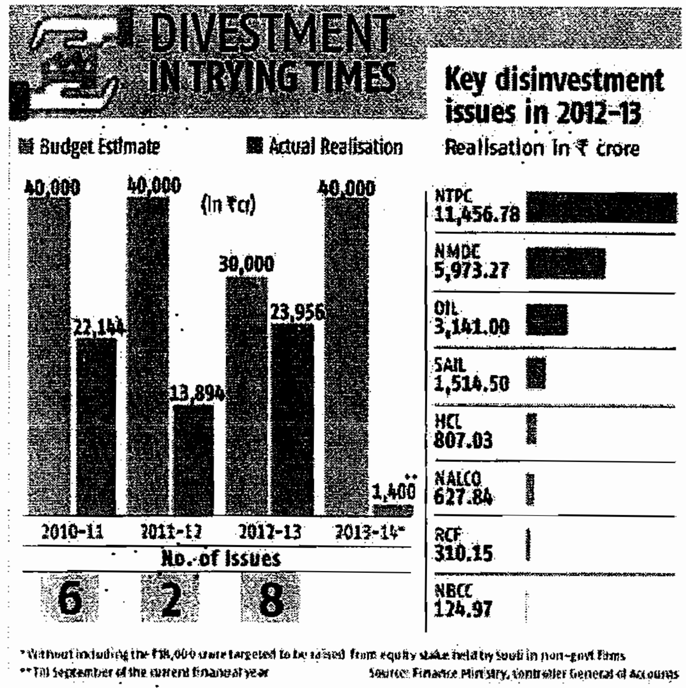
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);
- Railway transport.
- All other Public Sector Enterprises were to be considered non-strategic.

Disinvestment 2013-14

Budget target of raising Rs 40,000 crore through disinvestment this year may be difficult .However, Indian Oil Corporation (IOC) and Coal India Ltd (CIL), Powergrid and others are being divested.

The government raised Rs 23,920 crore in 2012-13. All options — ETFs, offer for sale (OFS) etc — are available. . Specified Undertaking of Unit Trust of India (Suuti), through which the government holds stakes in ITC, L&T and Axis Bank, was dismantled after a Cabinet decision in March 2013. It was decided that the Rs 40,000-crore assets would be transferred to an asset management company (AMC), which would leverage the assets to raise resources for the government.

Now, the government wants to revive Suuti so that it can sell stakes in these private companies because a Cabinet clearance is required each time shares held by the proposed AMC are to be sold.



Buyback and cross holdings

Cash rich companies buy back their own shares from the secondary market to help shareholders and share market. So far PSEs have not don buyback. But in 2012, GOI gave active consideration to the idea. Government in 2012 permitted public sector companies sitting on cash to buy back their own shares, a move that is expected to help the Centre raise more funds in the coming months. Public sector companies have the option of using their cash for investment and capex or buyback. their own shares- in this case from the government, the promoter. The buyback route is useful for the government to meet its target for disinvestment.Under the buyback mode, the government can raise money by selling its equity in the company to the PSU itself.

To facilitate the disinvestment process, the Sebi Board in January 2012 had relaxed the norms for buyback of shares. It would help the companies to complete the process of selling shares within 1-1.5 months , as against the normal process which can take months.

Cross holdings

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

ETF

GOI is also considering exchange traded fund (ETF) route for selling shares of state-owned firms as part of steps to meet the disinvestment target. Divested shares can make up an ETF that can be listed on the exchange and can be traded upon by those who have the shares related to the ETF.

Board for Reconstruction of Public Sector Enterprises (BRPSE)

Government is committed to a strong and effective public sector; undertake measures for strengthening, modernizing, reviving, and restructuring of public sector enterprises; and in pursuit of the above, decided to establish a Board for Reconstruction of Public Sector Enterprises (BRPSE) to address the above mentioned tasks and advise the Government on strategies, measures and schemes related to them.

The Board was set up in 2004

Following are the terms of reference to the Board:

- To advise the Government on ways and means for strengthening public sector enterprises in general and making them more autonomous and professional;
- To consider restructuring - financial, organizational and business (including diversification, joint ventures, seeking strategic partners, merger and acquisition) - of CPSEs and suggest ways and means for funding such schemes;
- To advise the Government on disinvestment/closure/sale, in full or part, in respect of chronically sick/loss making companies which cannot be revived. In respect of such unviable companies the Board would also advise the Government about sources of fund including sale of surplus
- assets of the enterprise for the payment of all legitimate dues and compensation to workers and other costs of closure;
- To monitor incipient sickness (incurring loss for two consecutive years) in CPSEs; and
- To make recommendations and advise the Government on such other matters as may be assigned to it from time to time.

All sick CPSEs will be referred to the Board for revival/ restructuring. The recommendations of the Board are advisory in nature. BRPSE which is an advisory body to advise the Government on the strategies, measures and schemes related to strengthening, modernizing, reviving and restructuring of public sector enterprises, comprises of a Chairman, three Non-official Members, three Official Members and three Permanent Invitees.Dr. Nitish Sengupta has been appointed as Chairman in the rank of Minister of State.

Navaratna and Miniratna Companies

Navaratnas

Economic reforms subject PSEs to market competition. Gloablization makes the competition more intense. To perform in such conditions, PSEs need a level playing field with the private players. Hence, the Navaratna package that gives autonomy to PSEs.

Government introduced the navaratna concept in 1997. It granted enhanced autonomy to nine selected PSEs referred to as "Navaratnas". These were IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL and BHEL. IPCL and VSNL were strategically sold to Reliance and Tatas respectively. Many more CPSEs were made navaratnas since then. Totally, there are 14 (2014)

1. Bharat Electronics Limited
2. Bharat Petroleum Corporation Limited
3. Hindustan Aeronautics Limited
4. Hindustan Petroleum Corporation Limited
5. Mahanagar Telephone Nigam Limited
6. National Aluminium Company Limited
7. National Mineral Development Corporation Limited
8. Neyveli Lignite Corporation Limited
9. Oil India Limited
10. Power Finance Corporation Limited
11. Power Grid Corporation of India Limited
12. Rashtriya Ispat Nigam Limited (Vizag Steel)
13. Rural Electrification Corporation Limited
14. Shipping Corporation of India Limited

The government is likely to accord the coveted status to Engineers India Limited, which is under consideration.

A new company Rashtriya Ispat Nigam Limited (RINL) in Visakhapatnam was formed in 1982. Visakhapatnam Steel Plant was separated from SAIL and RINL was made the corporate entity of Visakhapatnam Steel Plant in April 1982.
The government has a quantitative system to confer the status of "Navarathna" on PSE. According to the system, every PSE is rated on the following 6 parameters:

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

To gain Navarathna status, a PSE must score atleast 60 out of 100 based on these 6 parameters.

Additionally,a company must first be a miniratna and must have four independent directors on its board before it can be made a navaratna

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

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

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

Miniratna companies

There are two types of miniratna companies: Type 1 and 2.Together there are 72 such companies.

Miniratnas can also enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions.

Category I Miniratna

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

Category II Miniratna

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

Maharatnas

The category of PSEs was created in 2011.

<u>Maharatna CPSEs</u>

1. Bharat Heavy Electricals Limited
2. Coal India Limited
3. GAIL (India) Limited
4. Indian Oil Corporation Limited
5. NTPC Limited
6. Oil & Natural Gas Corporation Limited

Steel Authority of India Limited

To be eligible for the grant of the Maharatna status, the company should have an average turnover of over Rs 25,000 crore, average annual net worth of more than Rs 15,000 crore and average annual net profit of over Rs 5,000 crore during the last three years.

Besides, it should be a Navratna firm, should be listed on the Indian Stock Exchange with minimum prescribed public shareholding under the SEBI regulations and have global presence.

Once a company gets the Maharatna status, its board would not be required to take the government's permission for investments up to Rs 5,000 crore in a joint venture project or wholly-owned subsidiary.For the Navratna companies, the limit is Rs 1,000 crore.

The main objective of the Maharatna scheme is to empower mega-Central public sector enterprises to expand their operations and emerge as global giants.

Ad-hoc Group of Experts (AGE) Report

The Report on Empowerment of Central Public Sector Enterprises, prepared by a group of experts headed by Arjun Sengupta, recommended

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

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

MOU

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

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

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

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

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

Some recent initiatives in restructuring the PSEs

- BRPSE is set up as an advisory body
- National Investment Fund is set up
- more companies given navaratna and mini ratna status to improve their performance in the global competitive environment
- infusion of equity and debt capital in PSEs to turn them around and strengthen them

NIF

Original **Objectives of NIF are**

- The proceeds from disinvestment of CPSUs will be channelised into NIF, which is to be maintained outside the Consolidated Fund of India.
- NIF will be professionally managed to provide sustainable returns to the Government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of NIF.
- 75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of the Fund will be used to meet the capital investment requirements of profitable and revivable CPSUs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

Use of Disinvestment Proceeds

The income from the Fund is to be used for the following broad investment objectives:

- 75% to finance selected social sector schemes, which promote education, health and employment
- 25% to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification

However, in view of the difficult economic situation caused by the global slowdown of 2008-09 and a severe drought in 2009, GOI decided to give a one-time exemption to utilization of proceeds from disinvestment of CPSEs for a period of three years, till 2012 – i.e. disinvestment proceeds during this period would be available in full for meeting the capital expenditure requirements of selected social sector programmes decided by the Planning Commission/Department of Expenditure. It has been further extended to 2014.

Accordingly disinvestment proceeds are being routed through NIF to be used in full for funding capital expenditure under the following social sector programmes of the Government:-

- Mahatma Gandhi National Rural Employment Guarantee Scheme
- Indira Awas Yojana
- Rajiv Gandhi Gramin Vidyutikaran Yojana
- Jawaharlal Nehru National Urban Renewal Mission
- Accelerated Irrigation Benefits Programme
- Accelerated Power Development Reform Programme

NIF Chief Executive Officer (CEO), who is administratively attached to the Department of Disinvestment under the Finance Ministry, would formulate the investment strategy.

The Government in 2013 approved restructuring of the National Investment Fund (NIF) and decided that the disinvestment proceeds with effect from the fiscal year 2013-14 will be credited to the existing 'Public Account' under the head NIF and they would remain there until withdrawn/invested for the approved purpose. It was decided that the NIF would be utilized for the following purposes: investment in railways; uranium corporation , Equity infusion in various Metro projects etc.

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

- Maharatnas
- Navaratna and miniratna status
- MOU

(Given above in detail)

Professionalisation of PSU Boards

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

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

members in the Board of Directors for longer tenure with representation of shareholders other than GoI Shareholders.

Multiple-Audit

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

Role of administrative Ministry

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

Non Commercial Activities

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

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

Purchase Preference Policy

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

CPSEs listed on the BSE/NSE(2014)

1. OIL & NATURAL GAS CORP.LTD.
2. COAL INDIA LTD.
3. NTPC LTD.
4. MMTC LTD.
5. BHARAT HEAVY ELECTRICALS LTD.
6. NMDC LTD.
7. INDIAN OIL CORP.LTD.
8. STEEL AUTHORITY OF INDIA LTD.
9. GAIL (INDIA) LTD.
10. POWER GRID CORP.OF INDIA LTD.
11. POWER FINANCE CORP.LTD.
12. NHPC LTD.
13. OIL INDIA LTD.
14. HINDUSTAN COPPER LTD.
15. RURAL ELECTRIFICATION CORP.LTD.

16.NATIONAL ALUMINIUM CO.LTD.
17.BHARAT PETROLEUM CORP.LTD.
18.NEYVELI LIGNITE CORP.LTD.
19.CONTAINER CORP.OF INDIA LTD.
20.BHARAT ELECTRONICS LTD.
21.HINDUSTAN PETROLEUM CORP.LTD.
22.MANGALORE REFINERY & PETROCHEMICALS LTD.
23.ENGINEERS INDIA LTD.
24.SJVN LTD.
25.MOIL LTD.
26.RASHTRIYA CHEMICALS & FERTILIZERS LTD.
27.NATIONAL FERTILIZERS LTD.
28.SHIPPING CORP.OF INDIA LTD.,THE
29.HMT LTD.
30.BEML LTD.
31.CHENNAI PETROLEUM CORP.LTD.
32.FERTILIZERS & CHEMICALS TRAVANCORE LTD.
33.MAHANAGAR TELEPHONE NIGAM LTD.
34.STATE TRADING CORP.OF INDIA LTD.,THE
35.DREDGING CORP.OF INDIA LTD.
36.ITI LTD.
37.ANDREW YULE & CO.LTD.
38.BALMER LAWRIE & CO.LTD.
39.INDIA TOURISM DEVELOPMENT CORP.LTD.
40.MAHARASHTRA ELEKTROSMELT LTD.
41.HINDUSTAN PHOTO FILMS MFG.CO.LTD.
42.BALMER LAWRIE INVESTMENTS LTD.
43.HINDUSTAN ORGANIC CHEMICALS LTD.
44.MADRAS FERTILIZERS LTD.
45.IRCON INTERNATIONAL LTD.
46.SCOOTERS INDIA LTD.
47.BHARAT IMMUNOLOGICALS & BIOLOGICALS CORP.LTD.
48.HINDUSTAN FLUOROCARBONS LTD.
49.KIOCL LTD.
50. HINDUSTAN CABLES LTD.

CPSE-ETF

The Finance Ministry is expected to launch Central Public Sector Enterprises Exchange Traded Fund (CPSE ETF) .Cabinet Committee on Economic Affairs approved setting up of the fund.

This instrument will comprise listed CPSE stocks, each with a fixed weightage in the basket. The instrument aims to minimise market disruptions seen in public offerings of listed CPSEs. It will also increase the Government's ability to monetise partial stakes in listed CPSEs, some of which have low liquidity and free float. It will broad base retail participation of shares of CPSEs, and also help deepen the market for equity-based products. It is also considered beneficial to the Government from a pricing perspective, as part of the discounts could be back-ended. ETF is a trading instrument like shares on stock exchanges.

At present, there are 33 ETFs with assets under management of over Rs 11,500 crore, held by 6.2 lakh investors. Gold ETFs dominate the market in the country, as of now.

Bretton Woods Institutions & Others

The United Nations Monetary and Financial Conference, commonly known as Bretton Woods conference, was held in Bretton Woods, New Hampshire , USA to regulate the international monetary and financial order after the conclusion of World War II. The conference resulted in the agreements to set up the International Bank for Reconstruction and Development (IBRD)- popularly known as World Bank and the International Monetary Fund (IMF).The IMF was set up to foster monetary stability at global level. The IBRD was created to speed up post-war reconstruction. The two institutions are known as the Bretton Woods twins.

IMF

The International Monetary Fund, a UN specialised agency, was established under the Bretton Woods Agreement in 1944 along with the World Bank. It has 188 members (2014). It is headquartered in Washington and its Managing Director is Christine Lagarde. It started functioning in 1947.

Upon joining, each member of the IMF is assigned a quota, based broadly on its relative size in the world economy. A member's quota guides :

- Subscriptions: the amount the member is obliged to provide to the IMF.
- Voting power
- Access to financing: The amount of financing a member can obtain from the IMF

Upon joining the IMF, a country normally pays up to one-quarter of its quota in the form of widely accepted foreign currencies (such as the U.S. dollar, euro, yen, or pound sterling) or Special Drawing Rights (SDRs). The remaining three-quarters are paid in the country's own currency.

India's current quota in the IMF is SDR (Special Drawing Rights) 5821.50 million, giving it a shareholding of 2.44 %. Based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 17th in the list of 24 constituencies.
The IMF reviews members' quotas once in five years and the last such review took place in December, 2010. India has already consented to its quota increase under the 2010 review and after the 2010 quota review comes into effect, our quota share will increase from the current 2.44% to 2.75%, making India the eight largest quota holding country at the IMF up from its previous position of being the 11th largest. In absolute terms, India's quota will increase to SDR 13,114.4 million from SDR 5,821.5 million (an increase of approximately US$ 11.5 billion or INR 56,000 crore).

IMF Objectives

IMF objectives are

- To promote international monetary cooperation
- To facilitate balanced growth of international trade for the economic growth of all member countries

- To promote exchange rate stability ; maintain orderly exchange rate arrangements; and to avoid competitive exchange rate revaluation
- To help members in times of balance of payments crisis.

What the IMF Does
In order to achieve the above objectives, the following functions are performed:
The IMF monitors the world's economies, lends to members in economic difficulty and provides technical assistance.

To elaborate, the work of the IMF is of three main types.
Surveillance involves the monitoring of economic and financial developments, and the provision of policy advice, aimed especially at crisis-prevention.

The IMF also lends to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems; loans to low-income countries are also aimed especially at poverty reduction.

Third, the IMF provides countries with technical assistance and training in its areas of expertise.

The IMF also plays an important role in the fight against money-laundering and terrorism

Surveillance is the process of appraisal of the exchange rate policies of member countries. In the absence of surveillance, the financial volatility in the world today can become worse.

Special Drawing Rights (SDRs)
The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies- dollar, euro,yen and pound. SDRs can be exchanged for national currencies.

SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs.

The value of the SDR is set dynamically against a basket of currencies consisting of the euro, Japanese yen, pound sterling, and U.S. dollar. The basket composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems. China wants Yuan included.

IMF Borrowing Arrangements
While quota subscriptions of member countries are its main source of financing, the IMF can supplement its resources through borrowing if it believes that resources might fall short of members' needs. Through the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB), a number of member countries and institutions lend additional funds to the IMF.

The GAB and NAB are credit arrangements between the IMF and a group of members and institutions to provide supplementary resources to the IMF to prevent or cope with problems of the international monetary system or to deal with an exceptional situation that poses a threat to international monetary stability.

India and NAB

India funded bailouts in financially-stricken Europe, marking a dramatic role reversal from 20 years ago when it went knocking on the doors of the International Monetary Fund (IMF) to avert a balance of payments crisis.

The government took parliamentary approval to provide loans to the multilateral agency's New Arrangements to Borrow (NAB), a fund whose corpus was raised to $580 billion when the debt crisis in Europe showed no signs of abating after the Greek sovereign debt crisis.

India participates in the Financial Transactions Plan of the International Monetary Fund since 2002.FTP is the mechanism through which the Fund finances its lending and repayment operations to its members.

India gave $10b in 2012 during the Mexico summit of the G-20 for the Eurozone crisis firewall.

How the IMF lends

A core responsibility of the IMF is to provide loans to member countries experiencing balance of payments problems. This financial assistance enables countries to rebuild their international reserves; stabilize their currencies; continue paying for imports; and restore conditions for strong economic growth while undertaking policies to correct the underlying problems. Unlike development banks, the IMF does not lend for specific projects.

IMF Facilities

Over the years, the IMF has developed various loan instruments, or facilities, that are tailored to address the specific circumstances of its diverse membership.

Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF) and the Exogenous Shocks Facility (ESF). The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing global shocks. For example, due to commodity prices falling etc.

Non-concessional loans are provided mainly through Stand-By Arrangements (SBA) for members with very strong policies and policy frameworks, and the Extended Fund Facility (which is useful primarily for low-income members).

The IMF also provides emergency assistance to support recovery from natural disasters and conflicts, in some cases at concessional interest rates.

Except for the PRGF and the ESF, all facilities are subject to the IMF's market-related interest rate.

The amount that a country can borrow from the Fund—its access limit—varies depending on the type of loan, but is typically a multiple of the country's IMF quota. This limit may be exceeded in exceptional circumstances.

Extended Fund Facility (EFF) is to help countries address longer-term balance of payments problems requiring fundamental economic reforms. Arrangements under the EFF are thus longer than SBAs.

The IMF's analysis of global economic developments, contained in its World Economic Outlook, provide finance ministers and central bank governors with a common framework for discussing the global economy. Twice a year, it publishes the Global Financial Stability Report. The IMF's performance is assessed on a regular basis by an Independent Evaluation Office.

IMF and the global financial crisis

As the world economy has become engulfed in the worst crisis since the Great Depression before the second world war, the IMF has mobilized on many fronts to support its member countries, increasing its lending, using its cross-country experience to advise on policy solutions, and introducing reforms to become more responsive to member countries' needs.

Stepping up crisis lending, including a sharp increase in concessional lending to the world's poorest nations.

Providing analysis and targeted advice.

Becoming more flexible. The IMF has overhauled its general lending framework to make it better suited to country needs.

Creating a financial safety net. The IMF created a broad financial safety net to limit the spread of the crisis.

Drawing lessons from the crisis. The IMF is contributing to the ongoing effort to draw lessons from the crisis for policy, regulation, and reform of the global financial architecture.

The financial crisis of 2008 called the fund into action, as it brokered rescue packages for countries like Pakistan, Iceland, Hungary and Ukraine that were swamped by the collapse.

But since the spring of 2010 the I.M.F. has focused largely on Europe after the outbreak of the sovereign debt crisis that has threatened the euro.

It was drawn into the crisis when France and Germany were unable to agree on a purely European solution to Greece's short-term debt needs. The fund pledged to provide up to 15 billion euros as part of a 45 billion euro aid package. But as the crisis deepened for

Greece and threatened to spread to Spain and Portugal, the fund promised to put up a share of a package that could total 120 billion euros, or $160 billion, over three years.

Christine Lagarde made herself into a blunt voice of dissent, criticizing Europe's handling of the debt crisis for an over-emphasis on austerity. She warned repeatedly that the bailout fund created by the European Union was inadequate to stop the spread of the crisis to larger countries like Spain and Italy, and called for measures to restore growth.

In April 2012, the I.M.F. announced that it had raised at least $430 billion in extra lending capacity to be used if the euro zone crisis worsens or global financial conditions deteriorate.

In June, Ms. Lagarde made her most forceful intervention in the European crisis, as the fund called for the euro area to move swiftly toward a fiscal union including issuance of joint euro zone debt and said the viability of the currency was being questioned.

The fund also said it would like euro zone bailout funds to be lent directly to struggling banks – rather than through national governments – and appealed to the European Central Bank to take more aggressive measures to quell volatile financial markets, such as increasing the money supply or resuming the purchase of the bonds of stressed sovereigns such as Spain.

IMF and Brics

In the wake of the ongoing Eurozone crisis, the IMF has proposed a new bilateral borrowing programme to augment its resources for crisis prevention and resolution and to meet the potential financing needs of all IMF members. At the Los Cabos Summit of the G20 held 2012, BRICS countries have announced their contributions; including US$ 10 billion by each of India, Brazil and Russia and US $ 43 billion by China.

The IMF has committed that these new resources will be drawn only if they are needed as a second line of defense after resources already available from quota and existing borrowing arrangements are substantially used. If drawn, they would be repaid with interest. It has been clarified that quota resources would remain the basic source of fund financing and that the role of borrowing is to temporarily supplement the quota resources.

IMF and Conditionalities

There has been a controversy about the IMF loans that the debtor countries are suggested economic reforms that are socially and in human terms damaging in return.. The conditionalities as they are called are justified by the IMF on grounds that they are the genuine reforms necessary for economic health to be restored. IMF further believes that if the recipient country follows the reforms it will be in a position to repay the loan. Debtor countries however hold that the reforms suggested are anti-poor and anti-development- like cutting subsidies; scrapping priority sector lending; opening up the country at a fast pace etc.

Some of the conditionalities are

/reduce fiscal deficit
/follow privatisation

/deregulate the rupee in external transactions
/downsize the government
/enact flexible labour sector reforms
/reduce subsidies etc.

It is clear that most countries can not follow these policies with popular support. At the same time it must be understood that these policies should be selectively followed for the best results by avoiding populism and adhering to genuine welfarism.

The Fund admitted that too many conditions were imposed on borrowers; it overstepped its mandate and expertise.

Another criticism about the conditionalities is that the reforms suggested are the same for all countries irrespective of the causes of the crisis.

India suggested that the IMF conditionalities must be more sensitive to the domestic realities of the member countries.

Reforming the IMF
Role of IMF was criticized for the following reasons

- One size fits all policy under which it gives the same recipe for all ills
- Conditionalities that go with the loans that it disburses demand that spending on poor be curtailed
- The private international flows are huge and in comparison, the IMF resource base is small and so is rendered ineffective
- IMF Managing Director is invariably from a European country(the current MD, Chritine Lagarde is from France) and India and other emerging markets are demanding that it should not be geographically confined and be merit – based
- India wants that its economic power ,as it is emerging, should be recognized and so is given greater voting rights
- IMF failed to predict the global recession in 2008-09, let alone prevent it with its surveillance role
-

Reforms have taken place after the global crisis in some of these matters.

India and the IMF
India and the IMF have had a friendly relationship, which has been beneficial for both. The IMF has provided India with loans over the years and this has helped the country in times of BOP pressure.

- India joined the IMF in 1945, as one of the IMF's original members.
- India accepted the obligations of Article VIII of the IMF Articles of Agreement on current account convertibility in 1994.
- India subscribes to the IMF's Special Data Dissemination Standard. Countries belonging to this group make a commitment to observe the standard and to provide information about their data and data dissemination practices.

While India has not been a frequent user of IMF resources, IMF credit has been instrumental in helping India respond to emerging balance of payments problems on two occasions. In 1981-82, India borrowed SDR 3.9 billion. In 1991-93, India borrowed a total of SDR 2.2 billion under two stand by arrangements, and in 1991 it borrowed SDR 1.4 billion under the Compensatory Financing Facility.

The relationship between the IMF and India has grown strong over the years. In fact, the country has turned into a creditor to the IMF and has stopped taking loans from it. We lent \$10b in 2012(Mexico G20 Summit) to the IMF to bail out the Eurozone countries.(See India and NAB above)

The Importance of IMF in the post-Lehman period

The IMF saw its international standing strengthened with the global financial crisis of 2008.The global financial crisis, which originated in the U.S. housing market, sparked a growing discussion among policy makers and academics that the world should no longer rely on a single, dominant currency, such as the dollar. Nobel Prize-winning economist Joseph Stiglitz even called for a new global reserve system based on the SDR's.

With the financial crisis intensifying and private capital drying up for credit, more and more countries are coming to the IMF for funds. Recently IMF bailed out Greece.

G20 has agreed that the IMF should triple its borrowing, to ensure that it has enough money to offer loans.

The money is pledged by other IMF countries.

The IMF wants to use this money to offer a new kind of loan that would be preventive. Rather than waiting for countries to get into financial difficulties, it would offer them a line of credit to help them defend their currencies in advance. – NAB- an additional \$250bn. This would be done by creating more of its own currency, the SDR or special drawing right.

The IMF is also set to have a bigger role in preventing future crises, by developing an early warning system for financial problems, and taking a larger role in looking at the problems of the financial sector as a whole, in conjunction with a new global regulator, the Financial Stability Board.

But the biggest changes in the IMF involve giving greater voice to the developing countries.(Read ahead).

Another reform:It has already been agreed that in future, the convention that the World Bank and IMF must be headed by an American and a European respectively will be abandoned.

The changes to the resources and the role of the IMF are historic and perhaps the most important development in international monetary system that reflects changing realities.

But it is a move towards a more balanced global system of international finance.
Quotas, GAB and NAB

While quota subscriptions of member countries are the IMF's main source of financing, the Fund can supplement its resources through borrowing if it believes that resources might fall short of members' needs- through the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB).

SDRs as an alternative to the US dollar as global reserve currency

The international monetary system needs fundamental reform. Dollar as a global reserve currency is neither viable nor desirable to the same degree as before. It has led to problems like the huge current account deficit and fiscal deficit of the USA. Global imbalances- counties like China make and export goods and have current account surpluses and USA import them and depend on them and thus have unmanageable CADs.

John Maynard Keynes once proposed a global currency, the Bancor, to be placed at the centre of the international monetary system. The idea never caught on. Instead, we now have a system dominated by holdings of US dollars. This has disadvantages. It creates tension due to the use of a national currency, the dollar, as the global currency. This can lead to global volatility as a result of growing US current account deficits. These deficits generate excessive indebtedness, both external and internal. So if the US were to shrink its deficit too quickly, a deficiency of supply of the global reserve currency could result.

Responses to global financial instability create the other problem, where developing countries have accumulated large reserves as "self-insurance" against a future balance of payments crisis. These protect them during crises, but also add to global imbalances.

In the late 1960s a more limited global currency was created: the SDRs, issued by the IMF when enough member countries agree. The largest such issue – equivalent to $250bn, and suggested by the G20 in April 2009 – was a response to the dramatic collapse in international private lending after the global financial crisis. It helped soften the negative impact of the crisis on growth.

Some experts argue that the global role of SDRs should be increased as it would avoid the need for countries like India and China to build reserves of dollars. US deficits can also be resolved. Global stability enhances as dollar worries recede. However, SDRs can only supplement the dolar and other global reserve currencies and gold as the SDR is the creation of US and the west within the IMF. If SDR becomes a rival to dollar and yen, it may not receive the support of these countries.

World Bank Group and World Bank

The World Bank Group (WBG) is a family of five international organizations that gives loans, generally to poor countries. The Bank came into existence in 1945 following international ratification of the Bretton Woods agreements, which emerged from the United Nations Monetary and Financial Conference (1944). It is responsible for the preparation of the World Development Report. Commencing operations in 1946, it began operations for post-war reconstruction. Its current role is different as it focus is to lend to and develop the poor countries and help fight poverty in all its facets.

The Group's headquarters are in Washington. It is an international organization owned by member governments; although it makes profits, these profits are used to support continued efforts in poverty escalation.

Technically the World Bank is part of the United Nations system, but its governance structure is different: each institution in the World Bank Group is owned by its member governments, which subscribe to its basic share capital, with votes proportional to shareholding. Membership gives certain voting rights that are the same for all countries but there are also additional votes which depend on financial contributions to the organization. The President of the World Bank is conventionally an American and currently is Jim Yong Kim whose ancestry is from South Korea. There are 188 countries in the WB today.

A country has to first join IMF before it can be a member of the WB.
Its five agencies are:

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)
- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

The term "World Bank" generally refers to the IBRD and IDA, whereas the World Bank Group is used to refer to the institutions collectively.

The World Bank's (i.e. the IBRD and IDA's) activities are focused on developing countries, in fields such as human development (e.g. education, health), agriculture and rural development (e.g. irrigation, rural services), environmental protection (e.g. pollution reduction, establishing and enforcing regulations), infrastructure (e.g. roads, urban regeneration, electricity), and governance (e.g. anti-corruption, legal institutions development).

The IBRD and IDA provide loans at soft rates to member countries, as well as grants to the poorest countries. Loans or grants for specific projects are often linked to wider policy changes in the sector or the economy. For example, a loan to improve coastal environmental management may be linked to development of new environmental institutions at national and local levels and the implementation of new regulations to limit pollution.

The activities of the IFC and MIGA include investment in the private sector and providing insurance respectively.

Difference between WB and WB Group

The World Bank differs from the World Bank Group, in that the World Bank comprises only two institutions:

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)

The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world.

Whereas the latter incorporates these two in addition to three more:[3]

- International Finance Corporation (IFC)
- Multilateral Investment Guarantee Agency (MIGA)
- International Centre for Settlement of Investment Disputes (ICSID)

IBRD

The International Bank for Reconstruction and Development (IBRD) is one of five institutions that comprise the World Bank Group. The IBRD is an international organization whose original mission was to finance the reconstruction of nations devastated by World War II. Now, its mission has expanded to fight poverty by means of financing states.

IDA

The International Development Association (IDA) , is the part of the World Bank that helps the world's poorest countries. It complements the World Bank's other lending arm — the International Bank for Reconstruction and Development (IBRD) — which serves middle-income countries with capital investment and advisory services.

IDA was created in 1960 and is responsible for providing long-term, interest-free loans to the world's 80 poorest countries. IDA provides grants and credits with repayment periods of 35 to 40 years.

While the IBRD raises most of its funds on the world's financial markets, IDA is funded largely by contributions from the governments of its richer member countries. Additional funds come from IBRD's and IFC's income and from borrowers' repayments of earlier IDA credits.

Donors meet every three years to replenish IDA funds. IDA 15 (IDA 15th Replenishment) projects over the three-year period ending June , 2011.

IDA15 replenishment provided US$ 41.6 billion. IDA15 supports low-income countries by increasing its activities in combating climate change, facilitating regional integration and cooperation, boosting infrastructure investment and providing greater support to post-conflict countries, notably in Africa.A total of 45 countries made pledges to IDA's 15th replenishment

IDA loans address primary education, basic health services, clean water supply and sanitation, environmental safeguards, business-climate improvements, infrastructure and institutional reforms. These projects are intended to pave the way toward economic growth, job creation, higher incomes and better living conditions.

IDA 16

Donors agreed to contribute nearly $50 billion over three years(2011-14) to the World Bank fund dedicated to the globe's poorest countries.

It supports health, education, food security and building programmes through grants and long-term, interest-free loans to the world's 79 least-developed countries. The fund is replenished every three years at a donors conference. This year it marked a record for giving, with 51 countries agreeing to contribute.
IDA has 172 members.

IFC

The International Finance Corporation (IFC) promotes private sector investment in its member countries, particularly developing countries as a way to reduce poverty and improve people's lives.

IFC is a member of the World Bank Group and is headquartered in Washington. It shares the primary objective of all World Bank Group institutions: to improve the quality of the lives of people in its developing member countries.

Established in 1956, IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world.

India is one of the founder members of the IFC. IFC finances investments with its own resources and by mobilizing capital in the International financial markets.India has been a member of IFC since 1956. As of June 2012, India held 81,342 shares of IFC, representing 3.43% of IFC's subscribed share capital and 81,592 votes, representing 3.38% of the voting power. Over the past few years, in line with a strong strategic focus on India, IFC has augmented its program and portfolio in India by investing in high impact projects.India represents IFC's single-largest country exposure. As of May 31, 2012, IFC's portfolio of committed investments in India was approximately US$4 billion.In IFC's Fiscal Year 2012, total commitments in India reached US$960 million in 45 projects, distributed across infrastructure, manufacturing, financial markets, agribusiness and renewable energy. The above figures include commitments for IFC's own account and mobilized financing.IFC is scaling up its presence and activities in the Low Income States and NE States (LIS) in India. A new office in Kolkata was set up to focus on the LIS; approximately US$400-500 million has been invested in the LIS over the past three fiscal years. Further, IFC Advisory Services is working in the LIS in the following areas by promoting:

- investment climate for private sector development and inclusive growth;
- financial inclusion by working on financial services and initiatives related to the sustainability of the MFI sector including micro-credit bureau, risk mitigation initiatives, code of conduct setting etc;
- renewable energy (solar and biomass) and cleaner production as well as key subsectors like agribusiness; and

- developing PPP transactions with focus on social services (health and education) and climate change impact projects.
- Infrastructure has been stepped up to 30-40% of IFC's portfolio in India in the last few years and currently accounts for about US$1.3 billion of current committed portfolio.

IFC floated a rupee bond in the global credit market to raise a billion dollars that could be used to assist the Indian companies in 2014.

MIGA

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank group. It was established to promote foreign direct investment into developing countries. MIGA was founded in 1988 and is headquartered in Washington.

MIGA promotes foreign direct investment into developing countries by insuring investors against political risk, advising governments on attracting investment etc.

MIGA can cover only new investments. These include:

- new, greenfield investments;
- new investment contributions associated with the expansion, modernization, or financial restructuring of existing projects; and
- acquisitions involving privatization of state enterprises.

ICSID

The International Centre for Settlement of Investment Disputes (ICSID) is an institution of the World Bank group based in Washington. It was established in 1966 . ICSID has an Administrative Council, chaired by the World Bank's President, and a Secretariat. It provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors.

India and the World Bank

The advantage of borrowing from the World Bank is the low cost and stable financing it provides with longer maturity periods that better match India's investment needs.

Financing through the International Development Association (IDA), the Bank's concessional lending arm, is provided for as low as 0.75% p.a., repayable over a period of 35 years, inclusive of a 10 year grace period.

India benefited from the WB funds in education(Sarva Shiksha Abhiyan); health care;health care; power; agriculture; irrigation; natural gas , roads and other sectors.

India has been borrowing from the World Bank (through IBRD and IDA) for various development projects in areas of poverty alleviation, infrastructure, rural development, human resource development, etc. IDA funds are one of the most concessional external loans for GOI and are used largely in social sector projects that contribute to the achievement of MDGs. IBRD funds are semi - concessional and of a longer maturity and therefore, cheaper than commercial external borrowings. GOI utilizes IBRD loans primarily for infrastructure projects.

Since 1949 when India took the first assistance from World Bank, the Bank's cumulative commitment to India stands at US$ 91.91 billion {US$ 48.28 billion under IBRD and US$43.63 billion under IDA (up to July, 2012)}.

The support would be for transformative projects, including the Kosi flood recovery project in Bihar state and cleaning up the River Ganga. As part of the overall lending, the Bank also has earmarked USD $3 billion to support the country's domestic response to the global financial crisis.

This includes a USD $2-billion package for the federal government to provide capital to some of the public sector banks so that they could maintain their credit expansion and prevent a shortfall of capital from affecting the economy in the wake of the global economic crisis.

India's enhanced voice

In the recent Capital Increase in IBRD (2010), India has been allocated additional shares. As a result India will become the 7th largest shareholder in IBRD with voting power of 2.91%. Before this revision, India's voting power was 2.77% with 11th position among shareholders. As a constituency (comprising of four countries - India, Bangladesh, Sri Lanka and Bhutan), India's voting power will increase to 3.26% from the present 3.14%. India along with developing countries like China, Brazil, Indonesia, Mexico and Turkey, with greater voting power, would now have more say in the affairs of the World Bank and how its funds are disbursed.China has overtaken Germany, France and the UK to become the third largest shareholder in the Bank with 4.42% voting rights. There is an overall shift of 3% voting share in favour of developing countries, bringing their total vote share to 47%. The change will give emerging nations more say in how the bank is run and how its funds are disbursed.

These changes "are transformative in nature and will reposition the World Bank Group in the international financial architecture".They will strengthen the role the World Bank Group in being an effective multilateral instrument for eradicating poverty, achieving the MDGs (millennium development goals), supporting international efforts to manage global public goods, and most importantly, keeping it relevant in a dynamic world.

Membership of the financial institution gives certain voting rights, which are the same for all countries. But additional votes are granted depending on a country's financial contribution to the organisation.

IMF and WB

The International Monetary Fund and the World Bank at a Glance

International Monetary Fund	World Bank
• oversees the international monetary system • promotes exchange stability and orderly exchange relations among its member countries • assists all members--both industrial and developing countries--that find themselves in temporary balance of payments difficulties by providing short- to medium-term credits • supplements the currency reserves of its members through the allocation of SDRs (special drawing rights) • draws its financial resources principally from the quota subscriptions of its member countries • has at its disposal fully paid-in quotas now totaling SDR 145 billion (about $215 billion)	• seeks to promote the economic development of the world's poorer countries • assists developing countries through long-term financing of development projects and programs • provides to the poorest developing countries whose per capita GNP is less than $865 a year special financial assistance through the International Development Association (IDA) • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC) • acquires most of its financial resources by borrowing on the international bond market • has an authorized capital of $184 billion, of which members pay in about 10 percent

Financial Stability Board

The Financial Stability Board (FSB), successor to the Financial Stability Forum, was established in 2009 following the G-20 London summit, and includes all G-20 major economies, including India.

The FSB has been established to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability. It comprises senior representatives of national financial authorities (central banks, regulatory and supervisory authorities and ministries of finance), international financial institutions etc. G20 gave the FSB more power in surveillance role.

FSB is based in Basel, Switzerland.

Financial action task force

In 2010, India has become a member of the Financial Action Task Force (FATF), an inter-governmental body responsible for setting global standards for anti-money-laundering and combating financing of terrorism.

The membership of FATF comes nearly four years after the country became an observer (in 2006) to this elite global body. India is now the thirty-fourth country member of FATF. There are 36 countries in it.

FATF membership is very important for India in its quest to become a major player in international finance, an official release said.

It will help India build the capacity to fight terrorism and trace terrorist money and help to successfully investigate and prosecute money laundering and terrorist financing offences.

India will benefit in securing a more transparent and stable financial system by ensuring that financial institutions are not vulnerable to infiltration or abuse by organised crime groups.

The FATF process will also help in co-ordination of international efforts in anti-money laundering and combating the financing of terrorism, the release added.

The FATF Secretariat is housed at the headquarters of the OECD in Paris.Its President is Mr.Corral.

Asian Clearing Union

The Asian Clearing Union (ACU) was established with its head quarters at Tehran, Iran in 1974 at the initiative of the United Nations Economic and Social Commission for Asia and Pacific (ESCAP), for promoting regional co-operation. The main objectives of a clearing union are to facilitate payments among member countries for eligible transactions on a multilateral basis, thereby economizing on the use of foreign exchange reserves and transfer costs, as well as promoting trade among the participating countries. The Central Banks and the Monetary Authorities of Iran, India, Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, Myanmar and Maldives are currently the members of the ACU.

The Asian Monetary Units (AMUs) is the common unit of account of ACU and is denominated as 'ACU Dollar' and 'ACU Euro', which is equivalent in value to one US Dollar and one Euro, respectively. All instruments of payment under ACU have to be denominated in AMUs.

Reserve Bank receives and pays US Dollars / Euros.
All permitted current account transactions including export / import transactions between ACU member countries are eligible to be settled through the ACU.
India- Iran oil payments

In 2010, Reserve Bank of India has barred Indian companies from using the Asian Clearing Union (ACU) to process current account transactions for oil and gas . India makes $12 billion worth of oil imports annually from the Islamic Republic. In 2009, Iran asked Indian companies such as ONGC to use the ACU to avoid being targeted by U.S. extra-territorial sanctions. But since the U.S. Treasury, which enforces those sanctions, is unable to monitor ACU transactions, Washington had been pressuring Delhi to shut down this route. ACU transactions are made by the central banks and the individual companies and their identities are not known. Thus, USA can not punish them for dealing with Iran.

Under the ACU mechanism, imports by the nine nations are settled every two months with every member paying for imports after netting out its exports among the union. Till 2008, payment under the ACU mechanism was done in US dollars, but after the United States imposed sanctions on Iran over its suspected nuclear programme, the currency was shifted to Euro.

Companies can't deal with the U.S. and EU companies if they have invested over $20 million in Iran.This led to Reliance abandoning plans to invest in an oil refinery in Iran as it saw diminished chances of participating in shale gas exploitation after having bought a stake in a U.S. company.

Without mentioning Iran, the RBI cited unspecified "difficulties being experienced by importers and exporters" while asking companies to stop using the ACU.

In a solution under discussion, banks and oil companies would put in place an alternative means of settlement for India's oil purchases from Iran.

South Korea pays for Iranian crude using the Won.We can explore to do our business in other currencies like (Emirate) dirham.

Trade in each other's currency (rupee and Rial) is not feasible as India's imports are many times more than exports.

ADB

ADB is an international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of their people.

Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the region and 19 are from other parts of the globe.
ADB's main partners are governments, the private sector, nongovernment organizations, development agencies, community-based organizations, and foundations.
Under Strategy 2020, a long-term strategic framework adopted in 2008, ADB will follow three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration.In pursuing its vision, ADB's main instruments comprise loans, technical assistance, grants, advice, and knowledge.ADB President is Haruhiko Kuroda.

G-20

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The inaugural meeting of the G-20 took place in Berlin in 1999, hosted by German and Canadian finance ministers.

Mandate

The G-20 is the premier forum for our international economic development that promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G-20 helps to support growth and development across the globe.

Origins

The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance.

Membership

The G-20 is made up of the finance ministers and central bank governors of 19 countries:

- Argentina
- Australia
- Brazil
- Canada
- China
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Mexico
- Russia
- Saudi Arabia
- South Africa
- Republic of Korea
- Turkey
- United Kingdom
- United States of America

The European Union, who is represented by the rotating Council presidency and the European Central Bank, is the 20th member of the G-20. To ensure global economic fora and institutions work together, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G-20 meetings on an ex-officio basis. The G-20 thus brings together important industrial and emerging-market countries from all regions of the world. Together, member countries represent around 90 per cent of global gross national product, 80 per cent of world trade (including EU intra-trade) as well as two-thirds of the world's population. The G-20's economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system.

Achievements

To tackle the financial and economic crisis that spread across the globe in 2008, the G20 members were called upon to further strengthen international cooperation. Accordingly, the G20 Summits have been held in Washington in 2008, in London and Pittsburgh in 2009, and in Toronto and Seoul in 2010.

The concerted and decisive actions of the G20, with its balanced membership of developed and developing countries helped the world deal effectively with the financial and economic crisis, and the **G20 has already delivered a number of significant and concrete outcomes:**
First, the scope of financial regulation has been largely broadened, and prudential regulation and supervision have been strengthened. There was also great progress in policy coordination. Finally, global governance has dramatically improved to better take into consideration the role and the needs of emerging of developing countries, especially through the ambitious reforms of the governance of the IMF and the World Bank.

Chair
G-20 (like the G-7) has no permanent staff of its own. The G-20 chair rotates among members, and is selected from a different regional grouping of countries each year. In 2014 the G-20 chair is Russia

Meetings and activities
It is normal practice for the G-20 finance ministers and central bank governors to meet once a year.

Interaction with other international organizations
The G-20 cooperates closely with various other major international organizations and fora- World Bank and IMF. The G-20 also works with, and encourages, other international groups and organizations, such as the Financial Stability Board and the Basel Committee on Banking Supervision.

How does the G-20 differ from the G-7?
The G-7 was established in 1976 as an informal forum of seven major industrial economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America. Russia joined later.The G-7 conducts dialogue and seeks agreement on current economic issues on the basis of the comparable interests of those countries. The G-20 was established in 1999 and reflects the diverse interests of the systemically significant industrial and emerging-market economies. It has a high degree of representativeness and legitimacy on account of its geographical composition (members are drawn from all continents) and its large share of global population (two-thirds) and world GNP (around 90 per cent). The G-20's broad representation of countries at different stages of development gives its consensus outcomes greater impact than those of the G-7.

Miscellany
Every G-20 member has one 'voice' with which it can take an active part in G-20 activity. To this extent the influence a country can exert is shaped decisively by its commitment.
There are no formal criteria for G-20 membership and the composition of the group has remained unchanged since it was established. In view of the objectives of the G-20, it was considered important that countries and regions of systemic significance for the international financial system be included. Aspects such as geographical balance and population representation also played a major part.

The G-20 Finance Ministers were tasked from the Pittsburg Summit to take forward work in the following areas;

- Framework for Strong, Sustainable, and Balanced Growth
- Strengthening the International Financial Regulatory System
- Modernizing our Global Institutions to Reflect Today's Global Economy
- Reforming the Mandate, Mission, and Governance of the IMF
- Reforming the Mission, Mandate, and Governance of Our Development Banks
- Energy Security and Climate Change
- Strengthening Support for the Most Vulnerable
- Putting Quality Jobs at the Heart of the Recovery
- An Open Global Economy

Summits

The G-20 Summit was created as a response both to the financial crisis of 2007–2010 and to a growing recognition that key emerging countries were not adequately included in the core of global economic discussion and governance. The G-20 Summits of heads of state or government were held in addition to the G-20 Meetings of Finance Ministers and Central Bank Governors who continued to meet to prepare the leaders' summit and implement their decisions. After the debut summit in Washington, D.C. during 2008, G-20 leaders held 8 summits, the last being in Russia. 2014 and 2015 will be held in Australia and Turkey respectively.

OECD

The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade. It defines itself as a forum of countries committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identifying good practices, and co-ordinating domestic and international policies of its members.

The OECD originated in 1948. Later, its membership was extended to non-European states. The OECD's headquarters are in Paris.

ECB

The European Central Bank (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 17 EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany. The current President of the ECB is Jean-Claude Trichet, former president of the Banque de France.

International financial stability architecture for the 21st century

The institutions involved are:

IMF

- G-20 and G20 Summit since 2008
- FSB: In response to the global financial crisis, the international financial community established the Financial Stability Board (FSB). The FSB aims to address vulnerabilities and develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.
- BIS, Basel.

- WB and ADB provide economic assistance so that the long term economic underpinings of global economy are strengthened.

Bretton Woods 2.0

The original Bretton Woods conference purpose was post –WWII reconstruction. The arrangements need redefinition and refocus in the post-recession world since 2008. The broad mandate should be

- we need to restructure global finance, based on an expanded system of capital adequacy standards, financial reporting, system-wide risk management etc. FSB and BIS can have a larger role in this matter.
- IMF should have an expanded role and be the lender of last resort. SDRs should be more central to global monetary system
- World Bank should be refocused with clear goals, and accountability for their success. Specifically, the bank should have one overarching assignment: helping the poorest countries achieve the millennium development goals to reduce poverty, hunger and disease.
- global trade agenda should be reoriented A trade agreement worthy of the effort would do two main things. Importantly, it would help the poorest countries to be more productive ;global trade would promote environmental sustainability, to help enforce compliance with reduced carbon emissions and protection of endangered biodiversity
- the new global financial structure should help to rescue the world from human-induced climate change. A tax on the carbon content of fossil fuels, levied by all countries, would do the job.
- G20 summit should be the policy guidance platform.

Brics Fund and bank

The BRICS emerging economies will set up a $100 billion fund to steady currency markets. China, holder of the world's largest foreign exchange reserves, will contribute the bulk of the currency pool. The initiative to establish a BRICS currency reserve pool is at its final stage. China committed $41 billion; Brazil, India and Russia $18 billion each; and South Africa $5 billion.

A joint BRICS development bank, with capital of up to $50 billion is also on the anvil It is called New development bank.

WTO and GATT-I

The General Agreement on Tariffs and Trade (GATT) is an agreement that was arrived at in 1947 by 23 countries to establish an free and fair international trading regime among member countries based on dismantling of trade barriers -tariffs or non-tariff restrictions like quotas . It came into existence in 1948. India was a founding member. GATT progressed- expanded its scope in terms of areas covered - by a series of "trade rounds"- negotiations centered around a specific set of issues over a period of a few years leading to agreement among members are called a round. GATT GATT was headquartered in Geneva, Switzerland. Eight rounds of such negotiations were held under GATT:

- Havana Round (1947) with 23 countries brought into being the. GATT.
- Annecy (France) Round (1949) (France)
- Torquay Round(England) (1950) (England)
- Geneva Fourth Round (1956)
- Dillon Round (1960-1961) was held in Geneva and were named after Under Secretary of State, Douglas Dillon, who first proposed the talks
- Kennedy Round (1962-1967) was also held in Geneva but was named after the US President John F Kennedy, in his memory.
- Tokyo Round (1973-1979)
- Uruguay Round (1986-94)

WTO was set up as a result of the Uruguay Round. WTO came into existence in 1995. Doha Round is the first round under the WTO (2001-). It is yet to complete.

As can be seen from the above, the Uruguay round lasted the longest 9 doha round is taking longer) as it took place in a radically different set of circumstances- communism was collapsing; the model of western industrial democracies was becoming more acceptable to the developing countries; USSR disintegrated leaving the third world so much weaker in world diplomacy. New areas were brought into the agenda- intellectual property rights; agriculture; services; foreign direct investment and so on. Initially, the developing countries were reluctant and resisted the expansion of the agenda. But partly due to western force; lack of unity; and partly due to seeing benefits for themselves, they agreed. There was no agreement after protracted negotiations. The Director General of the GATT was asked to draft an agreement for the consideration of the members. It was called Dunkel Draft, named after the Director General Arthur Dunkel. After attaining consensus, it was made into the Marrakesh Treaty and was signed in Marrakesh (Morocco) in 1994 and paved the way for the establishment of World Trade Organization (WTO)at the beginning of 1995.

GATT and WTO

GATT is different from WTO in two essential respects- GATT is a treaty while WTO is an organization. GATT had no dispute settlement process while WTO has. The GATT was essentially concerned with traditional trade issues such as tariffs and quotas in international trade. It had only a relatively small secretariat with no institutional foundation to implement these rules.

The World Trade Organization that came into existence at the beginning of 1995 replaces the General Agreement on Tariffs and Trade(GATT). Like its predecessor, it is headquartered in Geneva, Switzerland. It has 159 members. Roberto Azevedo from Brazil is the current Director-General of the World Trade Organization.GD term is 4 years.

The WTO states that its aims are to increase international trade by slashing trade barriers and providing a platform for the negotiation of trade and related issues . Basically, it sets up a rule based multilateral trading system to liberalise the regime and boost world trade.
Principles guiding the WTO are

- non-discriminatory and rule-based trading system where foreign goods and services should receive the same treatment as domestically sourced ones
- trade barriers (tariffs and non-tariff barriers) should be dismantled and international trade should be free
- less developed countries should receive preferential terms of trade

Unlike other organizations like World bank and the International Monetary Fund(IMF) where there is weighted voting- a country has as much voting power as it contributes financially-, WTO has a 'one country one vote' system making it relatively democratic. Decisions are taken by consensus.

WTO is not part of the United Nations and acts autonomously at the behest of its membership. A global arrangement exists between the two, based on the relationship that had existed between the UN and the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT). This includes provision and exchange of information, representation at each other's meetings and cooperation between the secretariats.

Structure of WTO

Highest level decision-making body of the WTO is the Ministerial Conference, which usually meets once every two years with each member country represented by the commerce minister. Next in authority is the General Council which carries out the decisions of the Ministerial Conferences. It is seated in Geneva. It has representatives (usually ambassadors or equivalent) from all member governments and has the authority to act on behalf of the ministerial conference

There are two other bodies apart from the General Council. They are the Dispute Settlement Body composed of all members, usually represented by ambassadors or equivalent; and Trade Policy Review Body (TPRB) - the WTO General Council meets as the Trade Policy Review Body to undertake trade policy reviews of Members.
Below the above three bodies, at the third level, there are Councils for Trade.The Councils for Trade work under the General Council. There are three councils - Council for Trade in Goods, Council for Trade-Related Aspects of Intellectual Property Rights, and Council for Trade in Services.. Apart from these three councils, six other bodies report to the General Council on issues such as trade and development, the environment, regional trading arrangements and administrative issues.

At the fourth level from the top, there are subsidiary bodies- various committees and working groups related to various fields.

Dispute Settlement

World Trade Organization (WTO) has a dispute settlement body (DSB) that settles trade disputes among members. Disputes can arise from trade policies of members that are violative of the WTO rules.

WTO procedures require sixty days of 'consultations' among the disputants to resolve the dispute failing which a disputes panel is set up.

There is no separate DSB but the General Council which is the second highest body in the organization works as the DSB while giving verdict on the trade dispute. DSB conclusion can be challenged in an appellate body.

After the ruling, the erring nation is directed to make changes in its laws to make them WTO-compliant within a reasonable time. If the `losing country' does not correct its laws, the complainant country is allowed to take cross retaliatory measures.

On the face of it, it gives all member countries a level playing field as the process is multilateral. But the fact is that there is no punishment for the erring country and ; poor countries can not retaliate against rich countries.

WTO members and observers.
There are 159 members in the WTO. 25 countries enjoy observer status at the WTO. In addition to states, the European Union is a member. WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong (as "Hong Kong, China" since 1997) became a GATT contracting party, and the Republic of China (Taiwan) acceded to the WTO in 2002 as "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu" (Chinese Taipei) despite its disputed status. Iran is the biggest economy outside the WTO.

Chronology
- 1986-1994 - Uruguay Round of GATT negotiations were deadlocked. Dunkel Draft was the basis for the resolution. It led to the Marrakesh Agreement(Morocco) that resulted in the WTO coming into force.
- January 1, 1995 - The WTO came into existence.
- 1996 - The first ministerial conference in Singapore. Birth of "Singapore issues".
- 1998 – Second ministerial conference in Geneva, Switzerland.
- 1999 – Thi rd ministerial conference in Seattle, Washington, USA
- 2001 - Fourth ministerial conference in Doha, capital of Qatar. A new Round of trade talks begin called Doha Development Round.
- 2001 - The People's Republic of China joined the WTO after 15 years of negotiations (the longest in GATT history).
- 2002 - Taiwan joined under the name "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu".
- 2003 – Fifth ministerial conference in Cancún, Mexico . Formation of G20 . Rejection of the `overloading' of the Doha agenda with Singapore issues though trade facilitation which is one of the Singapore issues was accepted by all .
- 2005 – Sixth Ministerial at Hong Kong once again failed to deliver results
- Seventh Ministerial 2009 in Geneva and 8th in 2011 in Geneva
- 9th Ministerial in Bali 2013 December

WTO Agreements
The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. Important among the agreements are the following.

Agreement on Agriculture (AoA)

One of the most contentious issues that the Uruguay Round addressed was agriculture. When the Marrakesh Treaty was signed in 1994, AoA was resisted by the developing countries. They were won over with some concessional features and flexibilities. Its three pillars are

- domestic support
- export subsidies
- market access

Domestic support

It refers to the subsidies that governments give to the farmers like food, fertilizer, power, water etc . The domestic subsidies are grouped into three classes called "boxes": Green Box, Amber Box and Blue Box- the first two being borrowed from the traffic light colours.

Green box

Agriculture-related subsidies that fit in WTO's green box are policies that are not restricted by the trade agreement because they are not considered trade distorting.

To qualify for the green box, WTO says a subsidy must not distort trade, or at most cause minimal distortion.

These green box subsidies must be government-funded — not by charging consumers higher prices, and they must not involve price support. They tend to be programs that are not directed at particular products, and they may include direct income supports for farmers that are decoupled from current production levels and/or prices.Examples: environmental and conservation programs, research funding, extension services, domestic food aid including food stamps, and disaster relief.

Amber box

Agriculture's amber box, according to the WTO, is used for all domestic support measures considered to distort production and trade.

WTO members are required to maintain their amber box supports to within five to 10 percent of their value of production.

Any support payments that are considered to be trade distorting and are subject to limitations and disciplines fall into the amber box.

Blue box

Included in the blue box are any support payments that are not subject to the amber box reduction agreement because they are direct payments under a production limiting program.

Subsidies given by USA and Europe make agricultural goods so cheap that their markets are virtually inaccessible to exports from developing countries. The earlier gains expected by the developing countries from an genuinely free international trade in agricultural goods have not come about as the advanced countries are least inclined to reduce the subsidies to the statutory levels. It is one of the `implementational concerns' in WTO being discussed in the Doha round.

In the Bali ministerial in 2013 December, it was a contentious issue.(Details ahead)

G33

The **G33** is a group of developing countries that coordinate on agricultural trade and economic issues. It was created in order to help a group of countries that were all facing similar problems.

The G33 has proposed special rules for developing countries at WTO negotiations, like allowing them to continue to restrict access to their agricultural markets. **The Group of 33 developing countries that operates in the WTO's agriculture negotiations have similar position on designation of special products where they want to have higher tariffs on imports.**

The G-33, led by Indonesia, has been insisting on a change in WTO rules on agriculture that bring food procurement from poor farmers to feed the poor under a subsidy cap fixed at 10 per cent of farm produce. It has also been demanding a change in the methodology for subsidy calculation that is still based on a price index of 1986-88 and does not factor in inflation.

Export subsidies

"Export subsidies" are to be limited by the developed countries either in value or volume terms so that international prices are not lowered below a point and exports of the developing countries are not priced out..

Market Access

Market access means all member countries should throw open their domestic market to agricultural imports by reduction of tariffs and removal of or non-tariff barriers. Countries should undertake

- `Tariffication'- to convert non–tariff barriers(like quotas) to tariffs and
- "bind" their tariffs- to agree to a limit that is the `bounded rate' and not increase the rates beyond them. The bounded rates are usually high

AoA can be expected to, in the long run, benefit the developing countries that have cost advantages in production. However, any such benefits are conditional on the developed countries reducing their subsidies.

TRIPS

Intellectual property (IP) is the work of intellect or mind to create products that have commercial uses- products like drugs, literature, paintings etc. It is protected like the physical property with trade marks, patents etc. Holders of the patents etc are entitled to the commercial proceeds for a specified time period, exclusively

Types of intellectual property rights:

- A patent may be granted for a new, useful, and non-obvious invention, and gives the patent holder an exclusive right to commercially exploit the invention for a certain period of time (typically 20 years from the filing date of a patent application).
- Copyright is given for creative and artistic works (e.g. books, movies, music, paintings, photographs, and software) and give a copyright holder the exclusive right to control reproduction or adaptation of such works for a certain period of time.
- A trademark is a distinctive sign which is used to distinguish the products or services of different businesses.

- An industrial design right protects the form of appearance, style or design of an industrial object (e.g. spare parts, furniture, or textiles).

The need for agreement on TRIPS arises from the fact that the commercial proceeds from international trade in intellectual property are growing in worth.

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

Agreement on TRIPS lays down legal standards for the member countries to protect intellectual property by way of copyright rights; geographical indications, industrial designs; integrated circuit layout-designs; patents; monopolies for the developers of new plant varieties; trademarks. TRIPs regulates dispute resolution procedures and enforcement procedures.

TRIPS and patents

A patent is an exclusionary right. It grants the right to exclude others from making use of the patented invention for the given period of 20 years from the filing date. In return for the patent, the inventor offers the knowledge with commercial use to be put in public domain after the expiry of the patent. Patent is an incentive to innovate and invent. It sustains research and development (R and D)

Product and process patents

Under WTO, patents can be granted for the process or product. Product patents provide for absolute protection of the product exhausting all the process that may lead to the product, whereas process patents provide protection in respect of the technology and the process or method of manufacture. Protection for process patents would not prevent the manufacture of patented products by a process of reverse engineering, where a different process or method from that which has been invented (and patented) is used. For example, national legislation requiring only process patent protection has enabled manufacturers in certain countries to make generic versions of patented medicines. RE (Reverse engineering) made it possible in developing countries to sell medicines cheap. India is a prime example.

TRIPS agreement allows both process and product patents , though only product patents must be awarded for food, pharmaceuticals and chemicals. Patents should be valid for 20 years. Developing countries have 10 years to adopt the TRIPS agreement standards while the advanced countries adopted them by 1995 itself.

TRIPS agreement is an integrated package . Developing countries that had apprehensions about the product patents agreed to it because they benefited under other agreements- for example, services etc. They agreed also because they received concessional terms under TRIPS- grace period of 10 years to adopt product patents in food, pharmaceutical and chemical fields.

Geographical Indications

There are world famous goods that owe their origin to the region in which they originate and are nurtured. The climate, soil and the native efforts of the region account for their fame, utility and qualities. **Some Indian examples are:** Basmati Rice, Darjeeling Tea, Kanchipuram Silk Saree, Alphanso Mango, Nagpur Orange, Kolhapuri Chappal, Bikaneri Bhujia, Agra Petha , Mysore silk, Nilgiri tea, Coorg coffee, Mysore sandal products, Malabar pepper etc.

GI is granted to a community or group or an institution that represents the interests of the product. It is generally not granted to an individual. It is given to a product for a specific period of time (10 years in India).The product can be an agricultural, natural or manufactured one. The manufactured goods should be produced or processed or prepared in that territory. It should have a special quality or reputation or other characteristics

If these products and processes are given geographical indication registration, commercial proceeds can accrue to the holder of the GI. GIs prevent spurious goods from entering the market It helps maintain quality . There is greater accountability, too. It boosts exports

In 1999, the Parliament passed the Geographical Indications of Goods (Registration and Protection) Act, 1999. This Act seeks to provide for the registration and protection of geographical indications relating to goods in India. The Act is administered by the Controller General of Patents, Designs and Trade Marks- who is the Registrar of Geographical Indications. The Geographical Indications Registry is located at Chennai.

The Geographical Indications of Goods (Registration and Protection) Act, 1999 came into force in 2003. This is a sui generic legislation intended to give better protection to GIs of India.

As per the Geographical Indications Act, 1999 "Any association of persons or producers or any organization or authority established by or under any law for the time being in force representing the interest of the producers of the concerned goods" may file an application for registration of a GI. This is in keeping with the overall objective of the G.I. Act, which is to protect the identity of a particular good that has properties which are attributable to a particular region or which are manufactured in a particular region.

Oranges of Nagpur, paintings of Kangra, Moradabad metal craft and Kolhapur jaggery are among 14 items waiting for Geographical Indications (GI) tag.

Once conferred, the uniqueness of these products will be statutorily insulated from false claimants trying to exploit their regional exclusivity. Already 195 items including Kancheepuram silk and Darjeeling tea from various states enjoy the protection.

The products about to get the protection are: Nagpur orange, Kangra painting, Moradabad Metal Craft, Firozabad Glass, Kannauj Perfume, Kanpur saddlery, Saharanpur wood craft, Dharmavaram handloom pattu sarees and paavadas, Warli painting, Kolhapur jaggery, Thewa art work and three Manipur-based knit works Moirang phee, Wangkhei phee and Shaphee lanphee.

Maharashtra government's Akola-based Dr Panjabrao Deshmukh Kirshi Vidyapeeth has applied for Nagpur orange under horticultural product category, saying the oranges differed from others in growth habit, physical-chemical properties and taste. "Its pulp is tender, saffron or orange coloured with excellent blend of sugar-acid," the application said. It said the fruit is cultivated in Nagpur and Vidharbha region of Maharashtra and some parts in adjoining regions of Madhya Pradesh.

Himachal Pradesh's Kangra Arts Promotion Society has sought Gl saying the art form was invogue in the foothills of western Himalayas and pigments used in Kangra paintings are derived from organic and inorganic sources. The central theme of Kangra paintings is love and the recurring themes are six seasons or music or Krishna-Radha or Shiva-Parvati.

Manipur government's department of commerce has sought GI for Moirang phee, Wangkhei phee and Shaphee lanphee, which are shawls/fabric with unique needle work, to be worn as special recognition of honour.

Kolhapur jaggery seeks unique recognition for its white and golden chemical-free product having no added colour, chemicals, additives and flavours. Its application said the jiggery had natural sweetener and contained glucose, vitamins, calcium and minerals.

As of April 2013, Karnataka with 32 GI products topped the national list followed by Tamil Nadu (24), Andhra Pradesh (22) and Kerala (20).

French champagne and cognac, the USA's Napa Valley, the UK's Scotch whisky and Mexican Tequila are among foreign products that have acquired GI tag in India.

Patents (Amendment) Act 2005

Indian Parliament passed the Patents (Amendment) Bill 2005. It introduced product patent regime for food, chemicals and pharmaceuticals. India was required to introduce product patent protection in these sectors from 1.1.2005 in accordance with the obligation under the TRIPS Agreement of the WTO.

Highlights of the Act

- Product patent protection to drugs, foods and chemicals
- availability of Pre-grant and Post-grant challenge
- discovery of a new form of a known substance does not qualify for a patent; nor mere discovery of any new property or new use for a known substance
- Introduction of a provision for enabling grant of compulsory license and parallel imports to meet public health crises

Prior to 1970, 85 per cent of medicines available in India were produced and distributed by multinational corporations (MNCs) and the prices of drugs in the country were among the highest in the world. The 1970 Patents Act of India provided for process patents for pharmaceuticals and agro-chemical products. This enabled the growth of a strong local generic drug industry, which produced the same drugs as the MNCs at relatively low prices. When Indian generic manufacturers such as Cipla, Ranbaxy etc began manufacturing drugs, especially for Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), at much lower prices, it served a public health cause .The demand for these drugs grew in countries that could not afford to buy these drugs from MNCs.

Indian government accepted TRIPS and product patents because Indian pharma industry is going global and trips help R and D; also, TRIPS is a part of the larger WTO package.

There is a fear that prices of medicines will spiral due to product patents as it can lead to monopoly pricing. Some experts say the fear is unfounded because 97 per cent of all drugs manufactured in India are off-patent and will remain unaffected.

On the positive side, the Act modernizes the law. It helps Indian pharma companies to grow into MNCs. Indian companies can take up contract research. FDI will flow in with all the technological benefits.Safeguard provisions help meet public health concerns. Drug price Control order (DPCO) gives government the power to regulate the prices and make them affordable. Generic manufacturers can continue in India for product patented drugs by paying a reasonable fees. (Generic medicines are unbranded drugs . They can be produced for drugs for which either there is a process patent or the product patent expired. Once product patents are introduced for drugs, generic manufacturers can not continue in India except when they pay a fee if the patent holder agrees)

Another criticism is that it acts as a roadblock to cheap drugs. Indian generic companies brought down the prices of antiretroviral therapy for HIV/AIDS from $12,000 to $140 a year. Two-thirds of the world' s population will be systematically deprived of life-saving drugs when the Indian law comes into effect. Countries in Africa are dependent on Indian generic products and the WHO [World Health Organisation] expressed apprehensions about the Act.

The other criticism is that patents being given for 20 years will stunt technological development in India.

However, supporters argue that that product patents provide an opportunity for greater investment in R and D and exploitation of global markets. Prices also may not rise much as there is bound to be competition and also government regulation. DPCO- Drug Price Control Order of the Government ensures that essential drugs are sold cheap.Another reassurance about whether TRIPS can cripple public health concerns relates to compulsory licensing and parallel imports.

IPRs 2013

The Intellectual Property Appellate Board (IPAB) recently revoked GlaxoSmithKline's patent in India for its breast cancer drug Tykerb, a decision that took its cue from a recent landmark Supreme Court court ruling disallowing "repetitive patents" on the same drug.

The board has, however, upheld the patent for lapatinib, the original compound, citing innovative merit. IPAB ordered that the claimed invention, the salt version of the original drug, is "obvious" and, therefore, has been revoked.

This bears out India's policy stance that incremental inventions lacking "enhanced therapeutic efficacy" as assessed by the patenting authorities under Section 3(d) of the Patents Act won't qualify for patents. In April 2013, the Supreme Court in a landmark ruling rejected Swiss drug-maker Novartis' plea for a patent for its anti-cancer drug Glivec — beta crystalline of a known molecule called imatinib mesylate — saying it lacked novelty and failed to meet the country's patenting standards.

In 2012 , India revoked three patents on grounds that included lack of novelty/inventive step. These were for Pfizer's cancer drug Sutent, Roche Holding's hepatitis C drug Pegasys, and Merck's asthma treatment aerosol suspension formulation.

Compulsory licensing

The Intellectual Property Appellate Board (IPAB) in 2013 upheld the grant of compulsory licence (CL) to the Hyderabad-based Natco Pharma Limited, a generic drug maker, to produce and market Nexavar, a patented cancer drug of multinational pharma major Bayer

Corporation. The order will pave the way for reduction in the prices of costly life saving drugs.

Various international conventions and Indian laws allowed the member countries to grant such compulsory licence in order to make medicine cheaply available to the public.

IPAB directed Natco to pay seven percent royalty.

Bayer obtained a patent in India in 2008 for Nexavar which cost Rs. 2.8 lakh for a pack of 120 tablets, equivalent to a month's dosage. Controller of Patents, Mumbai, granted the first-ever compulsory licence to Natco to make 'sorofenib tosylate', a generic version of Bayer's high-priced anti-cancer drug Nexavar. Natco was told to sell the pack at Rs. 8,800.

Bayer appealed against the Controller's order before the IPAB. Upholding the compulsory licence, the IPAB pointed out that even after obtaining patent, Bayer had not made the drug available on a large scale and at an affordable price within the stipulated time.

The **Anti-Counterfeiting Trade Agreement** (**ACTA**)

It is a multinational treaty for the purpose of establishing international standards for intellectual property rights enforcement. The agreement aims to establish an international legal framework for targeting counterfeit goods, genericmedicines and copyright infringement on the Internet, and would create a new governing body outside existing forums, such as the World Trade Organization, the World Intellectual Property Organization, or the United Nations.

The agreement was signed in October 2011 by Australia, Canada, Japan, Morocco, New Zealand, Singapore, South Korea, and the United States. In 2012, Mexico, the European Union and 22 countries which are member states of the European Union signed as well. Supporters have described the agreement as a response to "the increase in global trade of counterfeit goods and pirated copyright protected works". Opponents say the convention adversely affects fundamental rights including freedom of expression and privacy. ACTA has also been criticised by Doctors Without Borders for endangering access to medicines in developing countries. It is not Trips Plus but is Trips minus.

In a huge boost to makers of generic medicines, the European Union (EU) parliament in 2012 rejected ACTA.

Public Health Concerns :TRIPS Agreement and Safeguards

Safeguards in the TRIPS Agreement include provisions that allow "parallel imports" and "compulsory licensing."

Parallel importation is the importation of drugs from another country where they are sold at a lower price to meet a public health crisis. It can take place if there are no manufacturers in the country facing the public health crisis and the pharma company that holds the patent for the drug is unwilling to price it affordably for the sake of the ailing public.

Compulsory licensing(read along with material given above) allows a government to temporarily override a patent. Government may issue a compulsory license to a company to produce generics when faced with a public health problem. This allows generic copies of a patented product to be produced domestically, with compensation paid to the patent holder.

Generic copies of patented drugs are much cheaper than the branded drugs. By introducing generics, governments can bring down the price of a certain medicine, thereby ensuring an adequate, affordable stock of the essential drugs. (Generic drugs are unbranded drugs with the same chemical ingredients of a the branded drug)

The compulsory licensing provision arms the government with the power to ensure that medicines are available to patients at affordable rates and has so far been used in Brazil, Thailand and South Africa.

It gives the government the right to allow a generic drug maker to sell cheap but safe versions of patented drugs under certain conditions, without the consent of the patent owner. Multinational drug companies had demanded strong safeguards against the liberal use of the provision when India's patent law was being framed, but the final legislation had kept the grounds for invoking this provision open-ended.

One important positive consequence of the order may be that MNCs may adopt multiple/dual pricing- selling drugs cheap relatively in developing countries.

In his order, the patent controller said Natco's application met three key conditions for granting compulsory licences. First, the German firm was able to supply its drugs to only 2% of the country's patient population and did not meet the 'reasonable public criteria' requirement. That is, it did not make sufficient efforts to make the drug available to public. Second, its price was not "reasonably affordable", and third, it was imported and not manufactured in the country.

Health experts and NGOs have welcomed the order saying it would deter innovator companies from selling their drugs at exorbitant prices.

Sui generis system

TRIPS agreement provides sui generis option regarding patent laws. Sui generis means generating by itself or of itself. It is a choice given to members in the place of patents. That is, they can protect inventions either on the basis of patents or any other indigenous system (sui generis).

GATS

The General Agreement on Trade in Services (GATS) is the set of regulations that governs trade in services among the WTO countries. GATS, which is one of the three agreements along with AoA and agreement on TRIPS was adopted in 1995 and details are being worked out since then .. GATS rules cover a broad range of economic activity such as health care, education, telecommunications, banking, insurance, business process offshoring (BPO), tourism and so on. India is interested in these fields due to its core competence.

With GATS, multilateral trading system extends to services for the first time. GATT, its predecessor did not cover services.

In services, members of the WTO offer one another most favoured nation (MFN) status as they do for physical goods. MFN means grant of non-discriminatory trade- normal trade.

GATS includes direct foreign investment in services. Liberalisation means national treatment to foreign investor; ending public monopolies, as well as deregulation whenever a regulation is considered restrictive for foreign investors and service providers.

GATS negotiations are conducted among members bilaterally on the basis of requests and offers.Requests can be made by any WTO member in any service sector to any member. Each member makes bilateral requests to its major trading partners covering sectors with export interest. These requests ask for full market access and national treatment commitments. National treatment requires that foreign investor should be offered the same terms as the local one.

The GATS agreement covers four modes of supply for the delivery of services in international trade:

	Criteria	Supplier Presence
Mode 1: Cross-border supply	Service delivered within the territory of the Member, from the territory of another Member	Service supplier not present within the territory of the member
Mode 2: Consumption abroad	Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member	
Mode 3: Commercial presence	Service delivered within the territory of the Member, through the commercial presence of the supplier	Service supplier present within the territory of the Member
Mode 4: Presence of a natural person	Service delivered within the territory of the Member, with supplier present as a natural person	

Trade negotiations

While WB and IMF operate on weighted voting basis, WTO decisions, such as adopting agreements (and revisions to them) are officially determined by consensus of all members. The advantage of consensus decision-making is that it encourages efforts to find the most widely acceptable decision. Small countries and low income countries also weigh for as much as rich countries.

In reality, WTO negotiations proceed not by consensus of all members, but by a process of informal negotiations between small groups of countries. Such negotiations are often called "Green Room" negotiations (after the colour of the WTO Director-General's Office in Geneva), or "Mini-Ministerials", when they occur in other countries.

Doha Round

Doha Round of Trade talks under the WTO began in 2001 in Doha, the capital of Qatar. Doha was the fourth ministerial after the WTO came into force- Singapore, Geneva, Seattle and Doha. It is called Doha Round because the talks were started in Doha. It is called Doha Development Round as it promised to address the issues that were important to the developing countries like India. It has lasted the longest and is yet to complete(2014).

The criticism is that since the developing countries believed that they received a raw deal under the Marrakesh Treaty in matters related to agriculture, patents and so on, they needed additional inducements to agree to the new round of talks..Thus, naming the Round as a Development Round was to pacify the developing countries.

Doha Round aims at further liberalizing international trade for agriculture, industry and services. The need for expeditious completion of the round is because trade as an engine of growth is needed ever more in the present world when global recession has reduced incomes of hundreds of millions of people due to collapse of demand. Also, protectionism is being chosen as a politically convenient strategy by countries including USA. It is a threat to globalization of trade and hurts all members.
Bali package (ahead)

WTO and GATT-II

Bali package

The **Bali Package** is a trade agreement resulting from the Ninth Ministerial Conference of the World Trade Organization in Bali, Indonesia on 3–7 December 2013. It is aimed at lowering global trade barriers. The package forms part of the Doha Development Round, which started in 2001.

The package includes provisions for lowering import tariffs and agricultural subsidies, with the intention of making it easier for developing countries to trade with the developed world in global markets. Another important target is reforming customs bureaucracies and formalities to facilitate trade.

The Bali package consists of ten separate decisions by the Ministerial Conference, covering four areas as follow.

Trade Facilitation

Agreement on Trade Facilitation will reduce red-tape and streamline customs. It will be legally binding, require some expense and a certain level of technology. LDCs will be supported in building capacities to implement the changes. Although, some critics worry governments may have to prioritize funds for trade facilitation over other important areas such as public health or education.

Agriculture: Covers food security in developing countries.

Development and LDC issues: Covers measures Least developed countries (LDCs) and developing countries, including preferential treatment and market access.

Before the agreement, the negotiations repeatedly came close to collapsing. India's demand that it should be allowed to extend its domestic agricultural subsidies indefinitely was met by opposition from the U.S. Eventually, India and the U.S. reached a compromise where a permanent solution to the Indian subsidies will be decided in separate future negotiations within four years.

This was the first global agreement by the WTO.

India and the Bali Package

India had not yielded on the food security issue in the WTO Bali ministerial and, in fact, secured some concessions on the trade facilitation agreement (TFA).

The Bali draft says that till a permanent solution is reached (on the question of issues of asymmetry in the Agreement on Agriculture), members would refrain from approaching the dispute-settlement body against breach of the 10% cap on price-support based food subsidy: peace clause till 2015.

India has also been able to extract a transition period for implementation of certain trade facilitation provisions.

As per the trade facilitation pact, India and developing countries had agreed to improve infrastructure at ports, put in place systems to facilitate faster custom clearances and invest in automation, computerisation and homogenous documentation to facilitate faster movement of goods.

India needs better trade facilitation to increase its share to a more respectable level. But developed countries controlling more than **80%** of world trade needed this agreement more than us.

India's objections to amber box provisions and the way they are counted are the following

a. India is not a sizeable global trader in grain and so can not distort market
b. **86-88** as the base year for external reference price is unfair

Trade facilitation

Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives. Trade facilitation as "the simplification, standardization and harmonisation of procedures and associated information flows required to move goods from seller to buyer and to make payment".

Occasionally, the term trade facilitation is extended to address a wider agenda in economic development and trade to include: the improvement of transport infrastructure, the modernization of customs administration etc.
Some examples:

Fiscal: Collection of customs duties, excise duties and other indirect taxes; payment mechanisms

Safety and security: vehicle checks; immigration and visa formalities

Environment and health: Phytosanitary, veterinary and hygiene controls; health and safety measures;

Consumer protection: Product testing; labelling; conformity checks with marketing standards (e.g. fruit and vegetables)

Trade policy: Administration of quota restrictions
Some organisations promoting trade facilitation emphasis the cutting of red tape in international trade as their main objective. Propagated ideas and concepts to reforming trade and customs procedures generally resonate around the following themes:

- Simple rules and procedures
- Avoidance of duplication
- Alignment of procedures and adherence to international conventions
- Transparent rules and procedures
- Mechanisms for corrections and appeals
- Fair and consistent enforcement
- Time-release measures
- Standardisation of documents and electronic data requirements
- Automation
- International electronic exchange of trade data
- Single Window System

Nama and India

Non-Agricultural Market Access

Introduction:

Non Agricultural Market Access (NAMA) relates to trade negotiations on non-agricultural or industrial products. In the NAMA negotiations, WTO Members discuss the terms or modalities for reducing or eliminating customs tariff and non tariff barriers on trade in industrial products.

The product coverage under NAMA includes marine products, chemicals, rubber products, wood products, textiles and clothing, leather, ceramics, glassware, engineering products, electronics, automobiles, instruments, sports goods and toys.
On tariffs, the negotiations take place on the bound tariff which are the bindings taken during the negotiations at the WTO. The bound tariffs are the upper limit of the applied customs tariff which are the tariffs actually applied by the Customs authorities on imports into any country. They can not be breached.

In the NAMA negotiations there are tariffs on which no bindings have been taken and these are known as the unbound tariff lines.

Elements of NAMA Negotiations:

The main elements of the NAMA negotiations are:

(i) Coefficient for the tariff reduction formula: how should the tariffs be reduced by the poor and the rich countries.
(ii) Flexibilities for protecting sensitive NAMA products
(iii) Sectoral initiatives for elimination of customs tariff in specific sectors
(iv) Non Tariff Barrier (NTB)

The deadlock on NAMA negotiations centres around how much tariff cut should be made; what formula should be sued; and whether north and south countries should be treated alike. However, here too the developed and developing countries are divided

Swiss formula and India

Tariff cut formulae are either linear or non-linear. In a linear formula, tariffs are reduced by the same percentage, irrespective of how high the initial tariff is. As opposed to a linear formula, in a non-linear formula, tariff cuts are directly or inversely proportional to the initial tariff rate.
Swiss formula is a non-linear formula. In the Swiss formula, tariff cuts are proportionally higher for tariffs which are initially higher. For instance, a country which has an initial tariff of 30% on a product will have to undertake proportionally higher cuts than a country which has an initial tariff of 20% on the same product.

India's average tariffs are much higher than those existing in the developed countries. If a linear formula for tariff reduction was used, then its reduction burden would have been proportional to that of developed countries. However, using a Swiss formula could lead to India taking on a greater reduction commitment than its developed counterparts with lower initial tariffs.

Nama 11 is a coalition of strong developing countries (including Argentina, Brazil, Egypt, Venezuela and the Philippines). They are fighting to get a fair deal from the north countries. India is a member.

Developing countries' demands and concerns

Developing countries like India, Brazil, South Africa etc want the US to slash its agricultural export and domestic subsidies and the EU to reduce tariffs on agricultural goods so that international market is relatively free of distortion and allows fair competition.

Developed countries demands

The rich countries(North) want the developing countries to open up the domestic markets for the manufactured goods- called Non-Agricultural Goods Market Access(NAMA) which the poor countries are resisting partly because it hurts the domestic industry at this stage and partly to use it as a bargaining lever for reforms expected of the rich countries in agriculture. Agriculture is associated with food security, livelihood security and holds key to self-reliance in these countries.

Rich countries also want liberalization of the services sector in the fields of education, legal advice and insurance.

US and EU consider access to rapidly developing economies as vital to their own growth. The negotiations are not yielding results as the poor countries are not responding to the demands on NAMA positively till their concerns on agricultural subsidy and tariff cut were met. Both the Cancun and Hong Kong Ministerial Meets broke down on this issue.

MFN

The principle of the MFN treatment means that the tariff policy that one country receives in an organization should be extended to all others. Some members may form a preferential trading block within the larger body but all others should atleast receive normal treatment. Contrary to the popular view, the MFN does not mean giving special treatment to imports from another country. It only means normal trading relation- neither positive nor negative discrimination. MFN treatment is not limited to tariffs. It extends on all matters like quotas and other rules related foreign trade.

The members of the World Trade Organization, which also include all developed nations, accord MFN status to each other.

What are the benefits

- It provides level playing field among countries which is the essence of multilateralism
- A country can import from the most efficient source. This may not be the case if tariffs differ by country.
- Same tariffs being given to all countries will lead to customs rule simplification
- Domestic companies can not lobby for protectionist measures as the government is committed to MFN tariffs with all countries.

WTO allows departures from the MFN principle.

- imports from poor countries are allowed at lower/zero tariffs(Generalised System of Preferences (GSP)
- preferential and free trade arrangement among countries of a region and others are allowed- at concessional and free rates respectively
- Article XXIV of the GATT allows Pakistan and India to depart from particular provisions of the Agreement in their bilateral relations pending the establishment of trade ties between them on a definitive basis. It is under this clause that Pakistan has not given MFN status to India, though the latter has extended such status to the former.

Regional Trading Arrangement (RTA) and Multilateralism under WTO
Conceptually, PTA/FTAs should be understood in the context of economic integration among countries- usually in a geographical region.

Preferential Trade Arrangement is the first step towards integration wherein the members agree to trade with one another at a concessional tariff. The same concessional tariff is denied to non-members.

The next step is duty-free trade and elimination of quotas. It is called FTA.

The customs union is a form of economic integration involving two or more sovereign states that stipulates that there be free trade between the member states and a common tariff policy on trade with non-member states.

A common external tariff is the agreement between the parties of the customs union that stipulates that all member states maintain the same tariffs, import quotas, non-tariff trade barriers and preferential policies towards non-member states. This prevents the practice of re-exportation within the customs union, which occurs if one member charges lower tariffs to attract foreign imports, and then re-exports those products to other members of the customs union for a profit under the internal free trade policy. The common external tariff is also useful in that it allows the members of the customs union to combine their economic power in enacting punitive or favorable tariffs towards non-member states.

The most important advantage to forming a customs union is that it represents an important step in the process of economic integration. In today's globalized economy, economic integration is more important than ever, as advancements in transportation technology have made international trade increasingly viable, and economic interdependency has emerged as a tool to facilitate cooperation and conflict resolution.

Later comes common market where there is a free movement of labour, capital, goods and services.

If the common market has the same currency, it is called a monetary union.
The last stage is the economic union in which members have a common currency and fiscal and monetary policies. Presently, the EU is the only example of an monetary and economic union.

As mentioned above, RTAs are allowed under the WTO. Some countries grant themselves concessions in regional and extra-regional trade that other members of the WTO are denied and given only MFN. Benefits are many

- tariffs being a barrier to trade, reducing and removing them boosts trade
- complementarities are established among the regional members
- trade creation is another argument- that is, due to free trade among members more trade is created
- higher production and greater efficiency due to enhanced competition
- free trade within a region is a beginning towards globalization as it prepares the countries to face global competition and secure benefits
- in fact. FTAs catalyse globalization as the benefits at the regional level will accelerate the pace towards a larger scale

- non-economic factors are another major incentive as more peaceful relations among the regional countries will have a a virtuous effect.

The following are the problems

- Trade diversion takes place. It means trade is not created but is merely diverted. Imports are made from the FTA member due to price advantage ,even if a non-member is more efficient
- Also, these arrangements have other undesirable fallout like loss of revenue due to tariff reduction or removal and

Regional economic integration without prejudicing globalization and multilateralism is carried forward with `open regionalism'."Open regionalism" is defined as external liberalization by trade blocs(PTAs and FTAs) that is, the reduction in barriers on imports from non-member countries that is undertaken when member countries liberalize the trade among themselves. Even as tariffs are reduced for the non-member countries, the level of reduction need not be the same as it is among the member countries.

Regionalism and Multilateralism

While the regional trade blocs erode the MFN principle , the following arguments are advanced to show that they promote globalization

- regional free trade is easier to implement in comparison to globalization as the latter is difficult to accept by the people of the country
- domestic lobbies for protectionism can be resisted more successfully by the government at the regional level initially and later at the global level
- scope for deeper integration at the regional level- not only trade but also comprehensive economic cooperation(investment, collaborations etc)
- open regionalism is a step towards making regional trade blocs global.

Some regional trading arrangements in force and in negotiations :

- The **Transatlantic Trade and Investment Partnership** (also known as the Transatlantic Free Trade Area) is a proposed free-trade agreementbetween the European Union and the United States. The deal is estimated to boost the EU's economy by €120 billion, the US economy by €90 billion and the rest of the world by €100 billion. Talks began in July 2013 and may be finalized by the end of 2014.
- **Regional Comprehensive Economic Partnership (RCEP)** is a Free Trade Agreement (FTA) scheme of the 10 ASEAN Member States and its FTA Partners (Australia, China, India, Japan, Korea and New Zealand) to be concluded by the end of 2015 includes more than 3 billion people, has a combined GDP of about $17 trillion, and accounts for about 40 percent of world trade. First mooted during the 2011 ASEAN Summit in Indonesia, the RCEP negotiation process was formally launched during the 2012 ASEAN Summit in Cambodia.
- **Trans-Pacific Partnership(TPP)** is a proposed trade agreement under negotiation Australia, Brunei,Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TPP is intended to be a "high-standard" agreement aimed at emerging trade issues in the 21st century.
- ASEAN Free Trade Area (AFTA) with Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar, Vietnam.
- European Free Trade Association (EFTA) between Iceland, Norway, Switzerland and Liechtenstein
- North American Free Trade Agreement (NAFTA) between Canada, U.S. and Mexico

- South Asia Free Trade Agreement (SAFTA) between India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives
- Mercosur is a Regional Trade Agreement (RTA) between Brazil, Argentina, Uruguay and Paraguay, founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, peoples, and currency
- The Andean Community of Nations (CAN) is a trade bloc comprising the South American countries like of Bolivia, Colombia, Ecuador and Peru. Its headquarters are located in Lima, Peru.
- The Economic Community of West African States (ECOWAS) is a regional group initially of sixteen countries, founded in 1975 on the basis of Treaty of Lagos.
- The Southern African Development Community (SADC) seeks to further socio-economic cooperation and integration as well as political and security cooperation among 14 southern African countries.

Groups

G-4 -- the United States, the European Union, Brazil and India. It has developing and the developed world.

G-10 are major food-importing economies like Japan, South Korea, Taiwan, Norway, Switzerland Israel etc. It has rich and poor representatives (Bulgaria etc)

Group of 20 (also called **G20+**) is a bloc of developing nations established in the 5th Ministerial WTO conference, held in Cancun. It stands for drastic reduction in agricultural subsidies by industrialized nations and opposed liberalization like Singapore issues and NAMA. The G-20 accounts for 60% of the world population, 70% of its farmers and 26% of world's agricultural exports

G-33 comprises developing countries like India, Indonesia etc with defensive farm interests that involves protecting farmers from imports. It is an alliance of developing countries on Special Products (SP) and Special Safeguard Mechanism (SSM) in the ongoing agriculture negotiations. It has 42 members including India , Indonesia etc .They are net-food importing developing countries.

While G-20 consists of developing countries with exporting interests as well as defensive interests, the G-33 includes only those developing countries with defensive interest in agriculture.

G-90 is the group of Least developed countries (LDCs) along with other countries from Africa, the Caribbean and Pacific formed G-90 during the Cancun conference In 2003.

WTO Words

- ACP countries - About 70 African, Caribbean and Pacific (developing) countries that have preferential access to the EU market.
- AMS – Aggregate Measurement of Support shows the extent of support- provided by governments to the agricultural sector, including direct payments to farmers and intervention in the market, e.g. through setting minimum prices. There are limits set on AMS under the AOA of WTO.
- Agreement on Agriculture - the first multilateral framework for the long-term reform of agricultural trade, through the creation of specific rules and commitments

for international and domestic agricultural activities, e.g. tariffs, export subsidies and domestic support.

- Amber box - trade and production-distorting policies. They are subject to reduction commitments (AMS).
- Anti-dumping duties – special import duties imposed when a firm, following an enquiry, is assessed as having sold a product in the importing market at a price below the one it charges in the home market or below the cost of production or at less than fair value; and it damages the producers in the importing country
- Blue box – Trade-distorting direct payments to farmers combined with production-limiting programmes, e.g. programmes requiring land to be "set-aside" from production. Blue box support is not subject to reduction commitments in the Uruguay Round..
- Cairns Group – A group formed in 1986, comprising 17 WTO members dedicated to the fundamental reform of the agricultural trading system. The Chair is Australia. Other members are New Zealand, Argentina, All but three – New Zealand, Australia and Canada – are developing countries.
- Common Agricultural Policy (CAP) - the EU's internal agricultural policy, intended to provide stable agricultural markets and incomes for European farmers and food for European consumers through a system of domestic support, market access protection and export subsidies.
- Countervailing duties - special duties imposed on imports to offset the actual or potential injurious effects (i.e. price undercutting) of subsidies to producers or exporters in the country of export.
- Dumping - exporting goods at a price lower than the price a company normally charges on the domestic market. Governments in the importing country may levy anti-dumping duties, designed to offset the actual or potential injurious effects of dumping practices.
- Export Subsidies – government payments or other financial contributions provided to domestic producers or exporters if they export their goods and services (i.e. contingent on export performance).
- Government procurement – purchases by central and local governments.
- LDCs – Least Developed Countries, group defined by the United Nations on the basis of certain economic indicators. Includes 49 countries .
- Market Access - a negotiated commitment to guarantee a certain level of access in specified sectors.
- Most-Favoured Nation (MFN) – A core principle of the multilateral trading system which requires that normal trade be conducted among all members.
- Multilateral – among many parties, e.g. the WTO is a multilateral organisation involving 148 economies.
- National treatment - In services trade, a WTO member agrees in certain "committed" sectors to treat a foreign supplier no less favourably than a domestic supplier.
- Natural persons - People, as distinct from juridical persons such as companies and organisations. 'Movement of natural persons' concerns the ease of travel through and ability to live and work in other countries.
- Non-discrimination – a core principle of the multilateral trading system under the WTO. It includes most favoured nation (MFN) treatment and national treatment.

- Non-tariff barriers – government measures others than tariffs that restrict trade flows. Examples include quantitative restrictions, import licensing, standards and conformance regulations.
- Plurilateral – among several parties, e.g. the FTAA
- Round – the process of multilateral trade negotiations. Each of the eight sets of negotiations prior to the Doha Development Agenda (DDA) has been called a Round, e.g. the Uruguay Round, the Tokyo Round.
- Rules of origin – the production and content criteria defining where a good comes from. For example, among the FTA countries, any country can import from non-member countries but has to add a minimum value of about 30% or so before it can be traded within the FTA region.
- Safeguard action - temporary measures to allow countries to adjust to heightened competition from foreign suppliers, even where the competition is not a result of dumped or subsidised product.
- S&D – the "special and differential treatment", i.e. flexibility, given to developing countries in implementing WTO commitments, allowing longer phase-in times and addressing concerns such as food security and rural development.
- SPS – Sanitary and Phytosanitary agreement within the WTO dealing with trade affecting human, animal and plant health and life.
- Tariff escalation - tariff rates that increase with each additional level of processing, thus penalising value-added products, as is often the case with our wood exports.
- Tariff peaks – tariffs on particular products that are significantly higher that the typical tariff that the country in question levies on the full range of imports.
- Tariff rate quotas - allow a certain volume of product access at a lower tariff level. A higher tariff is charged on products imported outside the tariff quota.
- Three pillars - Market access, export competition and domestic support are the three pillars of the Agreement on Agriculture.

G33 and SP and SSM

G-33 is an alliance of developing countries on Special Products (SP) and Special Safeguard Mechanism (SSM) in the ongoing agriculture negotiations in the World Trade Organisation (WTO).

The WTO Framework Agreement of 2004 – also known as the July Framework – which laid down the parameters for further negotiations in the Doha Round, contained two major elements of interest to developing countries in the area of agricultural market access

It provided that developing countries would be eligible to designate an appropriate number of products as Special Products, based on their food and livelihood security or rural development needs; and

It also provided for the use of a Special Safeguard Mechanism against surge in imports so as to safeguard domestic producers of agricultural products in developing countries.

WTO and safeguard duty

In the technical language of the World Trade Organization (WTO) system, a **safeguard** is used to restrain international trade in order to protect a certain home industry from foreign competition. A member may take a "safeguard" action (i.e., restrict importation of a product temporarily) to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the domestic industry that produces like or directly-competitive products.

Safeguards are usually seen as responses to fair trade behaviour, as opposed to unfair trade practices such as

- Dumping
- Subsidy that attracts countervailing duty

As such they are supposed to be used only in very specific circumstances, with compensation, and on a universal basis, i.e., a member restricting imports for safeguard purposes will have to restrict imports from all other countries.

Special Products and Special Safeguard Mechanisms

Special Products (SP) and Special Safeguard Mechanisms (SSM) are key concerns of developing nations involved in WTO negotiations. By using SP and SSM, these nations hope to ensure food security and protect small farmers and the rest of the poor from the vagaries and pressures of international trade in agriculture commodities.

Special Products (SPs)

Special Products (SPs) are agricultural products of particular importance to farming communities in developing countries for reasons of food security, livelihood security and rural development.

It was decided at the Doha Development Round of WTO negotiations that SPs would attract lower levels of tariff reduction commitment than other agricultural products. The rationale is that higher levels of protection on SP will allow developing countries to sustain and develop domestic production of these products, thereby allowing them to protect and enhance livelihoods and food security in their domestic agriculture.

SP is a component of the WTO's Special and Differential (S&D) provision and is available only to developing country members of the WTO.

The Doha Ministerial Declaration recognised the non-trade concerns of developing countries and explicitly mentioned that the Doha Development Round of trade talks would include concessions that will "enable developing countries to effectively take account of their development needs, including food security and rural development".

Since the introduction of the concept of SP, discussions are going on about their selection and treatment. Essentially, the discussion centres on two issues:

- The number of products to be given SP status.
- The modalities to select SPs.

Special Safeguard Mechanisms (SSMs)

Special Safeguard Mechanisms or SSMs are a set of provisions through which a WTO member country can temporarily impose higher than bound tariff rates on the import of a particular agricultural product if there is a sudden surge in imports of that product into the country. The SSM provisions will be available to all developing and least developed country members of the WTO.

SSM is a trade defence mechanism to essentially counter the volatility of international commodity prices. Sudden and sharp declines in the international price of an agricultural commodity could lead to an import surge which, in turn, could damage the viability of domestic production. Even with the available headroom between bound and applied tariff rates, countries may find it difficult to check these surges. In these cases, a temporary measure like SSM will allow developing countries to tide over crises. SSM will allow countries to raise tariffs above their bound levels for a limited duration.

The Hong Kong Ministerial text allows developing countries the right to impose SSMs based on both price and volume triggers. This means that developing countries will have the option of temporarily imposing higher tariff rates on the import of an agricultural product if there is either a surge in its import volume or a sharp dip in its import price. However, the exact mechanisms of the implementation of SSMs have not been spelt out.

To conclude, Special Products and Special Safeguards Mechanisms together can provide a reasonable level of protection to the agriculture sector of developing countries.

Safeguard Duty

When imports of a particular product, as a result of tariff concessions or other WTO obligations undertaken by the importing country, increase unexpectedly to a point that they cause or threaten to cause serious injury to domestic producers of like or directly competitive products, a safeguard which is a form of temporary relief is used. Safeguards give domestic producers a period of grace to become more competitive vis-à-vis imports.

If this happens, the government of the importing country may suspend the concession or obligation, but will be expected to provide compensation by offering some other concession. Otherwise, the affected WTO member(s) can retaliate by withdrawing equivalent concessions. Safeguards usually take the form of increased duties to higher than bound rate or standard rates or quantitative restrictions on imports.

Safeguard duty in India

The Central Government after conducting an enquiry is satisfied that any article is imported into the country in such increased quantities and under such conditions so as to cause or threatening to cause serious injury to domestic industry, then it may by notification impose a safeguard duty on that article.

Faced with complaints from domestic manufacturers of a surge in import of caustic soda, a chemical used as a base for making products such as paper, textiles, soap and detergents, India has initiated investigations for imposing a safeguard duty on it.

The investigation has been initiated by the directorate general of safeguards (DGS following a complaint. The imports have come mostly from China, Qatar, Thailand and Saudi Arabia.

Special safeguard mechanism and safe guard duty: differences

Safeguards are contingency restrictions on imports taken temporarily to deal with special circumstances such as a sudden surge in imports or depressed prices. The special safeguards provisions for agriculture differ from normal safeguards. In agriculture, unlike with normal safeguards:

- higher safeguards duties can be triggered automatically when import volumes rise above a certain level, or if prices fall below a certain level; and
- it is not necessary to demonstrate that serious injury is being caused to the domestic producer.

Special and differential treatment
The principle of special and differential treatment for addressing the concerns of developing countries is incorporated through a number of provisions in the area of market access including, proportionately lower tariff reductions and longer implementation periods, working out a tariff reduction formula after taking into account the different tariff structures of developed and developing countries as well as the new instruments of SP and SSM.

The Ministers are expected to discuss suggestions on SP and SSM in the WTO so that the sensitivities of various members of G-33 could be factored in the first approximation expected in July and also later in the Ministerial Declaration in Hong Kong.

What has India gained from the WTO?

- MFN status in the 159 member body
- Rule based trading system
- Impartial trade dispute settlement process unlike earlier when there was bilateral pressures and threats to fall in line(Super and Special 301 of the USA)
- Definitive schedule for trade liberalization with special protection so as to calibrate alignment with global economy
- Opportunity to throw up MNCs in the pharma sector
- Opportunity to step up agri exports as Indian agricultural reforms yield results and USA and EU reduce their subsidies

The adverse effect is in the from of uncertainties in the age of globalization; drug prices of some products going up due to product patents; farmers feeling the pressure of open trade etc.

WTO: Boon or bane
WTO liberalises International trade and steps up the total output which in turn promotes standards of living for all participants sooner or later. However, the exact impact differs from country to country- the rich benefiting sooner and more substantially than the poor , in general.
There are many benefits to India from its membership of the WTO

- The globalization process that WTO ensures is the course chosen by India as a part of the economic reforms launched in 1991.
- It is a multilateral trade body with 153 members and so can set the pace for globalization to benefit all
- Most Favoured Nation(MFN) treatment is given to all members within the body by one another. MFN essentially means normal trade among member countries.
- The one country one vote system of decision making makes WTO a democratic body where rich do not command greater voting weightage
- Dispute settlement process is rule based and transparent
- India has advantage in the services sector and will benefit from its opening up
- Lower tariffs, introduced gradually and the right pace, will make Indian economy competitive
- Reduction of subsidies on agriculture by the developed countries will help India tap its agricultural potential to capture global markets

The opponents argue the following

- While globalization is welcome, its pace must be set by the sovereign government
- The agreement on TRIPS works against affordable medicines

- Multinational corporations influence the agreements and their working in WTO to their advantage
- Farmers may lose their livelihood as agriculture is compulsorily thrown open to imports at lower import duties
- Rich countries are not following their treaty obligations and reduce agricultural subsidies and tariffs
- The dispute settlement process gives the impression of being fair and transparent but works against poor countries as there is no way of enforcing the verdict of the dispute settlement body.

TBT and SPS

The Agreement on Technical Barriers to Trade --- commonly referred to as the TBT Agreement --- is an international treaty administered by the World Trade Organization.
TBT exists to ensure that technical regulations, standards, testing, and certification procedures do not create unnecessary obstacles to trade. The agreement prohibits technical requirements created in order to limit trade, as opposed to technical requirements created for legitimate purposes such as consumer or environmental protection.

The TBT agreement is closely linked to the Agreement on the Application of Sanitary and Phytosanitary Measures.

The Agreement on the Application of Sanitary and Phytosanitary Measures - also known as the SPS Agreement is an international treaty of the World Trade Organization.

Under the SPS agreement, the WTO sets constraints on member-states' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (phytosanitary) about imported pests and diseases.

For example, Indian measures against imports of toys from China on safety considerations (first the ban and then its revision to new mandatory safety standards).

Singapore Issues

The first ministerial conference was held in Singapore in 1996. Rich countries introduced four issues that came to be known as the "Singapore issues"

- Investment by foreign companies on same terms as national companies
- Competition laws that deal with monopolies and cartels , price fixing, mergers etc
- Transparency in government procurement and creating a level playing field for all players- domestic and foreign
- trade facilitation: standardization and simplification of customs procedures

The four issues have been controversial. Poor countries do not allow them to be brought into the agendas they feel that they might damage their economic interests. In Cancun Ministerial, trade facilitation is admitted by consensus as it has only procedural implications.
The opposition of the poor countries rests on the following grounds.

- Doha agenda should not be overloaded and the existing issues need to be implemented first like cutting agricultural subsidies.
- large, multinational corporations dominate and threaten the young and growing domestic firms
- they are too intrusive

- policy should be the prerogative of the government . It should be made at its own discretion because such policy depends on a country's unique market conditions

The common theme of three of the issues (investment, competition, government procurement) is to maximise the rights of foreign enterprises to have market access to developing countries through their products and investment; to reduce to a minimum the rights of the host government to regulate foreign investors; and to prohibit government from measures that support or encourage local enterprises.
U.S. and the E.U support the introduction of the Singapore issues arguing that unfair competition/investment and procurement policies distort trade as much as tariffs do, and therefore should be regulated by the WTO rather than left up to individual country governments. However, the US and other developed nations should first implement their commitments in agriculture before expanding the agenda.

H1B Visa Fee Hike and WTO-Compatibility

The recent - Border Security Act – of US earmarks funds from the visa fee hike to pay for the US government's plans to boost security along its border with Mexico to crack down on illegal immigration and drug smuggling.

The visa fee hike "is WTO incompatible and India is considering challenging the US legislation before the World Trade Organisation.

The 600-million-dollar measure, will nearly double visa fees for some Indian information technology workers entering the United States.

The National Association of Software and Services Companies (NASSCOM), which represents India's top software exporters, has said the measure will increase annual US visa costs for the sector by 200-250 million dollars.

The US legislation affects those skilled workers brought in by companies whose employees are more than 50 per cent foreign, a move that largely affects India's IT and outsourcing industries.

US high-tech firms such as Microsoft, which bring skilled immigrants into the United States on the same visas, will not be hit because the vast majority of their workforce is American.
More than half of the world's top 500 companies outsource work to India, which has become the world's back office where Western firms have set up call centres and number-crunching and software development outlets to cut costs.

But the industry also flies employees to the US each year to work at their clients' locations as on-site technicians and engineers.

Under the law, fees for non-immigrant 'H1B' and 'L' visas go up by 2,000 dollars for firms with more than a 50 per cent non-American workforce. The fee now is 2,500 dollars.

Anti-outsourcing sentiment in the United States has been stoked by high unemployment.

US Cotton Subsidies

American subsidies to the cotton growers makes US cotton so cheap that it hurts other countries producing cotton. It distorts international trade. Brazil dragged the USA to WTO on this score and had an important victory in 2009 August. Brazil was allowed to slap sanctions on US goods and drugs upto $300million annually.

Protectionism

Protectionism is the economic policy of restricting trade and economic relations between countries , through methods such as tariffs on imported goods, restrictive quotas, and a variety of other restrictive government regulations designed to discourage imports, and prevent foreign participation in local markets and companies. This policy is closely aligned with anti-globalization, and contrasts with free trade, where government barriers to trade are kept to a minimum. Protectionism refers to policies or doctrines which "protect" businesses and workers within a country by restricting or regulating trade with foreign nations.

Historically, protectionism was associated with import substitution. Contemporary economists agree that protectionism is harmful in that its costs outweigh the benefits, and that it impedes economic growth. Recent examples of protectionism in first world countries are typically motivated by the desire to protect the livelihoods of individuals in politically important domestic industries. US stimulus package encourages `buy American ' philosophy. Whereas formerly blue-collar jobs were being lost to foreign competition, in recent years there has been a renewed discussion of protectionism due to offshore outsourcing and the loss of white-collar jobs. However, most economists agree that the benefits from free trade in the form of consumer surplus and increased efficiency outweigh the losses of jobs.

Instruments of protectionism

A variety of policies can be used to achieve protectionist goals. These include:

- Tariffs: Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates usually vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported. Tariffs may also be imposed on exports.
- Import quotas: To reduce the quantity and thus protect the domestic producers. The economic effects of an import quota is similar to that of a tariff more or less.
- Administrative Barriers: Countries are sometimes accused of using their various administrative rules (eg. regarding food safety, environmental standards etc.) as a way to introduce barriers to imports.
- Anti-dumping legislation Supporters of anti-dumping laws argue that they prevent "dumping" of cheaper foreign goods that would cause local firms to close down. However, in practice, anti-dumping laws are usually used to impose trade tariffs on foreign exporters.
- Direct Subsidies: Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against foreign imports. These subsidies aim to "protect" local jobs, and to help local firms adjust to the world markets.
- Export Subsidies: Export subsidies are often used by governments to increase exports. Export subsidies are the opposite of export tariffs, exporters are paid a percentage of the value of their exports. Export subsidies increase the amount of trade and help the local producers.
- Exchange Rate manipulation: A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign

exchange market. Doing so will raise the cost of imports and lower the cost of exports, leading to an improvement in its trade balance. However, such a policy is only effective in the short run, as it will most likely lead to inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of imports.

Other initiatives besides tariffs have also been cited as protectionist. For example, some commentators, such as Jagdish Bhagwati, see developed countries efforts in imposing their own labor or environmental standards as protectionism. Also, the imposition of restrictive certification procedures on imports are seen in this light.
Further, others point out that free trade agreements often have protectionist provisions such as intellectual property, copyright, and patent restrictions that benefit large corporations.
There are three types of protectionism:

- help protect infant industries as India followed them in the pre-reform period. It allows domestic industries to grow and become strong before they are opened up for competition .
- protectionism for public interest and social good like SP and SSM mechanisms under WTO
- the third variety is when the economy is in crisis and politically it becomes necessary to close the economy for imports to save jobs. For example, may countries in the global recession (2008-09). These are temporary measures lasting till the crisis lasts.

Arguments against Protectionism
Protectionism is frequently criticized as harming the people it is meant to help. Free trade helps all including third world economies and workers. This is because "the growth of manufacturing has a ripple effect throughout the international economy" and creates competition among producers, lifting wages and living conditions. Protectionist proposals stunt economy and make it uncompetitive and so harm jobs and increase prices and lose out on innovation.

The Tragedy of the Commons
It is an influential article written by Garrett Hardin in 1968. The article describes a dilemma in which multiple individuals acting independently in their own self-interest can ultimately destroy a shared limited resource even when it is clear that it is not in anyone's long term interest for this to happen.

Beggar thy neighbour
It is a policy and means that one nation develops at the expense of others. Beggar thy neighbour, or beggar-my-neighbour policy is an attempt to remedy the economic problems in one country by means which tend to worsen the problems of other countries. The term was originally devised to characterize policies of trying to cure domestic depression and unemployment by shifting effective demand away from imports onto domestically produced goods, either through tariffs and quotas on imports, or by competitive devaluation.

Foreign Trade-I

No country is self--sufficient in all the goods and services that it requires. It has to depend on other countries for what it lacks. For example, India depends on other countries for crude oil, edible oil, pulses and so on. That is, we import them. Similarly, India has many surplus items- both goods and services that it can export to other countries. For example, agricultural goods, software services and so on. The exports and imports that a country makes together make up its foreign trade. If exports are more than imports, it is called trade surplus and if imports are more, it is called trade deficit. India almost every year since Independence had a trade deficit.

Exports are foreign exchange earners. They stabilise and strengthen the exchange rate, if they grow. They may be necessary for some imports- for example, jems and jewellery industry imports stones and carves them into jewelry in India. Exports make the domestic economy efficient as international market requires high quality low price goods and services.

Imports are important for exports, domestic capital formation and consumption. They make domestic producers competitive.

India's Exim policy: Its evolution and Content

India's external trade has evolved and witnessed many changes since Independence in 1947. Soon after Independence, the Government followed a policy of protectionism and so import substitution was the norm.

The import substitution policy followed during the restrictive phase gave way to a new phase of trade reforms after mid 1980s aimed at easing trade restrictions to promote economic growth and competitiveness. The pace of change in India's external trade policy and practices gathered real momentum in the 1990's. A slew of reforms were launched which included liberalization of imports. Today, except for a handful of goods disallowed on environmental, health and safety grounds and a few others that are canalized (bulk imports through designated agencies like STC) such as fertiliser, cereals, edible oils and crude, all goods can be imported without a license or other restrictions. Tariff reforms have also been addressed in a more systematic manner with across the board reduction in peak rates rather than selective exemptions. The peak rate of customs duty has been consistently brought down with the aim of converging it with the ASEAN levels. Today it is 10% . The reduction helps in making domestic economy competitive and helps imports for exports.

One of the instruments of shaping the country's trade dynamics is the Foreign Trade Policy. The bold Foreign Trade Policies (FTP) of 2004-09 and 2009-14 recognised that trade is not an end in itself but its primary purpose is to stimulate greater economic activity and employment generation. The FTP identified certain thrust sectors having prospects for export expansion and potential for employment generation. These include: (i) Agriculture; (ii) Handlooms & Handicrafts; (iii) Gems & Jewellery; and (iv) Leather & Footwear. Accordingly, specific policy initiatives for these sectors have been announced in the various "Annual Supplements" to the FTP every year.

The growth performance of trade is a reflection of the trade policies of the Government. Initially, with restrictive trade policies India's share in world export declined continuously from 2.2% in 1948 to 0.42% in 1980. After implementation of a series of trade reform measures India's share in exports rose. Today India has a share of 2% of global trade(2014) In addition, diversification of exports to high growth locations in Asia, CIS countries, Africa and Latin America through special trading arrangements has given an added fillip to export growth.

Besides trade policy , another initiative of the government is to give a fillip to exports has been the introduction of Special Economic Zones (SEZs) .SEZ Act, 2005 .was intended to instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime. The main objectives of the SEZ Act are

- generation of additional economic activity
- promotion of exports of goods and services
- promotion of investment from domestic and foreign sources
- creation of employment opportunities
- development of infrastructure facilities

India's foreign trade 2013-14

India exports registered double-digit growth in the second half of 2013, lowering substantially the current account deficit (CAD), a big worry for the policymakers, and boosted hopes of revival in the economy.

Due to sluggishness in the global economy, notably Europe and the US, India's merchandise exports growth was mostly in the negative zone in the first half the year. However, since July it has **seen a significant turnaround** and registered a healthy double-digit growth, except in November, when the shipments were affected by strikes at ports. In July, exports jumped 11.64 per cent after declining by 4.56 per cent in the previous month year-on-year.

Growth surged to a two-year high of 13.47 per cent in October. A sharp depreciation in the value of the rupee during that time helped in growth in shipments, which helped the sluggish economy.

"Indian **exports is leading the economy** contributing to 70 per cent of the growth of GDP in the July-September quarter," Federation of Indian Export Organisation (FIEO) said.

The trade deficit, difference between exports and imports, declined to $6.8 billion in September from the high of $20.1 billion registered in May. For the first eight months of the current financial year, the deficit declined to $99.9 billion from $129.2 billion recorded in the corresponding period of last year. Deficit is expected to remain in the range of $140-150 billion for the financial year ending March 2014 as compared to $190.90 billion registered in the previous year. The first eight months of this fiscal has witnessed a nearly 23 per cent decline in the cumulative trade deficit, which will considerably ease the pressure on the current account deficit and in turn make the rupee more stable. The value of India's merchandise exports was $203.98 billion in the April-November period of 2013, compared to $191.95 billion in the corresponding period last year, registering a year-on-year growth of 6.27 per cent.

However, imports in the first eight months of the current fiscal declined by 5.39 per cent to $303.89 billion as compared to $321.19 billion recorded in the same period last year. The lower trade deficit has helped curb the current account deficit that had spiralled to a record high of $88.2 billion or 4.8 per cent of the country's GDP in the financial year ended March 2013.

The current account deficit dropped to $5.2 billion or 1.2 per cent of GDP in the July-September quarter of the current year, 75 per cent lower From $21 billion or five per cent of GDP, recorded in the corresponding quarter of last year.India's current account deficit is expected to come down to $40 billion or 2.2 per cent of the GDP in the financial year 2013-14.Imports have come down largely due to a series of steps taken by the government to lower gold and oil demands.

Services sector exports

Services sector in India has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows and FDI inflows. Services sector is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector.The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and business services, community, social and personal services come within the gambit of the service industry. One of the key service industry in India would be health and education. They are vital for the country's economic stability. A robust healthcare system helps to create a strong and diligent human capital, who in turn can contribute productively to the nation's growth.

The Services sector has matured considerably during the last few years and India has a distinctive role to play in services sector especially among the fast growing developing countries.

It is interesting to note that India's share of services exports in the world exports of services, which increased from 0.6 per cent in 1990 to 1.0 per cent in 2000 and further to 3.3 per cent in 2011, has been increasing faster than the share of merchandise exports in world exports. Services exports amounted to a meagre US$ 8.9 billion in 1997, but over the years services exports have grown substantially rising to US $ 110 billion in 2010. During April-July period of financial year 2013-14, the cumulative services receipt (exports) has amounted to US $50.93 billion.

Some of the salient features of the Services sector in India are:

- Contributes around 60% to the GDP of the country, 35% to employment, 25% to total trade, around 40% to exports, 20% to imports and accounts for more than 50% of FDI into the country.
- The Services sector in India has in general grown at a rate higher than the overall GDP growth rate. For the period 2001-11, services sector in India grew at a Compound Annual Growth Rate (CAGR) of 9.2% 1.
- The same story is reflected in the trade figures also. The export of services has been growing at a CAGR of 23.4per cent during 2000-01 to 2010-11 compared to the merchandise exports which grew at a CAGR of 18.6 per cent during the same period .

In 2012, India was amongst the top ten exporters and importers of commercial services with 3.4% share of world exports and 3.0% share of world imports. Despite such encouraging trends in India's services exports, it is generally observed that the exports basket of India's services sector is not well diversified, neither in terms of services categories nor the markets served. It must be noted that India has export potential in many of the skill-based and labour-based services. Besides software, tourism and travel related services and transport services, the services which are particularly important for India are: professional services, R & D services, consultancy services, printing and publishing services, telecommunication services, construction services, educational services, some financial services and entertainment services. Besides, India has a great potential to be an outsourcing destination for many of the above services.

Under the Foreign Trade Policy, 2009-14, services exporters are eligible for many sops: service exporters shall be entitled to duty credit equivalent to 10% of the foreign exchange earned by them in the current financial year.

Four awareness programmes were undertaken in 2011-12 -- one each in North, East, South and Western regions of the country, the Western regional programme would give special reference to entertainment and distribution sector, the South to education sector, East to environmental and health care service sector and North special reference to Hotel and Tourism related service sector.

Every sector was badly affected in the recession and only the services sector like food, travel and hospitality saw good growth and sustained the economies of many nations.

SEZs

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, Special Economic Zones Act, 2005, was made.

The main objectives of the SEZ Act are:

a) generation of additional economic activity.
b) promotion of exports of goods and services;
c) promotion of investment from domestic and foreign sources;
d) creation of employment opportunities;
e) development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

The SEZ Rules provide for:

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification

Incentives and facilities offered to the SEZs

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax(done away with)
- External commercial borrowing by SEZ units upto US $ 500 million in a year
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include:-

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act(done away with recently)
- Exemption from dividend distribution tax(done away with. Read ahead).
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act). 2013

The government will soon notify the Special Economic Zones (SEZ) reforms which seek to ease land requirement norms and provide for an exit policy. The government had announced these reforms in the supplementary Foreign Trade Policy (FTP).

Once a major attraction for investors, SEZs lost sheen following imposition of MAT (Minimum Alternate Tax) and DDT (Dividend Distribution Tax), besides the global slowdown.

The government had taken note of the fact that there are acute difficulties in aggregating large tracts of uncultivable land lying vacant, to set up SEZ.

For multiproduct SEZ, minimum land requirement has been brought down from 1,000 hectares to 500 hectares and for sector-specific SEZs, it has been brought down to 50 hectares.

Also, there would be no minimum land requirement for setting up IT\ITES SEZs, besides easing of minimum built up area criteria.

The 170 functional SEZs have attracted an investment of over Rs 2.36 lakh crore and exports from them totalled Rs 4.76 lakh crore in 2012-13, a growth of over 2,000 per cent over the 7 years period. So far, the government has notified about 390 SEZs in different parts of the country.

India's trade reforms since 1991

One of the major dimensions of the economic reforms undertaken since 1991 was globalizing Indian economy of which liberalization of foreign trade is a central aspect. The following reforms were made

- Devaluation of the currency in 1991 to boost exports
- Rupee convertibility on the trade account since 1992 to incentivize exporters
- Cutting down the peak customs duty that stood at above 300% in 1991 to 10% in 2009 to import goods and services primarily for facilitating exports
- Simplification of procedures
- SEZs
- FTAs/Cepa/Ceca/BTIA
- WTO-led schedule for global trade integration
- Incentives for exporters like interest rate subsidy(subvention) etc
- Sector specific packages
- diversification

The effect is that exports have registered remarkable growth; created employment; given the country adequate forex; made the economy competitive; brought in FDI etc.

Export promotion strategy

The target is to double the country's merchandise exports in dollar terms over the next three years (2011-12 to 2013-14) from US $ 246 billion in 2010-11 to US$ 500 billion in 2013-14.To realize this, exports have to grow at a compound average growth of 26.7 % per annum.

The overall strategy to realize this goal is :

Product Strategy

1. Build on our strength in sectors with great growth potential engineering goods basic chemical industries and organic and inorganic chemical industries pharmaceutical industry (including biotech) electronics
2. Promote light manufacturing exports with high value addition leather products and textiles
3. Encourage high employment generating sectors gems and jewellery agricultural products

Market Strategy
Focus on markets in Asia (including ASEAN), Africa and Latin America. Open up new vistas, both in terms of markets and new products in these new markets Retain presence and market share in our "old developed country markets"; Move up the value chain in providing products in these old developed country markets.

Technologies and R&D
Areas that hold out promise for high technology exports:

- Pharmaceuticals
- Electronics
- Automobiles
- Computer and software based smart engineering.
- Environmental products; green technology and high-value engineering products.
- High end areas in electronics, aerospace, and engineering products.

Building a Brand Image

- thrust for quality upgradation.
- expanded certification of export products encouraged, where needed.
- Brand India promotion campaign for key export products

Essential Support
Essential policy support needed to realize the ambitious export targets for 2013-14 and beyond is:

- Stable policy environment: Continuation of existing incentive schemes
- Preferential access to new markets: putting in place conducive trading arrangements
- Reduction in transaction costs: Implementation of recommendations of Task Force
- Substantial step up in overall Plan support
- Priority strengthening of trade related infrastructure

Non-Traditional Export Markets
The Government of India has identified non-traditional export markets under the Focus Market Scheme and Market Linked Focus Product Scheme in the Foreign Trade Policy. The details of these markets are as below:

1. Focus Market Scheme (FMS):
Under the FMS in the Foreign Trade Policy, fifty two (52) African countries, thirty one (31) Latin American countries, ten (10) Commonwealth of Independent States-Central African Republics, five (05) East European countries, eleven (11) Asia-Oceania block countries and one (01) Asian country have been notified for benefit on exports of all products.

2. Market Linked Focus Product Scheme (MLFPS):
Under the MLFPS in the Foreign Trade Policy, several non-traditional export markets in Africa, Middle East Asia, East Asia, Latin America, Central Asia such as Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Cambodia, Vietnam, Qatar, Singapore, Bahrain, Kuwait, Bangladesh, Philippines, Saudi Arabia, Iran, Korea PR, Japan and China have been notified for benefit on exports of select products. The list is expanded in the 2012 Supplement.

Agriculture

With about 14.5% contribution at 2004-05 prices, to the gross domestic product (GDP), agriculture provides livelihood support to about two-thirds of country's population. The sector provides employment to 57% of country's work force and is the single largest private sector occupation. Agriculture accounts for about 10% of the total export earnings and provides raw material to a large number of Industries (textiles, silk, sugar, rice, flour mills, milk products). Besides, the rural areas are the biggest markets for low-priced and middle-priced consumer goods, including consumer durables. It means, if agriculture performs, rural demand is high. Rural domestic savings are an important source of resource mobilisation.

The agriculture sector is crucial in maintaining food security and, in the process, national security as well. The allied sectors like horticulture, animal husbandry, dairy and fisheries, have an important in improving the overall economic conditions and health and nutrition of the rural people. Thus, any change in this sector, positive or negative, has a multiplier effect on the entire economy. India is the world's largest producer of milk, pulses, and spices, and has the world's largest cattle herd (buffaloes), as well as the largest area under wheat, rice and cotton. It is the second largest producer of rice, wheat, cotton, sugarcane, farmed fish, sheep & goat meat, fruit, vegetables and tea.

Recognising the crucial role played by the agriculture sector in enabling the widest dispersal of economic benefits, the Eleventh Plan has emphasised that agricultural development is central to equitable and fast economic development of country.

Considerable progress has been made on this front. Foodgrains production rose from 52 million tonnes in1951-52 to 259 million tonnes in 2013-14. The share of agriculture in real GDP has fallen given its lower growth rate relative to industry and services. However, what is of concern is that growth in the agricultural sector has quite often fallen short of the Plan targets. During the period 1960-61 to 2010-11, food grains production grew at a compounded annual growth rate (CAGR) of around 2 per cent. In fact, the Ninth and Tenth Five Year Plans witnessed agricultural sectoral growth rate of 2.44 per cent and 2.30 per cent respectively compared to 4.72 per cent during Eighth Five Year Plan. During the 11th Five Year plan, agriculture growth is estimated at 3.28 per cent against a target of 4 per cent. The Approach Paper to the Twelfth Five Year Plan emphasises the need to "redouble our efforts to ensure that 4.0 per cent average growth" is achieved during the Plan if not more.

Without incremental productivity gains and technology diffusion across regions, achieving this higher growth may not be feasible and has implications for the macroeconomic stability given the rising demand of the 1.2 billion people for food. Achieving minimum agricultural growth is a pre-requisite for inclusive growth, reduction of poverty levels, development of the rural economy and enhancing of farm incomes

Food deficit to food surplus

After remaining a food deficit country for about two decades after Independence, India has become self-sufficient in food grains.

From the mid 1960s , food security improved with the introduction of high yielding varieties (HYVs) of crops, and the development of agriculture infrastructure for irrigation, input supply, storage and marketing. The HYVs motivated farmers to adopt improved production technologies with the use of water, fertilisers and agrochemicals. Besides the public sector rural infrastructure, farmers developed their own 'onfarm' resources. The extension support for production technology and the marketing support through procurement operations encouraged farmers to step up production. The production of various crop commodities has increased substantially, over the various Plan periods.

Accounting for Success in Agriculture

The main factors for the all-round success of agriculture have been

- increase in net sown area
- expansion of irrigation facilities
- land reforms,especially consolidation of holdings
- development and introduction of high yielding seeds
- fertilizers
- improved implements and farm machines
- technology for pest management
- price policy based on MSP and procurement operations
- infrastructure for storage/cold storage
- improvements in trade system
- increase in investments, etc.

However, in spite of the spectacular achievements, various constraints and disturbing trends continue to hamper the requisite growth of the agriculture sector.

Foodgrain production 2012-13

India's foodgrains production was an all-time high of 252.56 million tonne in 2011-12.The country produced 244.78 million tonne in the previous year.

Rice production has been revised to a record 103.41 million tonne .Wheat output, too, has been pegged higher at 90.23 million tonne. However, the production figure of coarse cereals and pulses has been revised downwards to 41.91 million tonne and 17.02 million tonne, respectively.

In the 2010-11 crop year, rice production stood at 95.98 million tonne, wheat — 86.87 million tonne, pulses — 18.24 million tonne and coarse cereals — 43.68 million tonne.

Crisis and Challenge in Agriculture

One of the major challenges of the 12th Plan is to reverse the deceleration in agricultural growth from 3.2% observed between 1980 and 1996-97 to a trend average of less than 2% subsequently. This deceleration is the root cause of the problem of rural distress that has surfaced in many parts of the country- unemployment, underemployment, declining incomes, distress migration etc.

Low farm incomes due to inadequate productivity growth, high prices of inputs and lack of credit at reasonable rates pushed many farmers into crippling debt. Uncertainties have increased- prices, quality of inputs ,weather and pests which, coupled with unavailability of proper extension and risk insurance have led farmers to despair. This has also led to widespread distress migration, a rise in the number of female headed households in rural areas and a general increase in women's work burden and vulnerability.

To reverse this trend, corrective policies are being implemented under the 11th Plan- focused not only on the small and marginal farmers who continue to deserve special attention, but also on middle and large farmers who suffer from productivity stagnation arising from a variety of constraints. Bharat Nirman with irrigation component is an example.

It is vital to increase agricultural incomes for reasons of employment; equity; food security etc. A second green revolution is urgently needed to raise the growth rate of agricultural GDP to around 4% in an ever green way(ecologically friendly). This is not an easy task since actual growth of agricultural GDP, including forestry and fishing, was below 2% for the 10th Plan period. The challenge posed, therefore, is to at least double the rate of agricultural growth. The 12th plan Approach Paper(2012-17) targets 4% growth rate for agriculture.

Causes for low agricultural growth since mid-1990s

There are region-specific causes for the decelerating growth in the agriculture sector during the 1990s. Some of these are:

- Low public investment in irrigation.
- Poor maintenance of rural infrastructure, specially canals and roads.
- Decline in investments in rural electrification and in its availability. This has greatly affected production in eastern India, where huge groundwater potential remains untapped.
- Rising level of subsidies for power, water, fertilisers and food are eroding public sector investments in agriculture, besides encouraging inefficient use of scarce resources such as water. This further aggravates environmental problems leading to loss of soil fertility and decline in groundwater, which reduces returns on capital. Farmers then demand further subsidies to maintain the same level of production.
- Inadequate credit support till 2004
- Distortions brought in marketing mechanism
- Continuing imbalanced use of NP &K fertilisers, (6.4:2.5:1) as against the desirable norm of 4:2:1 and increasing deficiency of micro nutrients in the soil.
- Stringent controls on movement, marketing, credit, stock and export of agri-products that affect their profitability.
- Controls on the agro-processing industry.
- Poor extension service.

Remedies

In recent years, several new initiatives have been taken which included :

- Announcement of National Policy for Farmers (2007).
- Kisan Credit Card (1998-1999).
- Creation of a Watershed Development Fund
- Bharat Nirman

- National Horticulture Mission.
- Technology Mission on Cotton (1999-2000).
- Implementation of the National Agriculture Insurance Scheme/Rashtriya Krishi Bima Yojana .
- programmes for elimination of post-harvest losses
- Lifting some of the restrictions and controls on the movement and storage and exports of foodgrains/agri produce.
- De-reservation of the manufacture of some farm implements/machines from the smallscale industries sector
- Vishesh Krishi Upaj Yojana: The objective of the scheme is to promote export of fruits, vegetables, flowers, minor forest produce, and their value added products, by incentivizing exporters of such products. Exporters of such products shall be entitled for duty rebates.
- AEZs
- Contract farming
- Loan waiver to revive farming
- NRAA was set up in 2006(read ahead)
- Nutrient based fertilizer subsidy (2008-09)

11th Plan and Agriculture: Some areas

Accelerating Agricultural Growth

The crisis of stagnation in agriculture needs urgent attention. As pointed out by the National Commission on Farmers, we need a new deal that rebuilds hope about farming by making it a viable and profit-making enterprise. This involves finding larger public resources.

Concerns

Initially, public sector investment played a crucial role in the development of infrastructure like irrigation, electricity, agriculture research, roads, markets and communications. Investment in agriculture declined in the last three five year plans This decline was due to a fall in public investment. This calls for a review of policies so that productive investment is made in capital formation. Diversion of scarce resources from creation of productive assets - rural electricity, irrigation, credit and other agricultural inputs to subsidies needs to be resisted. The declining trend in public sector investment will need to be reversed by better targeting of subsidies. Following are the concerns:

Firstly, the share of agriculture in GDP has declined from 61 per cent in 1950-51 to 17 per cent (2009), whereas the dependence of population on agriculture has declined only marginally from 3/4ths to 2/3rds during the period. In all the developed countries, there has been a major shift of population from agriculture as an occupation to other sectors. However, this has not happened in India.

Secondly, the average size of holdings has reduced from 2.28 ha in 1970-71 to less than 1 ha in 2009 with the pressure on land increasing proportionately . Small plots do not permit introduction of modern technology due to high costs.

Thirdly, during the 1990s, foodgrains production growth rate and productivity growth rate declined: the growth rate of foodgrains production declined to 1.92 per cent per annum from 3.54 per cent per annum during 1980s. Similarly the growth rate of productivity in food grains decelerated to 1.32 per cent per cent as compared to 3.33 per cent per annum during the 1980s. The per unit area productivity of our crop commodities is much lower as compared to that of the other major crop producing countries . There is also a wide gap in the yield levels among and within States.

Fourthly, during the 1990s, the policy of various States has been to increase production through subsidies on inputs such as power, water and fertilisers, rather than by building new capital assets in irrigation and power. These problems are particularly severe in the poorer states. Lower public investment and deteriorating quality of public services in agriculture are the major problems. The poor base of rural productive assets and poorer technological base because of past public/private patterns of spending has been recognised as a serious constraint in increasing production and productivity.

11th Plan strategy to raise agricultural output is based on the following elements:

- Double the rate of growth of irrigated area;
- Improve water management, rain water harvesting and watershed
- development;
- Reclaim degraded land and focus on soil quality;
- Bridge the knowledge gap through effective extension;
- Diversify into high value outputs, fruits, vegetables, flowers, herbs and
- spices, medicinal plants, bamboo, bio-diesel etc., but with adequate measures to ensure food security;
- Promote animal husbandry and fishery;
- Provide easy access to credit at affordable rates;
- Improve the incentive structure and functioning of markets;
- Refocus on land reforms issues.

Boosting agricultural productivity by making available institutional credit adequately and affordably, support for investments in land development structures, farm mechanisation, biotechnology, cold storages, value adding enterprises and marketing to improve productivity and profitability in
Agriculture is the need of the hour.

12th FYP and agriculture

The Planning Commission set annual agriculture growth target for the 12th Five Year Plan (2012-17) at 4 per cent as it was in the previous two plans.

During the 11th five year plan (2007-12) average farm growth of about 3.5 per cent was achieved ."The investment in farm research should be 2 per cent of agriculture gross domestic product (GDP) which ranges from 0.5-0.6 per cent at present.

12th Plan expressed concerns over relatively lower agriculture yields in India compared to the developed world.Production could be increased by reducing knowledge deficit.

The farm growth is crucial in the back drop of high food prices in the country. The performance of the farm sector was dismal in the previous fiscal as the growth was just 0.2 per cent against the annual average target of 4 per cent in the 11th Plan (2007-12), on account of widespread drought.

The annual average farm growth during the 10th Plan (2002-07) also missed the 4 per cent target, and grew instead at the rate of 2.13 per cent.

The annual average farm growth which was 4.72 per cent in 8th Plan (1992-97), slowed down to 2.44 in 9th Plan and further to 2.13 per cent in 10th Plan period.

Capital Formation in Indian Agriculture

Capital formation is one of the basic factors for increasing production. It means addition to the physical stock of dams, roads, power plants and other infrastructure. This is all the more important in agriculture where we are faced with the need of increasing production against vagaries of weather to keep pace with the increase in population. Judicious use of natural resources for sustainable production of agriculture, adoption of advanced technology and development of infrastructure for facilitating all agricultural activities, ensuring food security in the broader sense of making adequate nutritious food available and accessible to all and making agriculture a profitable commercial activity at par with other industries in the arena of global economy are the problems that can be successfully tackled only with a strong capital base.

It is necessary to have a broader measure of agricultural capital formation which can be called **capital formation for agriculture** in comparison with **capital formation in agriculture.** That is, rural roads, powers etc should also be considered capital formation for agricultural growth while they may not be directly related to agriculture.

As agriculture is getting diversified, there is a need to not only augment but also re-structure the pattern of investment in agriculture. Historically, the public sector has taken the lead in directing the growth and pattern of agriculture investment. Steps should be taken to improve capital formation for agriculture in both Public and Private Sectors. Otherwise, it may be difficult to sustain the agriculture growth and rural purchasing power. Currently, irrigation accounts for the bulk of public investment in agriculture (above 90%).

The new strategy of agriculture growth and diversification of agriculture from traditional crop cultivation to horticulture etc. would require more investments on cold storage, rural roads, communication, marketing network and facilities, warehouses etc.

Simultaneously efforts should be made to revitalize agriculture through introduction of bio-technology and other innovations. This would require substantial increase in investment on research & development for agriculture.

Recent steps are showing positive results: gross capital formation in agriculture as a proportion of agriculture GDP improved.

The Gross Capital Formation (GCF) in the agriculture and allied sectors in the country rose by 87 per cent to Rs 1,42,254 crore in the 2010-11 fiscal as compared to 2004-

05.Capital investment in agriculture and allied sectors has witnessed a steady increasing trend in recent years. It has risen from 13.5 per cent of GDP in 2004-05 to 20.1 per cent in 2010-11.

This growth has been possible because of initiatives taken by the government to make agriculture a sustainable vocation- Bharat Nirman is responsible for the good performance. **Bharat Nirman** is the plan for creating basic rural infrastructure. It comprises projects on irrigation, roads (Pradhan Mantri Gram Sadak Yojana), housing (Indira Awaas Yojana), water supply, electrification (Rajiv Gandhi Grameen Vidyutikaran Yojana) and telecommunication connectivity..

Investment in public sector includes irrigation works, command area development, land reclamation, afforestation and development of state farms, it added.

Private sector investment includes construction activities including improvement / reclamation of land, construction of non-residential buildings, farm houses, wells and other irrigation works, it said.

The share of public investment in gross investment increased.
Efforts are being intensified to boost investment in agriculture .These programmes are likely to increase capital formation in agriculture by the public sector and induce the private sector to increase investment in agriculture. The improved availability of credit for agriculture and liberalized trade for agricultural products should enhance private investment in agriculture.

Government stepped up public investment significantly for rural roads and rural employment programmes. Major measures taken for agricultural development through enhanced capital formation include the following:

- A roadmap for agricultural diversification has been prepared with focus on horticulture, floriculture, animal husbandry and fisheries.
- Strengthening of agriculture marketing infrastructure.
- National scheme for the repair, renovation and restoration of water bodies.
- Focus on micro irrigation, micro finance, micro-insurance and rural credits.
- Setting up a Knowledge Centre in every village.
- Setting up a National Fund for strategic agricultural research.
- Provision of urban amenities in rural areas through creation of new growth poles
- New fertilizer subsidy regime that is nutrient based so as to fortify soil
- Bharat Nirman
- Pradhan Mantri Gram Sadak Yojana
- Loan waiver also will enable fresh investment as farmers become eligible for loans again due to write off.

Sustainable Agriculture: Water Management and Irrigation

Sustainable development of land and water resources becomes important for the nation like India, which shares about 16 per cent of the global population but has only 2.4 per cent of the total land and 4 per cent of the total water resource. Scarcity of water in rainfed areas is causing serious hardships. Ground water resources are dwindling fast due to poor water harvesting leading to excessive run off and poor recharging of ground water. This is accompanied by excessive drawal/ exploitation mainly to meet the household needs of growing population as also irrigation needs of new high yielding crops. The number of dark blocks/mandals where there is over exploitation of groundwater (over 85 per cent) is increasing in most of the States with large rainfed areas (Andhra Pradesh, Karnataka, Rajasthan, Madhya Pradesh, Chattisgarh etc.). If this continues, the number of over exploited blocks will double over a period of every twelve and a half years.

Water is a critical input for agriculture and this calls for more effective utilization of existing irrigation potential, expansion of irrigation where it is possible at an economic cost, flood forecasting and better water management in rainfed areas where assured irrigation is not possible. The Bharat Nirman programme envisages creation of 10 million hectares additional assured irrigation during the 4 years period (2005-2009).

Along with expansion of irrigation facilities, steps need to be taken to ensure that water is distributed equitably and that it is used efficiently. The pattern observed in the past where tail-enders are denied water because upper end-users appropriate it for highly water intensive crops must be avoided. Participatory Irrigation Management (PIM) by democratically organised water user associations empowered to set water charges, collect and retain substantial part of it, would help to maintain field channels, expand irrigated area, distribute water equitably and provide the tail enders their just share of water. Experience in Andhra Pradesh and Gujarat has shown the effectiveness of such PIM.

Watershed management, rainwater harvesting and ground water recharge can help augment water availability in rainfed areas. Micro-irrigation is also important to improve water use efficiency.

Warabandi

Warabandi means fixing of turns for irrigation water for each farmer so as to make it available to its potential users, i.e. farmers. It aims at use of water judiciously and equitably.

Soil Health

Soil health is a critical factor for agricultural productivity and human health. The following steps are being taken to improve it.

Government will issue Soil Health Cards to all farmers in the country detailing the deficiencies in the soil and the amount of fertilizers needed, Soil Health Cards would give farmers information about the quality of the soil and what is the normal quantity of fertilizer to be used for a particular crop. For this, setting up of 500 new soil testing laboratories and 250 new mobile soil testing laboratories had been sanctioned in the Budget for 2008-09.

Studies have found that over-dose and injudicious use of conventional chemical fertilizers and pesticides affect soil fertility, vegetation, human and animal health. The government is also encouraging use of organic fertilizer and wormicompost as overdose of conventional fertilizers has been found to affect fertility of the soil in many places. Land under organic farming has increased from 42,000 hectares in 2003-04 to 464,000 hectares currently.

The introduction of nutrient based fertilizer subsidy will enhance soil health as it will be demand driven and not price driven.

Soil reclamation

It is necessary to offset the loss of agricultural land by bringing more land under cultivation. There is a large amount of degraded land that can be reclaimed through watershed development. There is also a considerable amount of saline and sodic land, which can be brought back to cultivation with treatment. It is being done by making many government programmes including MNAREGA. Vast areas of cultivated land are acidic, where significant yield increases are possible through treatment using waste material from industry. There is sulphur deficiency in large parts of the country, but this can be treated effectively, particularly for pulses and oilseeds. More generally, Indian soils are relatively deficient in organic matter and are suffering inadequate manuring and composting, aggravated in many regions by unbalanced use of chemical fertilisers, especially excessive application of nitrogen. This raises prospects of large yield increases by applying nutrients, including micronutrients, that have been seriously depleted.

The NBS based fertilizer subsidy can restore soil fertility.

Extension services

The National Commission on Farmers (NCF) has drawn attention to the knowledge deficit that exists at present and explains much of the difference between yields realised in experiments and what farmers actually get. One reason for this is the virtual collapse of extension services in most states,.Farmers are not fully aware of the adverse consequences of unbalanced fertiliser use or of benefits of micronutrient application and soil testing to determine optimal nutrient requirements is hardly practised on a regular basis even by State Agriculture Departments. Similarly, although many new varieties of seeds and pesticides have entered the market during the last decade and farmers are using these, they do not appear to have significantly higher productivity and there are frequent complaints about quality. A problem is that input dealers, who have narrow commercial interests have emerged as the main vehicle for technology diffusion and farmers do not have access to reliable third-party advice which an effective and knowledgeable extension service should be able to provide. Lack of credit also pushes farmers to purchase inputs from local suppliers who often provide sub-standard inputs.

To overcome information gaps and for advice in contingencies such as pest-attacks, it is necessary to revitalise the extension system in a manner which links universities and best practices effectively to farmers. States need to take urgent steps in this area. Central initiatives on this also need to be strengthened. Krishi Vigyan Kendras set up by Indian Council of Agricultural Research (ICAR), can be better used. Agricultural Technology Management Agency (ATMA) model of extension being promoted by Department of Agriculture & Cooperation (DAC) will deliver results.

The Department of Agriculture and Cooperation, along with NABARD, has introduced a scheme for establishment of agri-clinics / agri-business centres / ventures by the agricultural graduates.

The ICAR is also associated in agriculture extension activities not only through KVKs but also Institute Village Linkage Programme (IVLP) and also its institutes / centres all over the country. The interaction of KVKs activities with the State / district extension machinery is being strengthened. It is planned to strengthen linkages between research and extension to improve quality and effectiveness of research and extension system. The extension system , thus, is being revitalised and broad based through KVKs, NGOs, farmers' organisations, cooperatives, the corporatesector and agri-clinics / agri-business centres. KVKs and ICAR/SAUs units are designated nodal agencies for quality certification including organic products, bio-fertilisers, and bio-pesticides. The supply of inputs, agro-processing and trade through such cooperatives / companies is encouraged through the availability of credit with the help of NABARD.

The NFC has suggested ways to synergise at the village level, for example through Farmer Knowledge Centres, and this is already being implemented in some places with PRI and NGO help. Since synergies across line departments and Centrally sponsored schemes can be derived best through district plans, the Planning Commission and Ministry of Panchayati Raj have begun strengthening the process of district planning. The recent MoA initiative to set up technical bodies such as the National Fisheries Board and the National Rainfed Areas Authority should help to improve synergy.

Agri clinic and agri business centre

The Ministry of Agriculture, Government of India, in association with NABARD has launched a unique programme to take better methods of farming to each and every farmer across the country.This programme aims to tap the expertise available in the large pool of Agriculture Graduates. AgriClinic offers professional extension services to innumerable farmers.

Government is now also providing start-up training to graduates in Agriculture, or any subject allied to Agriculture like Horticulture, Sericulture, Veterinary Sciences, Forestry, Dairy, Poultry Farming, and Fisheries, etc. Those completing the training can apply for special start-up loans for venture

Agribusiness Centres would provide paid services for enhancement of agriculture production and income of farmers. Centres would need to advise farmers on crop selection, best farm practices, post-harvest value-added options, key agricultural information (including perhaps even Internet-based weather forecast), price trends, market news, risk mitigation and crop insurance, credit and input access, as well as critical sanitary and phyto-sanitary considerations, which the farmers have to keep in mind.

Farmers could make use of the clinic to undertake soil testing and get professional counsel.The programme was started in 2002 as a supplement to government's extension services.

ITC's e-choupal is another development in the field of strengthening extension services.

SFAC

Small Farmers' Agribusiness Consortium (SFAC), a specialized agency of the Dept. of Agriculture & Cooperation, Govt. of India, supports entrepreneurs, farmer producer groups, cooperatives, companies and other entities to set up agribusiness enterprises which add value to agriculture produce by offering risk capital through its Venture Capital Assistance Scheme.

Rainfed agriculture

The ministry of agriculture classifies areas, which receive less than 750 mm rainfall annually, and have less than 30 per cent land under irrigation (both surface and ground water) as drylands.

Rainfed regions are those where crop production is exclusively dependent upon rainfall. In India rainfed regions cover 177 districts and exist in all agro-climatic zones. However, they are mostly concentrated in arid and semi-arid areas. Most of these districts are country's poorest. Rainfed regions account for 68 per cent of the total net sown area in the country, according to the Union Ministry of Agriculture.

Rainfed agriculture plays an important role in India's economy. Rainfed crops account for 48 per cent of the total area under food crops and 68 per cent of the area under non-food crops in the country.

Nearly 50 per cent of the total rural workforce and 60 per cent of the livestock in the country are concentrated in the dry districts.

As opportunities for further agricultural growth in irrigated regions get exhausted, food security and productivity growth in agriculture in India in the coming years will increasingly depend on improved utilisation of resources and productivity growth in rainfed regions.

Most agricultural lands in rainfed areas in Orissa, West Bengal, Bihar and Chhattisgarh suffer from sulphur and phosphorous deficiency. Thus soil has become acidic in nature. These areas need interventions from agriculture scientists in dealing with the crisis.

Promotion of appropriate cropping patterns and livestock development is necessary. Development of suitable varieties and lab to land transfer is required.

Region specific watershed programmes need to be developed.

There is a need to divert a portion of the population dependent on agriculture to areas like fisheries, agro-processing and horticulture.Fisheries have a lot of potential in areas, which get good rainfall. It is quite clear that agriculture cannot sustain such a large mass of people in rainfed areas. The policy towards rainfed areas has to look beyond crop production and rainwater management.

National Rainfed Area Authority

National Rainfed Area Authority was set up in 2006 to coordinate the work of five ministries and improve productivity of the 85 million hectares of non-irrigated agricultural land- panchayati raj, rural development, agriculture, water resources and environment and forests. NRAA works under the agriculture ministry

NRAA aims to build synergy among these ministries on their schemes, programmes and policies that are relevant to non-irrigated lands. It works for wholistic and integrated development of the rainfed areas.

The NRAA would prepare a national prospective plan, which would look at regional variations. The plan would be flexible and dynamic.

Drought

Droughts is of the following three types

Meteorological drought is when the actual rainfall in an area is significantly less than the climatological mean of that area. The country as a whole may have a normal monsoon, but different meteorological districts and sub-divisions can have below normal rainfall.

India Meteorological Department (IMD) defines a rainfall range between 96 and 104 per cent of the LPA as being "near normal", while 90 to 96 per cent is considered "below normal", 104 to 110 per cent "above normal", above 110 per cent "excess" and below 90 per cent "deficient".

Hydrological drought means marked depletion of surface water causing very low stream flow and drying of lakes, rivers and reservoirs.

Agricultural drought means inadequate soil moisture resulting in acute crop stress and fall in agricultural productivity.

Droughts can throw out of gear the rural and national economy. Cattle, human beings and crops suffer a water shortage.

Drought occurs mainly due to failure of monsoon.

With wide variations in agro-climatic zones, drought occurs somewhere in India each year. While parts of Rajasthan and Andhra's Anantpur and Chittoor districts see two droughts in five years, western UP and northern Gujarat face it once in three years. Maharashtra alone has about a quarter of India's drought-prone districts. About 50 million Indians are affected every year.

Climate change is accelerating drought attacks. There were six between 1900 and 1950 and 12 in the following 50 years. We have already faced three droughts between 2000 and 2009.

There is an official checklist of symptoms to diagnose drought.. The early warning signs include delay in onset of SW monsoon, long 'break' within a monsoon, less rain in July, rise in fodder prices, fall in water reservoir levels, dwindling water supply, slower crop sowing.

Initially, government advises farmers to grow less water-seeking crops, increase fodder supply, and keep the Centre's National Crisis Management Committee (NCMC) informed.

It becomes an emergency when there is virtually no rain during the sowing period; monsoon withdraws mid-season; and a dry spell for more than a month. The deficit in rainfall by now grows and could be as much as 40% and crops start to wilt with no water and excessive heat.

The problem becomes acute and gets classified as a potential disaster when there is no rain for more than six weeks in a crop area, and the monsoon withdraws early, leaving behind parched land and people.

If 20%-40% of India's area is affected , it is called a drought year. If more than 40% of the country is reeling from rainfall shortage, the met department calls it an All India Severe Drought Year.

The primary responsibility of catching the early signs, offering relief and managing droughts lies with states.

The situation may warrant loan rescheduling , insurance premium waivers, and relief from the Centre. The state's budget can come under severe strain.

Once a drought is declared, Central government starts considering deferring/rescheduling farm loans, moving water and fodder by rail, hiking food allocation to poor families, creating more jobs, importing foodgrains to meet likely demand-supply gap, and check inflation.

A ministerial task force is set up to take rapid decisions. Drought-declared states are monitored individually and more carefully by the Centre. The Essential Commodities Act is used to prevent hoarding, and states get money for relief programmes.

Landless labourers and marginal farmers move to cities in search of casual jobs. Families with loans from moneylenders get further entrapped in poverty. Health suffers and schooling is disrupted as money dwindles. The impact on cities is by way of migration stress; declining farm growth pulls down industry, urban goods and services.

Proper water management, drought-resistant agriculture, income diversification, smarter subsidies and technology can ensure no one is left devastated by it anymore.

Drought-resistant varieties of seeds should be made available sufficiently.

Remedies lie in the form of better water management; sprinkler irrigation;drought resistant varieties of seeds; creation of irrigation; better credit facilities; shifting to dairy and other animal husbandry activities.

Contingency plan 2012

According to India Meteorological Department data, rains in the country are deficient by 21 per cent as of the beginning of August 2012.Sowing area of total kharif crops has declined by 10 per cent so far at 66.82 million hectare. Coarse cereals is worst affected with 23 per cent shortfall, followed by pulses (18 per cent), paddy (9 per cent) and cotton (7 per cent).

Government prepared contingency plans for 320 districts where monsoon rains have been poor. The plan has been prepared by the Central Research Institute for Dryland Agriculture (CRIDA), Hyderabad.

Among various measures being taken to tackle the drought-like situation, the Centre is providing knowledge input twice a week from ICAR besides seeds for alternate crop.
The government is also trying to provide states with additional electricity to draw water from tubewells.

Centre has sanctioned 300 mega watt (MW) of power to Punjab and Haryana and about 275 MW for Uttar Pradesh for the purpose.

Centre has taken decisions to introduce diesel subsidy scheme, hike seed subsidy and release funds under National Rural Drinking Water Programme (NRDWP) and Integrated Watershed Management Programme.

A new Calamity
Since 2012, , damage to crops due to cold wave/frost will be eligible for central and state assistance following the government's decision to consider such weather condition as natural calamity.At present, cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst and pest attack are treated as natural calamities and are eligible for relief under the State Disaster Response Fund (SDRF) and National Disaster Response Fund (NDRF).

The proposal was taken by the GoM on requests from the chief minister of Madhya Pradesh, which faced damage to rabi crops like wheat and pulses last year due to extreme cold conditions..

NDRF and SDRF
Government has created State Disaster Response Fund (SDRF)/National Disaster Response Fund (NDRF) to mitigate hardships due to natural calamities including drought. There is ready availability of funds with State Governments under SDRF to take immediate relief measures. Government of India supplements efforts of State Governments with financial assistance and logistic support. Government of India and State Governments contribute to SDRF in ratio of 3:1 for 17 General Category States and 9:1 in case of 11 Special Category States covering North-Eastern States including Sikkim and 3 hill States of Himachal Pradesh, Uttarakhand and Jammu & Kashmir.

Additional financial assistance, over and above SDRF, is considered from NDRF for natural calamities of severe nature. Allocation for SDRF/NDRF is made on the basis of recommendations of the 13th Finance Commission.

UN and drought
WMO, UN weather agency says that there's an urgent need for nations to adopt drought-management policies as farmers from Africa to India struggle with lack of rainfall and the United States endures the worst drought it has experienced in decades.

The World Meteorological Organization says the US drought and its ripple effects on global food markets show the need for policies with more water conservation and less consumption.WMO Secretary-General Michel Jarraud said the world must "move away from a piecemeal, crisis-driven approach and develop integrated risk-based national drought policies" because of climate change projections for more drought.

WMO

The **World Meteorological Organization (WMO)** is an intergovernmental organization with a membership of 189 Member States and is a specialised agency of the United Nations for meteorology (weather and climate), operational hydrology and related geophysical sciences. It has its headquarters in Geneva, Switzerland, and is a member of the United Nations Development Group..

As weather, climate and the water cycle know no national boundaries, international cooperation at a global scale is essential for the development of meteorology and operational hydrology as well as to reap the benefits from their application. WMO provides the framework for such international cooperation.

Since its establishment, WMO has played a unique and powerful role in contributing to the safety and welfare of humanity. Under WMO leadership and within the framework of WMO programs. National Meteorological and Hydrological Services contribute substantially to the protection of life and property against natural disasters, to safeguarding the environment and to enhancing the economic and social well-being of all sectors of society in areas such as food security, water resources and transport.

Rural credit

Nabard

The National Bank for Agricultural and Rural Development (Nabard) was set up in 1982, as the apex development bank for agriculture and rural development under an Act of Parliament. The bank began by taking over the agriculture credit functions of the Reserve Bank of India and the refinance functions of the then Agricultural Refinance and Development Corporation (ARDC).

Nabard's mission is to "promote sustainable and equitable prosperity in rural India through effective credit support, related services, institution development and other innovative initiatives." Its prime function continues to be that of refinancing, supplementing the resources of co-operative banks, regional rural banks (RRBs) and commercial banks against the amounts lent at the grassroots level for agriculture and rural development.
Apart from its developmental role, Nabard has also been entrusted with certain supervisory functions in respect of co-operative banks and RRBs under the Banking Regulation Act, 1949.

Nabard is now a major shareholder in the Agricultural Insurance Corporation of India. It also has equity stake in NCDX (National Commodity and Derivatives Exchange) in association with other national-level institutions such as ICICI Bank, the LIC and the NSE (National Stock Exchange).

Promoting self-help groups reflects Nabard's capabilities in capacity-building and nurturing the rural credit delivery system.

Nabard manages RIDF.

RIDF is made up of the priority sector shortfalls of public sector commercial banks, which were assigned the task of channelling at least 18 per cent of their total lending to agriculture.

The fund was set up in 1995-96 for providing loans to State governments and state-owned corporations for projects relating to minor and medium irrigation, soil conservation, watershed management and rural infrastructure (such as roads, bridges and market yards). Investment projects under social infrastructure, such as construction of primary health centres/schools, providing drinking water, and so on, were also supported under the RIDF. (Read ahead)

Rural credit institutions
They comprise cooperative banks, RRBs and LABs.

Co-operative credit structure
Co-operative credit institutions continue to play a crucial role in dispensation of credit for agriculture and rural development.

She short-term credit structure is managed by State co-operative banks (SCBs) and district central co-operative banks (DCCBs). Primary agricultural credit societies (PACSs) are short-term co-operative credit institutions dealing directly with individual borrowers.
The long-term co-operative credit structure is managed by State co-operative and agriculture rural development banks (SCARDBs) and primary co-operative agriculture and rural development banks (PCARDBs).

RRBs
Regional rural banks were set up in 1975 under an Act of Parliament to exclusively cater to the credit needs of the rural population, especially small and marginal farmers. The ownership structure of RRBs is, the Central Government (50 per cent), the State government concerned (15 per cent) and the sponsor commercial bank (35 per cent). The sponsor bank manages the RRB concerned.

At present, the 86 RRBs in the country are sponsored by 26 PSU banks . RRBs have a strong branch network across the country and the branches are located in 588 out of the 622 districts of the country.Since 2005, the Union Government has taken up a process for consolidation through amalgamation of different RRBs in a particular state sponsored by the same bank. As a result of this process of consolidation , the number of RRBs in the country had reduced from 156 to 82.

There are 11.55 crore farmer households in the country, of which, 9.27 crore belong to small and marginal farmers. Institutional rural credit is accessible to only around 50 per cent of these farmers.

Local area banks
LABs were started in 1996 with a view to providing institutional mechanisms for promoting rural savings as well as for the provision of credit for viable economic activities in the local areas. They are in the private sector. This is expected to bridge the gaps in credit availability and enhance the institutional credit framework in the rural and semi-urban area.

The bank shall be registered as a public limited company under the Companies Act, 1956. It will be licensed under the Banking Regulation Act, 1949 and will be eligible for including in the Second Schedule of the Reserve Bank of India Act, 1934.

The minimum paid up capital for such a bank shall be Rs.5 crore. The promoters' contribution for such a bank shall at least be Rs.2 crore.

The area of operation of the proposed bank shall be a maximum of three geographically contiguous districts in one or more states. Backward and less developed districts are considered for area of operation of LABs.

Priority sector
The Government of India through Reserve Bank of India (RBI) directs certain type of lending from the Banks operating in India irrespective of their origin. RBI sets targets in terms of percentage (of total money lent by the Bank) to be lent to certain sectors, which would not have had access to organised lending market or could not afford to pay the interest at the commercial rate. This type of lending is called Priority Sector Lending. Financing of Small Scale Industry, Small business, Agricultural Activities and Export activities fall under this category. This is also called directed credit 40% of net bank credit should be for the priority sector and of the 40%, 18% should be for the agriculture.22% is for the non-agri sectors.Rate of interest charged on such loans is less. The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are given 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

(NBC denotes net bank credit)

Direct Agricultural advance means advances given by banks directly to farmers for agricultural purposes. These include short-term loans for raising crops i.e. for crop loans.

Indirect finance denotes to finance provided by banks to farmers indirectly, i.e., through other agencies. For example, credit for financing the distribution of fertilisers, pesticides, seeds, etc.The weaker sections under priority sector include small (1-2 hectares)and marginal farmers(upto 1 hectare) landless labourers, tenant farmers and share croppers;beneficiaries of Differential Rate of Interest (DRI) scheme where loans are given at 4% interest rate. It is an example of financial inclusion.

(Read along with the Nair Committee recommendations and the RBI policy changes in July 2012 as given in the Chapter on Banking)

RIDF

RIDF was introduced by Government of India during the year 1995-96 for implementation and timely completion of various rural oriented schemes/ projects in the States which were languishing for shortage of funds. The fund is placed with NABARD for providing loan assistance to the State. It is composed of priority sector shortfalls of public sector banks, as mentioned above.

In the Union Budget 2013-14, allocation under RIDF enhanced to Rs 20,000 crore. Rs 5,000 crore earmarked exclusively for creating warehousing facilities.

Nabard and SHGs

A pioneer in the self-help group (SHG)-bank linkage concept, Nabard has brought banking to the doorsteps of the poor people, especially the women.

SHGs represent a unique approach to financial intermediation. Self Help Groups (SHGs) are small groups of 10-20 members. These groups collect savings from their members and provide loans to them. These groups also obtain loans from banks and on-lend them to their members. SHGs are formed and supported usually by NGOs or banks or by Government agencies. Linked not only to banks but also to wider development programmes, SHGs are seen to confer many benefits, both economic and social. SHGs enable women to grow their savings and to access the credit which banks are increasingly willing to lend. SHGs can also be community platforms from which women become active in village affairs, stand for local election or take action to address social or community issues (the abuse of women, alcohol, the dowry system, schools, water supply).

Being made up mostly of women, their default rate is negligible. Group lending ensures peer pressure to repay. Transaction costs are also dramatically reduced. With extension services and counseling, deployment of funds is effective.

Microfinance

Microfinance is defined as provision of credit and other financial services like insurance of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro finance Institutions are those which provide these facilities.

Microfinance covers not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements.

A Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis.

While the SHG-bank linkage programme has surely emerged as the dominant micro finance dispensation model in India, other models too have evolved as significant micro finance channels.

Government allows 'Micro Credit/Rural Credit' (non-banking financial company, NBFC) activities for Foreign Direct Investment (FDI)/Overseas Corporate Bodies (OCB)/Non-Resident Indians (NRI) investment to encourage foreign participation in micro credit projects.

Types of micro credit providers in India

- Domestic Commercial Banks:Public Sector Banks; Private Sector Banks & Local Area Banks
- Regional Rural Banks
- Co-operative Banks
- Co-operative Societies
- Registered NBFCs
- Unregistered NBFCs
- Other providers like Societies, Trusts, etc.

In the area of microfinance, there are many areas of concern in India. They are
a) unjustified high rates of interest
b) lack of transparency in interest rates and other charges.
c) multiple lending
d) upfront collection of security deposits
e) over-borrowing
f) ghost borrowers
g) coercive methods of recovery

Malegam Committee

Aimed at reviving the crisis- ridden micro finance sector, Reserve Bank of India Committee suggested that micro finance institutions (MFIs) be allowed to charge a maximum interest of 24 per cent on small loans which cannot exceed Rs.25,000.

The committee, headed by Reserve Bank's Central Board Director Y. H. Malegam, also recommended creation of a separate category of non-banking financial companies (NBFC-MFI) for the micro finance sector.

The panel also said small loans of up to Rs.25,000 could be given to families having an income up to Rs.50,000 per annum.

It further said at least 75 per cent of loans extended by MFIs should be for income generation purposes. It further recommended that a borrower cannot take loans from more than two MFIs.

These recommendations, the committee said, should be implemented from April 1, 2011. The RBI constituted the committee in October last in the wake of allegations of overcharging and using coercive recovery practices by MFIs that led to a spate of suicides in Andhra Pradesh.

About the regulations of MFIs, the Malegam Committee, suggested that it should be done by the National Bank for Agriculture and Rural Development (NABARD) in close coordination with the RBI.

With regard to NBFC-MFIs, the committee suggested that they should have a minimum net worth of Rs.15 crore.

It recommended that bank lending to NBFCs, which qualify as NBFC-MFIs, will be entitled to the 'priority lending' status.
It has made a number of recommendations to mitigate the problems of multiple-lending, over borrowing, ghost borrowers and coercive methods of recovery. These include: a borrower can be a member of only one self-help group or a joint liability group(where money is lent to the whole group, it is called JLG); not more than two MFIs can lend to a single borrower; there should be a minimum period of moratorium between the disbursement of loan and the commencement of recovery; the tenure of the loan must vary with its amount; a credit information bureau has to be established; the primary responsibility for avoidance of coercive methods of recovery must lie with the MFI and its management; and the RBI must prepare a draft customer protection code to be adopted by all MFIs.

NBFC-MFI (given elsewhere in the material)

National Vegetable Initiative
The union government has launched a new scheme called vegetable initiative for urban clusters during 2011-12 with an outlay of Rs. 300 crore under the aegis of the Rashtriya Krishi Vikas Yojana.

The scheme envisages development of vegetable clusters for ensuring supply of good quality vegetables to one city or town in every state having a population of one million and above. In the case of states which do not have any city with one million population such as in the North East and the Goa, the state capital city or township having less than one million population is covered.

The scheme covers all aspects relating to vegetable production, from production and supply of planting material to marketing upto the retail level along with support for conducting base line survey, formation of farmer groups, their linkage to aggregators/markets besides training and capacity building of vegetable growers in the identified clusters.

The production of vegetables in the country has increased from 111.39 million tonnes in 2005-06 to 133.7 million tonnes in 2009-10. Accordingly, per capita availability of vegetables has increased from 279 gm per day to 317 gm per day over a period of 5 years. However, there are issues relating to enhancement of productivity, post-harvest losses and improvement in quality of vegetables.

NMFP

National Mission on Food Processing has been launched from 2012.The National Mission on Food Processing (NMFP) is a new Centrally Sponsored Scheme for giving of greater role to State/UTs; decentralized administration, better outreach and effective supervision and monitoring. The NMFP would also provide flexibility to States / UTs in the selection of beneficiaries, location of projects etc. for the development of food processing sector. This initiative of the Ministry would give an impetus to food processing industries in the country.

NMFP Scheme provides for sharing of the cost between Government of India (75%) and States (25%) for all States except North Eastern States, where, it is at 90:10 pattern. All Union Territories would be provided funds on 100% basis.

Kisan Credit Cards

The scheme of Kisan Credit Card (KCC) was introduced in 1998-99 for timely, easy and flexible availability of production credit to farmers. Commercial banks, cooperative banks and RRBs are implementing this scheme. Each farmer is

provided with a Kisan Credit Card and a passbook for providing revolving cash credit facilities. The farmer is permitted any number of drawals and repayments within a stipulated date, which is fixed on the basis of land-holdings.

All categories of farmers including tenant farmers, share croppers, oral lessees are eligible for a Kisan Credit Card .

Agricultural Price Policy in India

Prices of agricultural produce are important for farmers as these determine their Incomes. Farming should become economically viable and profitable for agriculture to boom and country to have food security. Agricultural produce shows maximum price fluctuation. So farm sector needs a price policy for price stabilisation.

The main objective of the Government's price policy for agricultural produce continue to aim at ensuring remunerative prices to the growers for their produce with a view to encouraging higher investment and adoption of modern farm technology for achieving higher levels of production as also to safeguard the interests of consumers by making available supplies at reasonable prices. Each season Government announces Minimum Support Price (MSP) for 24 major agricultural commodities and organises purchase operations through public and cooperative agencies. It operates effectively only for rice and wheat.

At the beginning of the sowing season for kharif and rabi crops, the Government announces Minimum Support Price (MSP) at which it is prepared to procure the produce that the farmer is willing to sell to the FCI for the PDS and buffer stock operations. When it actually procures when harvesting is done, the MSP is added to and the procurement price is arrived at. The grain is sold at the PDS outlets at issue price. The FCI's economic cost is what it costs the FCI to procure, store, distribute etc.

The Government decides on the support price for various agricultural commodities based on the recommendations of the commission for agricultural costs and prices (CACP). Commission for Agricultural Costs and Prices (CACP), while recommending prices takes into account all-important factors, viz.

- Cost of Production
- Changes in Input Prices
- Input/Output Price Parity
- Trends in Market Prices
- Inter-crop Price Parity
- Demand and Supply Situation
- Effect on Industrial Cost Structure
- Effect on General Price Level
- Effect on Cost of Living
- International Market Price Situation
- Parity between Prices Paid and Prices Received by farmers (Terms of Trade).

CACP recommends MSPs for 24 important crops.Of all the factors, cost of production is the most tangible factor and it takes into account all operational and fixed demands. Government organises Price Support Scheme(PSS) of the commodities, through various public and cooperative agencies such as FCI, CCI, JCI, NAFED, Tobacco Board, etc., for which the MSPs are fixed. For commodities not covered under PSS, Government also arranges for market intervention on specific request from the States for specific quantity at a mutually agreed price. The losses, if any, are borne by the Centre and State on 50:50 basis. The price policy paid rich dividends. Production improved and food security is being realized.

However, the criticism of MSP is that it is promoting rice and wheat while the need is for diversification. It helps the big farmer while the majority of farmers in India are subsistence farmers. Food subsidy burden is increasing and needs to be rationalized so as to spend on infrastructure.

National Food Security Mission

The Department of Agriculture & Cooperation, Ministry of Agriculture, has launched a Centrally-sponsored scheme on National Food Security Mission (NFSM) in pursuance of the resolution of the National Development Council (NDC) to increase the production of rice, wheat and pulses by 10, 8 and 2 million tonnes, respectively, over the benchmark levels of production, by the end of the Eleventh Five Year Plan period.

The Mission aims at increasing foodgrains production of the above crops through area expansion and productivity enhancement; restoring soil fertility and productivity; creating employment opportunities; and enhancing farm level economy to restore confidence of farmers of targeted districts.

Various activities of NFSM relate to demonstration of improved production technology, distribution of quality seeds of HYVs and hybrids, popularization of newly released varieties, support for micronutrients, and training and mass media campaign including awards for best performing districts. The identified districts are given flexibility to adopt any local area specific interventions as are included in the Strategic Research and Extension Plan (SREP) prepared for the agriculture development of the district. Rs. 2 crore each will be provided during the Eleventh Five Year Plan period to those districts which have a programme for two or more crops of the NFSM and Rs. 1 crore to the districts having a programme for any one of the crops.

The national food security mission (NFSM) is being implemented in 312 identified districts of 17 states of the country.

Food subsidy

Provision of minimum nutritional support to the poor through subsidized foodgrains and ensuring price stability in different states are the twin objectives of the food security system. In fulfilling its obligation towards distributive justice, the Government incurs food subsidies. The difference between economic cost of foodgrains and the issue price is reimbursed to FCI. Food subsidy is provided to FCI and states/ UTs undertaking DCP operations . Food subsidy is provided to distribute wheat and rice to the poor and also maintain a buffer stock. In 2012-13, food subsidy is budgeted at Rs.75,000 crores.
However, it is expected to go up due to the concessional food planned to be supplied through the Food security Act.

Rashtriya Krishi Vikas Yojana (RKVY)

The NDC in its 53rd meeting (2007) decided to launch a programme to incentivise the States to increase the share of investment in agriculture in their State plans. Accordingly, the Government approved the Rashtriya Krishi Vikas Yojana (RKVY) with an allocation of Rs. 25,000 crore for the Eleventh Five Year Plan.

The RKVY aims at achieving the 4 per cent annual growth in the agriculture sector during the Eleventh Five Year Plan period by ensuring a holistic development of agriculture and allied sectors. The RKVY will be a State Plan Scheme and the eligibility for assistance under the scheme would depend upon the amount provided in the State budgets for agriculture and allied sectors, over and above the baseline percentage expenditure incurred on agriculture and allied sectors. The funds under the RKVY would be provided to the States as 100 per cent grant by the Central Government.

The main objectives of the schemes are:

- To incentivise the States to increase public investment in agriculture and allied sectors
- To provide flexibility and autonomy to the States in planning and executing agriculture and allied sector schemes
- To ensure the preparation of plans for the districts and the States based on agro-climatic conditions, availability of technology and natural resources.
- To ensure that the local needs/crops/ priorities are better reflected.
- To achieve the goal of reducing the yield gaps in important crops, through focused interventions.

- To maximize returns to the farmers.

Under the Scheme of RKVY, the following indicative broad activities have been identified for focused attention – Integrated Development of Food Crops, including coarse cereals, minor millets and pulses; agriculture mechanization; soil health and productivity; development of rain-fed farming systems; integrated pest management; market infrastructure; horticulture; animal husbandry, dairying and fisheries; organic and biofertilizers; and innovative schemes.

Second Green Revolution

The first Green Revolution has run its course. Cereal yields are rising very slowly, water tables are plunging, and agricultural growth now averages only 2% annually.

Second Green Revolution is necessary and is being ushered in , spearheaded by the corporate sector and helped by new laws. Second Green Revolution, focusing on fruits and vegetables, can double agricultural growth to 4% per year.

Land reform laws ban corporates from farming. But contract farming is possible: corporates contract to provide high-tech farm inputs on credit, and lift the output at guaranteed prices.

The biggest rural initiative comes from ITC, whose e-choupals.

E-choupals are electronic buying and selling centres, which also provide information to farmers on prices, weather, and scientific farming practices.

By cutting out middlemen, e-choupals can pay farmers a higher price than they get in mandis, yet lower ITC's procurement costs. The company started with soyabeans, wheat and shrimps, and is now diversifying into oilseeds, spices and fruit.

FieldFresh, run by Sunil Mittal of Bharti Telecom, already has 1,000 acres under horticulture in Punjab. Pepsi and McDonalds have started contract cultivation of citrus fruits and lettuce respectively. Godrej is into contract cultivation of maize, used to make cattle feed.

Global Green, a Thapar company, uses contract cultivation for gherkins and other products for export, and has a turnover of over Rs 100 crore.

Paper companies like Ballarpur and ITC provide farmers with fast-growing clonal varieties of trees that mature in just four years, and buy the output.

This corporate upsurge is being encouraged by a new political urgency to uplift rural India. A raft of new laws aim to end historical hurdles.

The Agricultural Produce Marketing Committee Act forces farmers to sell only at mandis, ostensibly to protect them from rapacious traders. But this makes contract farming illegal; companies cannot directly buy from farmers.

However, many states have now repealed their versions of the APMC Act, Second, India has long been plagued by a maze of 16 different food laws, some of which are self-contradictory (one law permits sweeteners in jams and another bans the practice).

Chilli paste is a widely sold product in Asia but cannot be produced in India because the law prohibits the use of thickeners. The central government wants to make a new comprehensive model law - integrated food law to replace the old laws.

Third, the government proposes a Warehousing Receipts Act, which will make warehousing receipts negotiable instruments, and thus qualify for bank financing.

This, along with futures trading in the NCDEX and other commodity exchange, can modernise agricultural trading just as stock market reforms earlier modernised the capital market.

Fourth, in order to curb hoarding, the Essential Commodities Act has long placed limits on commodity stocks. This makes large-scale corporate investment impossible.

Now that chronic agricultural shortages have given way to surpluses, the list of essential commodities has been drastically cut and optimists hope that the Act will soon be scrapped.

Fifth, tax laws and incentives are being liberalised to encourage private investment.
Sixth, banks are very keen to get into rural business, and many are now lending to self-help groups, which can enter into contracts with companies.

Cheap credit from banks and corporates can facilitate horticulture.
If new GMOs are added to it along with rural infrastructure(Bharat Nirman) and sustainability, the second green revolution can be the ever green revolution unlike the first one.

Horticulture
Vast areas of India have tropical and agro-climatic conditions which are well suited for cultivation of horticulture and plantation crops. They are also ideal substitutes for marginal and degraded lands, which are unsuitable for crop husbandry. They can help in diversification of agriculture. The horticulture sector contributes about 24.5 per cent towards agriculture GDP from only about 8 per cent of the cultivated area. Besides, providing nutritional and livelihood security and helping poverty alleviation and employment generation, this sub-sector sustains a large number of agro-Industries, which generate huge additional non-farming employment opportunities. The range of horticultural products includes fruits, vegetables, spices, coconut, medicinal and aromatic plants, mushrooms, cashew, cocoa etc. India accounts for 10 per cent of the world production of fruits and stands second after Brazil and is second largest producer of vegetables after China, contributing 13.4 per cent of the world vegetables production.The thrust areas for providing boost to the horticulture sector are as follows:

- Area Expansion
- Improving production
- Improving productivity

- Reducing cost of production
- Improving quality of products
- Value addition
- Promotion of marketing and exports
- Strengthening of credit and organisational
- support
- Human resource development
- Addressing relevant policy issues
- Cold chains.

National Horticulture Mission (NHM)
The National Horticulture Mission (NHM) is facilitating the holistic development of horticulture by promoting latest technologies involving production and supply of good quality planting material through tissue culture as well as nurseries, area expansion with improved cultivars, rejuvenation of senile orchards; organic farming, protected cultivation, integrated pest management/ integrated nutrient management along with creation of infrastructure for post harvest management and marketing. The post harvest management component includes the setting up of primary/mobile processing facilities. Besides, the cluster approach adopted under mission provides opportunities for setting up of food processing units for fruits and vegetables.

The Government has allocated a sum of Rs.1100.00 crore under the National Horticulture Mission during 2008-09 for taking up various activities involving production and productivity enhancement, post harvest management and marketing which in turn will create job opportunities in the field of horticulture.

Vishesh Krishi Upaj Yojana
The objective of the scheme is to promote export of fruits, vegetables, flowers, minor forest produce, and their value added products, by incentivizing exporters of such products.Exporters of such products shall be entitled for duty rebates.

AGRINDIA
The Union Cabinet has approved the proposal of Ministry of Agriculture, Department of Agricultural Research & Education (DARE) for setting up of a new company, called AGRINDIA.

AGRINDIA is a registered company under the Companies Act, fully owned by Government of India in the Department of Agricultural Research and Education (DARE) with a share capital of Rs.100 crore and initial paid up capital of Rs.50 crore.The company will undertake protection and management of intellectual properties generated in the system and its commercialization/distribution for public benefit. It will also set up research and development farms adn assist in setting up production units outside India, especially in Africa and the Asia Pacific regions, besides Latin America.

Livetock
India's livestock sector is one of the largest in the world. In 2010-11 livestock generated output worth Rs 2075 billion (at 2004-05 prices) which accounted for 4 per cent of the

national GDP and 26 per cent of the agricultural GDP. The output worth was higher than the value of food grains. Distribution of livestock is more equitable compared to that of land. Livestock sector grew about 1.5 times larger than in the crop sector over the years. Livestock, however, received only about 12 per cent of total public expenditure on agriculture and allied sector and about 4-5 per cent of the total institutional credit that went into agriculture and allied sector.

In the livestock sector, poor contribute to growth directly instead of getting benefit from growth generated elsewhere. The ownership of the livestock is more evenly distributed with landless labourers and marginal farmers owning bulk of livestock. The progress in the sector results in balanced development of the rural economy particularly in reducing the poverty amongst the weaker sections. The rural women play a significant role in Animal Husbandry and are directly involved in most of the operations relating to feeding, breeding, management and health-care of the livestock.

Livestock biodiversity is a valuable asset and provide insurance and buffer in adverse situation. The sector is playing a major role in the rural economy and a driving force for food security and sustainable agriculture in India. Livestock provide a diverse range of output for agriculture, irrigation, transport, fiber, leather, manure besides production of 90.7 million ton milk, 45 billion eggs and around 45 million kg wool.

Livestock is the major source of animal protein through milk, meat, eggs, etc, the demand for which is constantly increasing.

Problems

The livestock sector is presently facing serious constraints due to huge unproductive population, with low genetic potential, e.g. low milk yield, low body weight etc., shortage of feed grains, fodder and pasture lands and the presence of a large number of animal diseases. All these contribute to poor productivity and low levels of production inspite of large population of livestock. In the dairy sector, only 15% of the milk produced gets processed in the organized sector. There is also very little awareness on the safe and clean production system of livestock.

It was being contemplated for quite some time now to bring out a National Livestock Policy for holistic development of the livestock sector in the country. The Policy aims at higher growth rate of the sector to meet the future and increasing demand of livestock products without disturbing the existing fabric of small-holding system of production. The Policy also contemplates to double the per capita availability of protein from approximately 10 gm at present to 20 gm within a decade. The main focus of the Policy is on improving productivity, infusion of technologies, enhanced farmer participation, safety and quality assurance, marketing linkages, restructuring of institutions and enhanced investments.

Shortage of fodder is a major constraint. Various actions like distribution of quality fodder seeds, appropriate land use planning, promoting of fodder development technologies, assistance of Krishi Vigyan Kendras to promote these technologies and training on balanced feeding of livestock with appropriate supplementation are being taken. Encouraging mineral supplement, use of by-pass protein and by-pass fat are other interventions proposed. Better utilization of crop residues and use of unconventional crop residues, e.g., bagasse for supplementation of feed are being considered. Growing fodder trees in degraded forest will also be encouraged. (**Dairy farmers do not want the protein in their cow's feed to be digested by the microbes in the rumen. This means the protein has to be protected so it can bypass the stomachs and can be absorbed in the intestines.)**

Two important schemes are being launched during XI Plan on sheep and goat Development and on Piggery Development. While the first one is targeted towards generating rural livelihood opportunities by promoting goat and sheep husbandry the later is more oriented towards the North Eastern States, where there is huge demand for pork and other pig meat products.

Livestock diseases take a huge toll on our livestock every year. FMD is most economically important disease prevalent in the country for many years.

Bird-flu as a exotic disease took a heavy toll on our poultry industry consecutively on three occasions in the last three years.

In order to mitigate the threat of breach on biosecurity and thereby compromise nutritional security, the quarantine system in the country is being revamped.

The issue of climatic stress on livestock productivity is also being addressed and research areas have bee prioritized. Special emphasis is being laid on protection and conservation of indigenous breeds, who have high endurance as well as more resistance to disease etc.

Livestock development has been as an important tool for poverty alleviation and sustainable livelihood security in terms of income generation for more than 500 million people in the country. In India 70-80 percent of the total livestock produce is contributed by underprivileged families and livestock are central to their livelihood and culture. According to FAO (2012), India ranks top in milk, third in egg and fifth in meat production but still insufficient to provide food security.

Livestock biodiversity: The Indian sub-continent occupies a pre-dominant position in so far as its animal genetic resources are concerned. Over 140 breeds of livestock including cattle (30), buffaloes (10), sheep (40), goats (20), camel (4), horse (6), pigs, donkey, mule, yak and mithun including poultry (18) have been distributed over the large area spread in different afro-ecological zones of the country. The usefulness of a breed is now judged not only on the basis of physical fitness and utility but also on monetary return.

Role of livestock: Livestock systems, if managed properly, play an important role in alleviating hunger and counteracting environmental degradation. These days concepts of organic farming and increased demand for cow based products such as bio-fertilizers, bio-pesticides, bio-energy and panch-gavya medicines gives an opportunity to make agriculture economically viable on a sustainable basis. The livestock production systems of the rural poor and underprivileged families are different from those of resource-rich farmers since they aim at optimizing use of the limited available resources and minimizing external input and avert risks, as against maximizing profits by the resource-rich. Livestock have strong socio-cultural linkages and for most rural families particularly for women, livestock are a part of the family. The multi-functionality of livestock and their existence in developing countries particularly in smallholder production systems directly link them with poor rural communities.

Animal production practices: In the early part of this country, most farms integrated both crop and livestock operations. Indeed the two were highly complementary both biologically and economically. Livestock activities are normally integrated in the existing farming systems. Animals are kept mainly for the purpose of food security and poverty alleviation, which involves millions of small, landless and marginal farmers.

The growing population of the world need not only more animal proteins and products but also specific constituent and there is a pressure to multiply livestock species and make improvements and conservation of dwindling resources with modern biotechnological methods. The potential of livestock to reduce poverty is enormous.

Milk

Milk production increased from about 20 million tonnes in 1960s to 115 million tonnes in 2010-11. It grew at an annual rate of 4.4 per cent during 1990's and 3.8 per cent during 2000s. Although per capita availability of milk has increased from 128 gms per day in 1980-81 to 276 gms per day in 2010-11, it is far below the requirement of 280 gms per capita. In an effort to increase milk production, the Government of India has been implementing the National Project for Cattle and Buffalo Breeding since 2000 with focus on genetic upgradation of cattle and support system. Over the years the availability of feed resources has improved. But the deficit of dry fodder, concentrate and green fodder is high.

Milk is the main output of livestock sector accounting for 66.7 per cent of the total value of output of livestock. The growth in milk production decelerated from 4.4 per cent during 1990s to 3.8 per cent during 2000s. There remains a huge gap between the potential and realised yields in Indian livestock, on account of constraints relating to feeding, breeding, health and management. Crossbreeding of indigenous species with exotic stocks to enhance genetic potential has been successful only to a limited extent. Even after more than three decades of crossbreeding, the crossbred cattle population is just 16.6 per cent. Livestock sector did not receive the policy and financial attention it deserved. Further, livestock extension has remained grossly neglected — only about 5 per cent of farm households in India have access to information on livestock technology. The Working Group reports that the number driven progress in livestock production may not sustain in the long run due to increasing stress on the limited natural resources and that future growth has to come from improvement of technology and service delivery system leading to accelerated productivity, processing and marketing.

The Working Group has analysed various programmes related to cattle and buffalo development, particularly, National Project on Cattle and Buffalo Breeding (NPCBB). It has observed that NPCBB has significantly contributed to strengthening of semen stations . The group has suggested reformulation of strategy on breeding programme during the 12th Plan to achieve a sustained growth rate of at least 5 per cent in milk production. Technologies on sexed semen, embryo transfer and ovum pick up should be integrated in breed improvement programme. In view of climate changing scenario, improvement of indigenous breeds that have the potential to contribute and be part of production system should be identified, evaluated and improvement programmes for them initiated on priority basis. These should include *Gir, Red Sindhi, Sahiwal, Kankrej* and *Rathi*breeds.

National Dairy Plan

Launched in 2012 at an initial outlay of Rs 2242 crore, the six year NDP-1 will be implemented in 14 major milk producing states including Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. While 80 per cent of the scheme will be financed through International Development Association (IDA) of World Bank, the rest will be funded by the Government of India and implemented by National Dairy Development Board (NDDB) through end implementing agencies (EIA)s in the states. The total outlay for the National Dairy Plan has been set at Rs 17,000 crore.

As of today, milk production is growing at four per cent which should increase to six per cent in the next few years. Through the NDP we intend to enhance breeding, feeding and milk procurement in the country to increase milk production. The demand for milk is projected to be around 200 million tonnes in 2021-22 as against the production of 122.8 million tonnes in 2010-11. The plan is expected to cover about 1.2 million milk producers in 23,800 villages.

National Dairy Plan-Phase 1 (NDP-1) looks to increase milk procurement by co-operatives from current 30 per cent to 65 per cent in next 15 years.

The project aims at boosting milk production using scientific breeding and feeding programmes covering about 2.7 million milch animals in 40,000 villages. It will also focus on modernising village-level infrastructure for milk collection and bulking such as milk cans, bulk milk coolers for a cluster of villages, associated weighing and testing equipment and related IT equipment.

India was the largest milk producing nation in 2010-11 with a production of 116.2 million tonne. This is close to 16% of world milk production. Milk production in the country is growing at 3.3% per annum while consumption is growing at 5% leaving a gap in demand and supply. We need to plug that gap to steady the domestic supply and milk prices.The National Dairy Plan (phase-1) was launched at Anand (Gujarat)

Modified Crop insurance

In 2010, the Government of India approved the modified National Agricultural Insurance Scheme (mNAIS), moving from a social crop insurance program with ad-hoc funding from the Government of India to a market-based crop insurance program with actuarially sound premium rates and product design. Given the technical and operational challenges associated with moving from the NAIS to the mNAIS, implementation began with a three-season pilot, starting with 34 districts across 12 states for the Rabi 2010-11 crop. Over time it could be expanded to India's 110 million farmer households.

Under the actuarial regime, farmer premiums and government subsidies will both be paid upfront at the start of the crop season to the insurer. The insurer, which could be the public insurer AICI or a private sector competitor at the choice of each state, will then be responsible for settling all claims as they fall due.

Increasing competition and expanding the role of the private sector in crop insurance contributes to the promotion of effective public-private partnerships in agricultural insurance.

With the introduction of the modified scheme, it is expected that an increased number of farmers will be able to manage risk in agriculture production in a better way and will succeed in stabilizing farm income particularly at the times of crop failure on account of natural calamities.

Keeping in view the various risks involved in agriculture production, the Ministry of Agriculture has been implementing the National Agricultural Insurance Scheme (NAIS) as a Central Sector Scheme since Rabi season 1999-2000 to insure the farming community against these risks. The modified scheme has the following features:

(i) Actuarial premiums will be paid for insuring the crops
(ii) The unit area of insurance for major crops is village panchayat;
(iii) Indemnity amount shall be payable for prevented sowing/planting risk and for post harvest losses due to cyclone;
(iv) payment up to 25% of likely claims would be released as advance for providing immediate relief to farmers;
(v) More accurate basis for calculation of threshold yield and minimum indemnity level of 70% instead of 60%;
(vi) Modified NAIS with improved features will have two components i.e. compulsory and voluntary. Loanee farmers will be insured under 'compulsory category' while non-loanee farmers will be insured under 'voluntary category';
(vii) Private sector insurers with adequate infrastructure and experience would also be allowed in the implementation of MNAIS.

Marketing and reforms

In order to provide the farmers with the choice of alternative marketing channels for sale of their produce at better and remunerative price and to encourage private investment in development of market infrastructure and supply chains, Ministry of Agriculture has formulated a model Agricultural Produce Marketing (Development & Regulation) Act, 2003. It has been circulated it to all the States/Union Territories for its adoption in their respective Agricultural Produce Marketing Committee (APMC) Act for facilitating the market reforms.

The Model Act provides for direct marketing, contract farming and setting up of market in private and cooperative sectors.

The provisions of contract farming, direct marketing by corporate and setting up of private and cooperative markets will facilitate better market access by farmers, reduce transportation cost and post harvest losses thus helping to increase the farmers' income.

'Krishi Karman' Awards

In August 2011, ten States have been selected for the newly instituted 'Krishi Karman' awards for best performance towards raising production of food grains.

Three awards are being given for total food grain production and four awards for production of rice, wheat, coarse cereals and pulses – the crops that constitute the food grain basket. Krishi Karman awards are the first-ever awards being given to States for their effort and contribution towards raising the country's food grain production.

Punjab and Uttar Pradesh are the joint winners of the Krishi Karman award in the category of States with overall food grain production of more than 10 million tonnes recorded in the last five years.

Assam and Orissa get the award in the category of States with overall food grain production of between one and 10 million tonnes.

Tripura is the sole winner in the category of States with overall food grain production of less than one million tonnes.

In the second set of four awards, being given for individual crops and crop groups, the award for rice goes to Chhattisgarh, wheat to Haryana, pulses to Maharashtra and Rajasthan, and coarse cereals to Karnataka.

Each award winning State gets a trophy, a citation and cash award. The cash award (for each State) is Rs. 2 crore for total food grain production and Rs. 1 crore for each of the four crops included in food grains.

Krishi Karman

In 2011, ten States were selected for the newly instituted 'Krishi Karman' awards for best performance towards raising production of food grains.

Three awards are being given for total food grain production and four awards for production of rice, wheat, coarse cereals and pulses – the crops that constitute the food grain basket. Krishi Karman awards are the first-ever awards being given to States for their effort and contribution towards raising the country's food grain production.

Agriculture and climate change

Impact of climate change on agriculture

Indian agriculture, with two-third rainfed area remains vulnerable to various vagaries of monsoon, besides facing occurrence of drought and flood in many parts of the country. Natural calamities such as drought and flood occur frequently in many parts of the country. Climate change will aggravate these risks and may considerably affect food security through direct and indirect effects on crops, soils, livestock, fisheries, and pests. Building climate resilience, therefore, is critical. Potential adaptation strategies to deal with the adverse impacts of climate change are developing cultivars tolerant to heat, moisture, and salinity stresses; modifying crop management practices; improving water management; adopting new farm practices such as resource-conserving technologies;

crop diversification; improving pest management; making available timely weather-based advisories; crop insurance; and harnessing the indigenous technical knowledge of farmers.

The Indian Council of Agricultural Research has initiated a scheme on National Initiative on Climate Resilient Agriculture with an outlay of 350 crore for 2010-12. This initiative has been planned as a multi-disciplinary, multi-institutional effort covering crops, livestock, and fisheries and focusing mainly on adaptation and mitigation of climate change in agriculture.

It also has a component for demonstration of climate-coping technologies on farmers' fields in 100 most vulnerable districts. State-of-the-art infrastructure is being set up at key research institutes to undertake frontier research on climate change adaptation and mitigation.

Agriculture has to become more competitive, efficient, and profitable and develop mechanism to reduce its vulnerability to climate change. Indian farmers, scientists and policy-makers have to address these issues in totality and develop strategies to increase adaptive capacity.

Earlier India had built capacity to withstand climatic extremes such as drought by establishing buffer food stocks, strengthening irrigation infrastructure and developing agriculture insurance schemes. We now need to put more emphasis on anticipatory adaptation measures that will allow attainment of sustainable development goals even if there is no climatic change or its magnitude is different from current projections.

A key requirement is to substantially increase the capital investment in agriculture, which has been continuously going down in last few years. Investment in irrigation infrastructure, silos for food and feed, timely implementation of contingency planning, rural roads and power could enhance agriculture's resilience to climatic extremes.

Establishment of early warning systems of climatic risks, disease and pests could help in determining the potential food insecure areas and communities and in providing assistance to policy planners in arranging relief.

Focused agricultural research on development of more adaptive varieties of crops, livestock and fish in future climate and development of water and carbon conservation practices will also be useful.

ICAR has launched a large networked project named National Initiative on Climate Resilient Agriculture to enhance the resilience of Indian Agriculture and demonstrate site-specific technology package on farmers fields for adapting to current climate risks.

Under Prime Minister's National Plan on Climate Change, 8 National Missions are being launched on climate change and National Mission of Sustainable Agriculture is one of them.

India Celebrates Declaration of Global Freedom from Rinderpest
A national ceremony was held to celebrate the declaration of global freedom from Ruinderpest, the dreaded cattle plague.

It took almost 150 years to wipe-out the disease once called Cattle-Plague due to very high level of mortality.

Productivity of Foodgrains
The productivity of foodgrains has increased from 1756 kg/ha during 2006-07 to 1921 kg/ha during 2010-11. Similarly, productivity of oilseeds has also increased from 916 kg/ha during 2006-07 to 1159 kg/ha during 2010-11.

The crop-wise productivity of various foodgrains crops and oilseeds from 2006-07 to 2010-11 is as under:

Crop	Yield (Kg/ha)				
	2006-07	2007-08	2008-09	2009-10	2010-11
Rice	2131	2202	2178	2125	2240
Wheat	2708	2802	2907	2839	2938
Coarse cereals	1182	1431	1459	1212	1528
Pulses	612	625	659	630	689
Foodgrains	1756	1860	1909	1798	1921
Oilseeds	916	1115	1006	959	1159

For enhancing the productivity of various foodgrains and oilseeds crops further in the country, various crop development programmes such as National Food Security Mission (NFSM), Integrated Cereals Development Programmes (ICDP) under Macro Management Mode of Agriculture, Rashtriya Krishi Vikas Yojana (RKVY) and Integrated Scheme of Oilseeds, Pulses, Oilpalm & Maize (ISOPOM) are being implemented. Besides, new initiatives have also been taken by the Government to enhance productivity of various crops by launching Bringing Green Revolution in Eastern India (BGREI), Initiatives for Nutritional Security through Intensive Millet Promotion (INSIMP) and Integrated Development of 60,000 Pulses Villages in Rainfed Areas as sub-schemes of RKVY.

In addition, frontline demonstrations of various crops are also organized by Indian Council of Agricultural Research (ICAR) for transfer of latest technology among the farmers at their fields.

Agrisnet Scheme to Provide IT Enabled Services to Farmers
The Government has launched the Agriculture Information System Network (AGRISNET) in the country.

AGRISNET envisages promotion of e-Governance by use of Information & Communication Technology (ICT). The objective of the programme is to provide IT enabled services to farmers and also for computerization of various offices in the States in agriculture & allied sectors.

Kisan Call Centres

Kisan Call Centres function from 6.00 AM to 10.00 PM on all days throughout the year. They receive calls through the toll-free number 1800-180-1551. Call Centre agents reply farmers' queries instantaneously by using their own expertise as well as by referring to reference material available with them. They also browse Kisan Knowledge Management System data base for answering farmers' queries in local language. If some of the queries cannot be answered by the Call Centre agents, such calls are referred to experts. Call Centre agents record the details of every call in terms of farmer's details, query asked, reply given etc.

Pulses development

India's allocation of funds for boosting pulses production has multiplied eight fold in the last four years. India, leading producer and consumer of pulses in the world, has been investing more for food security(pulses are poor man's protein) and reducing imports. The allocations have risen from 105.59 crore in 2007-08 to 837.03 crore in 2010-11. A total of Rs. 1805.87 has been allocated for pulses development in these four years.

Government has approved Accelerated Pulses Production Programme (A3P) under National Food Security Mission (NFSM)on Pulses from 1.04.2010 for the remaining period of 11th Plan.

In the next two years, 10 lakh hectares of total pulses area would be targeted for coverage for village level demonstrations in 1000 blocks for five major crops of pulses namely Arhar (Tur), Moong, Chana, Urad, Masoor covering an area of 1000 hectares each in NFSM Pulses districts.

Farmers would be provided institutional support for supply of quality seeds, kits of nutrients and plant protection chemicals. Development and research projects focusing on inherent constraints of pulses production would also be encouraged for increased pulses production.

Implementation of A3P is estimated to bring in additional pulses production of 0.5 million tonnes.

Besides, a sum of Rs.300 crores has also been earmarked for organizing sixty thousand "Pulses and Oilseeds Villages" in the rainfed areas during 2010-11 for agricultural development under RKVY. The states which are not covered under NFSM Programme get assistance for pulses development under the Macro Management of Agriculture (MMA) scheme.

Government raised the minimum support prices (MSP) for pulses in mid-2010.

The major schemes such as the National Food Security Mission (NFSM), the Rashtriya Krishi Vikas Yojna (RKVY) and the Macro Management of Agriculture Scheme, now have special components for pulses development.

Under NFSM, 10 lakh hectares would be covered in the next two years for village level demonstrations for five major crops - arhar (tur), moong, chana, urad and masoor.

Under RKVY, Rs.300 crore have been earmarked for organising 60,000 "pulses and oilseeds villages" in the rainfed areas.

It is envisaged that productivity of pulses would increase by at least 10 percent with the implementation of this new programme. 2010-11 saw a record pulses production of over 18mt.

Infrastructure

Infrastructure is basic physical and organizational structures needed for the growth of economy-. It represents the goods and services necessary for an economy to function. It includes roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth.

Viewed functionally, infrastructure facilitates the production of goods and services, and also the distribution of finished products to markets, as well as basic social services such as schools and hospitals; for example, roads enable the transport of raw materials to a factory.

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

Various types of Infrastructure
Transport infrastructure

- Road and highway networks, including structures (bridges, tunnels, culverts)
- Mass transit systems (Commuter rail systems, subways, tramways, and bus transportation)
- Railways (rail yards, railway stations), level crossings, signalling and communications systems
- Canals and navigable waterways requiring continuous maintenance (dredging, etc.)
- Seaports
- Airports, including air navigational systems

Energy infrastructure

- Electrical power network, including generation plants, electrical grid, substations, and local distribution.
- Natural gas pipelines, storage and distribution terminals
- Petroleum pipelines
- Specialized coal handling facilities for washing, storing, and transporting coal.

Coal mines, oil wells and natural gas wells may be classified as being part of the mining and industrial sector of the economy, not part of infrastructure.

Water management infrastructure

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

Communications infrastructure

- Postal service, including sorting facilities
- Telephone networks (land lines) including telephone exchange systems
- Mobile phone networks

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

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

Types of soft infrastructure
Soft infrastructure includes both physical assets such as highly specialized buildings and equipment, as well as non-physical assets such as the body of rules and regulations governing the various systems, the financing of these systems, as well as the systems and organizations by which highly skilled and specialized professionals are trained, advance in their careers by acquiring experience, and are disciplined if required by professional associations (professional training, accreditation and discipline).
Unlike hard infrastructure, the essence of soft infrastructure is the delivery of specialized services to people.

Governance infrastructure
Economic infrastructure
- The financial system, including the banking system, financial institutions, the payment system, exchanges, the money supply, financial regulations, as well as accounting standards and regulations
- Major business logistics facilities and systems, including warehouses as well as warehousing and shipping management systems
- Manufacturing infrastructure, including industrial parks and special economic zones, plus the public safety, zoning and environmental laws and regulations that govern and limit industrial activity, and standards organizations
- Agricultural, forestry and fisheries infrastructure, including specialized food and livestock transportation and storage facilities

Social infrastructure
- The health care system, including hospitals, the financing of health care, including health insurance,
- The educational and research system
- Social welfare systems, including both government support and private charity for the poor, for people in distress or victims of abuse
- Sports and recreational infrastructure, such as parks, sports facilities, the system of sports leagues and associations

- Cultural infrastructure, such as concert halls, museums, libraries, theatres, studios, and specialized training facilities
- Business travel and tourism infrastructure

Critical infrastructure

The term critical infrastructure has been widely adopted to distinguish those infrastructure elements that, if significantly damaged or destroyed, would cause serious disruption of the dependent system or organization. Storm, deluge, or earthquake damage leading to loss of certain transportation routes in a city, for example bridges crossing a river, could make it impossible for people to evacuate, and for emergency services to operate; these routes would be deemed critical infrastructure.

Critical infrastructure is a term used by governments to describe assets that are essential for the functioning of a society and economy. Most commonly associated with the term are facilities for:

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

Recently(2013), in the cyber field, central government has decided to establish five-year project for strengthening the overall **cyber security structure of critical sectors of India**. This move has come following increase in the number of incidents of cyber attacks as well as security threats. In 2011, India faced around 13000 cyber incidents.

Who will implement the Project?

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

NCIPC of India has been proposed. NCIPC will ensure critical infrastructure protection and critical ICT infrastructure protection in India.

Sectors whose cyber security falls under NCIPC are:

- Energy (natural gas, coal, oil and power)
- Finance and banking
- Transportation (civil aviation and railways)

- Space
- Law enforcement
- Security
- Telecom
- Defense

Critical infrastructure protection (CIP) is a concept that relates to the preparedness and response to serious incidents that involve the critical infrastructure of a region or nation

Urban infrastructure

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

Green infrastructure

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

Hard infrastructure generally has the following attributes.

- Capital assets that provide services
- Large networks
- Interdependence: system components are interdependent
- In public economics theory, infrastructure assets such as highways and railways tend to be public goods, in that they carry a high degree of non-excludability, where no household can be excluded from using it, and non-rivalry, where no household can reduce another from enjoying it.

Ownership and financing: Infrastructure may be owned and managed by governments or by private companies, such as sole public utility or railway companies. Generally, most roads, major ports and airports, water distribution systems and sewage networks are publicly owned, whereas most energy and telecommunications networks are privately owned.

Impact on economic development

Investment in infrastructure is part of the capital accumulation required for economic development and has an impact on socioeconomic measures of welfare. In developing nations, expansions in electric grids, roadways, and railways show marked growth in economic development.

Adequate transportation infrastructure is an essential ingredient for economic development and growth. Beyond simply facilitating cheaper and more efficient movements of goods, people, and ideas across places, transportation infrastructure impacts the distribution of economic activity and development across regions; helps business to multiply; consumer welfare; productivity enhancement; balanced regional development; employment; demand; and makes the government access higher levels of fiscal resources to direct and indirect taxes. It is proved in the case of Golden Quadrilateral and PMGSY- the latter accounting for benefits for agriculture too.

During the Great Depression of the 1930s, many governments undertook public works projects in order to create jobs and stimulate the economy. The economist John Maynard Keynes provided a theoretical justification for this policy. It is called Keynsian stimulus that increases public spending on infrastructure. Following the global financial crisis of 2008–2009, some again proposed investing in infrastructure as a means of stimulating the economy.

Infrastructure in the developing world

Lack of infrastructure in many developing countries represents one of the most significant limitations to economic growth and achievement of the Millennium Development Goals (MDGs). Infrastructure investments and maintenance contributed to significantly improved growth performance in India and increased investment is necessary to maintain growth and tackle poverty.. The returns to investment in infrastructure are very significant, with on average thirty to forty percent returns for telecommunications (ICT) investments, over forty percent for electricity generation, and eighty percent for roads.

Sources of funding

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

Infrastructure Investment and GDP

The share of infrastructure as a percentage of GDP has increased from 5.04 per cent in the Tenth Plan to about 7.21 per cent of GDP in the Eleventh Plan. It can also be seen that the share of private sector as percentage of GDP has gone up from 1.12 per cent to 2.64 per cent during the same period. Starting from a base of 5.61 per cent of GDP in 2006–07, infrastructure investment reached an all- time high of 8.41 per cent of GDP in 2010–11.

12th FYP and Infrastructure

The strategy for the Twelfth Plan encourages private sector participation directly as well as through various forms of PPPs, wherever desirable and feasible. The share of private sector in infra- structure investment will have to rise substantially from about 36.61 per cent anticipated in the Eleventh Plan to about 48 per cent in the Twelfth Plan. It is expected that competition and private investment will not only expand capacity, but also improve the quality of service, besides minimising cost and time overruns in implementation of infrastructure projects.

The Central share in the overall infrastructure investment is likely to decline from 35.34 per cent in the Eleventh Plan to 28.72 per cent in the Twelfth Plan, and the States' share is likely to decline to 23.13 per cent compared to 28.05 per cent in the Eleventh Plan. The share of the private sector is expected to increase from 36.61 per cent in the Eleventh Plan to 48.14 per cent in the Twelfth Plan.

Financing Infrastructure Investment in the Twelfth Plan

The total public sector investment in infrastructure envisaged in the Twelfth Plan by the Centre and by the States is about 52%. Investment by the private sector, which includes PPP projects, makes up the balance of about 48 per cent of the required investment during the Twelfth Plan, a much higher share than the anticipated 36.61 per cent during the Eleventh

Plan. Of the projected investment by the Central Government, about 60% is likely to be funded out of IEBR. (Please raise this issue in the class!)

The total requirement of debt by the public and private sectors is likely to be `27,75,641 crore. However, the availability of debt financing for infrastructure during the Twelfth Plan is estimated at `22,65,171 crore. There is a likely funding gap of about `5,00,000 crore for the debt component.

Institutional Framework for PPP

Cabinet Committee on Infrastructure

The approach to PPPs must remain firmly grounded in principles which ensure that PPPs are formulated and executed in public interest with a view to achieving additional capacity and delivery of quality public services at reasonable costs. These partnerships must ensure investment for supplementing scarce public resources while improving efficiencies. The government's current initiatives in the area of PPPs are designed to achieve these objectives. The following steps have been taken to promote private investment in infrastructure sector:

1. Setting up robust institutional structure for appraising and approving PPP projects
2. Developing standardised documents such as model concession agreements across infrastructure sectors
3. Increasing availability of finance by creating dedicated institutions and providing viability gap funding

The Committee on Infrastructure (CoI) was constituted in 2004 under the Chairmanship of the Prime Minister, with the objectives of initiating policies that would ensure time-bound creation of world class infrastructure, delivering services matching international standards, developing structures that maximise the role of PPPs and monitoring the progress of key infrastructure projects to ensure that targets are achieved. In 2009, the CoI was replaced by a Cabinet Committee on Infrastructure (CCI) under the Chairmanship of the Prime Minister. CCI reviews and approves policies and projects across infrastructure sectors. It considers and decides on financial, institutional and legal measures required to enhance investment in infrastructure sectors. In 2013, the CCI was merged in the CCAI when the CC on Investment was formed.

Regulatory Framework

In recent years, independent regulatory authorities have been established in the power, telecom, and civil aviation sectors. Tariffs in the port sector are also fixed by an independent authority. These authorities discharge numerous responsibilities, which were earlier in the domain of the government. For initiating further improvements in the regulatory structures and practices, Regulatory Reforms Bill is under consideration of the Government. Regulators for coal, roads and civil aviation are on the anvil (2013 July)

December 2013

The government gave its go ahead to the proposed Draft Regulatory Reform Bill, 2013 which aims to make regulators across key infrastructure sectors accountable to the Parliament besides giving them power of licensing.

The bill aims to fill a lacuna since India does not have a law to monitor the functioning of a large number of regulatory authorities existing in the country. The draft bill will apply to key sectors such as electricity, oil and gas, coal, telecommunications and internet, broadcasting and cable television, posts, airports, ports, waterways, railways, mass rapid transit system, highways and water supply, and sanitation.

The overall functioning of the regulator will be subject to scrutiny by the Parliament on a yearly basis.

Viability Gap Funding

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

India Infrastructure Finance Company Limited (IIFCL)

IIFCL was incorporated by the Ministry of Finance in consultation with the Planning Commission in 2006 for providing long-term loans for financing infrastructure projects that typically involve long gestation periods. IIFCL provides financial assistance up to 20 per cent of the project cost both through direct lending to project companies, and by refinancing banks and financial institutions. IIFCL raises funds from both domestic and overseas markets on the strength of government guarantees. IIFCL has sanctioned loans aggregating `40,373 crore for 229 projects involving a total investment of `3,52,047 crore and disbursed `20,377 crore till the beginning of the fiscal year 2012-13.

IIFCL is expected to graduate in the Twelfth Plan from the existing role of a normal lender to that of a catalyst mobilising additional resources for financing of infrastructure. This could be achieved by IIFCL providing guarantees for bonds issued by private infrastructure companies rather than expanding its direct lending operations. This would enable mobilisation of insurance and pension funds, external debt and household savings. IIFCL would also make subordinated debt available as an additional source of finance. Further, IIFCL may also substitute its take-out financing scheme with an Infrastructure Debt Fund.

IDFC

IDFC was founded on the recommendations of the 'Expert Group on Commercialisation of Infrastructure Projects' under the Chairmanship of Dr. Rakesh Mohan. IDFC, a Public Private Partnership, is incorporated in Chennai. Government holds 54% of the company, rest is held by foreign shareholders and domestic entities.

Infrastructure Debt Fund

Infrastructure projects are capital intensive and have long payback periods, and, therefore, require long-term funds at comparatively low costs. Infrastructure projects in India are financed mainly by commercial banks, as insurance and pension funds do not normally lend for new projects. The present bond market lacks depth to address the needs for a long-term debt. With a view to overcoming these shortcomings, Infrastructure Development Funds (IDFs) are being set up for channelising long-term debt from domestic and foreign pension and insurance funds, as well as from other sources. These IDFs will also carry adequate credit enhancement in terms of implicit government guarantees for repayment of debt. The Reserve Bank of India, and the Securities and Exchange Board of India have already laid down regulatory framework for the IDFs.

Besides augmenting debt resources for financing infrastructure, the IDFs would refinance PPP projects after their construction is completed and operations have stabilised. By refinancing bank loans of existing projects, the IDFs are expected to take over a significant volume of the existing bank debt, and this will release an equivalent volume of fresh lending for infrastructure projects.(Read ahead for more IDFs)

Deepak Parekh committee on financing infrastructure

High Level Committee on Financing Infrastructure under the Chairmanship of Shri Deepak Parekh submitted its Interim Report to the Government of India in 2012. The Committee in its recommendation has suggested "rationalization of tariff" in order to maintain the inflow of investment. This would also result in improving the collection efficiency and reducing their losses. The report lays down detailed plans for every infrastructure sector, with special attention to the railways. The report titled **'Financing of Infrastructure'** recommended regulatory reforms through an overarching legislation. It says reforms are necessary for ensuring future investments in the infrastructure sector. It has warned that in the absence of reforms, even existing investments would be jeopardized.The panel has suggested public-private partnership (PPP) as the means of achieving target levels of investment.Issues related to the General Anti-Avoidance Rules (GAAR) and delays in environmental clearances and land acquisition should be resolved to attract investment in the infrastructure sector.

Engineering, Procurement, Construction (EPC) Contract

Developed countries are preferring Engineering, Procurement and Construction (EPC) contracts where the contractor is responsible for design and construction on a turnkey basis and for a fixed price. The Planning Commission has published a model EPC contract for Highways. It is expected that about 20,000 km of two-lane National Highways would be developed under this model. (More ahead)

PPPs: General Introduction

Public-private partnership (PPP) in infrastructure is a relatively new experience in most developing countries of the Asian and Pacific region. So far, only few countries have established institutional arrangements and developed manuals and resource materials in support of PPP development and for the capacity-building of their public officials. In the absence of such established institutional arrangements and resource materials, public officials face difficulties in project development and implementation, and general public can have many misunderstandings about PPPs.Governments in most developing countries face the challenge to meet the growing demand for new and better infrastructure services. As available funding from the traditional sources and capacity in the public sector to implement many projects at one time remain limited, governments have found that partnership with the private sector is an attractive alternative to increase and improve the supply of infrastructure services.

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

1. Resources
2. Risks
3. Responsibilities, and
4. Rewards

Governments worldwide have increasingly turned to the private sector to provide infrastructure services in energy and power, communication, transport and water sectors that were once delivered by the public sector. There are several reasons for the growing collaboration with the private sector in developing and providing infrastructure services, which include:

- Increased efficiency in project delivery, and operation and management;
- Availability of additional resources to meet the growing needs of □investment in the sector; and
- Access to advanced technology (both hardware and software). □Properly executed planning and development of a project also allows better screening of options, and helps in deciding appropriate project structure and choice of technology considering cost over the whole life cycle of the project.

Often, lack of government funding has been the main reason for considering a PPP option for a project. However, lack of government funding may not be the main reason for deciding a PPP option for the implementation of a project. A project may not be considered for being implemented as a PPP project unless efficiency gains from improved project delivery, operation and management, and access to advanced technology can offset the costs. In fact, many countries have established value for money as the main criterion in judging the merits of a PPP option for a project.

PPPs have become attractive to governments as an off-budget mechanism for infrastructure development as:

- They can enhance the supply of much-needed infrastructure services.
- They may not require any immediate cash spending. They provide relief from the burden of the costs of design and construction.
- They allow transfer of many project risks to the private sector.
- They promise better project design, choice of technology, construction, □operation and service delivery.

There are significant differences between a conventional construction procurement project and a PPP project that need to be clearly understood. The main differences include:

- PPP projects are different from conventional construction projects in terms of project development, implementation, and management. The administrative and approval processes in the case of PPP projects are also different.
- A PPP project is viable essentially when a robust business model can be developed.
- The risk allocation between the partners is at the heart of any PPP contract design. Both partners should clearly understand the various risks involved and agree to an allocation of risks between them.

There are many important economic, social, political, legal, and administrative aspects, which need to be carefully assessed before approvals of PPPs are considered by the government. PPPs have various limitations which should also be taken into account while they are being considered. The major limitations include:

- Not all projects are feasible (for various reasons: political, legal, commercial viability, etc.).
- The private sector may not take interest in a project due to perceived high risks or may lack technical, financial or managerial capacity to implement the project.
- A PPP project may be more costly unless additional costs (due to higher transaction and financing costs) can be offset through efficiency gains.

Often, the success of PPPs depends on regulatory efficiency.

Features of PPP Projects

- Promise of better project structure and design.
- Better service delivery, especially if performance based payment is considered.
- Better chances of completion on time and within the budget.

A wide spectrum of PPP models has emerged. These models vary mainly by:

- Ownership of capital assets;
- Responsibility for investment;
- Assumption of risks; and
- Duration of contract.

The PPP models can be classified into 4 broad categories in order of generally (but not always) increased involvement and assumption of risks by the private sector.
The four broad categories are;

- Supply and management contracts
- Turnkey contracts
- Lease
- Concessions

Each of these four categories has many variants. While the spectrum of models are possible as individual options, combinations are also possible such as, a lease or (partial) privatization contract for existing facilities which incorporates provisions for expansion through Build-Operate- Transfer. In fact, many PPP projects of recent times are of combination type.

Supply and management contracts

A management contract is a contractual arrangement for the management of a part or whole of a public enterprise (for example, a specialized port terminal for container handling at a port or a utility) by the private sector. Management contracts allow private sector skills to be brought into service design and delivery, operational control, labour management and equipment procurement. However, the public sector retains the ownership of facility and equipment. The private sector is assigned specified responsibilities concerning a service and is generally not asked to assume commercial risk.
The private contractor is paid a fee to manage and operate services. Normally, the payment of such fees is performance-based. Usually, the contract period is short, typically three to five years. But the period may be longer for large and complex operational facilities such as a port or an airport.

Turnkey /EPC

Turnkey is a traditional public sector procurement model for infrastructure facilities. Generally, a private contractor is selected through a bidding process. The private contractor designs and builds a facility for a fixed fee, rate or total cost, which is one of the key criteria in selecting the winning bid. The contractor assumes risks involved in the design and construction phases. This type of private sector participation is also known as Design-Build.

The main pros and cons of this model include the following:
Pros:

- Well understood traditional model.
- Contract agreement is not complex.
- Generally, contract enforcement is not a major issue.

Cons:
- The private sector has no strong incentive for early completion.
- All risks except those in the construction and installation phases are borne by the public sector.
- Low private investment for a limited period.
- Only limited innovation may be possible.

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

The main pros and cons of this model include the following:

Pros:
- Can be implemented in a short time.
- Significant private investment possible under longer term agreements.
- In some countries, legally and politically more acceptable for strategic projects like ports and airports.

Cons:
- Has little incentive for the private sector to invest, particularly if the lease period is short.
- Almost all risks are borne by the public sector.
- Generally used for existing infrastructure assets.
- Considerable regulatory oversight may be required.

Concessions

In this form of PPP, the government defines and grants specific rights to an entity (usually a private company) to build and operate a facility for a fixed period of time. The government may retain the ultimate ownership of the facility and/or right to supply the services. In concessions, payments can take place both ways: concessionaire pays to government for the concession rights and the government may pay the concessionaire, which it provides under the agreement to meet certain specific conditions. Usually, such payments by the government may be necessary to make projects commercially viable (Like in the VGF) and/or reduce the level of commercial risk taken by the private sector, particularly in a developing or untested PPP market. Typical concession periods range between 5 to 50 years.

The main pros and cons of this model include the following:

Pros:
- Private sector bears a significant share of the risks.
- High level of private investment.
- Potential for efficiency gains in all phases of project development and implementation and technological innovation is high.

Cons:

- Highly complex to implement and administer.
- Difficult to implement in an untested PPP market.
- May have underlying fiscal costs to the government.
- Negotiation between parties and finally making a project deal may require long time.
- May require close regulatory oversight.
- Contingent liabilities on government in the medium and long term.

In a Build Operate-Transfer or BOT type of concession (and its other variants namely, Build-Transfer-Operate (BTO), Build-Rehabilitate-Operate-Transfer (BROT), Build-Lease-Transfer (BLT) type of arrangement), the concessionaire makes investments and operates the facility for a fixed period of time after which the ownership reverts back to the public sector. In a BOT modal, operational and investment risks can be substantially transferred to the concessionaire. In a BOT model, the government has, however, explicit and implicit contingent liabilities that may arise due to loan guarantees and sub-ordinate loans provided, and default of a sub-sovereign government and public or private entity on non- guaranteed loans.

By retaining ultimate ownership, the government controls the policy and can allocate risks to parties that are best suited to assume or remove them. BOT projects may also require direct government support to make them commercially viable.

The concessionaire's revenue in a BOT project comes from managing and marketing of the user facilities (for example, toll revenue in a toll road project) and renting of commercial space where possible. Concessions for BOT projects can be structured on either maximum revenue share for a fixed concession period or minimum concession period for a fixed revenue share, a combination of both, or only minimum concession period.

Suitability and which model to select

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

There is no single PPP model that can satisfy all conditions concerning a project's locational setting and its technical and financial features. The most suitable model should be selected taking into account the country's political, legal and socio- cultural circumstances, maturity of the country's PPP market and the financial and technical features of the projects and sectors concerned. As an example, for a new project, a BOT type of model may be quite suitable in a matured PPP market while a BOO type of models may be more appropriate in a developing/untested market.

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

SPV has many advantages. Protected finance is available. A project may be too large and complicated to be undertaken by one single investor considering its investment size, management and operational skills required and risks involved. In such a case, the SPV mechanism allows joining hands with other investors who could invest, bring in technical and management capacity and share risks, as necessary.

The government may also contribute to the long-term equity capital of the SPV in exchange of shares. In such a case, the SPV is established as a joint venture company between the public and private sectors and the government acquires equal rights and equivalent interests to the assets within the SPV as other private sector shareholder.

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

Often, an SPV is formed as a joint venture between an experienced construction company and a service operations company capable of operating and maintaining the project.
Other than its strategic, financial and economic interest, the government may also like to directly participate in a PPP project. The main reasons for such direct involvement may include:

- To hold interest in strategic assets;
- To address political sensitivity and fulfil social obligations;
- To ensure commercial viability of the project;
- To provide greater confidence to lenders; and
- To have better insight to protect public interest. Direct government involvement in a PPP project is usually guided by the legal and regulatory regime of the country and the government policy on PPPs. For example, the government may hold certain defined percentage of the stake in a strategic project such as an airport or a port.

PPPs in Infrastructure
Private investment in infrastructure is being encouraged in an environment which ensures competition and transparency. Protection of public interest is being ensured by institutionalising the necessary frameworks and processes for due diligence, checks and balances. However, it is recognised that unless governance issues, such as those related to competition in service provision, collection of user charges, institutional capacity, regulation, and dispute resolution continue to be adequately addressed, mobilisation of sufficient resources for the requisite infrastructure investment may not be possible.

Till 2012, government had approved 285 PPP projects involving an investment of `2,47,300 crore.

The government has identified several areas for reform of policies and processes.

PPP in Highways

The National Highway network of the country spans about 70,548 km. The National Highway Development Project (NHDP), covering a length of about 54,000 km of highways, is India's largest road development programme in its history. The government has encouraged increased private sector participation in upgrading the arterial road network of the country to world class standards. More than 60 per cent of the estimated investment requirement is expected to be financed through PPP. With several key projects on the anvil spanning a length of about 45,000 km (including six-laning of four-laned roads, expressways and port connectivity projects) and a large number of projects in States, there are increasing opportunities for the domestic and foreign players in the sector. The government has decided to widen 20,000 km of less than two-lane National Highways to two-lane standard in the EPC mode.

PPP in Civil Aviation

During the Eleventh Plan, the private sector played a major role in the development of metro airports through PPP. The development of Greenfield (new) international airports at Hyderabad and Bengaluru along with the redevelopment of the Delhi International airport was successfully completed during this period. The redevelopment of Mumbai International airport, which was also taken up through PPP, is at an advanced stage of completion. Investment by the private sector on the four metro airports during the Eleventh Plan periodwas `23,187 crore. Further, it was observed that introduction of PPP has led to a significant rise in the collection of revenues, especially non-aviation revenues.

Airports Authority of India has identified 15 operational Airports for taking up operation and maintenance of both terminal and air side through PPP. This would be taken up in two phases. In the first phase, nine airports, namely Guwahati, Jaipur, Ahmedabad, Bhubhaneshwar, Lucknow, Gaya, Udaipur, Khajuraho and Amritsar would be taken up; and in the second phase, six airports would be taken up for operation and maintenance through PPP. Kolkata and Chennai airports have been constructed by AAI with an investment of about 4,200 crore. PPP in management and operation of airports is not only preferable for reasons of efficiency and superior services but also important for keeping passenger charges low, because of the ability of private entities to raise non-aviation revenues that cross-subsidise airport charges. This proposition is borne out by the international experience and the experience of PPP metro airports in India. It is, therefore, recommended that these large airports should be awarded under the PPP mode for their management and operation.

Five green field airports including Navi Mumbai, Goa, Kannur, Chandigarh and Kota have been identified for development through PPP. For building and operating a Greenfield airport on PPP basis, a precise policy and regulatory framework has now been spelt out in the Model. Concession Agreement for Greenfield Airports.

CAA in the place of DGCA

Government decided to set up a new regulator for the aviation sector -- the Civil Aviation Authority -- that will replace the Directorate General of Civil Aviation (DGCA)(July 2013). The Civil Aviation Authority will be responsible for ensuring safety and regulating the Indian civil aviation sector.The government has proposed levying of a "safety fee" on each passenger to fund the new proposed Civil Aviation Authority (CAA).

PPP in Urban Infrastructure

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

Hyderabad Metro Rail Project

Hyderabad Metro Rail Project is presently under construction on PPP mode with a total project cost of ` 12,132 crore. The project is spread over three high density traffic corridors of Hyderabad with total length of 71 km and is being developed on Design, Build, Finance, Operate and Transfer (DBFOT) mode. The project was awarded to the successful bidder for a VGF of ` 1,458 crore which will be provided by the Central Government while the remaining investment will be made by the concessionaire. This will be the single largest private investment in a PPP project in India. It is also one of the largest metro rail projects built and operated by a private entity anywhere in the world. The project demonstrates how large volumes of private capital can be deployed in public projects in a transparent, efficient and competitive manner. The concession has been awarded on the basis of the Model Concession Agreement for Urban Transit developed by the Planning Commission.

Delhi Metro is a rapid transit system serving Delhi, Gurgaon, Faridabad, Noida, and Ghaziabad in the National Capital Region of India. Delhi Metro is the world's 13th largest metro system in terms of length. Delhi Metro is India's first modern public transportation system, which has revolutionized travel by providing a fast, reliable, safe, and comfortable means of transport. The network consists of six lines with a total length of 189.63 kilometres (117.83 mi) with 142 stations, of which 35 are underground, five are at-grade, and the remainder are elevated.

Delhi Metro is being built and operated by the Delhi Metro Rail Corporation Limited (DMRC), a state-owned company with equal equity participation from Government of India and Government of National Capital Territory of Delhi. However, the organisation is under administrative control of Ministry of Urban Development, Government of India. Besides construction and operation of Delhi metro, DMRC is also involved in the planning and implementation of metro rail, monorail and high-speed rail projects in India and providing consultancy services to other metro projects in the country as well as abroad.

The Delhi Metro Rail Corporation has been certified by the United Nations as the first metro rail and rail-based system in the world to get "carbon credits for reducing greenhouse gas emissions" and helping in reducing pollution levels in the city by 630,000 tonnes every year. The Government of India and the Government of Delhi jointly set up the Delhi Metro Rail Corporation (DMRC) registered in 1995 under the Companies Act, 1956.

The **Mumbai Monorail** is a monorail system under construction in the city of Mumbai, India as part of a major expansion of public transport in Mumbai. The project is being implemented by Mumbai Metropolitan Region Development Authority (MMRDA), with a consortium of Larsen & Toubro (L&T) and a Malaysian infrastructure firm Scomi Engineering. It will be the first monorail in India Construction began in 2009. The first line is scheduled to be completed soon.

PPP in Ports

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

PPP in Power

To attract private sector participation, government has permitted the private sector to set up coal, gas or liquid-based thermal, hydel, wind or solar projects with foreign equity participation up to 100 per cent under the automatic route. The government has also launched Ultra Mega Power Projects (UMPPs) with an initial capacity of 4,000 MW to attract `160–200 billion of private investment. Out of the total nine UMPPs, four UMPPs at Mundra (Gujarat), Sasan (Madhya Pradesh), Krishnapatnam (Andhra Pradesh) and Tilaiya Dam (Jharkhand) have already been awarded. The remaining five UMPPs, namely in Sundergarh District (Orissa), Cheyyur (Tamil Nadu), Girye (Maharashtra), Tadri (Karnataka) and Akaltara (Chattisgarh) are yet to be awarded. To create Transmission Super Highways, the government has allowed private sector participation in the transmission sector. A PPP project at Jhajjar in Haryana for transmission of electricity was awarded under the PPP mode. Further, to enable private participation in distribution of electricity, especially by way of PPP, a model framework is being developed by the Planning Commission.

PPP in Railways

Dedicated Freight Corridor Corporation of India Limited (DFCCIL) has been set up for implementing the Dedicated Freight project and the Ministry of Railways would explore the possibilities of attracting private investment in some segments of this project. Indian Railways has decided to redevelop 50 railway stations in the metropolitan cities and major tourist centers like Delhi, Jaipur, Chandigarh, Patna, Bypanahalli, Bhubneshwar, Mumbai CST, Howrah and so on as world-class stations through PPP. The proposal to set up of production units for manufacturing of electric and diesel locomotives at Madhepura and Marhowra respectively and passenger coaches at Kanchrapara through PPP has already been approved. Further, movement of container trains has already been opened to the private sector, and this has acquired more than 25 per cent share of the market. Construction of an elevated metro rail project in Mumbai is being undertaken through PPP.

PPP in Micro Irrigation

A scheme for setting up Micro Irrigation Systems (MIS) through PPP will be launched in pursuance of the government's objective to enhance irrigation efficiency, productivity and farm incomesby employing more efficient means of irrigation in integrated clusters. The absence of organised operations in the farm sector would be overcome by farmers coming together for the purpose of implementing this scheme through a single entity in every village. The existing subsidies which are provided by the Central and State Governments for on-farm MIS equipment and solar systems would be availed of under this scheme. Similarly, budgetary support would continue to be provided for the development of infrastructure. PPP in MIS would help in dou- bling the irrigation efficiency as compared to flow irrigation.

PPP in Storage of Food grains

A scheme for setting up modern storage facilities through PPP under the VGF has been formulated in pursuance of the Government decision to create 2MMT of modern storage facilities in the form of silos. This would enhance food security, reduce wast- age and improve the quality of stored food grains.

Silos will be constructed and operated under the PPP mode across several states. Land for construction and operation of silos would be provided on licence to the private entity and up to 20 per cent of the total project cost will be provided as VGF. For storage of foodgrains at the Silos, the Concessionaire will be entitled to receive a recurring storage charge which shall be payable on adherence to performance and maintenance standards. It is expected that in the first phase, a capacity of 2 million MT of silo capacity would be created under the PPP mode.

PPPs in Social Sectors

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

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

PPP in Education

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

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

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

PPP in Health Care Services

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

It is expected that in the Twelfth Plan, the pro- posed scheme will be rolled out by the Government, and a 200-bed district-level hospital would serve a catchment area of about 8–10 lakh of population (20 lakh for a 300-bed tertiary care hospital). This will help families from the economically disadvantaged groups get access to quality health care through hospitals set up under this scheme, especially those who are covered under the Rashtriya Swasthya Bima Yojna (RSBY).

PPP in Skill Development

As part of the government's initiative to augment the programmes for skill development, the Prime Minister had announced setting up of 1,500 ITIs through PPP in unserved blocks. The objective is to create centres of excellence in vocational education especially for the youth from low-income families in order to improve their prospects of gainful employment. The programme will be expanded to cover a total of 3,000 blocks during the Twelfth Plan.

A major proportion of the costs incurred by an ITI are of a recurring nature, and it is therefore, proposed to provide support for the recurring expenditure incurred by an ITI towards training students from underprivileged families. Further, it is proposed to provide capital grant to meet a part of the cost of creating the infrastructure for setting up the ITIs. It is expected that 30 lakh youth, including 15 lakh youth from socially and economically disadvantaged groups would be initiated into vocational training and will acquire skills through the ITIs set up under this scheme.(Read along with the Chapter on Inclusive Growth)

Financial Support to PPPs in Social Sectors

A scheme for financial support to PPPs in the social sectors is being formulated as part of the Twelfth Plan initiative to enhance investments and coverage in social sectors, and also to expand the role of private participation.

The scheme envisages that capital investment and recurring costs to be incurred by a non-government entity on the delivery of services to EWS families, based on a concession agreement between government (or a statutory authority) and a non- government entity, will be provided by the respective State Governments, who in turn will be eligible for Viability Support Funding (VSF) from the Central Government.

Capacity Building in the States

The State Governments generally do not have dedicated staff resources for handling PPP projects or for building the requisite capacity. Such capacity is critical for conceptualising project proposals, engaging consultants, interacting with and supervising consultants, analysing and processing their advice for government approvals, interacting with prospective investors, executing the project documents and monitoring implementation. Therefore, the Planning Commission may need to provide financial assistance (ACA) to the State Governments for the setting up a nodal Secretariat for PPP in each State.

The aforesaid PPP Secretariat in each State would be responsible for identifying areas in the respective States amenable to PPP, conceptualise the projects, initiate and approve feasibility studies, appraise and approve bid documentation, guide the process and so on. This would enable capacity building in the States. The total expenditure on this scheme over the next five years would be limited to about `100 crore.

India Front-Runner in the PPP Race: ADB

According to a study by the Economic Intelligence Unit of the Economist commissioned by Asian Development Bank (ADB), while UK and Australia have been categorised as mature economies, India is positioned in the league of developed economies like Republic of Korea and Japan on implementation of PPP projects for infrastructure development. India has outscored China and Japan to rank second on PPP projects performance among the Asian nations and fourth in the Asia-Pacific nations. As per the Report, PPP development in India has been driven by strong political will and advances in public capacity and processes.

The Report states that PPP projects have a huge level of overall acceptance and use in India. It states that government agencies have a relatively high level of proficiency in PPP projects and that as a result of introduction of Model Concession Agreements, the risk allocation has been improving. In terms of finance, matters have improved, with a variety of initiatives (such as the creation of the Viability Gap Funding and the India Infrastructure Finance Company Limited) enabling greater participation of private finance in infrastructure.

To conclude, the gains of private participation in meeting the policy objectives of the Government have been significant during the Eleventh Plan. These initiatives will be expanded and reinforced during the Twelfth Plan, especially in social sectors such as health, education, skill development and so on with a view to meeting the investment targets, while also ensuring inclusiveness. It is envisaged that by the end of the Twelfth Plan, not only will there be `55,74,663 crore worth of investment in infrastructure sectors, but also that PPPs would have successfully forayed into the social sectors to promote universal access, while ensuring quality in the delivery of services.

Financing Infrastructure

Traditionally, infrastructure development used to occur through the public sector. However, given the scarcity of public resources, and the need to shift scarce public resources into health and education, efforts have been made to induct private participation in the development of infrastructure. These efforts have met with a fair degree of success. As of 31 March 2012, 390 PPP projects have been approved involving an investment of 3,05,010 crore. According to a report published by the World Bank, India has been the top recipient of PPP investment since 2006 and has accounted for almost half of the investment in new PPP projects implemented in the first half of 2011 in developing countries. An Asian Development Bank report states that India stands in the same league as developed economies like South Korea and Japan on implementation of PPP projects and the Model Concession Agreements prepared in India and used in our PPP projects have also been commended.

The total investment in infrastructure sectors in the Twelfth Plan is estimated to be `55.7 lakh crore, which is little more than one trillion dollars at prevailing exchange rates (about Rs.60 for a US Dollar in mid-July 2013). The share of private investment in the total investment in infrastructure rose from 22 per cent in the Tenth Plan to 36.61 per cent in the Eleventh Plan. It will have to increase to about 48 per cent during the Twelfth Plan if the infrastructure investment target is to be met. These projections have also been validated by the high level commit- tee on infrastructure set up under the chairmanship of Shri Deepak Parekh. Its interim report that was presented in October 2012 is given elsewhere in this Chapter) The committee has however qualified its projections as dependent on several policy initiatives that the government would need to take for ensuring this level of investment.

The Twelfth Plan lays special emphasis on the development of social sectors in view of their impact on human development and quality of life. Unlike the case with other infrastructure, experiments with PPP in the social sector have been more limited. Many States have experimented with PPPs in health and education. The Central Government has approved setting up of 2,500 Model Schools in PPP mode and a proposal for setting up 3,000 ITIs through PPP is under consideration. These initiatives will be strengthened during the Twelfth Plan.

Resort to PPPs in the social sector often raises concerns about the commercialisation of services that are normally expected to be provided free or highly subsidised. These are important concerns but they can be addressed by well-drafted concession agreements and strict monitoring to ensure that PPP concessionaires abide by their commitments. This must be reinforced with penalties for non compliance. While extending the concept of PPP to social and urban sector projects, the need for 'people's' participation in the design and monitoring of PPP schemes becomes crucial. Local citizens are direct stakeholders in such projects and therefore their support becomes crucial. Therefore, some cities and States have begun to shape PPPs in the social and urban sectors as People–Public–Private Partnerships (PPPPs). This is a valuable innovation which should be applauded.

Take out financing

In the Union Budget speech for the year 2009-10, the Hon'ble Union Finance Minister stated "To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infrastructure projects. We will ensure that IIFCL is given greater flexibility to aggressively fulfill its mandate. Takeout financing is an accepted international practice of releasing long-term funds for financing infrastructure projects. It can be used to effectively address Asset-Liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects.

Objectives of the Takeout Finance Scheme

- To boost the availability of longer tenor debt finance for infrastructure projects.
- To address sectoral / group / entity exposure issues and asset-liability mismatch concerns of Lenders, who are providing debt financing to infrastructure projects.
- To expand sources of finance for infrastructure projects by facilitating participation of new entities i.e. medium / small sized banks, insurance companies and pension funds.

EPC

EPC Contracts refers to an Engineering, Procurement and Construction contract. In an EPC Contract, the EPC contractor undertakes total responsibilities for the project upto the commissioning stage for a pre-agreed consideration. While conceptually, EPC contract may look similar to turnkey contract, it goes a little further than a turnkey contract as in an EPC contract the EPC contractor undertakes total responsibility as well as liability for the commissioning of the project whereas in a turnkey contract, the contractor is generally responsible for selling of the plant. Road projects with less traffic density, which are unviable on toll mode, may be executed through engineering, procurement and construction (EPC) contracts. According to a high-power committee headed by HDFC Chairman Deepak

Parekh, this will help speed up road construction projects in the country. The conventional item rate contracts are prone to high cost and time overruns.

Viability Gap Funding

The scheme aims at supporting infrastructure projects that are economically justified but fall short of financial viability. Support under this scheme would be available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding. The total Viability Gap Funding under this scheme will not exceed twenty percent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget, but not exceeding a further twenty percent of the Total Project Cost.

The government will provide a Viability Gap Funding (VGF) which shall not exceed 20 per cent of the Total Project Cost; provided that the Government or statutory entity that owns the project may, if it so decides it will provide additional grants out of its budget, but not exceeding a further 20 per cent of the Total Project Cost. VGF under this scheme will normally be in the form of a capital grant at the stage of project construction. Proposals for any other form of assistance may be considered by the Empowered Committee and sanctioned with the approval of Finance Minister on a case-to-case basis. The project should be implemented i.e. developed, financed, constructed, maintained and operated for the Project Term by a Private Sector Company to be selected by the Government or a statutory entity through a process of open competitive bidding; provided that in case of railway projects that are not amenable to operation by a Private Sector Company, the Empowered Committee may relax this eligibility criterion. The project should provide a service against payment of a pre-determined tariff or user charge. The concerned Government/statutory entity should certify, with reasons: That the tariff-user charge cannot be increased to eliminate or reduce the viability gap of the PPP; That the Project Term cannot be increased for reducing the viability gap: Thus, Viability Gap Funding means a grant one-time provided by the Public Sector (Central Government / State Government) for Financial Support to PPPs in Infrastructure, with the objective of making a project commercially viable.

It is a Plan Scheme administered by the Ministry of Finance. Suitable budgetary provisions are made in the Annual Plans on a year-to- year basis for the scheme.

Recently, a government appointed committee headed by the Department of Economic Affairs (DEA) Secretary Arvind Mayaram today approved viability gap funding (VGF) of Rs 1,458 crore for development of Hyderabad Metro Rail.

IDF

Setting up of Infrastructure Debt Funds (IDFs) was announced in the Union Budget for 2011-12. These are aimed at accelerating and enhancing flow of long term debt for funding infrastructure projects in the country. They will also act as a catalyst to channelize domestic savings. IDFs would provide a vehicle for refinancing the existing debt of infrastructure projects which are funded mostly by commercial banks. This would create fresh headroom for commercial banks and enable them to take up a larger number of new infrastructure projects.

An IDF can be structured either as a company or as a trust. If set up as a trust, it would be regulated by SEBI under the Mutual Fund Regulations. If set up as a company, the IDF would be structured as a Non-Banking Finance Company (NBFC) and will be under the regulatory oversight of RBI. Guidelines with enabling provisions have already been issued by the Reserve Bank of India and SEBI.

An IDF-NBFC would issue either rupee or dollar denominated bonds and invest only in debt securities of Public Private Partnership projects which have a buy-out guarantee and have completed at least one year of commercial operations. Such projects are expected to be viewed as low-risk investments and would, therefore, be attractive for risk-averse insurance and pension funds.

Establishment of Infrastructure Debt Fund through PPP model is taking place in India. A Memorandum of Understanding (MOU) was signed, recently for setting-up India's First Infrastructure Debt Fund(IDF) structured as a Non-Banking Finance Company (IDF-NBFC). The fund is jointly promoted by ICICI Bank, Bank of Baroda, Life Insurance Corporation (LIC) and Citicorp Finance (India) and it is titled Infradebt Limited. Ratings agency Crisil assigned 'AAA' ratings to India Infradebt Limited; the country's first infrastructure debt fund under the non-banking finance company structure which is a PPP.

Infradebt Ltd, the IDF, would seek to raise debt capital from domestic as well as foreign resources and would invest in infrastructure projects under the Public-Private Partnership model that have completed one year of operations. The IDF will expand and diversify the domestic and international sources of debt funding to meet the large financing needs of the infrastructure sector, thereby giving an impetus to the creation of the infrastructure necessary to drive India's growth.A higher credit rating would enable IDFs to access long-term funds for infrastructure sector at competitive rates

CCI

The Cabinet cleared setting up of the Cabinet Committee on Investment for fast tracking decision on big projects on in December 2012.December. Prime Minister heads this super investment body which will fast track clearances for mega projects.

The proposed body will not be a substitute for the Foreign Investment Promotion Board (FIPB). FIPB is for clearance of foreign direct investment proposals and if the investment is upto Rs.1200 crores, its decision is final. For FDI beyond the Rs.1,200 crores, CCEA permission is required.

PM will be the chairman of the committee and he will nominate its members. The cabinet committee on infrastructure will be dissolved and all the powers will be vested with the Cabinet Committee on Economic Affairs (CCEA).

The proposal to set up a high-level body for according speedy clearance to infrastructure projects entailing investment in excess of Rs 1,000 crore was initially mooted by Finance Minister Chidambaram who had proposed setting up NIB to oversee and monitoring large projects. NIB could also be called Cabinet Committee on Investment.

The proposal, however, had evoked sharp criticism from the Environment Ministry, which had said that NIB would dilute its powers.

Environment Ministry said that the proposal seems to have been mooted only for the benefit of large firms and investors, while having no provision for redressing the concerns of affected people.

Finance Minister said there were over 100 projects, each involving investment of Rs. 1,000 crore or more, that have been delayed for various reasons. "The main purpose is to oversee and monitor large projects which will give a fillip to India's economic growth. Our problem is not conceptualising projects. Our problem lies in getting numerous clearances and getting the project off the ground within a reasonable time

The functions of the Committee are as under:

(i) to identify key projects required to be implemented on a time-bound basis, involving investment of Rs 1000 cr or more, or any other critical projects, as may be specified by the Committee, in sectors such as infrastructure, manufacturing, etc.;
(ii) to prescribe time limits for issue of requisite approvals and clearances by the Ministries/Departments concerned in respect of projects in identified sectors;
(iii) to monitor the progress of identified projects including the time prescribed/taken to obtain each approval each approval/clearance and delays, if any;
(iv) to review implementation of projects, that have been delayed beyond the stipulated timeframe, including issues causing delay in grant of clearance/approvals;
(v) to review the procedures followed by Ministries/Departments to grant/refuse approvals and clearances;
(vi) to take decision regarding grant/refusal of approval/clearance of specific projects that are unduly delayed , if deemed necessary;
(vii) To consider and decide measures required for expeditiously granting/refusing approvals/clearances in identified sectors including simplification of rules/procedures followed by the respective Ministries/Departments for decision making; and
(viii) to require statutory authorities to discharge functions and exercise powers under the relevant law/regulation within the prescribed time frames for promoting investment and economic growth.

Accordingly, all the concerned Ministries/Departments have been requested to review projects, both in public and private sectors, having investment of Rs 1000 cr or more that are pending on account of delay in according clearances/approvals and to formulate and circulate the proposals for the consideration of the CCI, after due inter-ministerial consultations, in respect of such delayed projects. If the Administrative Ministry/ Department feels that a proposal needs to be considered by the Committee of Secretaries first, it should send a note/proposal for consideration by the Committee of Secretaries to the Cabinet Secretariat.

The CCI took up the task to debottleneck stalled projects involving cumulative investment of Rs. 1.61 lakh crore. Investment of Rs. 69,000 crore has already been made in these stalled projects. This clearance would facilitate future investment of Rs. 92,000 crore. These initiatives include issue of environment clearance to 106 different development projects; clearances to 30 New Exploration Licensing Policy blocks, where clearances were pending with either the ministry of commerce or the ministry of defence; clearances to 10 power transmission line projects and North Karanpura Thermal Power project in Jharkhand.□A special cell in the Cabinet Secretariat is essentially in the nature of a project monitoring group for all large projects. If a decision of the CCI is required in any case, the special cell will bring the case to the CCI.

2013-14 Union Budget and Infrastructure

The Finance Minister has promised new industrial corridors, smart cities, bigger role for private firms in coal, a regulator for the dispute-ridden highways sector and support for innovative financing for infrastructure projects

Airport express

The Delhi Airport Metro Express (DAME) is a Delhi Metro line from New Delhi Metro Station to Dwarka Sector 21, linking the Indira Gandhi International Airport. The line, also known as the Orange line is operated by the Delhi Airport Metro Express Pvt. Limited (DAMEPL), a subsidiary of Reliance Infrastructure, the concessionaire of the line, and opened in February 2011. The total length of the line is 22.7 km, of which 15.7 km is underground and 7 km, from Buddha Jayanti Park and Mahipalpur, is elevated.

Service was suspended from July 2012 to January 2013 due to technical problems. After reopening, the speed was cut to only 50 km/hr, extending journey time from the airport to New Delhi Station to over 40 minutes. On 27 June 2013 Reliance Infrastructure Ltd intimated DMRC that they are unable to operate the line beyond 30 June 2013. Following this DMRC took over operations of Airport Express line from 1 July 2013.

Why Reliance Infra pulled out?

Delhi Airport Express Private Ltd (DAEPL) was a special purpose vehicle set up by the parties to operate and run the 22.7-km line. Reliance has pulled out of its 30-year contract to operate the Airport Express line. Lessons for the PPP are: The government, having decided that India needs upgraded infrastructure and lacks the public funds to build it, has focused in its planning on partnerships with the private sector. Reliance Infrastructure won the bid to operate the Airport Express on the assumption that it would carry 40,000 people a day. In effect, it has even at its best been carrying half those numbers, around 17,000. As a result, much advertising space has gone unsold. And so made losses; it costs Rs 7 crore a month to run, but the revenue from tickets and advertising is only Rs 3 crore. That is presumably what lies behind the private sector operator's unwillingness to persist with the project; DAMEPL appears to have decided that the prospects of a turnaround in the line's fortunes are not great. The question is, of course, whether the original estimate of 40,000 metro riders was reasonable - another example of how auctions can lead to unrealistic estimates in the hope of renegotiation later. PPP projects have to work out how this problem can be avoided. The project was built at a cost of Rs 5,700 crore, with Reliance spending Rs 2,285 crore and the DMRC paying Rs 3,415 crore. What went wrong? For one, it appears that construction standards were deficient. That meant that the speed of the train was drastically lowered, and a planned 17-minute trip began to take as much as 45 minutes - which made it difficult to attract riders, as the ticket price of Rs 150 became extremely unattractive for a regular metro-rail ride, Scheduling and track layout itself minimised the attractiveness of the Airport Express as an option for travellers. It shut down before midnight, for example, opening at 5.15 am - whereas most international flights take off and land in Delhi between midnight and 4 am. And the Airport Express did not even run to Terminal 1 of Delhi airport, the terminal through which most of Delhi's cost-sensitive passengers fly; nor did it connect seamlessly with the rest of the Metro. The government intends to launch PPP-financed infrastructure worth Rs 1.15 lakh crore in the coming months. If the lessons of the Airport Express are learned, we can be far more gainful.

SIA

Social impact assessment (SIA) is a methodology to review the social effects of infrastructure projects and other development interventions. The origin of SIA comes from the environmental impact assessment (EIA) model, which first emerged in the 1970s in the U.S, as a way to assess the impacts on society of certain development schemes and projects before they go ahead - for example, new roads, industrial facilities, mines, dams, ports, airports, and other infrastructure projects. It has been incorporated since into the formal planning and approval processes in several countries, in order to categorize and assess how major developments may affect populations, groups, and settlements. SIA is often carried out as part of, or in addition to, environmental impact assessment, but it has not yet been as widely adopted as EIA in formal planning systems, often playing a minor role in combined environmental and social assessments.

Social impact assessment is also of increasing importance as a means to measure and monitor the social returns or social outputs of a business.

Social impacts can be defined as the consequences to people of any proposed action that changes the way they live, work, relate to one another, organise themselves and function as individuals and members of society. This definition includes social-psychological changes, for example to people's values, attitudes and perceptions of themselves and their community and environment. Indeed, some SIA practitioners consider social impacts to be only 'as experienced' (e.g. stress, disruption, hunger) and differentiate these from the causal processes (e.g. over-crowding, infrastructure pressure, poverty)

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

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

The key points of the above discussion are that:

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

National Investment & Manufacturing Zones (NIMZs).

The Government of India has announced a National Manufacturing Policy with the objective of enhancing the share of manufacturing in GDP to 25% within a decade and creating 100 million jobs. The National Investment & Manufacturing Zones (NIMZs) are an important instrumentality of the manufacturing policy.

The basic detail is as follows: State government selects the land and applies to the Central government to accept its proposal to set up an NIMZ. If the central government accepts, it notifies the same and sets up an SPV that manages it. State government owns it itself or makes any other arrangement of ownership.

NMIZs are the cornerstone of the NMP for realising its goals.NIMZs will be developed as green field industrial townships, benchmarked with the best manufacturing hubs in the world.

These NIMZs will seek to address the infrastructural bottleneck which has been cited as a constraining factor for the growth of manufacturing".

The NMIZ will function as "a self-governing and autonomous body and will be declared by the State Governments as an Industrial Township under Art 243 Q (c) of the Constitution.

They would be different from SEZs in terms of size, level of infrastructure planning, and governance structure related to regulatory procedures and exit policies". NIMZ may also have SEZs located in them. While SEZs mainly concentrated on exports, NIMZs have no such role, though they may export if they choose to. SEZs exist for the services secor s well while NIMZ does not.

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

The NMP prescribes that an NIMZ would have an area of at least 5000 hectares and that the State Government "will be responsible for selection of land suitable for development of the NIMZ, including land acquisition if necessary".

As regards internal infrastructure of NMIZ, it will be provided by a Developer or a group of Co-developers, while external linkages will be provided by Govt. of India and the concerned State Govt. Thus, it requires Centre-State co-ordination. The NMP says that the administrative structure for NMIZ will be headed by an SPV- Special Purpose Vehicle.

While the Central Govt will be responsible for notifying the NIMZ and issuing necessary clearances, the State Governments really have many tasks to perform. Apart from selecting the land and acquiring if necessary: such as ensuring water requirements, power connectivity, infrastructure linkages, etc. .

The NMP empowers the Central Govt. with the creation of a High Powered Committee to ensure necessary coordination among central ministries and state governments and also monitor the progress of environmental and other clearances, as well as ensuring external physical infrastructure in a time bound manner. The latter includes: Rail, Road (National Highways), Ports, Airports and Telecom and it also talks about using public private partnership model for this purpose and providing Viability Gap Funding.

State Govt may also have to provide such external linkages. Other functions of states government include, among other things,

a) land,
b) funding of initial cost of land,
c) exploring funding arrangements, including from international funding institutions, long term tax free debentures, etc
d) power connectivity,
e) water requirements,
f) state roads connectivity,
g) sewerage and effluent treatment,
h) health, safety and environmental issues, etc.

Besides the above major features of NMIZ, the NMP deals at great length on matters of
a) institutional framework [e.g. making Department of Industrial Policy and Promotion (DIPP) as the nodal department of Govt. of India];
b) rationalization and simplification of business regulations – dispensing with complying with 70 laws and regulations and filing sometimes as many as 100 returns a day;
c) making labour laws flexible;
d) exit policy for units in NMIZs that also ensures prospect of loss of job insurance policy for employees;
e) leveraging infrastructure deficit and government procurement, etc.

A typical NIMZ will be of at least 5,000 hectares in size and will be chosen by the state governments from its own land or through acquisitions. The preference will be for non-agricultural land with adequate water supply. If needed, the states may reserve a certain share of the land for MSMEs.

Ownership of an NIMZ will either be with the state government, a state government undertaking in joint ownership with a private partner or under any other appropriate model.

Wasteland, as far as possible will be acquired and agricultural land will be kept to minimum. It should not be in ecologically sensitive area.

SPV: The administrative structure of an NIMZ will include four entities, namely an SPV, a developer, the state government and the central government. After the central government notifies an NIMZ in the official gazette, an SPV will be constituted to exercise the powers, discharge the functions and manage the affairs of the NIMZ. This SPV can be a company, including a Section 25 company, depending upon the MoU between stakeholders.

The appropriate financial and administrative structure of the SPV will depend on the financial participation of different stakeholders who will also have their nominees on the board of the SPV. However, the CEO of the SPV will be a senior central or state government official. The SPV will include an official/expert conversant with the work relating to pollution control/environmental protection. There will also be representation to the industrial units functioning in NIMZs. The main functions of the SPV will include master planning of the zone, preparation of a development strategy and an action plan for self-regulation to serve the purpose of the policy, formulation of rules and procedures for development, operation, regulation and management of NIMZs and their enforcement.

The SPV will also expedite environmental clearance and clearances under the air and water Acts, work out an arrangements with the state government regarding revenue streams including the levy of user or service charges or fees or rent for the use of infrastructure/properties in NIMZs and the creation of specific mechanisms for specialised services.

The SPV can take up the development work on its own through various agencies/contractors or take up the development in partnership with a developer who shall be selected through a transparent process.

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

An exit policy will be worked out, keeping in view the provisions for the protection of workers' rights within the statutory framework. Firms operating in NIMZs will have a job-loss policy to insure workers against loss of employment in the event of closure or retrenchment. This policy will be used to make compensation payment to workers at the time of closure or right sizing. The SPV can also opt for a sinking fund mechanism, instead of a job-loss policy, to be funded by contributions to provide compensation to workers. Or both can operate in combination.

Similarly, the SPV will help redeploy labour from one unit to another in case of closures. This redeployment shall be from the date of closure at the same remuneration and on the same terms as before.

Under Section 25FFF of the Industrial Disputes Act there is a mandatory requirement to pay compensation equivalent to fifteen days' average pay for every completed year of continuous service, or any part thereof in excess of six months. NMP makes it 20 days.

By July 2013, Centre has already given in principal approval for 12 NIMZs.
AP has been granted another National Investment Manufacturing Zone (NIMZ) near Ongole in Prakasam district. This will be in addition to the two NIMZs already cleared in principle by the central government in Medak and Chittoor districts. The zones will be developed as integrated industrial townships with state-of-the-art infrastructure, clean and energy-efficient technology and skill development facilities. Andhra Pradesh would be the second state after Maharashtra to have more than two NIMZs. Japan, Germany, the UK, Russia and China have shown keen interest in investing in these NIMZs.

SEZs
According to SEZ Act 2005, a Special Economic Zone can be established either jointly or severally by the Central Government, State Government, or any other person involve in the manufacturing of goods. Even a foreign company can also set up SEZ in India.

In addition to Seven Central Government Special Economic Zones (SEZs) and 12 State/Private Sector SEZs set up prior to the enactment of SEZ Act, 2005, formal approval has been accorded to 574 proposals out of which 391 SEZs presently stand notified. A total of 175 SEZs have commenced export.

As per Entry No. 18 of the State List in the 7th Schedule to the Constitution of India, land is a State subject. The approval for setting up of a SEZ is given on the recommendations of the State Government. Issues related to availability/provisioning of land for SEZs are in the domain of the State Government concerned. SEZ units are under an obligation to achieve positive Net Foreign Exchange (NFE) earnings to be calculated cumulatively for a period of 5 years from the commencement of production.

Golden Quadrilateral

The **Golden Quadrilateral** is a highway network connecting many of the major industrial, agricultural and cultural centres of India. A quadrilateral of sorts is formed by connecting Delhi, Mumbai, Kolkata and Chennai, and hence its name. Other cities among the top metropolises namely Pune, Ahmedabad, Jaipur,Kanpur, Surat at north and Bengaluru, Visakhapatnam & Bhubaneswar at south are also connected by the network.

The largest highway project in India and the fifth longest in the world it is the first phase of the National Highways Development Project (NHDP), and consists of building 5,846 km (3,633 mi) four/six lane express highways at a cost of ₹600 billion (US$9.6 billion). The project was launched in 2001 by Atal Bihari Vajpayee and was planned to complete in January, 2012.

The GQ project is managed by the National Highways Authority of India (NHAI) under the Ministry of Road, Transport and Highways. The Mumbai-Pune Expressway, the first controlled-access toll road to be built in India is a part of the GQ Project though not funded by NHAI.

North-South–East-West Corridor

The **North-South–East-West Corridor** (NS-EW) is the largest ongoing highway project in India. It is the second phase of the National Highways Development Project (NHDP), and consists of building 7300 kilometers of four/six lane expressways connecting Srinagar, Kanyakumari, Porbandar and Silchar, at a cost of US$12.317 billion (at 1999 prices). As of January 2012, 5945 of 7300 kilometers project has been completed.

In combination with India's Golden Quadrilateral, and port connectivity highways, NS-EW Corridor forms a key part of Indian highway network connecting many of its important manufacturing, commerce and cultural centers. As of May 2012, India has completed and placed in use 15800 kilometers of such 4-lane highways.

The NS–EW project is managed by the National Highways Authority of India under the Ministry of Road, Transport and Highways.

Pradhan Mantri Gram Sadak Yojana

The **Pradhan Mantri Gram Sadak Yojana** or **PMGSY** is a nationwide plan in India to provide good all-weather road connectivity to unconnected villages.

This Centrally Sponsored Scheme was introduced in 2000 by the then Prime Minister Of India Shri Atal Bihari Vajpayee.

It is under the authority of the Ministry of Rural Development . It is fully funded by the central government.

The goal was to provide roads to all villages with a population of 1000 persons and above by 2003, with a population of 500 persons and above by 2007, in hill states, tribal and desert area villages with a population of 500 persons and above by 2003, and in hill states, tribal and desert area villages with a population of 250 persons and above by 2007.

Social Responsibility

Social responsibility is an ethical theory that an entity, be it an organization or individual, has an obligation to act to benefit society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystem. A trade-off always exists between economic development, in the material sense, and the welfare of the society and environment. Social responsibility means sustaining the equilibrium between the two. It pertains not only to business organizations but also to everyone whose any action impacts the environment. This responsibility can be passive, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

Critics argue that Corporate social responsibility (CSR) distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful corporations though there is no systematic evidence to support these criticisms.

Corporate governance

Corporate governance refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders.

There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud. Corporate scandals of various kinds surface often having violated public interest

Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner. Another point which is highlighted in the SEBI report on corporate governance is the need for those in control to be able to distinguish between what are personal and corporate funds while managing a company.

Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors are increasingly depending on when deciding on which companies to invest in. It is also known to have a positive influence on the share price of the company. Having a clean image on the corporate governance front could also make it easier for companies to source capital at more reasonable costs. Unfortunately, corporate governance often becomes the centre of discussion only after the exposure of a large scam.

Companies Act 2013
Companies Bill 2013 received assent from President Pranab Mukherjee in August 2013.The new bill, providing for sweeping changes in the way companies operate and are regulated in the country, received Parliamentary approval in August 2013. It will replace the Companies Act 1956.

Highlights:
Certain class of companies should have at least one women director on board. This is an interesting move as it makes mandatory for company boards to have a woman representative, something that will give a greater representation to women in corporate decision-making.
National Company Law tribunal: Separate tribunal to deal with disputes such as winding up amalgamations, rehabilitation, reduction of share.

Employee Protection in Failed Companies: Must pay 2 yrs' salary on winding up of ops. Rights of workers to supersede those of secured creditors

One-Person Company: An individual can set up a 1 person company (Read ahead)

Class Action Suits: Members or depositors can file class action suits. It lays down a stringent regime for those accepting deposits from public, protection for whistleblowers. (Read ahead)

Statuary recognition to the Serious Fraud Investigation Office.

It will have powers to arrest offenders.
Once SFIO begins to investigate a case no other agency can be involved. Listed cos must have at least one-third independent directors.

An independent director cannot hold more than two consecutive terms of 5 yrs each Auditors to be appointed for 5 yrs, to be approved every year.
A person can audit a maximum of 20 companies.

Auditors can face imprisonment up to one year for violating relevant provisions and pay damages for incorrect or misleading statements.

Companies have to spend at least 2% of its average net profit during three preceding years on Corporate Social Responsibility (CSR) activities.

Amount has to be preferably spend near or around the areas the company operates.

Class action Suit
The first time class action suit came to the spotlight in the context of securities market was when the Satyam scam broke out in 2009. At that time, many small investors in India could not take any legal recourse against the software services firm's management while their counterparts abroad filed class action suit claiming damages.
Thanks to the Satyam scam, India has introduced class action suit in the new Companies Act 2013.

A 'class action suit' may be defined as a lawsuit in which a group of shareholders of a company collectively bring an action in court against an identified group of defendants belonging to the company. The Companies Act mandates the initiation of class actions suits by the members and depositors of a company in case they are of the opinion that the management or conduct of the affairs of the company are being done in a manner prejudicial to the interests of the company or its members or depositors. Under the Companies Act, class action suits can be commenced collectively by a minimum of 100 shareholders or depositors, or a minimum prescribed percentage of such shareholders or depositors, whichever is less. A class action suit may be brought against the company, its directors, auditors or any experts, advisors and consultants for their inactions and wrongdoings. Hence, the Companies Bill attempts to cast a wide net on the erring management of the company. Upon admission of a class action application, all similar applications in any jurisdiction are required to be consolidated into one single application. This provision would reduce multiplicity of litigation on the same subject matter.

The features of a class action suit under the Companies Bill certainly carry benefits for investors of a company. It provides investors with a medium to fight as one unit against the errant company or management, thereby reducing multiplicity of suits, costs of ligation and increasing their chances of success in the process. No doubt, 'class action suits' under the Companies Bill may prove to be a potent tool to keep the accountability of a company/management in check and to contain any likely prejudice against the minority. However, on the flipside, such a concept may be open to misuse by unscrupulous minority shareholders in furtherance of their vested interest thereby hampering the efficacious functioning of the company.

Class action suits have to be filed before the National Company Law Tribunal first, but banking companies are excluded from such action.

CSR

The new law would require companies that meet certain set of criteria, to spend at least two percent of their average profits in the last three years towards Corporate Social Responsibility (CSR) activities. But only companies reporting Rs 5 crore or more profits in the last three years have to make the CSR spend. The Act allows companies the freedom to choose areas of work for CSR and the mandate of a rotation in auditors every 5 years gives the process added credibility. In case, entities are unable to comply with the CSR rules, they would be needed to give explanations. Otherwise, they would face action, including penalty.

One person company

Till recently, law mandated a minimum of two shareholders to start a company. Now, Companies Act opened the doors for the entrepreneur looking to set up a company all by himself. This has been made possible by bringing in the concept of One Person Company (OPC). A one person company is a paradigm shift in the Indian corporate regime, bringing it at par with global standards and will provide a significant fillip to micro and small-scale businesses.

CSR

Corporate social responsibility (CSR) is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-

Approach"), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

CSR programme follows the Triple Bottom Line (TBL) Approach to meet social and environmental standards without compromising their competitiveness. The TBL approach is used as a framework for measuring and reporting corporate performance against economic, social and environmental performance. It is an attempt to align private enterprises to the goal of sustainable global development by providing them with a more comprehensive set of working objectives than just profit alone. The perspective taken is that for an organization to be sustainable, it must be financially secure, minimize (or ideally eliminate) its negative environmental impacts and act in conformity with societal expectations.

Key CSR issues: environmental management, eco-efficiency, responsible sourcing, stakeholder engagement, labour standards and working conditions, employee and community relations, social equity, gender balance, human rights, good governance, and anti-corruption measures.

A properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes.

The term "corporate social responsibility" came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, meaning those on whom an organization's activities have an impact. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses.

Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. One of its focal areas is CSR.

ISO 26000 is the recognized international standard for CSR. Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to local and non-local nonprofit organizations and communities, including donations in areas such as the arts, education, housing, health, social welfare, and the environment, among others, but excluding political contributions and commercial sponsorship of events. Some organizations do not like a philanthropy-based approach as it might not help build on the skills of local populations, whereas community-based development generally leads to more sustainable development.

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. For instance, procurement of Fair Trade tea and coffee has been adopted by various businesses including KPMG. Fair trade is an organized social movement that aims to help producers in developing countries. It advocates the payment of a higher price to exporters as well as higher social and environmental standards. It focuses in particular on exports from developing countries to developed countries, most notably handicrafts, coffee, cocoa, sugar, tea, bananas, honey, cotton, wine, fresh fruit, chocolate, flowers, and gold.

Another approach is Creating Shared Value, or CSV. The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

Social accounting

It is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. Social accounting is commonly used in the context of business, or corporate social responsibility (CSR), although any organisation, including NGOs, charities, and government agencies may engage in social accounting.

Social accounting broadens the notion of corporate accountability. Environmental accounting may specifically refer to the research or practice of accounting for an organisation's impact on the natural environment. Social accounting challenges conventional accounting, in particular financial accounting, for giving a narrow image of the interaction between society and organizations. Social accounting, a largely normative concept, seeks to broaden the scope of accounting in the sense that it should:

- Concern itself with more than only economic events;
- Not be exclusively expressed in financial terms;
- Be accountable to a broader group of stakeholders;
- Broaden its purpose beyond reporting financial success.

It points to the fact that companies influence their external environment (some times positively and many a times negatively) through their actions and should therefore account for these effects as part of their standard accounting practices. Social accounting is in this sense closely related to the economic concept of externality.

"Social license" generally refers to a local community's acceptance or approval of a company's project or ongoing presence in an area. It is increasingly recognized by various stakeholders and communities as a prerequisite to development. The development of social license occurs outside of formal permitting or regulatory processes, and requires sustained investment by proponents to acquire and maintain social capital within the context of trust-based relationships. Often intangible and informal, social license can nevertheless be realized through a robust suite of actions centered on timely and effective communication, meaningful dialogue, and ethical and responsible behavior.

Local conditions, needs, and customs vary considerably and are often opaque, but have a significant impact on the likely success of various approaches to building social capital and trust. These regional and cultural differences demand a flexible and responsive approach and must be understood early in order to enable the development and implementation of an effective strategy to earn and maintain social license. Governments could facilitate the necessary stakeholder mapping in regions for which they are responsible and provide a regulatory framework that sets companies on the right path for engagement with communities and stakeholders.

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones. Evidence shows a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy. Intel employs a 5-year CSR planning cycle.

Triple bottom line

People, planet and profit approach is also known as the triple bottom line. People relates to fair and beneficial business practices toward labour, the community and region where corporation conducts its business. Planet refers to sustainable environmental practices. A triple bottom line company does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy metals for example. Profit is the economic value created by the organization after deducting the cost of all inputs.

Critics

Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as in-congruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of the free market argue that improvements in health, longevity and/or infant mortality have been created by economic growth attributed to free enterprise.

Critics of this argument perceive the free market has to be inclusive as a part of its own enlightened self interest:

Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society .CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies.

Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government.

Another concern is that sometimes companies claim to promote CSR and be committed to sustainable development but simultaneously engage in harmful business practices.

Ethical consumerism

The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand . Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

Globalization and market forces

As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subtle level of advertising. Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective.

Social awareness and education

The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through socially responsible investing (SRI) are exerting pressure on corporations to behave responsibly. The extension of SRI bodies driving corporations to include an element of 'ethical investment' into their corporate agenda's generates socially embedded issues. The main issue correlates to the development and overall idea of 'ethical investing' or SRI. The Non-governmental organizations are taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing.

Public policies

CSR has inspired national governments to include CSR issues into their national public policy agendas. The increased importance driven by CSR, has prompted governments to promote socially and environmentally responsible corporate practices. Over the past decade governments have considered CSR as a public issue that requires national governmental involvement to address the very issues relevant to CSR. The heightened role of government in CSR has facilitated the development of numerous CSR programs and policies.A key debate in CSR is determining what actors are responsible to ensure that corporation's are behaving in a socio-economic and environmentally sustainable manner.

Some Indian examples

Coca-Cola's 'Support My School', Aircel's 'Save Our Tigers' or Tata Tea's 'Jaago re'. Jaago re campaign showed simple aspects of our daily life, highlighted how we have forgotten our basic duties as citizens of India, and urged the audience to 'wake up'. In 2013, NDTV and Vedanta announced the launch of their unique initiative 'NDTV Vedanta Our Girls Our Pride', a first of its kind national movement to create awareness about issues related to the girl child.

To mark its silver jubilee, Tata Tea has unveiled a new television commercial (TVC), Soch Badlo, to salute women for being the agents of change in the society.

The TVC starts on a cynical note, with a husband, who has just finished reading the day's newspaper, telling his wife that he is fed up of reading about scams every day. As he walks over to the kitchen and asks her to make him a cup of tea, she urges him to look at the water boiling in the vessel on the gas oven. She uses the turmoil in the vessel as a metaphor for the kerfuffle that precedes change in society. Just like you get a wonderful cup of tea when you pour tea leaves into boiling water, the mayhem in the country is just an indication that things can only turn for the better, she explains.

The company says "Soch Badlo" is an extension of the highly successful 2007 "Jaago Re" campaign.

Why do companies engage in corporate social responsibility?

At least 120 were killed when a *fire* broke out in a *garment factory* outside Dhaka, *Bangladesh's* capital in November 2012. In mid-2013, the collapse of the Rana Plaza factory in Bangladesh exposed the unsafe working conditions that garment workers endure across the developing world. The tragedy also revealed the inconsistencies of some companies with respect to corporate social responsibility (CSR).

Take the case of Walmart. A month after the disaster, it refused to sign on to the safety measures adopted by more than a dozen European firms. Those companies, including Marks & Spencer, backed a plan in which they agreed to have rigorous, independent inspections of the factories they contract with in Bangladesh and to help pay for improvements in building safety.

Walmart, along with other retailers and the main retail federations, are forging their own plan to promote safety in Bangladesh's apparel industry. This effort will seek to "develop and implement a new program to improve fire and safety regulations in the garment factories of Bangladesh."

Despite their high-profile -- and widely criticized -- resistance to the originally proposed safety measures, Walmart and Gap would no doubt be quick to cite their initiatives in other areas: Gap is often considered an industry leader in CSR, and both companies have proclaimed themselves as champions of efforts promoting women.

Two years ago in 2011, Walmart launched its Global Women's Economic Empowerment Initiative, which doubled the money the firm spends on women-owned businesses and provides women around the world with job training and access to education. Gap has instituted PACE (Personal Advancement & Career Enhancement), a program to help female garment workers in developing countries advance beyond entry-level positions.

To some, the companies' rejection of the European plan -- while also touting these kinds of social programs -- appears contradictory, even hypocritical. A cynical view might be that when firms trumpet their efforts to produce organic foods, sell fair-trade T-shirts or just make the world a better place, they are diverting attention away from the more unseemly elements of their business strategies -- such as polluting the air, manufacturing goods in unsafe factories or exploiting workers with low wages. For people who see companies doing one thing with their right hand and doing another thing with the left, the question is: What is your more moral calculus?

There are some serious arguments in favor of compelling firms to abide by the standards of CSR. They are particularly relevant in the context of weak countries where even rudimentary regulatory standards might not exist or be enforced, or where such basic regulation might be subverted by corruption. It is certainly possible that industrial operations in weak or corrupt states can produce what economists call negative externalities—air pollution, water contamination, human-rights abuses—and that the need for CSR is self-evident.

CSR in Companies Act 2013

The provision related to Corporate Social Responsibility under present Clause 135 of Companies Bill 2012 applies to all companies; listed, unlisted, public, private, one - person subject to limitation based on its net worth, turnover and net profit. These threshold limits are:

1. Net worth rupees five hundred crore or more
2. Turnover rupees one thousand crore or more
3. Net Profit rupees five crore of more

There is a requirement of constitution of Corporate Social Responsibility Committee of the Board of Directors consisting of three or more directors. There must be at least one independent director in the board irrespective of nature of constitution of company; public or private. In the report of the Board of Directors under Section 134 (4) shall disclose composition of this CSR Committee.

The mandate of this committee shall be:

1. Formulate and recommend a corporate social responsibility policy
2. Recommend amount to spend
3. Monitor this CSR policy

The Government lists out government directive on this programme under Schedule VII of the Bill. Corporate Social Responsibility activities may include:—

(i) Eradicating extreme hunger and poverty;
(ii) Promotion of education;
(iii) Promoting gender equality and empowering women;
(iv) Reducing child mortality and improving maternal health;
(v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
(vi) Ensuring environmental sustainability;
(vii) Employment enhancing vocational skills;
(viii) Social business projects;
(ix) Contribution to the prime minister's national relief fund or any other fund set up by the central government or the state governments for socio-economic development and relief and funds for the welfare of the scheduled castes, the scheduled tribes, other backward classes, minorities and women; and
(x) Such other matters as may be prescribed.

The Board has duty to approve corporate social responsibility policy. This corporate social responsibility policy is public document and required to disclose in (i) Board's Report, (ii) company website in prescribed manner. This is duty of board to make sure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

The Board *shall ensure* that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. Second proviso to relevant sub – section 5 gives some relief, if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

The company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.

CSR directives in the Companies Bill or otherwise are in accordance with Directive Principle of State Policy enumerated by Constitution of India.

Before the Companies Bill was passed, CSR was in the nature of voluntary actions that businesses could take. It was like going the extra mile. But the provisions of the Bill, particularly Section 135, read with Schedule VII, show that the Government has adopted an inclusive growth strategy to implement CSR through corporates.

The intention of the Bill is to eradicate extreme hunger and poverty, promote education, enhance vocational skills and empower women.

The need for CSR has its roots in the fundamental moral thought — "what and how much has been given back over and above what you have taken from society."

Section 135 of the Companies Bill provides that "the functions of the CSR committee shall be to formulate and recommend a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII of the Bill.The CSR committee shall also deliberate on the amount to be incurred on activities mentioned in the CSR Policy. It shall also monitor the CSR Policy from time to time.

The company's board, after receiving the panel's recommendations, will adopt a CSR Policy and ensure that the activities it mandates are undertaken.

The company shall not select a project that earns profit for the company, but rather take on work that benefits society.

The right to fair compensation and transparency in land acquisition, rehabilitation and resettlement Act 2013

What is the significance of the new title 'The right to fair compensation and transparency in land acquisition, rehabilitation and resettlement Act 2013'?

The title of the old law conveyed that its primary purpose was to expedite the acquisition of land. However, the principle objective of the new Bill is fair compensation, thorough resettlement and rehabilitation of those affected, adequate safeguards for their well-being and complete transparency in the process of land acquisition. The title has been amended to reflect this.

Why is there a need for a new Act?

There is unanimity of opinion across the social and political spectrum that the current Law (The Land Acquisition Act 1894) suffers from various shortcomings. Some of these include:

- Forced acquisitions: Under the 1894 legislation once the acquiring authority has formed the intention to acquire a particular plot of land, it can carry out the acquisition regardless of how the person whose land is sought to be acquired is affected.
- No safeguards: There is no real appeal mechanism to stop the process of the acquisition. A hearing (under section 5A) is prescribed but this is not a discussion or negotiation. The views expressed are not required to be taken on board by the officer conducting the hearing.
- Silent on resettlement and rehabilitation of those displaced: There are absolutely no provisions in the 1894 law relating to the resettlement and rehabilitation of those displaced by the acquisition.
- Urgency clause: This is the most criticised section of the Law. The clause never truly defines what constitutes an urgent need and leaves it to the discretion of the acquiring authority. As a result almost all acquisitions under the Act invoke the urgency clause. This results in the complete dispossession of the land without even the token satisfaction of the processes listed under the Act.
- Low rates of compensation: The rates paid for the land acquired are the prevailing circle rates in the area which are notorious for being outdated and hence not even remotely indicative of the actual rates prevailing in the area.
- Litigation: Even where acquisition has been carried out the same has been challenged in litigations on the grounds mentioned above. This results in the stalling of legitimate infrastructure projects.
- Recent observations by the Supreme Court: Justice Ganpat Singhvi of the Supreme Court has observed, in the wake of repeated violations that have come to light over the last few months, that the law has "become a fraud". He observed that the law seems to have been drafted with "scant regard for the welfare of the common man".
- Another bench of the Supreme Court has echoed this sentiment in its observation that "the provisions contained in the Act, of late, have been felt by all concerned, do not adequately protect the interest of the land owners/persons interested in the land. The Act does not provide for rehabilitation of persons displaced from their land although by such compulsory acquisition, their livelihood gets affected ...To say the least, the Act has become outdated and needs to be replaced at the earliest by fair, reasonable and rational enactment in tune with the constitutional provisions, particularly, Article 300A of the Constitution. We expect the law making process for a comprehensive enactment with regard to acquisition of land being completed without any unnecessary delay."

Why does the government need to acquire land for private companies as well as public-private partnership projects?

- Land Records in most parts of the country are fragmented and disorganised. In most cases they haven't been updated for decades. The new law overcomes that by ensuring the Collector updates the land records and also pays up to four times the value to correct any inaccuracies.
- If land is purchased then there are no benefits for livelihood losers who are usually far greater in number than the land owners. This Bill ensures that they are taken care of and not simply displaced.
- The inequality in terms of bargaining power between large-scale corporations and small farmers and other marginalised groups increases the likelihood of unfair agreements. Contracts tend to be signed in favour of the party negotiating from a greater position of strength. That is why government is required to bridge the gap and bring balance to this relationship.
- A legitimate need for acquisition by the state itself (to build public goods such as roads, schools and hospitals) can be undermined and stalled by groups with vested interests. If there is no sovereign power to compel these groups, a single individual or group of individuals can hold a process hostage merely by refusing to part with land. Further, in times of crisis such as war, famine and floods, coupled with absence of legislation clarifying and guiding the state's exercise of 'eminent domain', situations can emerge jeopardising human lives.

What are the highlights of the new Act?

- Compensation: Given the inaccurate nature of circle rates, the Bill proposes the payment of compensations that are up to four times the market value in rural areas and twice the market value in urban areas.
- R&R: This is the very first law that links land acquisition and the accompanying obligations for resettlement and rehabilitation. Over five chapters and two entire Schedules have been dedicated to outlining elaborate processes (and entitlements) for resettlement and rehabilitation. The Second Schedule in particular outlines the benefits (such as land for land, housing, employment and annuities) that shall accrue in addition to the one-time cash payments.
- Retrospective operation: To address historical injustice the Bill applies retrospectively to cases where no land acquisition award has been made. Also in cases where the land was acquired five years ago but no compensation has been paid or no possession has taken place then the land acquisition process will be started afresh in accordance with the provisions of this act.
- Multiple checks and balances: A 'comprehensive, participative and meaningful' process (involving the participation of local Panchayati Raj institutions) has been put in place prior to the start of any acquisition proceeding. Monitoring committees at the national and state levels to ensure that R&R obligations are met have also been established.
- Special safeguards for tribal communities and other disadvantaged groups: No law can be acquired in scheduled areas without the consent of the Gram Sabhas. The law also ensures that all rights guaranteed under such legislation as the Panchayat (Extension to Scheduled Areas) Act 1996 and the Forest Rights Act 2006 are taken care of. It has special enhanced benefits (outlined in a dedicated chapter) for those belonging to Scheduled Castes and Scheduled Tribes.
- Safeguards against displacement: The law provides that no one shall be dispossessed until and unless all payments are made and alternative sites for the resettlement and

rehabilitation have been prepared. The Third Schedule even lists the infrastructural amenities that have to be provided to those that have been displaced.

- Compensation for livelihood losers: In addition to those losing land, the Bill provides compensation to those who are dependent on the land being acquired for their livelihood.
- Consent: In cases where PPP projects are involved or acquisition is taking place for private companies, the Bill requires the consent of no less than 70% and 80% respectively (in both cases) of those whose land is sought to be acquired. This ensures that no forcible acquisition can take place.
- Caps on acquisition of multi-crop and agricultural land: To safeguard food security and to prevent arbitrary acquisition, the Bill directs states to impose limits on the area under agricultural cultivation that can be acquired.
- Return of unutilized land: In case land remains unutilized after acquisition, the new Bill empowers states to return the land either to the owner or to the State Land Bank.
- Exemption from income tax and stamp duty: No income tax shall be levied and no stamp duty shall be charged on any amount that accrues to an individual as a result of the provisions of the new law.
- Share in appreciated land value: Where the acquired land is sold to a third party for a higher price, 40% of the appreciated land value (or profit) will be shared with the original owners.

How are interests and concerns of farmers protected?

- Retrospective effect: Where awards are made but no compensation has been paid or possession has not been taken, compensation shall be paid at the rate prescribed under the new Act. Where the Award has not been made the entire process shall be considered to have lapsed. Also where acquisition has taken place five years prior to the commencement of the new law but no compensation/ possession has taken place the proceedings shall be deemed to have lapsed.
- Consent: Prior-consent shall be required from 70% of land losers and those working on government assigned lands only in the case of public-private partnership projects and 80% in the case of private companies. This consent also includes consent to the amount of compensation that shall be paid.
- Return of unutilized land: Land not used can now be returned to the original owners if the state so decides.
- Share in sale of acquired land increased: The share that has to be distributed among farmers in the increased land value (when the acquired land is sold off to another party) has been set at 40%.
- Income-tax Exemption: All amounts accruing under this act have been exempted from income tax and from stamp duty.
- Strict restrictions on multi-crop acquisition: The acquisition of agricultural land and multi-crop land has to be carried out as a last resort. There will be definite restrictions on the extent of acquisition of such land in every state to be determined by the States concerned.
- Safeguards to ensure fair price: Given the way in which market value is to be calculated and the imposition of a solatium of 100% over and above the amount, the farmers are guaranteed a fair price for their land.
- Acquisition only if necessary: The Collector has to make sure that no other unutilized lands are available before he moves to acquire farm land.
- Damage to crops to be included in price: The final award has to include damage to any standing crops which might have been harmed due to the process of acquisition (including the preliminary inspection).

- Share in developed land: In case their land is acquired for urbanization purposes 20% of the developed land will be reserved and offered to these farmers in proportion to the area of their land acquired and at a price equal to the cost of acquisition and the cost of development.
- Fishing rights: In the case of irrigation or hydel projects, affected families may be allowed fishing rights in the reservoirs.
- Additional R&R benefits: Farmers are also entitled to the various rehabilitation and resettlement benefits which are enumerated in response to question 2.
- Time-bound social impact assessment: The Bill mandates a social impact assessment of every project which must be completed within a period of six months.

What are the rehabilitation and resettlement provisions for farmers, landless and livelihood losers?

- Reduced qualifying criteria: To qualify for benefits under this Act the time period has been reduced to three years of dependence (on the acquired land) from five.
- Affected family to include tenants: The definition of affected family includes agricultural labourers, tenants including any form of tenancy or usufruct right, share-croppers or artisans who may be working in the affected area for three years prior to the acquisition, whose primary source of livelihood stands affected by the acquisition of land.
- Houses for all affected families: All affected families are entitled to a house provided they have been residing in an area for five years or more and have been displaced. If they choose not to accept the house they are offered a one-time financial grant in lieu of the same.
- Choice of annuity or employment: All affected families are given a choice of annuity or employment;
  - (i) If employment is not forthcoming they are entitled to a one-time grant of Rs.5 lakh per family.
  - (ii) Alternatively they will provided with an annuity payment of Rs.2,000 per month per family for 20 years (this will be adjusted for inflation).
- Subsistence allowance: All affected families which are displaced from the land acquired shall be given a monthly subsistence allowance equivalent to Rs.3,000 per month for a period of one year from the date of award.
- Training and skill development: All affected families are also given training and skill development while being offered employment.
- Miscellaneous amounts: All affected families are given multiple monetary benefits such as transport allowance of Rs.50,000 and resettlement allowance of Rs.50,000.
- One-time financial assistance: Each affected family of an artisan, small trader or self-employed person shall get one-time financial assistance of such amount as the appropriate government may, by notification, specify subject to a minimum of Rs.25,000.
- R&R to be completed in all aspects for irrigation projects: In case of acquisition of land for irrigation or hydel project the rehabilitation and resettlement shall be completed six months prior to submergence of the lands proposed to be so acquired.
- Possession upon fulfilment of conditions under Act: The Collector shall take possession of land only ensuring that full payment of compensation as well as rehabilitation and resettlement entitlements are paid or tendered to the entitled persons within a period of three months for the compensation and a period of six months for the monetary part of rehabilitation and resettlement entitlements commencing from the date of the award. However, families will not be displaced from this land till their alternative R&R sites are ready for occupation.

- Time Limit for provision of R&R entitlements: The components of the Rehabilitation and Resettlement Package in the Second and Third Schedules that relate to infrastructural entitlements shall be provided within a period of 18 months from the date of the award.

How are interests and concerns of scheduled castes and schedules tribes protected?

- Separate chapter: A separate Chapter has been carved out to protect interests of tribals and those belonging to the Scheduled Castes. Where acquisition does take place it shall be done as a demonstrable last resort.
- Approval: As far as possible no acquisition shall take place in the Scheduled Areas. And where such acquisition does take place it has to be done with the approval/ consent of the local institutions of self-governance (including the autonomous councils where they exist).
- Development plan: A Development Plan has to be prepared laying down the details of procedure for settling land rights due but not settled and restoring titles of tribals on alienated land by undertaking a special drive together with land acquisition. The Plan must also contain a programme for development of alternate fuel, fodder and non-timber forest produce resources on non-forest lands within a period of five years sufficient to meet the requirements of tribal communities as well as the Scheduled Castes.
- One-third to be paid up-front: In case of land being acquired from members of the Scheduled Castes or the Scheduled Tribes, at least one-third of the compensation amount due shall be paid to the affected families at the outset as first instalment and the rest shall precede the taking over of the possession of the land.
- Resettlement in the same scheduled area: The Scheduled Tribes affected families shall be resettled preferable in the same Scheduled Area in a compact block so that they can retain their ethnic, linguistic and cultural identity.
- Land for community: The resettlement areas predominantly inhabited by the Scheduled Castes and the Scheduled Tribes shall get land, to such extent as may be decided by the appropriate Government free of cost for community and social gatherings.
- Alienation of tribal lands to be void: Any alienation of tribal lands or lands belonging to members of the Scheduled Castes in disregard of the laws and regulations for the time being in force shall be treated as null and void: and in the case of acquisition of such lands, the rehabilitation and resettlement benefits shall be available to the original tribal land owners or land owners belonging to the Scheduled Castes.
- Fishing rights: The affected Scheduled Tribes, other traditional forest dwellers and the Scheduled Castes families having fishing rights in a river or pond or dam in the affected area shall be given fishing rights in the reservoir area of the irrigation or hydel projects.
- If resettled outside scheduled area then additional benefits: Where the affected families belonging to the Scheduled Castes and the Scheduled Tribes are relocated outside of the district then they shall be paid an additional twenty-five per cent rehabilitation and resettlement benefits to which they are entitled in monetary terms along with a one-time entitlement of fifty thousand rupees.
- Higher land-for-land area for SCs/STs: In every project those losing land and belonging to the Scheduled Castes or Scheduled Tribes will be provided land equivalent to land acquired or two-and-a-half acres, whichever is lower (this is higher than in the case of non-SC/ST affected families)
- Additional amounts: In addition to a subsistence amount of rupees 3000 per month for a year (which all affected families get), the Scheduled Castes and the Scheduled Tribes displaced from Scheduled Areas shall receive an amount equivalent to rupees 50,000.

How are interests and concerns of panchayati raj institutions protected?

- SIA in consultation with PRIs: The Social Impact Assessment (SIA) has to be carried out in consultation with the representatives of the Panchayati Raj Institutions (PRIs). In fact, the appropriate Government is required by the law to ensure adequate representation of these institutions during the discharge of the process.
- SIA reports to be shared: Reports prepared under the Social Impact Assessment are to be shared with these individuals in their local language along with a summary.
- Representation in expert group: The expert group has to have two members belonging to the Panchayati Raj Institutions. This is a powerful body that has the power to reject a project.
- Hearings in all gram sabhas: In case where an affected area involves more than one Gram Panchayat or Municipality, public hearings shall be conducted in every Gram Sabha where more than twenty five per cent of land belonging to that Gram Sabha is being acquired.
- Consultation in compliance with PESA: Consultation with the Gram Sabha in scheduled areas under the Fifth Schedule referred to in the Constitution shall be in accordance with the provisions of the Provisions of the Panchayats (Extension to the Scheduled Areas) Act, 1996.
- Representation of panchayat chairpersons on R&R committee at project level: The Rehabilitation and Resettlement Committee at Project Level has to have the chairpersons of the Panchayats located in the affected area or their nominees as representatives.
- Panchayat ghars have to be provided as per the list of Infrastructural amenities given in the Third Schedule.

How are states interests and concerns protected?

- Only a baseline: The Bill only provides the baseline for compensation and has devised a sliding scale which allows States to fix the multiplier (which will determine the final award) depending on distance from urban centres.
- Choice for return to land bank or owner: Where unutilized land is returned the state can decided whether it goes to the original owner or to the land bank.
- Threshold for private purchase left to government: While the Bill requires the discharge of obligations related to Resettlement and Rehabilitation (R&R) even in the case of private purchase provided the purchase exceeds a certain threshold, it leaves the said threshold to the discretion of the state governments.
- In extreme cases, equivalent amount for multi-crop land: While the Bill seeks to discourage acquisition of irrigated multi crop or agricultural land it gives the choice of earmarking how much of such lands should be reserved for protection against acquisition to the States. Furthermore if no alternative land is available to replace the multi-crop land acquired, the state can instruct the payment of an equivalent amount.
- R&R procedure at discretion of state: The procedure related to the functioning of the R&R committee at project-level has been left to the state government if the acquisition is by the state.
- States free to enact other laws: The state governments are free to enact any law to enhance or add to the entitlements enumerated under the Bill which confers higher compensation than payable under the Bill or make provisions for rehabilitation and resettlement which are more beneficial than those provided under the Bill.

How does the compensation mechanism work?

- In urban areas there is no multiplier. This means no enhancement of the market value calculated occurs.
- However a solatium of 100% (which currently exists at 30%) is imposed on this market value calculated. This 'solatium' amount is a compensation to ameliorate the pain of forcible acquisition.
- In rural areas the multiplier has been left entirely to the discretion of state governments which may range on a sliding scale from 1 to 2 depending on the radial distance from urban centres.

What are the safeguards in the law to ensure food security?

- Special provisions have been inserted in the Law to ensure that multi-crop land is acquired only as a last resort.
- States are also required to impose limits on the area of agricultural/ multi-crop land that can be acquired in a State. No acquisition of such lands in excess of that limit can take place.
- When acquiring agricultural land, the state has to cultivate an equivalent area of land elsewhere as agricultural land. If they cannot do this then they must deposit an amount equivalent to its value in an account to be used for the purposes of enhancing food security.

How are investor concerns addressed?

- Consent: In the case of public-private partnership projects consent has been reduced from 80% to 70%. In additional only the consent of land owners is required.
- Definition of market value has been amended to ensure that acquisition price doesn't form the basis for compensation calculation in future acquisitions. Also power has been given to the Collector to not consider transactions which he feels are outliers and not indicative of true value while calculating market value. Earlier there was a danger of a price-spiral as (a multiple of) price of first acquisition in an area would go into calculation of land price for any subsequent acquisitions
- States given large flexibility: A sliding scale will give states flexibility to fix compensation in rural areas (between two and four times market value), depending on their distance from urban areas. Earlier compensation in rural areas was to be four times market value.
- Restrictions/thresholds on amount of irrigated multi-crop land and net sown area per district or state available for acquisition left to the discretion of states. Earlier amount of irrigated multi-cropped irrigated land that could be acquired was capped at 5%, and amount of net sown area that could be acquired was also capped.
- Land size thresholds on when R&R on private purchase of land becomes applicable has now been left to the discretion of States. Earlier R&R on private purchases was to apply to all acquisitions above 100 acres in rural areas and 50 acres in urban areas.
- Payment for R&R costs by acquirer made a 'one-off' acquirer to put all monies in an escrow account, and ongoing commitments like annuities and benefits to be administered by agency established under this Act. Earlier the Buyer would have had to pay and be involved with R&R infrastructure building until complete, and R&R annuities to perpetuity. However, families will not be displaced from this land till their alternative R&R sites are ready for occupation.
- Collector can be considered appropriate government: In cases where the land sought to be acquired is below a certain threshold then the Collector can be the acquiring authority.
- Criticism

- Some criticize the Act citing that it is heavily loaded in favour of land owners and ignores the needs of poor Indians who need affordable housing, impoverished families who need affordable hospitals, schools, employment opportunities and infrastructure and industries.
- mandates that compensation and rehabilitation payments to land owners and livelihood losers be upfront. If the project does not fructify, there will be losses for the promoter.
- places no limit on total compensation or number of claimants; nor does it place any statute of limitations on claims or claimants.
- The beneficiaries of the Bill, with guaranteed jobs, will have no incentive to be productive. The Bill.
- Amartya Sen, Nobel Laureate in economics, claims prohibiting the use of fertile agricultural land for industries is ultimately self-defeating.
- will increase the cost of acquisition of land to unrealistic level. It will be almost impossible to acquire 50-acre or 100-acre land at one place for planned development.
- inflates the cost of land to help a small minority of Indians at the cost of the vast majority of Indian citizens; as less than 10% of Indian population owns rural or urban land.
- It is time consuming