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Module I: Introduction

To get an idea about Economics, before you set out to learn about the Indian economy…

What is Economics?

Economics is a social science that deals with the ordinary business of life of people. In the ordinary business of life people are engaged in economic activities in which they earn income to satisfy their wants (or desires) – desire for food, clothing, shelter, transport, communication, entertainment, etc which we call goods and services, in general. They need the means (income or resources) to satisfy (or consume) these. Generally human wants are unlimited but the means to satisfy them are scarce. Economics is, in other words, all about how people manage to satisfy their unlimited wants with limited means. Thus, economics is a study of scarcity, choice and allocation. Scarcity refers to scarcity of means or resources in relation to wants; choice refers to choosing among unlimited wants because the available means are not enough to satisfy all wants; and the problem of allocation of scarce resources arises when we need to make best use of the available resources.

Economics is conventionally divided into two branches – Microeconomics and macroeconomics. Micro-economics (short form of microscopic economics) studies the economic behaviour of an individual household, a firm or an industry. A firm may own and operate one or more 'plants' or units/branches located in different places. An industry is just the summation of all firms producing a particular good or service. For instance, steel industry in India comprises several firms such as TISCO, HSL, IISCO, and so on. Similarly the textile industry in India covers millions of firms, ranging from tiny handloom weavers in a village to weaving-dyeing giants like Reliance Textile Mills and Bombay Dyeing. All industries producing /selling a variety of goods and services as also the households consuming them within a political boundary make an economy. This is another way of looking at an economy. Macro-economics deals with the economy as a whole; it studies the economic aggregates such as the national income, aggregate consumption, national savings and investment, the general price level and so on.

Adam Smith, a British economist, who wrote the masterpiece 'The Wealth of Nations' in 1776 is considered the father of economics. As the leading social science discipline, economics is one among the six subjects which carry the coveted Nobel Prize which was instituted for economics for the first time in 1969 and is awarded every year since then to those who have done outstanding contributions to the subject.

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The 2011 Nobel Prize has been shared by two economists namely Thomas J. Sargent and Christopher A. Sims. The only Indian economist to have bagged the Nobel Prize in economics so far is Prof. **Amartya Kumar Sen** (in 1998).

What is an Economy?

Income is a means, which enables an individual or household to satisfy his/its wants (i.e., meet the consumption needs). Income generation requires production – production of food, clothing, automobiles, and a host of other goods and services like a haircut, which can be classified under three broad categories: necessities, comforts and luxuries. Producers of goods and services are otherwise called firms or enterprises. Households (families) are the consumers of these goods and services.

To produce goods and services, firms require factors of production, which are broadly categorized into land, labour, capital and entrepreneurship (also called management). Households are the agents who own these factors for the use of which firms pay them rewards. The owners of land get rent, labourers receive wages, capital owners are paid interest and the entrepreneurs get profits. People act as households while they are consuming goods and as firms while they are producing goods.

An economy is the aggregation of all economic activities in a country, connecting households and firms engaged in production, earning income and enjoying consumption through exchange. Thus every country in the world has an economy of its own, and we call them the Indian economy, Japanese economy, US economy, and so on. All individual economies together form the global economy.

Business firms may be organised in a number of ways: as a sole proprietorship concern, as a partnership enterprise, as a joint stock company, as a co-operative society or as a government enterprise. Company, also called corporation is the most commonly found form of business organisation in the organised modern industry and service sectors. The corporate sector comprises all the business firms organised as companies.

The Indian economy is conventionally divided into two segments namely organised and unorganised segments. The organised sector, also called formal sector, is generally defined to cover all government enterprises and offices as well as those private firms employing 10 workers or more while the unorganised sector, also called the informal sector, comprises enterprises employing 9 workers or less. The registered corporate firms, co-operatives and the government establishments together represent the organised sector while usually the unregistered sole proprietorship and partnership firms represent the unorganised sector. The organised sector employs hardly about 10 % of the labour force in India while its contribution to the GDP is more than 50 %.

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Number of Enterprises in India:

Agricultural enterprises: As per the 9th Agriculture Census held in 2010-11, the total number of operational holdings in the country is 138 million, with the operated area of 159.18 million ha. The average size of operational holding is 1.16 ha. Small and marginal holdings (below 2.00 ha.) together constitute 84.97 percent, with the operated area of 44.31 percent. Semi-medium and medium operational holdings (2.00 ha. – 10.00 ha.) form 14.30 percent with the operated area of 44.77 percent. Large holdings (10.00 ha. & above) are 0.73 percent of total number of holdings, with a share of 10.92 percent of the operated area.

Non-agricultural enterprises

As per the 5th Economic Census held in 2005, there are 42.12 million enterprises in the country engaged in different economic activities other than crop production and plantation. Out of these, 25.81million enterprises (61.3%) are in the rural areas and 16.31 million enterprises (38.7%) in the urban areas. Five states viz. Andhra Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal together account for about 50% of the total enterprises in the country. About 85% of the enterprises are engaged in non-agricultural activities and the remaining in agricultural activities other than crop production and plantation. There are about 5.83 lakh enterprises which employed 10 workers or more, accounting for only 1.4% of the total enterprises. Out of these large enterprises, 2.25 lakh enterprises are in the rural areas and 3.58 lakh enterprises in the urban areas. About 53% of these large enterprises are concentrated in Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Kerala.

National income concepts

Income is universally used as the indicator of the economic well being of an individual or a household or a country, as it enables a person to buy goods and to attain his/her material well being/welfare. The income of a nation, often called the national income, is the sum of incomes earned by all its residents in a year.

Gross National Product (GNP)

Among the several concepts associated with the national income, the Gross National Product, or GNP for short, is the umbrella concept and the basic measure of national income. This concept was invented by the Russian-born American Economist **Prof. Simon Kuznets**. GNP refers to the market value of all final goods and services produced in a country during a year. Goods are used to produce other goods (as raw materials or intermediate/semi-finished goods) in the process of production. For instance, cotton goes into yarn and yarn into cloth, which in turn goes into ready-made garment. To avoid double counting of goods in GNP computation, care is taken to consider only the value added at each stage of

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production. Value added is the difference between the sales and purchases of materials made at each stage of production. The sum of the values added at all stages of production is in fact the final value of a good. [Note: The value added tax (VAT) is a tax imposed on the value added to a good at a particular stage of production instead of on the entire value of a good produced at every stage].

GNP has two components: gross domestic product (GDP) and gross foreign product (GFP). GDP is the sum of incomes originating in the domestic segment of the economy. GFP or, more often called the net factor income from abroad (NFIFA) or simply net income from abroad (NIFA), is the difference between the sale and purchase of goods and services(exports and imports) made abroad during a year. The magnitude of NIFA is measured by the current-account surplus or deficit in the balance of payments of the country in that year.

Net national product (NNP) is GNP minus depreciation of capital (i.e., the wear and tear of machinery, buildings, tools and equipment, etc.) used in the production of goods and services in that year. Depreciation is calculated as certain percentage, say 12 to 15 %, of the GNP.

GNP at market prices includes commodity/service taxes (commonly called indirect taxes) such as excise duty, customs duty, value added tax, service tax and excludes subsidies, (often given by the government to producers when market prices of goods produced by them fall below the cost of producing them). Existence of indirect taxes inflates the value of goods and services while subsidies under-estimate their value. To overcome this problem, the concept of

GNP at factor cost is used. GNP at factor cost is the summation of the costs paid to the owners of the factors of production namely rents, wages, interest and profits for the services of their factors: land, labour, capital and entrepreneurship, respectively. If in a country there are neither indirect taxes nor subsidies, the GNP at market prices is identical to the GNP at factor cost. But this is seldom the case!

GNP at factor cost minus depreciation is NNP at factor cost. What we normally refer to as the national income of a country is the NNP at factor cost. The per capita income or the average income per person in a country is the NNP at factor cost divided by the population of that country.

GNP at current prices is computed by multiplying the physical output of goods and services produced in a year by their respective prices prevailing in that year. Since prices normally move up over time (and may go down as well, though rarely), thus inflating (or deflating) the value of goods and services, the GNP at market prices is not a correct indicator of the real performance of an economy over time. So, to purge out the inflationary (or

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deflationary) element in the GNP, the concept of GNP at constant prices is used.

GNP at constant prices is computed by multiplying the physical output produced every year by constant prices, i.e., the prices prevailing in some chosen year in the past. GNP at current prices represents the 'money GNP' while the GNP at constant prices represents the 'real GNP'. The GNP at current prices divided by the GNP at constant prices is called the implicit price index, which indicates the magnitude of change in the general price level (or the rate of inflation/deflation) over time.

The NNP at factor cost computed at constant prices and divided by the population of the country is 'the per capita real income'. Thus the per capita real income represents the number of goods and services available per person in a country.

National Income in India

Data categories and components	Units	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1. GDP and Related Indicators							
GDP (current market prices)	₹ Crore	4987090	5630063	6477827	7795313[2R]	8974947[1R]	100,28,118[AE]
Growth Rate	%	16.1	12.9	15.1	20.3	15.1	11.7
GDP (factor cost 2004-05 prices)	₹ Crore	3896636	4158676	4516071	4937006[2R]	5243582[1R]	5503476[AE]
Growth Rate	%	9.3	6.7	8.6	9.3	6.2	5.0
Savings Rate	% of GDP	36.8	32.0	33.7	34.0	30.8	na
Capital Formation (rate)	% of GDP	38.1	34.3	36.5	36.8	35.0	na
Per Capita Net National Income (factor cost at current prices)	₹	35825	40775	46249	54151	61564	68747

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Table 1.1 : Growth in GDP at Factor Cost at 2004-5 prices (per cent)

	2005-06	2006-07	2007-08	2008-09	2009-10 3R	2010-11 2R	2011-12 1R	2012-13 AE
Agriculture, forestry & fishing	5.1	4.2	5.8	0.1	0.8	7.9	3.6	1.8
Mining & quarrying	1.3	7.5	3.7	2.1	5.9	4.9	-0.6	0.4
Manufacturing	10.1	14.3	10.3	4.3	11.3	9.7	2.7	1.9
Electricity, gas, & water supply	7.1	9.3	8.3	4.6	6.2	5.2	6.5	4.9
Construction	12.8	10.3	10.8	5.3	6.7	10.2	5.6	5.9
Trade, hotels, & restaurants, transport & communication	12.0	11.6	10.9	7.5	10.4	12.3	7.0	5.2
Financing, insurance, real estate & business services	12.6	14.0	12.0	12.0	9.7	10.1	11.7	8.6
Community, social & personal services	7.1	2.8	6.9	12.5	11.7	4.3	6.0	6.8
GDP at factor cost	**9.5**	**9.6**	**9.3**	**6.7**	**8.6**	**9.3**	**6.2**	**5.0**

Source : Central Statistics Office (CSO).
Notes: 1R : First Revised Estimate, 2R: Second Revised Estimate, 3R: Third Revised Estimate, AE : Advance Estimate.

Savings and investment in India

	Gross domestic savings				Gross fixed capital formatic		
Year	HH saving	Pvt. sector saving	Public sector saving	Total	Pvt. sector	Public sector	Total
1950-51	6.5	0.9	2.1	9.5	2.5	6.8	9.3
2000-01	21.4	3.7	-1.3	23.6	6.7	16.1	22.8
2009-10	25.3	8.4	0.2	33.7	8.4	23.3	31.7
2010-11	22.3	7.2	1.3	30.8	7.4	23.2	30.6

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0.1 : SELECT INDICATORS

	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2008-09	2009-10	2010-11	2011-12
1	2	3	4	5	6	7	8	9	10	11
SOCIAL INDICATORS										
Population (Million)[l]	361	439.2	548.2	683.3	846.4	1028.7	1161	1177	1210[s]	na
Birth Rate (per 1000)[m]	39.9	41.7	36.9	33.9	29.5	25.4	22.5	22.1	21.8[r]	na
Death Rate (per 1000)[m]	27.4	22.8	14.9	12.5	9.8	8.4	7.3	7.2	7.1[r]	na
Life Expectancy at Birthi (in years)[n]	32.1	41.3	45.6	50.4	58.7	62.5	na	na	66.1[r]	na
(a) Male	32.5	41.9	46.4	50.9	58.6	61.6	na	na	64.6[r]	na
(b) Female	31.7	40.6	44.7	50	59	63.3	na	na	67.6[r]	na
Education: Literacy Rate (%)[o]	18.3	28.3	34.4	43.6	52.2	64.8	na	na	74.04	na
(a) Male	27.2	40.4	46	56.4	64.1	75.3	na	na	82.14	na
(b) Female	8.9	15.4	22	29.8	39.3	53.7	na	na	65.46	na
Health & Family Welfare										
Registered Medical Practitioner (RMP) (Allopathy) (Thousand) on 31st Dec	61.8	83.7	151.1	268.7	393.6	587.2	793.7	846.5	922.2	na
RMP per 10,000 population	1.7	1.9	2.8	3.9	4.7	5.7	6.8	7.2	7.6	na
Beds (All Types)[p] per 10,000	3.2	5.7	6.4	8.3	9.5	na	na	na	na	na

1.2 : ANNUAL GROWTH RATES OF GROSS NATIONAL INCOME AND NET NATIONAL INCOME

(Per cent)

Year	Gross national income at factor cost		Net national income at factor cost		Per capita net national income	
	At current prices	At 2004-05 prices	At current prices	At 2004-05 prices	At current prices	At 2004-05 prices
1	2	3	4	5	6	7
			ANNUAL AVERAGE GROWTH RATES			
FIRST PLAN (1951-56)	1.8	3.7	1.9	4.2	0.0	2.4
SECOND PLAN (1956-61)	9.5	4.2	9.6	4.2	7.4	2.2
THIRD PLAN (1961-66)	9.6	2.8	9.5	2.6	7.1	0.3
THREE ANNUAL PLANS (1966-69)	12.2	3.9	12.2	3.7	9.8	1.5
FOURTH PLAN (1969-74)	11.1	3.4	10.8	3.2	8.4	0.9
FIFTH PLAN (1974-79)	10.7	4.9	10.4	4.9	8.0	2.6
ANNUAL PLAN (1979-80)	9.4	-5.0	8.4	-5.9	5.8	-8.2
SIXTH PLAN (1980-85)	15.3	5.4	15.3	5.4	12.8	3.1
SEVENTH PLAN (1985-90)	14.1	5.6	13.8	5.5	11.4	3.3
TWO ANNUAL PLANS (1990-92)	15.7	3.2	15.3	2.8	13.0	0.8
EIGHTH PLAN (1992-97)	16.4	6.6	16.6	6.7	14.2	4.6
NINTH PLAN (1997-2002)	10.8	5.7	10.6	5.5	8.6	3.5
TENTH PLAN (2002-2007)	12.8	7.6	12.8	7.5	11.1	5.9
ELEVENTH PLAN (2007-2012)1R	16.1	8.0	16.1	7.8	14.6	6.3

Sectoral Composition of GDP

Year	Agriculture	Industry	Services
1950-51	53.1	16.6	30.3

1960-61	48.7	20.5	30.8
1970-71	42.3	24	33.8
1980-81	36.1	25.9	38
1990-91	29.6	27.7	42.7
2000-01	22.3	27.3	50.4
2010-11	14.5	27.8	57.7
2011-12	13.9	27	59

Economic Growth: Economic Growth is the process through which there is a sustained, i.e., long run, increase in the per capita real income in a country. However, in India the official agencies like the Planning Commission, the Union Ministry of Finance and the Reserve Bank of India define and measure India's economic growth in terms of increase in the GDP at constant prices. When we say the Indian economy grew at the rate of, say, 5.5 percent during the year 2012-13, we mean the growth of the GDP, and not of the per capita income.

Inclusive growth:

The concept which was first used by the Planning Commission in its 11th Plan document, basically means, "broad based growth, shared growth, and pro-poor growth". It helps reduce poverty and increases the involvement of people into the growth process in a country. Inclusive growth by its very definition implies an equitable allocation of resources with benefits accruing to every section of the society.

Economic development: Economic growth and economic development are sometimes used as synonymous terms. But they are not identical although they are related. Economic development is a multi-dimensional process through which an economy grows as well as undergoes structural and qualitative changes. The key structural changes are that the percentage of population/labour force in the primary sector including agriculture declines while that in the secondary (manufacturing) and tertiary (service) sectors increase and; the percentage of the GNP contributed by the primary sector declines while the contribution by the other two sectors increase. In addition, there would be qualitative changes which include: demographic changes such as decline in the rate of growth of population, dependency ratio, and infant mortality rate and increase in the literacy ratio and life expectancy at birth, etc.

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How is economic development measured?

A number of indicators / indices / yardsticks are currently being used by the national and international bodies to measure economic development. The GNP per capita is the most commonly used indicator. But the GNP measure has a number of limitations. GNP computations exclude several productive activities such as the work of housewives and other non-traded goods and services but includes several de-merit goods or 'bads' such as narcotics and environment pollutants. Further, the methods of measuring GNP vary greatly from one country to another, making international comparison inappropriate.

In view of these limitations of the conventional GNP concept, some economists and UN bodies have suggested alternative measures. For instance, Professors William Nordhous and James Tobin of America have coined the concept of MEW (Measure of Economic Welfare). Prof. Samuelson suggests a similar concept - NEW (Net Economic Welfare). NEW or MEW is the conventionally computed GNP plus the imputed values of all non-traded goods and services such as leisure and housewives' services, minus the market values of all 'bads'.

Green GNP:

Coined by the UN bodies to take into account the depletion in the stock of natural resources such as minerals and forest wealth as a result of production of goods and services every year. Green GNP is thus the conventionally calculated GNP minus the depreciation of the natural capital stock in that year in the country. Some Scandinavian countries have already initiated a measure to compute green GNP as distinct from the conventional GNP.

Gross National Happiness (GNH):

Gross National Happiness is an attempt to define quality of life in more holistic and psychological terms than Gross National Product. The term was coined in 1972 by Bhutan's former King Jigme Singye Wangchuck, who has opened up Bhutan to the age of modernization, soon after the demise of his father King Jigme Dorji Wangchuk. It signalled his commitment to building an economy that would serve Bhutan's unique culture based on Buddhist spiritual values. Like many moral goals, it is somewhat easier to state than to define. While conventional development models stress economic growth as the ultimate objective, the concept of GNH claims to be based on the premise that true development of human society takes place when material and spiritual development occur side by side to complement and reinforce each other.

The four pillars of GNH are the promotion of sustainable development, preservation and promotion of cultural values, conservation of the natural environment, and establishment of good governance.

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Critics allege that because GNH depends on a series of subjective judgments about well-being, governments may be able to define GNH in a way that suits their interests. In the case of Bhutan, for instance, they say that the government expelled about one hundred thousand people and stripped them of their Bhutanese citizenship on the grounds that the deportees were ethnic Nepalese who had settled in the country illegally. Further, not all countries share Buddhist values.

Sustainable Development:

Sustainable development is a development that aims to meet human needs by judiciously using resources and preserving the environment and so that these needs can be met not only in the present, but also for generations to come. The term was coined by the Brundtland Commission (UN World Commission on Environment and Development (appointed in 1985 and its report: 'Our Common Future' submitted in 1987), and has become the most often-quoted definition of sustainable development. The UN Commission defines sustainable development as that which "meets the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainable development ties together concern for the carrying capacity of natural systems with the social challenges facing humanity. As early as the 1970s "sustainability" was employed to describe an economy "in equilibrium with basic ecological support systems." Ecologists have pointed to 'the limits to growth', and presented the alternative of a "steady state economy" in order to address environmental concerns. The field of sustainable development can be conceptually broken into three constituent parts: environmental sustainability, economic sustainability and socio-political sustainability.

Genuine Progress Indicator (GPI)

GPI is an attempt to measure whether a country's growth, as measured in terms of increased production of goods and services, has actually resulted in the improvement of human welfare (or well-being) in the country. GPI advocates claim that it can more reliably measure economic progress, as it distinguishes between worthwhile growth and uneconomic growth.

The GPI is a variant of the *Index of Sustainable Economic Welfare (ISEW)* first proposed by Daly and Cobb (1989). Both the GPI and ISEW use the same income-consumption data as GDP but make deductions to account for income inequality and costs of crime, environmental degradation, and loss of leisure and additions to account for the services from consumer durables and public infrastructure as well as the benefits of volunteering and housework.

The GDP versus the GPI is analogous to the difference between the gross profit of a company and the net profit; the Net Profit is the Gross Profit

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minus the costs incurred. Accordingly, the GPI will be zero if the financial costs of crime and pollution equal the financial gains in production of goods and services, all other factors being constant.

The "costs" of economic activity include the following potential harmful effects:

- Cost of resource depletion
- Cost of crime
- Cost of ozone depletion
- Cost of family breakdown
- Cost of air, water, and noise pollution
- Loss of farmland
- Loss of wetlands.

GNP adjusted for purchasing power parity (PPP):

The UN International Comparison Program (ICP) estimates GNP on an internationally comparable scale, using purchasing power parity (PPP's) instead of exchange ratio as the conversion factor. The PPP conversion factor is defined as the number of units of a country's currency required to buy the same number/amounts of goods and services in the domestic market of a country, as one dollar would buy in the U.S. For example, if it costs Rs. 50 to buy a hotel meal in India and a similar meal costs US$ 10 in the USA, an income of Rs. 50 in India is equivalent to Rs. 500 in the US terms. The PPP concept is useful in comparing the countries in terms of the purchasing power of their respective incomes and not in terms of the exchange conversion factor. Accordingly, since the prices of goods and services are much lower in developing countries like India than in developed countries, one dollar of income buys more number/quantity of goods in the former than in the latter. In other words, the income gap between the high-income and low-income countries becomes narrower if one goes by the purchasing power of the money incomes in the two sets of countries.

For instance, the internationally comparable incomes according to the World Development Report (WDR) - 2012 are:

India's per capita income (PCI) is US$ 1,180 according to the exchange conversion factor, but US$ 3,260 when adjusted for PPP. Norway has the highest PCI – US$ 86,440 - in terms of the exchange conversion factor, but only US$ 56,050 if adjusted for PPP.

Classification of countries on the basis of GNP per capita according to World Development Report 2012:

Gross national income (GNI) per capita is used to determine the following income classifications: low income, US$1,005 or less in 2010;

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middle income, US$1,006—$12,275; and high income, US$12,276 and above. A further division at GNI per capita US$3,975 is made between lower-middle-income and upper-middle-income economies.

Category of countries	Range of PCI
Low income countries (LIC's)	US$1,005 or less
Middle income countries (MIC's)	US$1,006—$12,275
High income countries (HIC's)	US$12,276 and above

Comparison by GNP per Capita 2012:

Country	GNP per capita	GNP per capita (ppp
Norway	US$ 85,380	US$ 57,130
U.S.A.	US$ 47,140	US$ 47,020
India	US$ 1,340	US$ 3,560
China	US$ 4,260	US$ 7,570
HICs(Av.)	US$ 38,658	US$ 37,183
MICs(Av.)	US$ 3,764	US$ 6,780
LICs(Av.)	US$ 510	US$ 1,246
World(Av.)	US$ 9,097	US$ 11,058

Using PPP's instead of exchange rates as conversion factors, the UN international comparison program (ICP) has developed measures of GDP on an internationally comparable scale.

World Development Report (WDR) is published by the World Bank every year. In addition to updating data on development indicators, the report carries every year a comprehensive write-up on a theme (or title/ topic) of current importance. The WDR title brought out in the immediate past are:

Year of WDR	***Title of WDR***
WDR – 2000/2001	Attacking Poverty
WDR – 2002	Building Institutions for markets
WDR – 2003	Sustainable Development In a Dynam World
WDR – 2004	Making Services work for poor people
WDR – 2005	A Better Investment Climate for Everyon
WDR – 2006	Equity and Development
WDR – 2007	Development and the Next Generation
WDR – 2008	Agriculture for Development
WDR – 2009	Reshaping Economic Geography
WDR – 2010	Development and Climate Change

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WDR - 2011	Conflict, Security, and Development
WDR - 2012	Gender Equality and Development
WDR -2013	Jobs

India's position in the gross world product (GWP). The Indian economy is the fourth largest in the world as measured by GDP (adjusted for ppp), with a gross domestic product (GDP) of US $4170.9 billion. When measured in USD exchange-rate terms, it is the tenth largest in the world, with a GDP (nominal) of US $1566.6 billion. India is one of the G-20 major economies and a member of BRICS Group. On a per-capita-income basis, India ranked 141st by nominal GDP per capita and 130th by GDP (PPP) per capita in 2012.
The economy of India is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country is one of the G-20 major economies and a member of BRICS Group. On a per-capita-income basis, India ranked 141st by nominal GDP per capita and 130th by GDP (PPP) per capita in 2012.

GDP Rank (WDR 2012)	Coun try	Population		GDP @nominal exchange rates		GDP (Adjusted for ppp)		PCI(US$)	
		No's in biln	% to World total	(in billion US$)	% to World total	(in biln US$)	% to World total	@nominal exchange rates	Adjusted for ppp
1	USA	310	4.52	14600.8	23.41	14561.7	19.21	47140	47020
2	China	1338	19.52	5700.0	9.13	10132.3	25.24	4260	7570
3	Japan	127	1.85	5369.1	8.61	4432.1	5.85	42150	34790
4	India	1171	17.08	1566.6	2.51	4170.9	5.37	1340	3560
--	World	6855	100.00	62364.1	100.00	75803.5	100.0	9097	11058

The per capita income – based either on the exchange rates or even on the purchasing power parity - is considered as an incorrect indicator of the level of wellbeing of people. Hence the UN and other agencies have from time to time been trying to devise improved methods/indicators of human wellbeing. The prominent among them are elaborated below.

Physical Quality of Life Index (PQLI): PQLI is an attempt to measure the quality of life or well-being of a country. It is a composite index computed by combing three indicators namely; life expectancy at age one, infant mortality, and literacy rate, all equally weighted on a 0 to 100 scale. It was developed for the Overseas Development Council, a US-based NGO, in the mid-1970s by Morris D. Morris, as a measure devised to overcome the

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defects of GNP as an indicator of development. PQLI might be regarded as an improvement over the GNP measure but shares the general problems of measuring quality of life in a quantitative way. HDI devised by the UNDP in 1990 is a further improvement over PQLI.

Human Development Index (HDI):
Developed in the year 1990 and published since then in the form of Human Development Report (HDR) every year, by UNDP. A noted Pakistani economist Dr. Mahboob ul Huq, one of the former Directors of the HDR project, was instrumental (Prof. Amartya Sen also contributed to this effort) in devising the concept, which is a refinement over the concept of PQLI. The criteria and the procedures used for computing the HDI have been modified over the years to make the HDI a better indicator of human development. Starting from 1990 the HDR introduced in course of time a family of measures throwing light on different dimensions of human development and they were as follows:
1990 - Human Development Index (HDI)
1995 - Gender-related Development Index (GDI) & Gender Empowerment Measure (GEM)
1997 - Human Poverty Index (HPI) – 1 (throwing light on poverty in developing countries)
1998 - Human Poverty Index (HPI) – 2 (throwing light on poverty in developed countries)
2010 – Multidimensional Poverty Index

The Human Development Report 2010 has modified the criteria used for computing the HDI and introduced inequality adjusted HDI (IHDI), a new measure throwing light on the impact of inequality on human development. Moreover it has replaced the GDI and GEM by a new index called the Gender Inequality Index (GII) while the earlier Human Poverty Indices (HPI 1 & 2) have been replaced by an altogether new poverty index namely the Multi-dimensional Poverty Index (MPI).

Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, access to knowledge and a decent standard of living. The HDI is the geometric mean of normalized indices measuring achievements in each dimension. For ease of comparability, the average value of achievements in these three dimensions together is put on a scale of 0 to 1, where greater is better.

Human Development Index 2012/2013

Country	HDI rank	HDI value	LEB (years)	Mean years of schooling	Expected years of schooling	GNI per capita $	GNI per capita rank

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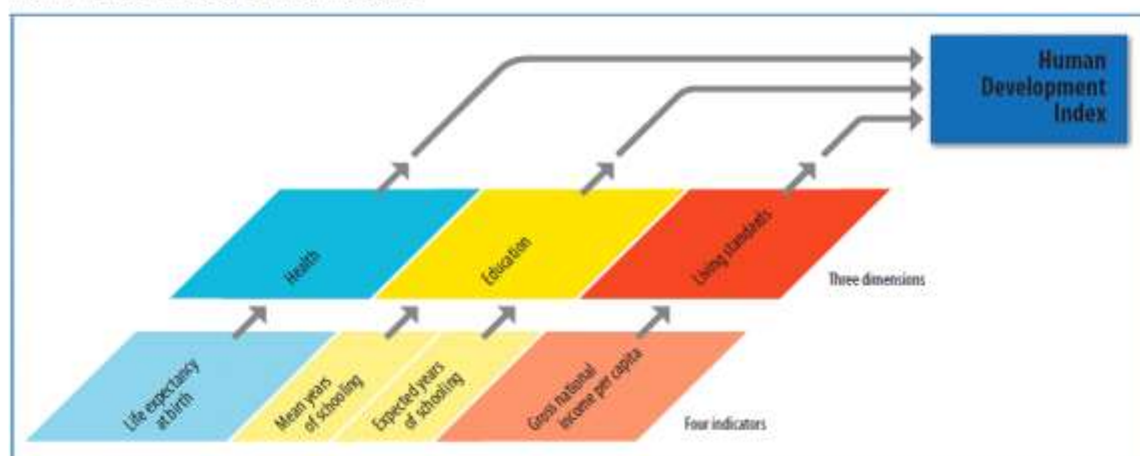
						(ppp 2005)	minus HDI rank
Norway	1	0.955	81.3	12.6	17.5	48688	4
USA	3	0.937	78.7	13.3	16.3	43,480	6
China	101	0.699	73.7	7.5	11.7	7,945	–11
India	136	0.554	65.8	4.4	10.7	3,285	–3
Niger	186	0.304	55.5	1.4	4.9	701	-4

Classification of countries on the basis of HDI according to Human Development Report 2012/2013 is as under:

HDI Range	***HDI Average***	***Level of human development***
0.801 and above	0.905	Very high human development
0.711 – 0.800	0.758	High human developmen
0.535 - 0.710	0.640	Middle huma development
0.327 - 0.535	0.466	Low human development
--	0.694	World

N.B: India comes in the middle HDI range



Trends in Human Development Index for India

Year	1980	1990	2000	2005	2010	2012/13
HDI	0.345	0.410	0.463	0.507	0.547	0.554

Inequality-adjusted HDI (IHDI): Introduced in HDR 2010, also ranges between 0 and 1 and is a measure of the level of human development of people in a society that accounts for inequality. The IHDI captures the losses in human development due to inequality in health, education and income. Under perfect equality the HDI and the IHDI are equal. When there is inequality in the distribution of health, education and income, the HDI of an average person in a society is less than the aggregate HDI; the lower the IHDI (and the greater the difference between it and the HDI), the greater the inequality.

Multidimensional Poverty Index (MPI):
Like development, poverty is multidimensional — but this is traditionally ignored by income/consumption based measures. The Multidimensional Poverty Index (MPI), published for the first time in the 2010 Report, complements money-based measures by considering multiple deprivations and their overlap. The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are multi-dimensionally poor (suffering deprivations in at least 33% of weighted indicators) and the number of deprivations with which poor households typically contend. It can be deconstructed by region, ethnicity and other groupings as well as by dimension, making it an apt tool for policymakers. MPI is the percentage of the population that is multi-dimensionally poor adjusted by the intensity of the deprivations.
The related concepts used by UNDP for computing MPI are:
Multidimensional poverty headcount: Percentage of the population with a weighted deprivation score of at least 33%.
Intensity of deprivation of multidimensional poverty: Average percentage of deprivation experienced by people in multidimensional poverty.
Population vulnerable to poverty: Percentage of the population at risk of suffering multiple deprivations — that is, those with a deprivation score of 20%–33%.
Population in severe poverty: Percentage of the population in severe multidimensional poverty—that is, those with a deprivation score of 50% or more.
Contribution of deprivation to overall poverty: Percentage of the MPI attributed to deprivations in each dimension.

The MPI uses 10 indicators to measure three critical dimensions of poverty at the household level: 1) *Education, 2) Health and 3) Living standard.* These directly measured deprivations in health and educational outcomes as well as key services such as water, sanitation, and electricity reveal not only how many people are poor but also the composition of their poverty. The MPI also reflects the intensity of poverty – the sum of weighted deprivations that each household faces at the same time.

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A person is defined as poor if she or he is deficient in at least 30 per cent of the weighted indicators. The MPI reflects both the incidence (H) of poverty – the proportion of the population that is multi-dimensionally poor – and the average intensity (A) of their deprivation – the average proportion of indicators in which they are deprived. The MPI is calculated by multiplying the incidence of poverty by the average intensity across the poor. Thus, MPI = H x A. A person is identified as poor if he or she is deprived in at least 30 percent of the weighted indicators.

The following table shows the multidimensional poverty rate (MPI) and its two components: incidence of poverty (H) and average intensity of deprivation faced by the poor (A). For instance, for India the MPI is 0.286 [i.e., 0.587 x 0.527 = 0.286]

Multidimensional Poverty Index (MPI) 2012

HDI rank	Country	MPI value [Head count(%) multiplied by Intensity of deprivation(%)]	Population in Multi-dimensional poverty (%)		Popula-tion vulnerable to Poverty (%)	Population in severe Poverty (%)	Contribution of deprivation to overall poverty (%)			Population below income poverty line	
			Head count (%)	Inten-sity of deprivation (%)			Education	Health	Living Standards	PPP $ 1.25 a day (%)	National poverty line (%)
21	Armenia	0.001	0.3	35.2	3.0	0.0	25.8	64.8	9.4	1.3	35.8
101	China	0.056	12.5	44.9	6.3	--	64.8	9.9	25.2	13.1	2.8
136	India	0.283	53.7	52.7	16.4	28.6	21.8	35.7	42.5	32.7	29.8
186	Niger	0.642	92.4	69.4	4.0	81.8	35.4	21.5	43.2	43.6	59.5

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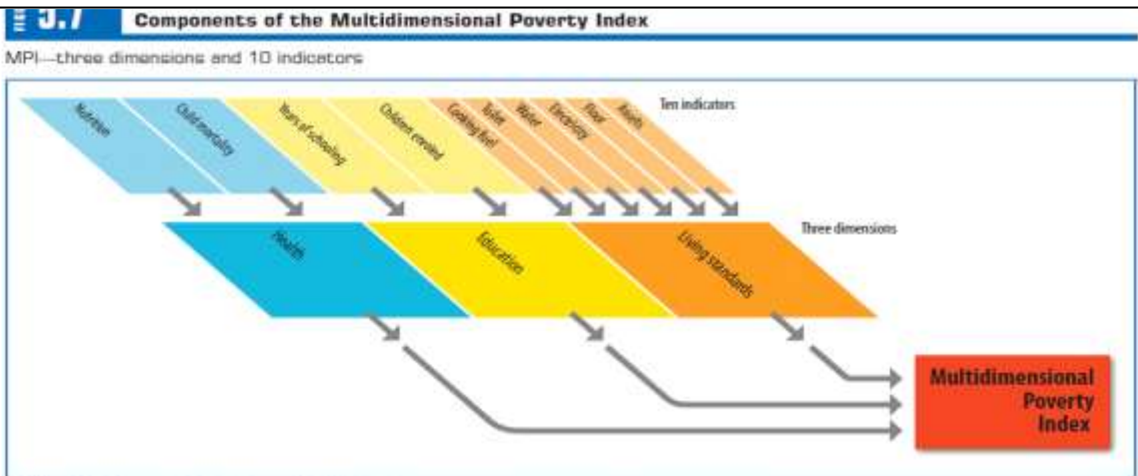


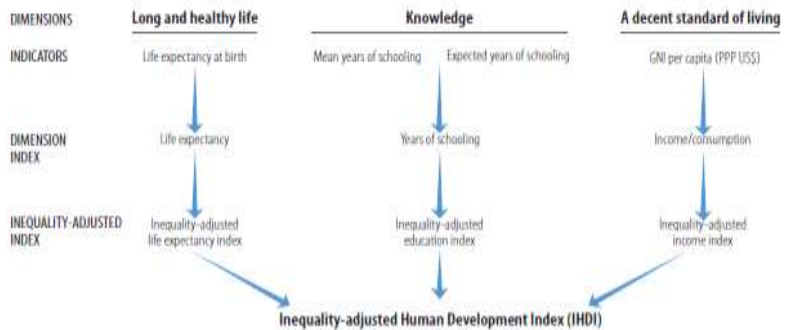
Note: The size of the boxes reflects the relative weights of the indicators.

Source: Alkire and Santos 2010.

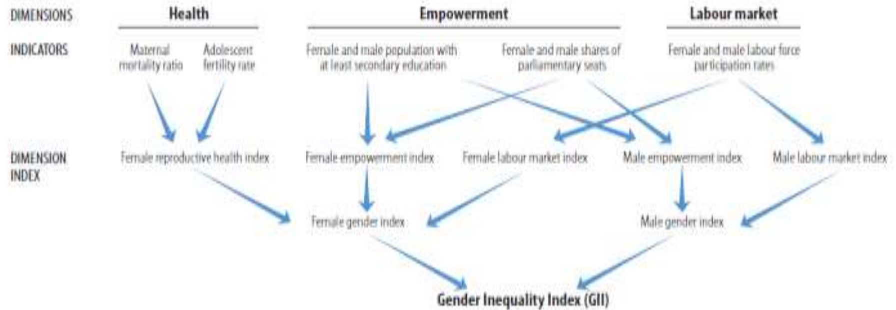
Calculating the human development indices—graphical presentation

Human Development Index (HDI)

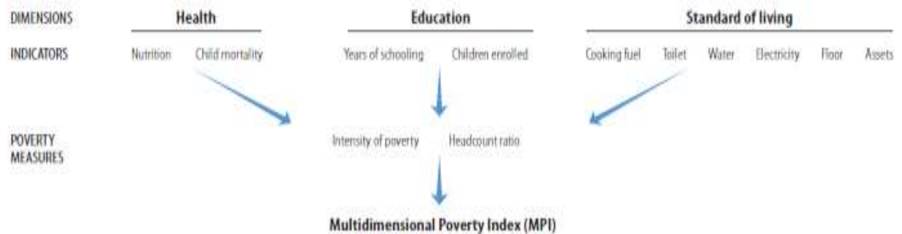
Inequality-adjusted Human Development Index (IHDI)



Gender Inequality Index (GII)



Multidimensional Poverty Index (MPI)



Themes (Titles) of different Human Development Reports (HDR's) brought out by UNDP since 1990:

1990 - Concept and measurement of human development
1991 - Financing Human Development
1992 - Global Dimensions of Human Development
1993 - Peoples participation
1994 - New Dimensions of Human Security
1995 - Gender and Human Development
1996 - Economic growth and Human Development
1997 - Human Development to eradicate Poverty
1998 - Consumption for Human Development
1999 - Globalization with Human Face
2000 - Human Rights & Human Development
2001 - Making New Technologies work for Human Development
2002 - Deepening Democracy in a Fragmented world.
2003 - Millennium Development Goals: A compact among nations to end human poverty.
2004 - Cultural Liberty in Today's Diverse World.
2005 - International Cooperation at Crossroads
2006 - Beyond Scarcity – Power, Poverty and the Global Water Crisis
2007/8 - Fighting Climate Change: Human Solidarity in a divided world.
2009 - Overcoming Barriers: Human Mobility and Development
2010 - The Real Wealth of Nations: Pathways to Human Development
2011 - Sustainability and Equity: A Better Future for All
2012/2013 -The Rise of the South: Human Progress in a Diverse World

NHDR India

The first National Human Development Report for India (NHDR) was prepared and published by the Planning Commission in 2002; it was linked to, but independent of, the annual global Human Development Report issued by the UNDP. The HDI according to NHDR is a composite of variables capturing attainments in three dimensions of human development, viz., economic, educational and health. These have been captured by per capita monthly expenditure adjusted for inequality; a combination of literacy rate and intensity of formal education; and a combination of life expectancy at age 1 and infant mortality rate.

The NHDR collates indicators of attainment in three "critical dimensions of well-being": longevity (defined as the ability to live a long and healthy life); education (the ability to read, write and acquire knowledge); and command over resources (the ability to enjoy a decent standard of living and have a socially meaningful life). Longevity attainments include life expectancy at age 1 (instead of life expectancy at

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birth, used by the UNDP); and infant mortality rate. The measure of adult literacy employed by the UNDP has been replaced with educational attainments, consisting of literacy rate at 7+ and intensity of formal education. Similarly, economic attainments include per capita real consumption expenditure adjusted for inequality, instead of real GDP per capita PPP, in addition to infrastructural endowments such as sanitation, employment, housing, roads, electricity, safe drinking water, etc.

Based on various indices, the NHDR shows that, while there have been significant improvements in the levels of human development during the 1980s and the 1990s, there exist significant rural-urban and gender gaps. Besides, there are wide disparities in the levels of human development between the States. For instance, the HDI for Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Orissa in the 1980s was half of that of Kerala. Tamil Nadu, Rajasthan and Madhya Pradesh have improved their HDI significantly over the 1990s.

The second India Human Development Report (IHDR) prepared by Institute of Applied Manpower Research, New Delhi, on behalf of the Planning Commission, was released on Oct 21, 2011. The IHDR data are not comparable with data published by the United Nations due to variations in the calculations and formulas used by the two agencies.

The state-wise HDI is given below:

Rank	State/Union Territory	HDI (2011)
15	Andhra Pradesh	0.473
16	Assam	0.444
21	Bihar	0.367
23	Chhattisgarh	0.358
2	Delhi	0.750
4	Goa	0.617
11	Gujarat	0.527
9	Haryana	0.552
3	Himachal Pradesh	0.652
—	India (national average)	0.467
10	Jammu and Kashmir	0.529
19	Jharkhand	0.376
12	Karnataka	0.519
1	Kerala	0.790
20	Madhya Pradesh	0.375

Rank	State/Union Territory	HDI (2011)
7	Maharashtra	0.572
6	North eastern India (excluding Assam)	0.573
22	Odisha	0.362
5	Punjab	0.605
17	Rajasthan	0.434
8	Tamil Nadu	0.570
18	Uttar Pradesh	0.380
14	Uttarakhand	0.490
13	West Bengal	0.492

Timeline of the Indian Economy

Pre-colonial period:

- 1500 AD: India's economy had a 24.5% share of world income, the second largest in the world after China, which had a 25% share.
- 1700 AD: India's economy had a 24.4% share of world income, the largest in the world, under Aurangzeb's Mughal Empire.

Colonial period:

East India Company (1793)

- 1793: Land settlement Act
- 1820: India's economy had a 16% share of world income, the second largest in the world after China.

British Raj

- 1868: First estimation of India's national income by Dadabhai Naoroji
- 1870: India's economy had a 12.2% share of world income under the British Empire.
- 1913: India's economy had a 7.6% share of world income under the British Empire.
- 1943: Famine of Bengal

Post-Independence period

- 1952: India's economy had a 3.8% share of world income
- 2008: India's income is $3374.9 billion (PPP) which accounts for a 4.87% share of world income, the fourth largest in the world in terms of purchasing power parity.

A brief history of Indian economy

India's economic history can be broadly divided into three eras, beginning with the pre-colonial period lasting up to the 17th century. The advent of British colonization of the Indian subcontinent started the colonial period in the 17th century, which ended with the Indian

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independence in 1947. The third period is the post-independence period after 1947.

- Pre-Independence period from 1757 to 1857 (from the Battle of Plassey to the Sepoy Mutiny: representing East India Company's influence/regime.
- Britain's direct rule from 1857 to 1947.
- Post-Independence period: Two regimes - Centralized, totalitarian-type Planning from 1951 to 1991 and Market-friendly, indicative planning from 1991 onwards

By the end of the colonial rule, India inherited an economy, which was one of the poorest in the world and stagnant, with industrial development stalled, agriculture unable to feed a rapidly accelerating population, *who were subject to frequent famines, had one of the world's lowest life expectancy suffered from pervasive malnutrition and was largely illiterate.* The Indian economy grew at the rate of not more than 0.5 percent per annum during the colonial regime. The near stagnation of the economy was attributed largely to the drain of wealth from India to Britain. Dadabhai Navroji's book: "Poverty and Un-British Rule in India" written in 1901, attempts to assess the drain of resources from India to England. His 'drain theory' states that India's wealth was drained at the rate of about 4 % of India's GNP per year for 190 years from 1757 to 1947. Navroji presented to the British people the "Drain Theory", which put before them the facts and figures substantiating the systematic drain of wealth from India. He succeeded in getting a Royal Commission appointed to look into his charges, and he was himself one of the members of this Commission.

Drain took place in two forms: internal and external. Internal drain was in the form of transfer of purchasing power from the age-old, indigenous sector of the economy consisting of agriculture and household enterprises to the modern enterprises comprising plantation agriculture, created and patronized by the British expatriate interests. External drain occurred in the form of under-invoicing (under-pricing) of Indian exports to Britain, over-invoicing (over-pricing) of imports from Britain, royalty/home charges of the British Empire and salaries of British officers. The systems of land tenure perpetrated by the British Empire encouraged absentee landlordism and tenancy insecurity thereby leading to stagnation and progressive impoverishment of the subsistence segment of the agricultural sector. Famines were frequent and devastating. Altogether 24 famines took place during the British period - Bengal famine of 1944 being the worst. Famines were considered the other side of 'Drain'. An estimate by Cambridge historian **Angus Madison** reveals that, India's share of the world income declined from 22.6% in 1700, comparable to Europe's share of 23.3 %, to a low of 3.8% in 1952. Currently, India's share in the gross global product (GGP) is just 1.87 percent.

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Post-independence Period

After independence, India opted to have a centrally planned economy to ensure an effective and equitable allocation of national resources for the purpose of balanced economic development. After liberalisation in 1991, the emergence of a market economy with a fast growing private sector, planning has become indicative, rather than prescriptive in nature.

The Indian economy grew at the rate of about 3.5 percent during the first three decades of planning, i.e., from1951 to 1981. A noted economist **Prof. Raj Krishna** had sarcastically called this the 'Hindu Rate of Growth' which was in contrast to high growth rates in other Asian countries, especially the East Asian Tigers, during that period.

The economic reforms that surged economic growth in India after 1980 can be attributed to two stages of reforms. The pro-business reform of 1980s initiated by Indira Gandhi and carried on by Rajiv Gandhi, eased restrictions on capacity expansion for incumbents, removed price controls and reduced corporate taxes. The economic liberalisation of 1991, initiated by then Indian prime minister P. V. Narasimha Rao and his finance minister Manmohan Singh in response to a macroeconomic crisis did away with the Licence Raj (investment, industrial and import licensing) and ended public sector monopoly in many sectors, thereby allowing automatic approval of foreign direct investment in many sectors. Since then, the overall direction of liberalisation has remained the same, irrespective of the ruling party at the centre, although no party has yet tried to take on powerful lobbies like the trade unions and farmers, or contentious issues like labour reforms and cutting down agricultural subsidies.

'Fundamentals' of the Indian economy: Refer to a set of factors or conditions that reflect the general health of the economy. These factors/indicators are: (1) the rate of GDP growth, (2) the price level (rate of inflation), (3) the volume and structure of foreign exchange reserves, (4) the size and maturity structure of foreign debt and its proportion to the GDP, (5) the tax collection performance, (6) the savings rate, (7) the percentage of capacity utilization in industry, (8) the percentage of balance of payments current account deficit to the GDP, and, (9) the percentage of central and state governments' consolidated fiscal deficit to the GDP.

Poverty in India

Absolute poverty (income poverty measure):

A situation in which a person or household is unable to satisfy the basic needs of life. Absolute poverty is measured by using two criteria: 1) Minimum livelihood and 2) Reasonable livelihood. Minimum livelihood criterion is used in India because it would not be possible to provide even the minimum livelihood to people for some decades.

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There has been no uniform measure of poverty in India. The Planning Commission had been estimating the incidence of poverty at National and State level (both in rural and urban areas) since the Sixth Five Year Plan on the basis of the recommendations of the Task Force (1979, Chairman Y.K. Alagh) on projections of minimum needs and effective consumption demand.

These estimates were revised as per the methodology recommended by the Expert Group on Estimation of Proportion and Number of Poor chaired by Prof. DT Lakdawala.
The expert group, while accepting the definition of poverty line used by the Task Force, set out an alternative methodology for estimation of poverty ratios using quinquennial consumer expenditure survey data of the NSSO and State-specific poverty lines. As a departure from the methodology followed by the Task Force, the expert group estimated poverty on the basis of consumer expenditure surveys and did not make any adjustments on the basis of National Accounts.

India's official poverty measure had long been based solely upon the ability to purchase a minimum recommended daily diet of 2,400 kilocalories (k-cal) in rural areas where about 70 % of people live, and 2,100 k-cal in urban areas.

The Planning Commission currently estimates the poverty line on the basis of monthly per capita consumption expenditure (MPCE) computed by the NSSO based on the uniform recall method (URM) survey. So, items such as housing, healthcare and transportation are not taken into account in the poverty estimates.

The Planning Commission recently adopted the Tendulkar Committee's methodology for poverty estimate that includes spends on education and health besides food, taking the number of the poor to a whopping 37.2 per cent from 27.5 per cent estimated earlier in 2004. This means that India now has 100 million more people living below the poverty line than in 2004. The Tendulkar committee report recommends that the NSSO, which estimates the minimum household consumption, would move to a mixed reference period for its surveys in future — meaning 365 days for low-frequency items such as clothing, footwear, durables, education, and health; and 30 days for the rest.

Suresh Tendulkar Committee had found that the BPL population would jump by nearly 10 crore from 27.5% to 37.2% in 2004. According to this committee, 41.8% of people in rural areas live below the poverty line as against 25.7% of urban residents. The officially accepted level for rural poverty was 28.3%. It hasn’t changed for urban areas.

The committee has also revised the poverty line in terms of money spent per person per month. From Rs356.30 a month, this has increased to

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Rs446.68 in rural areas. In urban areas it has risen from Rs538.60 to Rs578.8 in 2004.

The new poverty estimates of 37.2% BPL would be closer to those made by the World Bank, which said 42% of Indians lived below poverty line in 2005. The bank's poverty line is pegged at $1.25 a day, or at India's PPP rate Rs 21.6 a day in urban areas and Rs 14.3 a day in rural areas.

The earlier definition of India's poverty was based on calorie intake, according to which only 27.5 per cent of people were living below the poverty line as on March 1, 2004 and the number of BPL families was about 65 million. As per the methodology suggested by the Tendulkar report, the number would swell to 37.2 per cent of the total population and the number of BPL families to about 8.1 crore (81 million).

According to the Planning Commission's Tendulkar Committee methodology based latest estimates of poverty, released on 23rd July 2013, 25.7% of people in rural areas, 13.7% in urban areas, lived below poverty line in 2011-12, while all-India Poverty head count ratio declined to a record 22%. The Commission's estimates, that people consuming more than Rs. 28.65 a day in cities and over Rs. 22.42 in rural areas are not poor, had triggered a controversy which even rocked the Parliament.

In 2008, the Union Rural Development Ministry had also set up a commission headed by N.C. Saxena to examine alternative methods of estimating rural poverty. The commission reported its findings in late 2009. The rural development ministry conducts a survey along with the states every five years to identify the poor, while the Planning Commission gives an overall percentage for the number of poor in a state.

Since the Tendulkar Committee report also came in for criticisms, the Planning Commission recently (on May 24, 2013) constituted an expert group headed by noted economist C. Rangarajan to review the Tendulkar Committee methodology for estimating poverty. The expert group is expected to give its report in 7-9 months.

Income poverty measure (IPM): The conventional poverty measure, based on income as the criterion to measure poverty. Accordingly the 'poverty line' is the income/expenditure required by a person to satisfy minimum the livelihood. The head count ratio (HCR) or the percentage of the population below poverty line is the population failing to meet this minimum livelihood requirement. IPM fails to take account of human capabilities / deprivations.

Capability Poverty Measure (CPM):
The CPM (introduced by UNDP in its HDR 1996) treated poverty basically as a situation in which people are deprived of certain minimum capabilities

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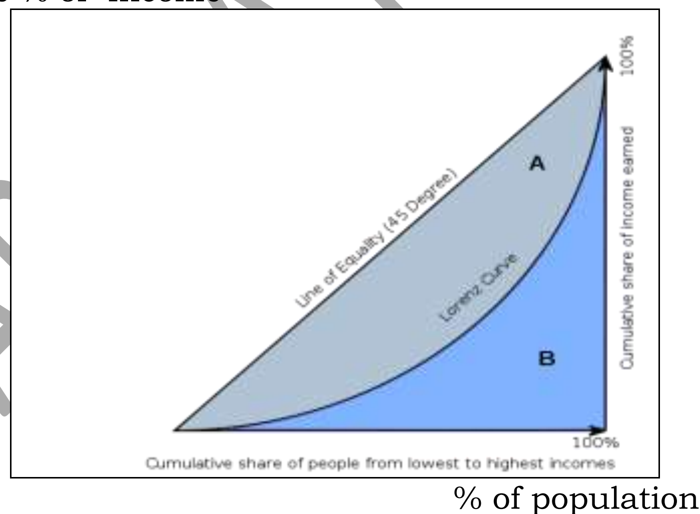
in life. CPM led to computation of Human poverty Index which used to be computed every year since 1996 till 2009. Since 2010 a more comprehensive index of poverty namely multi-dimensional poverty index (MPI) is being computed.

Relative Poverty: Refers to a situation of extreme inequality in income distribution where the poorest in the society experience abject poverty because they share very small percentage of the total income while the top income brackets enjoy a very large chunk of the income. Relative poverty is usually measured by the Lorenz curve and Gini concentration ratio.

Lorenz curve: Developed by an American economist **Max Otto Lorenz in 1905** to measure the degree of skewness (inequality) in the distribution of income in a society. The curve is drawn on a closed box graph with the percentage of population measured on the horizontal axis and the percentage of income on the vertical axis. The diagonal line from the southwest to northeast indicates perfect equality in income distribution. So, the farther the Lorenz curve from this 'egalitarian line', the greater the degree of inequality in income distribution.

Fig: Lorenz Curve % of Income



% of population

Gini Concentration Ratio: Also called the **Gini coefficient** or **Gini Ratio** was computed by Italian statistician **Corrado Gini** in 1912, it is the ratio of the area lying between the egalitarian line and Lorenz curve to the total triangular area below the diagonal line, A / (A+B). The Gini ratio ranges between zero and one, with zero denoting perfect income equality and one, perfect inequality. The Gini index is the Gini coefficient multiplied by 100.

Gini Index: Income Inequality (reported in HDR 2009)

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Countr	Poorest 10	Richest 10%	Ratio of share Richest 10% to that of lowest 10	Gini Inde
India	3.6	31.1	8.64	36.8
China	2.4	31.4	13.08	41.5

Lack of Inclusive growth the reason for rising Gini index

Wealth distribution in India is fairly uneven, with the top 10% of income groups earning 33% of the income. A 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 with most working in "informal labour sector with no job or social security, living in abject poverty". Income inequality in India is increasing (Gini index: 32.5 in 1999-2000, rose to 37.5% in 2004-05).

Despite an average 7.9 per cent growth in GDP (Gross Domestic Product) during the 11th Plan Period -sometimes peaking to 9 per cent - the performance of India in terms of the Human Development Index (indicative of inclusive growth and the extent of population benefiting from development) saw a downward slide from 128th and 127th positions in 2000 and 2005 respectively to 134th position in 2009 and 2011. While a handful are reaping benefits and have entered the billionaires club, millions are being forced into deprivation and disempowerment. For the first time in history, four Indians found a place amongst the 10 richest people of 2009, but three out of every ten poor people in the world in the same year were also Indians - an unusual phenomenon of continuing poverty and marginalisation in the midst of galloping plenty.

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While Planning Commission of India accepts GDP as a measure for assessing growth, it has not taken any steps to adopt any tool to

quantitatively measure "inclusive growth". Models and measures are indeed available to determine inclusivity of growth in the form of Gini Coefficient (the measure of income inequality) and HDI (Human Development Index) etc., but what seems to be lacking is the appropriate development philosophy and political will to adopt them. With such systemic privileging of "growth" and gross omission of any measures to assess "inclusion", our planning process has taken a trajectory that has resulted in the doubling of inequity in incomes in India during the last 20 years, making it the worst performer on this count of all emerging economies according to a report of OECD (Organisation of Economic Cooperation and Development) released in December 2011. The OECD Report further shows that the top 10 per cent wage earners in India now make 12 times more than the bottom 10 per cent. Ironically, this was also a period when the GDP of the country started increasing at an unprecedented rate making it one of the fastest growing economies in the world.

Further, despite all assertions of social inclusion, India spends an abysmal 5 per cent of its GDP on social protection schemes as compared to more than 15 per cent by Brazil, and during the last two decades India's Gini Coefficient has climbed from 0.32 to 0.38. If the Planning Commission is indeed serious and honest about "inclusive growth", then it should also fix targets for Gini coefficient, HDI and other such measures. Otherwise it would appear that "inclusive growth" is being used more as a slogan for effect than a parameter for the planning process.

Poverty variation among Population Groups and Regions:

The poverty line is much higher among SC's / ST's than among others. There are considerable inter-state / inter-regional variations in the poverty line. In some states poor form more than a third of the population. These are Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal

Causes of Poverty:

- Paradox of growth amidst poverty – Lack of trickledown effect. (e.g. Green revolution generally benefited large farmers while small and marginal farmers and landless labourers were largely by-passed). Poor are largely kept out of the growth process. This is mostly due to development of large industries and the type of green revolution ushered in.
- Inequitable distribution of wealth - Inadequate redistribution/transfer of land and other assets. Subsidies largely benefit the rich.
- Excessive population growth. Lack of thrust in population control programs

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- Ineffective / inefficient poverty alleviation programs. Programs meant for poor did not often reach the poor.
- Identification of target groups is faulty and riddled with politics and corruption.

Global Hunger Index (GHI) is a multidimensional index used to describe the countries' hunger situation. The GHI measures progress and failures in the global fight against hunger. The GHI is updated once a year. The Index was adopted and further developed by the International Food Policy Research Institute (IFPRI), and was first published in 2006 with the **Welthungerhilfe**, a German NGO. Since 2007, the Irish NGO Concern Worldwide joined the group as co-publisher.

The 2012 GHI was calculated for 120 developing countries and countries in transition, 57 of which with a serious or worse hunger situation. India ranks 65 in the ranking of countries by GHI, with an index of 22.9.

The Index ranks countries on a 100 point scale, with 0 being the best score ("no hunger") and 100 being the worst, though neither of these extremes is achieved in practice. The higher the score, the worse the food situation of a country. Values less than 4.9 reflect "low hunger", values between 5 and 9.9 reflect "moderate hunger", values between 10 and 19.9 indicate a "serious", values between 20 and 29.9 are "alarming", and values exceeding 30 are "extremely alarming" hunger problem.

The GHI combines three equally weighted indicators: 1) the proportion of the undernourished as a percentage of the population; 2) the prevalence of underweight children under the age of five; and 3) the mortality rate of children under the age of five. All three index components are expressed in percentages and weighted equally. Higher GHI values indicate more hunger. The index varies between a minimum of 0 and a maximum of 100. The calculation of GHI scores is restricted to developing countries and countries in transition for which measuring hunger is considered most relevant.

The Global hunger index is calculated as follows:
GHI = (PUN + CUW + CM)/3
where:
PUN is percentage of the undernourished population to the total
CUW is percentage of the underweight children less than five years age to the total
CM is proportion of children dying before the age of five (in %)
In addition to the yearly GHI, the Hunger Index for the States of India (ISHI) was published in 2008 and the Sub-National Hunger Index for Ethiopia was published in 2009.

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The India State Hunger Index (ISHI, 2008) is an index of hunger and malnutrition at the state level in India. It was constructed in the same way as the GHI 2008 and was calculated for 17 states in India, covering more than 95 percent of the population. For 2008 GHI, India's GHI ranking was 66 out of 88 countries, with Punjab state ranking 34th and Madhya Pradesh ranking 82nd.

Poverty Alleviation Programs (PAP's)

Major Anti-poverty Programs: 1950's: Land reforms (land ceiling and land grants), irrigation development and family planning

1960's: Intensive area development program

1970's onwards: Target-group oriented programs focusing on creation of self- and wage-employment opportunities.

Since the general belief among the economists and policy makers in the earlier plans was that economic growth would automatically lead to employment generation and hence to poverty alleviation, no specific PAP was implemented till 1975-76. However, economic growth did not necessarily lead to poverty eradication, as the benefits of growth failed to 'percolate' or 'trickle down' into the different strata of the society. In view of this, the Government of India had to introduce wide ranging poverty alleviation-cum-unemployment eradication programs besides programs geared to towards area-specific and sector-specific development. These programs are listed below in the chronological order.

Poverty Alleviation–cum–Employment Generation Programs in India

Year	Program	Objectives / Target Groups
1952	Community Development Program	Overall development of rural areas with people's participation
1953	National Extension Service	To educate farmers to adopt scientific farming practices
1960-61	IADP (Intensive Agricultural Development Program) (One district in each state)	To provide loans, seeds, fertilizers, tools, etc., to farmers to increase production
1964-65	IAAP (Intensive Agriculture Area Program) (IADP extended to all districts)	To develop areas with promise to raise agricultural output
1966-67	HYVP (High Yielding Varieties Program, also called New Agricultural Strategy or Green Revolution)	To raise agricultural production & productivity
1970-71 (IV Plan)	Rural Works Program	To provide employment in rural areas
1971	Crash Scheme for Rural	To provide employment in

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(IV Plan)	Employment (CSRE)	distressed rural areas
1971 (IV Plan)	SFDA (Small Farmers Development Agency), MFAL (Agency for Marginal Farmers and Agricultural labourers)	To provide subsidized grants of technical assistance to SF, MF, AL to improve their agriculture and incomes
1973 (1972-73) (IV Plan)	Employment Guarantee Scheme (in Maharashtra)	To assure employment to rural poor, recognizing right to work
1973-74 (IV Plan)	DPAP (RWP merged)	To bring about integrated development of these areas and to provide employment opportunities
1974 (IV Plan)	CADP (RWP merged)	To promote all-round development of command areas of major irrigation projects
1974 (IV Plan)	HADP including the Western Ghats (RWP merged)	To provide employment and improve the economic conditions of people in hill areas
1974 (IV Plan)	Tribal Area Development Program	To promote all-round development of tribal areas
1975 (V Plan)	20-Point Program (TPP)	Land reforms, rehabilitation of bonded labour, abolition of rural indebtedness, raising minimum wages, etc.
1977 (1977-78) (V Plan)	DDP (launched on the recommendation of NCA in 1976)	To provide employment and improve the economic conditions of people in desert areas
1977-78	Food For Work Program (FFWP)	To provide additional gainful employment in rural areas & to develop community assets. Wages paid in kind from surplus food stocks of Government
1979 (15th Aug)	TRYSEM(Training of Rural Youth for Self Employment)	To provide training to rural youth (18-35 years of age) from BPL families for self-employment in agriculture, industry etc.
1980	NREP (renamed FFWP)	To provide employment during distress seasons to liberated bonded labourers & to play supportive role to

		IRDP.
1980 (1979-80)	IRDP (Integrated Rural Development Program), the major poverty alleviation program, first introduced in 1978-79 as a pilot project in some blocks and later extended to all blocks on 2nd October 1980)	SFDA/MFAL merged. Subsidized loans to BPL families & farmers to acquire income generating assets for self-employment to alleviate poverty
1982 (1982-83)	DWCRA (Development of Women and Children in Rural areas) A sub-scheme of IRDP (merged with SGSY in 1999 along with IRDP)	Group approach to uplift poor rural women economically by providing subsidized credit, supply of raw materials and marketing of products
1983 (15th Aug)	RLEGP(Rural Landless Employment Guarantee Program)	A program to supplement NREP. To guarantee employment of at least 100 days to one member of BPL family
1983 (1983-84)	SEEUY (Self Employment Scheme for Educated Unemployed Youth)	To provide employment to educated unemployed youth in 18-35 years age group with minimum SSLC/ITI qualification in industrial services etc.,
1985-86	Indira Awas Yojana (renamed as Samagra Awas Yojana since 1999-2000)	To provide shelter the weaker sections in rural areas and to improve rural sanitation
1986	National Drinking Water Mission (renamed as Rajiv Gandhi National Drinking Water Mission in 1991)	To provide clean drinking water to villages
1986 (1986-87)	SEPUP (Self Employment Program for Urban Poor)	To provide self-employment opportunities to urban poor through subsidized credit
1987 (VII Plan)	Border Area Development Program	To develop border areas of the country
1989-90	JRY (NREP & RLEGP merged) (renamed as Jawaharlal Gram Samridhi Yojana in 1999) [Sub schemes IAY and MWS included under JRY]	To provide wage employment in rural areas
1989-90	NRY(with three	To provide wage- and self-

	components: SUME: - Scheme for Urban Micro Enterprises SUWE: - Scheme for Urban Wage Employment SHASU: - Scheme for Housing And Shelter Upgradation	employment opportunities to urban poor
1992 (July)	SITRA (Supply of improved toll kits to rural artisans),	To help Rural artisans (a sub-scheme of IRDP Subsidized 90% of the maximum cost of Rs.2,000/-) Now merged with SGSY
1993	SEEGUL (Scheme for Educated Unemployed for Employment Generation in Urban Localities) (also called (PMRY)	To provide employment to urban educated by training matriculates & ITI/ Diploma holders in towns having above 1 lakh population
1993 (December)	MPLAD scheme (Member of Parliament Local Area Development Scheme)	Rs.2 cr for development schemes in the local constituencies
1993	Employment Assurance Scheme (EAS)	To provide minimum of 100 days wage employment to rural poor in 18-60 age group.
1995 (August)	Mid-day meals Scheme	To give a boost to universalisation of primary edn
1996-97 (1st Feb 1997)	GKY (Ganga Kalyan Yojana) (A group scheme, announced in the Budget but was seldom implemented, but merged with SGSY in 1997)	To provide financial assistance to small farmers to develop in situ irrigation facilities
1997 (December)	SJSRY (Swarnajayanti Shahari Rozgar Yojna) NRY and SEPUP discontinued. SGSRY has two components: (1) Urban Wage Employment Program (UWEP) and (2) Urban Self mp. Program. (Development of Women and Children in Urban	To provide self- and wage employment to urban poor(Urban counterpart of SGSY)

	Areas DWCUA as a sub-scheme)	
1999	SGSY (Swarnajayanthi Gram Swarozgar Yojana) (A group approach implemented through SHG's)	Replaces all earlier self-employment programs, viz., IRDP, TRYSEM, DWCRA, SITRA, GKY, and (MWS (to provide subsidised loans through SHG's by overcoming defects of earlier programs) In 2009 SGSY was renamed as National Rural Livelihood Mission (NRLM).
1999	Jawahar Gram Samridhi Yojana (JGSY) (EAS and JRY together renamed)	To bring about all-round development of villages
2000 (25th Dec)	P M Gram Sadak Yojana	100% central scheme. To improve connectivity to rural areas. All-weather roads to all habitations with 500 population and more
2000 (Dec)	Anthyodaya Anna Yojana	35 kgs of rice/wheat per month to BPL families @ Rs.3/2 per Kgs of rice/wheat
2000 (Dec)	Annapurna	Free 10kgs food grains per month to destitute senior citizens. Now a state program
2001	SGRY (Sampoorna Grameen Rozgar Yojana) JRY & EAS together renamed as JGSY in 1999 and merged with SGRY in 2001 (Thus JRY->JGSY-> SGRY). Merged with NREG w.e.f. 2008	Basically a food-for-work wage employment program to create community assets/infrastructure. Central- state shares - 75:25
2001	Pradhan Manthri Gramoday Yojana (PMGY)	Human development in rural areas comprising health, primary education, rural housing, drinking water, nutrition & rural electrification
2001 (Dec)	Valmiki Ambedkar Awas Yojana (VAMBAY) (Nirmal Bharath Abhiyan is a sub scheme of VAMBAY)	To construct / upgrade housing for urban slum dwellers (BPL)
2002	Jaiprakash Rozgar	To provide guaranteed

(2002-03)	Guarantee Yojana (JPRGY) Now merged with NREGS	employment to unemployed in the most distressed districts
2004 (Nov)	National Food For Work Program (NFFWP)	Introduced in 150 most backward districts. 100% central scheme
2005 (April 12)	National Rural Health Mission	To provide accessible, affordable and accountable quality health services to the poorest households in remote rural areas.
2005-06 (Dec)	Jawaharlal Nehru Urban Renewal Mission (JNNURM) - A 7-year mission beginning from the year 2005-06. Has 2 sub-missions namely: (1)Sub-Mission I for Urban Infrastructure and Governance, (2) Sub-Mission II for Basic Services to the Urban Poor	Sub-mission II has 2 components: 1) Basis services to urban poor program (BSUP) and Integrated housing and slum development program(IHSDP)
2005-06	Bharat Nirman - A time-bound plan (2005-2009)for rural infrastructure by the GoI in partnership with State Governments and PRIs	Building rural infrastructure and basic amenities comprising six components: housing, irrigation, electrification, roads, drinking water and telephony.
2006 (Feb)	NREGS National Rural Employment Guarantee Scheme (NREG Act passed in Dec 2005) (SGRY & NFFWP merged). Covered 200 most backward districts in February 2006, extended to all 466 districts in April 2008. Renamed as Mahatma Gandhi NREGS wef 1.10.2009	To provide minimum of annually 100 days wage employment to whomsoever seeks employment (above 18 years at minimum wage rate)
2009	National Rural Livelihood Mission (NRLM). [In 2009 SGSY was renamed as NRLM]	

20-Point program:

Introduced by GoI in 1975, contained a number of measures to improve the conditions of landless labourers and other weaker sections in rural areas such as:

1. Speedy implementation of land reforms
2. Distribution of surplus land among landless
3. Provision of houses/house sites for landless labour
4. Rehabilitation of bonded labour
5. Liquidation of rural indebtedness
6. Enhancement of minimum wages, etc.

Integrated Rural Development Program (IRDP): Launched in 1978-79 on a pilot basis and extended to all the 5011 blocks in the country in 1980 – assisting 600 BPL families in each block. Rs.35 lakh for each block to be shared half and half between the states and Centre. Implemented by DRDA's. Supposed to benefit poorest (Anthyodaya). Subsidies for creation of permanent assets (in the form of loans. Subsidies 25 % for small farmers, 33.3% for marginal farmers and landless labourers, 50 % for tribals and SC's. IRDP merged with SGSY since 1999.

IRDP Classification of target groups: Small Farmers: Holding 2.5 – 5 acres of rainfed land or 1.25 – 2.50 acres of irrigated land Marginal Farmers: holding 2 to 2.5 acres of rainfed land or upto 1.25 acres of irrigated land
Limitations of IRDP:

1. Selection of ineligible beneficiaries
2. Malpractices in payment of subsidies
3. No training imparted to majority of the beneficiaries
4. In about 25 % of the cases no additional income was generated.
5. No adequate infrastructure facilities or agricultural inputs were made
available to beneficiaries for using the subsidies effectively.

Module II: Demographics of India

Demography is the study of the characteristics of human populations, such as size, growth, density, distribution, and vital statistics such as birth rate, death rate, fertility rate etc. Population represents the human resource of an economy representing one of the factors of production. Its quantity as well as quality is crucial in the context of economic development.

With a population of 1210 million people (2011 Census); India is the second most populous country in the world, accounting for 17% of the world's population. Growth rate of population has shown signs of decrease, coming

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down from a compound annual growth rate of 2.15 (1951–1981) to 1.64 (2001–2011).

Population theories

There are a number of theories concerning the relationship between the population growth and economic development. Two prominent among them are Malthusian theory and the theory of demographic transition.

Malthusian theory

Thomas Robert Malthus, a British economist put forward in 1798 a theory which states that population in every country tends to grow in quick 'geometric' ratios, i.e., at the rate of 1 : 2 : 4 : 8 : 16... and so on, because human beings are endowed with great fecundity (fertility). But the subsistence, i.e., the food supply, required to feed the population tends to increase in slow ''arithmetic ratios, i.e., at the rate of 1 : 2 : 3 : 4....and so on because food production is constrained by fixed land resources. Obviously in course of time the population would overtake the food supply, leading to hanger, famines, diseases and wars, which Malthus calls the positive checks on population and these would eventually eliminate excess population. But these cannot put a permanent check on population as they would not affect the fecundity of the surviving population. So, the Malthusian population cycle as follows: growth of population -> over-population –> positive checks -> population destruction -> balanced population –> fecundity -> over population again, would continue endlessly. Hence, to put a permanent check on population, Malthus proposed two preventive measures: late marriage and celibacy. Most countries of Asia, Africa and Latin America have witnessed excessive population growth in the 20th century, as if to provide evidence to the Malthusian theory!

Theory of demographic transition

Put forward in 1929 by the American demographer **Warren Thompson**, this theory brings out the relationship between economic development and population change based on the experience of developed countries. Broadly three stages of demographic change are identified in the course of development. The first stage, the primitive stage, is characterised by high birth and death rates, since people in this stage do not have nutritious food and health care, and are also exposed to the vagaries of nature. So the population growth is near zero. The second stage occurs when the death rate comes down due to improved food, better health care and shelter by virtue of rise in incomes. But the birth rate remains high and steady thereby leading to population explosion. The third stage occurs when both the birth and death rates slow down, leading to fall in population growth rate. Birth rate comes down as result of improvement in living standards accompanied by rise in literacy rates associated with economic development. Thus, it is said that 'development is the best contraceptive!' India can be said to be in later part of the second stage demographic transition.

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Population Censuses in India: First ever population census was conducted in 1871 (completed in 1872). Thereafter, it is being held every 10 years. Registrar General of India (under the Ministry of Home Affairs) conducts the census. Article 246 of the constitution provides for decennial census and the Census Act 1948 forms the legal basis for the census.

'Census Moment': the referral time at which the snap shot of the population is taken: For 2011 census it was 00.00 hours of 1st March 2011.

Phases in India's population growth

1901 - 1921	Stagnant population
1921 - 1951	Steady growth
1951 - 1981	Rapid high growth
1981 - 2011	High growth with definite signs of slowing down

Growth of India's population since 1901

Census Year	Population (in millions)	Decadal Growth(%	Av. annual exponential growth rate %)	Sex ratio	Birth rate	Death rate
1901	238	--	-	972	45.8	44.4
1911	252	5.75	0.56	964		
1921	251	-0.31	0.03	955		
1931	279	11.00	1.04	951		
1941	319	14.22	1.33	945		
1951	361	13.31	1.25	946	39.9	27.4
1961	439	21.64	1.96	941	40.9	22.8
1971	548	24.80	2.20	930	41.1	18.9
1981	683	24.66	2.22	934	33.3	12.5
1991	843	23.86	2.16	927	29.0	10.0
2001	1,027	21.34	1.97	933	26.1	8.7
2011	1,210	17.64	1.64	940	21.8	7.1

Rural-urban Population(%)

Year	Rural	Urban
1901	89.2	10.8
1951	82.7	17.3
2001	72.2	27.8
2011	68.8	31.2

Important Demographic concepts/ratios:

1. Crude Birth Rate (CBR): - No. of live births in a year per 1000 population. CBR(2011): 21.8.

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2. Crude Death Rate (CDR): - No. of deaths in a year per 1000 population. CDR(2011): 7.1.

3. Total Fertility Rate: (TFR, also called general fertility rate or total period fertility rate (TPFR)) is the average number of children that would be born to a woman (or group of women) of childbearing age (often taken to be from 15 to 49 years old). TFR (2005-10): 2.73.

4. Replacement level fertility: The level of fertility at which a couple has only enough number of children to replace themselves, or about two children per couple. The standard replacement level fertility rate is 2.1.

5. Population Momentum: Also called demographic momentum, it is a phenomenon whereby a population, even if it is below replacement-level fertility, will nonetheless continue to increase. This is due to the usual age distribution of a population, with many people in their child-bearing years and fewer older people.

6. Population Density: Number of people living per unit area, usually per sq/km. 2011 density: 382

7. Dependency ratio: Ratio of dependent population (i.e., the ratio of children below 14 years plus population aged 60 and above) to the population in 15-59 age group.

8. Work participation ratio (WPR): (Also called activity ratio), it is the ratio of working population to the total population. WPR includes main workers plus marginal workers. WPR (2011): 35.9%

9. Sex Ratio: No. of females to 1000 males. 2011: 940

Reasons for declining Sex ratio:

- Undercount of women compared to men in censuses.
- Discrimination against females (leading to infanticide)
- Increase in the proportion of males among immigrants from other countries
- Female-selective termination of pregnancy (foeticide)

10. Literary Ratio(%): Ratio of literates among people in the age group of 15 years and above.

India's Literacy Ratio over the Decades			
Census Year	Total	Male	Female
1901	5.53	9.83	0.69
1911	5.92	10.56	1.05
1921	7.16	12.21	1.81
1931	9.5	15.59	2.93
1951	18.33	27.16	8.86
1961	28.3	40.4	15.35
1971	34.45	45.96	21.98
1981	42.57	56.38	29.76
1991	52.21	64.13	39.29
2001	65.38	75.85	54.16

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2011	74.04	82.14	65.46

11. Infant Mortality Rate (IMR): No. of deaths of infants in a year per 1000 livebirths during the year. Infants are children under one-year of age. IMR (2005-10) 52.9

12. Adult Population – Population in the age group of 15 years and above.

13. Population Pyramid (Age Pyramid): Population pyramid is two back-to-back horizontal bar graphs, one showing the number of males and one showing females in a particular population in five-year age groups (also called cohorts). Males are conventionally shown on the left and females on the right, and they may be measured by raw number or as a percentage of the total population.

The average age of Indians is 26 years. India is dubbed as a 'young' nation because of high ratio of younger population to the total. There is going to be a 'grey' revolution in the years to come, meaning that the proportion of aged population (60 years +) to the total will increase because of steady rise in the life expectancy at birth. Population above 60 years of age is referred to as the 'wisdom bank'. Family planning was introduced formally in 1952, and India was the first country in the world to do so.

Age structure of Population (2011)

Age group	Percentage
All Ages	100.0
0 - 4	10.7
5 - 9	12.5
10 - 14	12.1
15- 19	9.7
20 - 24	8.7
25 - 44	27.6
45 - 64	13.5
65 - 79	4.0
80+	0.8
Less Than 18	41.1
Less than 21	47.9
Age no stated	0.3

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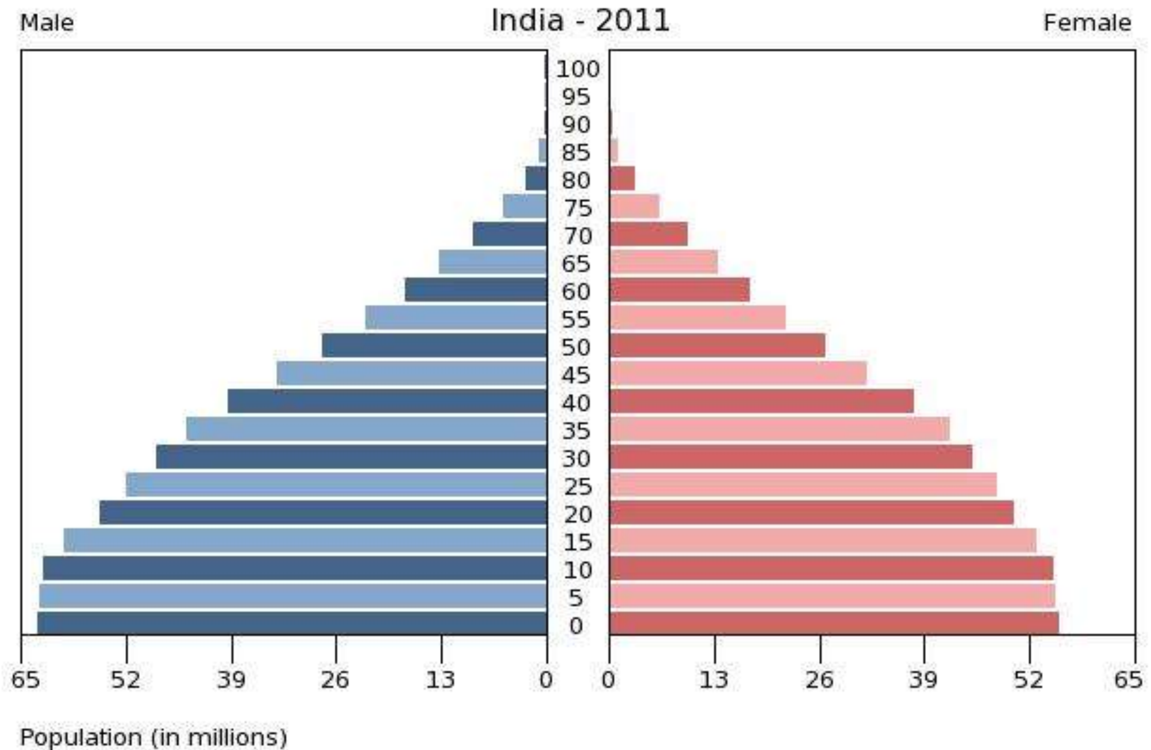

14. Couple Protection Ratio (Also called Conceptive Prevalence Ratio):– The percentage of couples in the reproductive age group coming under family planning program. CPR (2011): 40.4.

15. Net Reproduction Rate (NRR): is the ratio of No. of daughters replacing women in the reproductive age group. If NRR is one (unity), the no. of girls exactly replace the No. women in reproductive age group. If each woman gives birth to more than one daughter, NRR > 1. NRR is expected to come down to less than one between 2011 and 2016 AD. NRR is alternatively defined as:

No. of female children born and living through the reproduction age
NRR = --
Total No. of females in the country

16. Material Mortality Rate (MMR): No. of delivering mothers dying per 100,000 deliveries.

17. Life expectancy: the number of years which an individual at a given age could expect to live at present mortality levels.

Life expectancy at birth (LEB) (2011): F: 67.08 years
M: 63.95years
T: 65.48 years

L.E.B: 1901 -11: 23 years

1961-71: 46 years

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1991-2001: 63 years

18. Demographic dividend: A term introduced by **David Bloom** & **Jeffrey Williamson**, refers to a rise in the rate of economic growth due to a rising share of working age people in a population. This usually occurs late in the demographic transition when the fertility rate falls and the youth dependency rate declines. During this demographic window of opportunity, output per capita rises. It has been argued that the demographic dividend played a role in the "economic miracles" of the East Asian Tigers.
19. Demographic gift is a term in demographics use to describe the initially favourable effect of falling fertility rates on the ratio of the working population to the dependent population (children and the aged). The term was used by David Bloom and Jeffrey Williamson to signify the economic benefits of a high ratio of working-age population (15-64 age group) to dependent population (total of 0-14 plus 65+ age groups) during the demographic transition. Bloom et al introduced the term demographic dividend to emphasize the idea that the effect is not automatic but must be earned by the presence of suitable economic policies that allow a relatively large workforce to be productively employed.
20. Demographic Curse: Demographic curse is looked upon as the negative side of the demographic dividend. India is in the midst of a major demographic transition. That transition started about 40 years ago and will likely last another 30 years. About a quarter of the projected increase in the global working-population between 2010 and 2040 will occur in India. About 54 % of the Indian population (of 1.2 billion) is under the age of 25. Hence, India will be the largest single positive contributor to the global workforce over the next three decades.

    As for India-China comparisons, the demographic dividend offers the single biggest hope for India to catch up. China is seeing a shift to a mature population structure. Over the coming decades, as the working age population China declines, that of India will rise rapidly.
    But, as to whether this young demographic can be a dividend or a curse for India, the answer lies in its education system the economy's ability to create jobs. India is still around 50 years behind China in terms of removing illiteracy. It is expected that 20 years from now, 20% of the Indian population will still have never attended school. Hence, if the government doesn't make it a priority to improve the access and quality of its primary, secondary and tertiary education systems, the young demography of India, will turn from a blessing and a boon, to a curse and a huge burden for India.
    With 10 million people expected to enter the Indian labour force every year in the coming decades, the education system needs an

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immediate and drastic reform. Failing to do so, there will be huge young unemployed population in India, which will definitely lead to social unrest and a nightmare scenario for the government – the demographic dividend of a young "working-age" population, will turn into a demographic curse and a disaster for India.

Causes for population explosion in India:

- Mass Poverty – A vicious circle, in which poverty leads to economic insecurity at old age; this prompts poor people to beget more number of children thinking that they would take care of them in the old age. This means more population over time.
- Illiteracy, superstition and fatalism – very low literacy among women.

1. Climatic factors – Tropical climate causes early puberty of girls and thus leads to early marriage and early conception and reproduction.
2. Religious factors – Religious fundamentalism /fanaticism.
3. Child and early marriages – Minimum Marriage Act of 1971 rarely enforced.
4. Decrease in death rates and increase in life expectancy – LEB 20 years in 1921 but increased to 63 years in 2001.
5. Fall in infant mortality Rate – from 250 in 1901 to 80 in 1991 and to 65 in 2001.
6. Fear of child mortality prompts parents to beget more no. of children – This tendency is more among poor families.
7. Stigma / taboo attached to celibacy and single child norm.
8. Sentimental / prejudiced preference for male child over female child
9. Lack of freedom for woman to decide about the number of children she can conceive, deliver and bring up in the family – Male dominated family.
10. Lack of extensive / systematic use of birth control measures – Hardly 46 % of couples in the reproductive age group adopt couple protection measures.

Consequences of excessive population:

1. Poverty and food insecurity
2. Increase in population density – decline in land–man ratio, subdivision and fragmentation of farm land, decline in village common property resources, and environment degradation.
3. Scarcity of civic amenities, housing, leading to poor sanitation.
4. Transport bottlenecks.
5. Growing unemployment and widespread poverty – economic insecurity and social tensions. At least 40 million openly unemployed
6. Unhealthy urbanization – Urban congestion, slums, environment pollution, traffic chaos, pressures on schools and rising delinquency.
7. Malnutrition and hunger – diseases and debility affect the nation's 'brute force'.

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8. Fast depletion of non-renewable natural resources – oil/mineral crisis, inter-generational injustice in resource availability (unsustainable development) – ecological imbalance.
9. Rapid population growth slows down the rate of economic progress.
10. Population explosion has deepened international indebtedness

Steps to check population growth:

1. Increase literacy ratio and level – especially among women. There is a negative relationship between women's education and fertility rate. Compulsory female education would go a long way to check unwanted births. Female literacy has strong positive correlation with higher age of marriage and hence with fertility – Studies reveal that over 7 years of schooling leads to 3½ years delay in marriage and to that much lower infant mortality.

2. Eradicate poverty – especially raise the income levels of the bottom 40 per cent of the population; Development is the best contraceptive'.

3. Amend 1971 Minimum Marriage Act to increase the minimum age of marriage to 25 years for boys and 21 years for girls. Stringent punishment for violation of minimum Marriage Act needed. Total ban on child marriages is a must. 1991 census indicated that 2/3 of girls in the 15-19 age group were married. Studies reveal that girls who married after 19 years of age gave birth to 1.7 children less than those who married earlier. The Health Ministry projected that if the mean age of girl's marriage was raised at least to 20, the birth rate could be brought down to 12 per 1000.

4 Legalization of abortion is not enough. The social stigma against it should go.

5. A combination of birth control incentives and birth disincentives is essential for making people more responsive to population control programs.

6. A common civil code for all people can go a long way in checking population uniformly across religions.

7. Economic and political empowerment of women – More jobs and political positions for women.

8. Free insurance to couples having daughters. Son preferences arise out of the need for economic security at old age.

9. Adequate old age security, especially for poor parents.

10. Political will necessary for effective population programs.

11. Economic and political sanctions against couples going in for more than 2 children

Population Policy in India:

Family Planning program launched in 1952.

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Population policy of Janatha Party Government (1978): 'Cafeteria approach' – Voluntary choice of birth control devices by couples.

Population policy in 8th Plan - People's participation, Female Education, Role of NGO's in population control programs, Particular attention on 90 districts having B.R. of over 90, Linking public employment and election contests to two children norm.

Expert Group recommendations:

In 1993, an expert group headed by Dr. M S Swaminathan, presented a draft population policy. It called for a move away from the target approach and against incentives. In fact, in 1992-93, extra incentives were removed (only loss of wages was compensated). This draft foreshadowed many of the ideas expressed at the International Conference on Population and Development held at Cairo, Egypt, in 1994.

Some of the recommendations of the Expert Group were:

1. No public employment to those who do not adhere to 2-children norm.
2. No government employment to those who violate minimum marriage law.
3. Compulsory school enrolment for girls and retention in schools (without letting
them drop out).
1. Couples having one/ two girl children should be protected by insurance scheme.
2. Reservation for women in public-sector employment.

National Population Policy (NPP) 2000 (announced on 15.2.2000):
Objectives: Short run: To meet the unmet needs of contraception, health care, etc.
Medium term: To bring Total Fertility Rate to Replacement levels –
Two children per couple.
Long term: To stabilize population by 2045 A.D:
National Commission on Population headed by PM has been set up.

The NPP has set the following goals for 2010:

• Universal access to quality contraceptive services in order to lower the Total Fertility Rate to 2.1 and attaining two-child norm.
• Full coverage of registration of births, deaths and marriage and pregnancy.
• Universal access to information/counseling services for fertility regulation and contraception with a wide basket of choices.
• Infant Mortality Rate to decline below 30 per thousand live births and sharp reduction in the incidence of low birth weight (below 2.5 kg.) babies.
• Universal immunization of children against vaccine preventable diseases, elimination of Polio by 2000 and near elimination of Tetanus and Measles.

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• Promote delayed marriage for girls, not earlier than age 18 and preferably after 20 years of age.
• Achieve 80 per cent institutional deliveries and increase in the percentage of deliveries conducted by trained persons to 100 per cent.
• Containing Sexually Transmitted Diseases.
• Reduction in Maternal Mortality Ratio to less than 100 per 100,000 live births.
• Universalisation of primary education and reduction in the dropout rates at primary and secondary levels to below 20 per cent both for boys and girls.

The National Commission on Population has been constituted under the Chairmanship of the Prime Minister and Deputy Chairman, Planning Commission as Vice Chairman on 11th May 2000 to review, monitor and give directions for implementation of the National Population Policy. A Strategic Support Group consisting of Secretaries of concerned ministries has been constituted as Standing Advisory Group to the Commission. Some Working Groups have been constituted to look into specific aspects of implementation of the Policy.

A National Population Stabilization Fund (NPSF) has been set up with a corpus of Rs.10 crore as contribution from government. It aims at seeking contributions from individuals, non-governmental organizations and corporate sectors. An independent body comprising of noted public luminaries would be set up to administer the NPSF as a purely civil society initiative for Population Stabilization issues

MODULE III

Employment-Unemployment in India

Employment in organised and unorganised sectors: The Indian economy has two segments namely organized sector and Unorganized sector. Basically the term organized sector come from the notion that labor employed in the enterprises of this sector is organized in the form of labour unions and the enterprises are obliged to abide by the relevant labour laws. The Directorate of Employment & Training (DGET) of the GoI defines the organized sector as that which covers all establishments in the public sector, irrespective of their size and non-agricultural establishments in the private sector employing 10 or more persons. Organized sector, also called the formal sector, covers all licensed organizations, that is, those who are registered and pay sales tax, income tax, etc. These include the formally registered entities, corporations, factories, shopping malls, hotels, and large businesses. The organized sector employs less than 8 percent of the total labour force in the country.

Employment in the organized sector has gone up from 28.71 million in March 2010 to 29.00 million in March 2011 recording an increase of 1.0

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per cent. Employment in Public Sector has marginally declined (by 1.8%) whereas Private Sector has recorded an increase by 5.6% during 2011 over previous year.

Unorganised sector, also known as informal sector or own-account enterprises, refers to all unlicensed, self-employed or unregistered business units such as owner manned general stores, handicrafts and handloom workers, rural artisans and traders, farmers, etc. Over 92 percent of India's working population is in the unorganised sector.

Unemployment in India

Unemployment is a situation in which a portion of the labour force in the country is unable to get productive employment. Productive employment means employment that ensures an income commensurate with the skills-cum-efforts of the worker and that meets at least his/her basic needs. Employment / unemployment can be measured in terms of certain criteria: time, income, willingness to work, and productivity (These criteria are often called Raj Krishna Criteria, named after a noted Indian economist who emphasized them).

Types of Unemployment:

1. Open / chronic / visible unemployment is a situation in a person is unemployed for a long period, say for the whole part of a year.

2. Seasonal unemployment / underemployment is a situation in which a person finds employment only during a part of the year. Rural employment, particularly in rain-fed areas and the employment in many agro-processing industries, is essentially seasonal in nature.

3. Disguised unemployment - a concept coined by a British economist Mrs. Joan Robinson to characterize the sort of unemployment prevailing in the U.S. during the Great Depression of 1929-33, refers to a situation in which a person is seemingly employed throughout the year, but adds little to the production in the enterprise in which he/she is employed. In India agriculture and other informal/household enterprises contain a considerable portion of labour force, which is disguisedly unemployed.

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Dantwala Committee (1970) views on employment and unemployment:

Concept of labour force is different between DC's and LDC's. In a complex economy like India's, the characteristics the labour force, employment and unemployment are too heterogeneous to justify aggregation into single-dimensional magnitudes. Therefore there is need for separate estimation of different segments of labour force, taking into account such important characteristics as region (state), sex, age, rural-urban residence, status or class of worker and education attainment. The NSSO – in the 27th (the first quinquennial survey on employment /

unemployment) adopted the collection procedures and the conceptual framework suggested by the Dantwala committee (1969).

NSSO's Concepts of Unemployment:

The NSSO in India has evolved certain standardized the concepts of unemployment that roughly correspond to the above-mentioned analytical concepts. They are:

1. Usual Status unemployment – A person is considered unemployed, if he / she was not working but was either seeking or was available for work for a relatively longer time / or throughout the reference year. These estimates are made in terms of numbers of persons (or person years). Usual-status unemployment approximately measures open or chronic unemployment.

2. Weekly status unemployment - A person is considered weekly unemployed if he / she had not worked even for an hour during the week preceding the survey, but was seeking or available for work. The estimates are made in terms of the average number of persons unemployed per week. This status refers to a situation in which a person is found unemployed for the whole week preceding the survey.

3. Daily-status unemployment: It records the activity status of person for each day of the seven days (one week) preceding the survey. A person who worked for 1 to 4 hours a day is considered having worked for half a day. A person having worked for four hours or more a day is considered as employed for the whole day. The estimates are given in terms of the total person days of unemployment, that is, the aggregate of the unemployed days of all persons in the labour force. Thus daily-status unemployment is a situation in which a person is found unemployed for a whole day during the week preceding the survey. This is an approximate measure of under-employment.

Unemployment rates in India 2011-12: NSSO's 68th Round (%)

	Usual status		Weekly status		Daily Status	
	Male	Female	Male	Female	Male	Female
Rural	4.2	1.7	7.8	3.1	12.7	4.6
Urban	3.4	1.5	4.3	1.9	5.4	2.0

National Sample Survey (NSS): Started in 1950.

NSS Organization (NSSO) established in 1970 with a governing council and full autonomy. NSSO conducts broadly three types of surveys.

1. Socio-economic surveys held once in five years (63th round held in 2006-07)

2. Annual survey of industries.

3. Sample survey of area and yield of crops.

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Labour Bureau Unemployment Data

The NSSO calculates unemployment rates, once in 5 years, so there is a dire need to have unemployment numbers in between. The Labour Bureau of the Government of India has recently started conducting annual survey on employment-unemployment, and has come up with an unemployment rates based on this survey.

Report on Second Annual Employment & Unemployment Survey 2011-12
Labour Bureau, an attached office of the Ministry of Labour & Employment has released the results of the second annual employment & unemployment survey conducted in the country for the period 2011-2012. The survey has been conducted in all the States/UTs by covering all the districts. The main findings of the survey are as follows:
During the survey data has been collected from a sample of 1,28,298 households, out of which 81,430 households are in the rural sector and the remaining 46,868 households in the urban sector.
In the report, results are compiled for all the labour force measures namely usual principal status (UPS) approach, usual principal & subsidiary status (UPSS) approach, current daily status (CDS) approach and current weekly status (CWS) approach. The results presented hereunder, however, are given for usual principal status (UPS) approach, under which the major time of the one year reference period (July, 2010 to June, 2011 in the present case) spent by a person determines his/her status.

The labour force estimates are derived for the persons of age 15 years and above from 2011-12 survey are given hereunder.
Employment-unemployment Scenario in India 2011-12(%)
(Source: Labour Bureau's 2nd Annual Survey 2011-12)

Particulars	All-India	Rural	Urban	Female	Male
Labour Force Participation Rate(LFPR)	52.9	54.8	47.2	25.4	77.4
Worker Population Ratio: (WPR)	50.8	52.9	44.9	23.6	75.1
Unemployment rate	3.8	3.4	5.0	6.9	2.9
Self employed	48.6	--	--	--	--
Wage/salary earners	19.7	--	--	--	--
Casual labour category	31.7	--	--	--	--
Primary sector	52.9	--	--	--	--
Secondary sector (mfg & construction)	19.3	--	--	--	--
Services sector	27.8	--	--	--	--

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Concepts used Labour Bureau in the 2nd Annual Employment-Unemployment Survey 2011-12:

Labour Force Participation Rate: Labour Force Participation Rate (LFPR) is the number of persons in the labour force (including both employed and unemployed) per 1000 persons.

Worker Population Ratio: Worker Population Ratio (WPR) is the number of
persons employed per 1000 persons.

Unemployment Rate: Unemployment Rate (UR) is the number of persons
unemployed per 1000 persons in the labour force (employed & unemployed).

Table 4.6: Unemployment Rate based on different approaches

Approach	Rural			Urban			Rural+ Urban		
	M	F	P	M	F	P	M	F	P
UPS	27	56	34	34	125	50	29	69	38
UPSS	24	41	29	31	112	47	26	53	33
CDS	57	82	63	47	134	63	54	91	63
CWS	34	63	42	40	133	58	36	74	46

Table 4.9: Unemployment Rates for different social groups based on UPS approach

Social	Rural			Urban			Rural+ Urban		
Group	M	F	P	M	F	P	M	F	P
SC	25	37	28	37	86	47	28	44	32
ST	19	34	24	37	101	51	21	39	26
OBC	24	48	30	29	101	42	25	57	32
General	38	112	53	36	170	58	37	129	55
Overall	27	56	34	34	125	50	29	69	38

Structure of labour force

Organized sector or formal sector in India employs less than 8 % of the labour force. Organized sector, also called formal sector, refers to licensed organizations, that is, those who are registered and pay sales tax, income tax, etc. These include the formally registered entities, corporations, factories, shopping malls, hotels, and large businesses.

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Over 92 percent of India's working population is in the unorganised sector. Unorganised sector, also known as informal sector or own-account enterprises, refers to all unlicensed, self-employed or unregistered business units such as owner manned general stores, handicrafts and handloom workers, rural artisans and traders, farmers, etc.

The National Commission for Enterprises in the Unorganized Sector (NCEUS) has defined the unorganized sector as that which "consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers". The unorganized sector contributes about 57 % of the GDP although it employs over 92 % of the labour force. Thus the workers in this sector they earn comparatively much lower wage than their counterparts in the organized sector and they do not have any social security. In this regard, NCEUS has submitted a scheme for a universal social security cover called National Minimum Social Security to all eligible workers over a period of five years.

Employment Exchange data:

Employment Exchanges are another source of data on unemployment in India. These data are published by the Directorate General of Employment & Training under the Employment Market Information program in 'Live Register' of Employment Exchanges.

Number of job seekers registered in Employment Exchanges

Year	No. of Employment Exchanges	No. Registrants (millions)
1981	663	17.84
1991	854	36.30
2001	938	42.00
2010	969	38.82

MODULE IV: Planning in India

Meaning: Planning refers to conceiving, initiating, regulating and controlling of economic activity by the state according to set goals with a view to achieving certain socio-economic objectives within a given time. Planning is a process involving taking stock of resources, formulation of objectives and priorities, fixing targets, mobilization of resource (physical and financial) establishment of implementation machinery, monitoring and evaluation. The erstwhile Soviet Russia was the first country to launch planning (in 1928) as a means to achieve economic development, by replacing market mechanism. Indian Economy is

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based on the concept of planning. This is carried through her Five-Year Plans, developed, executed and monitored by the Planning Commission.

Development Strategies during Plans:

1. Nehru–Mahalanobis strategy (Import-Substitution strategy) (1956-1978)
2. Gandhian or Wage Goods Model (1978-83)
3. Rao-Manmohan Model (Liberalization and globalization, since 1991)

Evolution of Planning in India:

Failure of capitalistic economies during G.D. of 1929-33 and success of USSR Planning. USSR Planning began since 1921.

1934	Visweswaraiah Plan prepared in the book “Planned Economy for India” written by Visweswaraiah, containing a 10-year plan for India’s development
1938	National Planning Committee estd.by Indian National Congress (Architect: Nehru) but thwarted by II World War and Quit India Movement. Could submit report only in 1948.
1944	Bombay Plan – a 15 year plan formulated 8 Bombay industrialists, focusing on basic industries.
1944	Peoples plan by M.N. Roy – A 10 year plan focusing on agricultural and consumer goods sector
1944	The British India Govt. set up Dept. of Planning & Econ. Development headed by A.D.Dalal with the aim of restoring economic normalcy promoting economic development
1944 - 1948	Gandhian Plan by S.N. Agarwal – a plan focusing on agriculture, cottage and small scale industries and rural development contained in his books: (1) Gandhian Plan of Economic Development for India (1944) and (2) Gandhian Plan Reaffirmed (1948).
1946	The Planning Advisory Board set up to collect relevant data for planning in India by the interim government.
1950	National Planning Commission estd. Through a Cabinet resolution, it is not a constitutional body like the Finance Commission
1952	National Dev. Council (NDC0 constituted on the advice of the Planning Commission – Highest reviewing and advisory body for planning

Rationale for planning (Arguments in favour of planning or Case against market-oriented economy)

- Planning corrects market failure. Market failure refers to the failure of a market economy in allocating resources in a socially desirable manner,

i.e., in producing a socially desirable basket of goods and services in the economy.

- Planning helps achieve economic development in a relatively shorter period than the market does. Market economy takes a longer time to achieve a certain rate of economic development. For example, the market economies such as those of Western Europe and that of North America took almost two centuries to develop fully while the Soviet economy achieved it in a few decades.
- Market mechanism goes by free enterprise, private property and profit motive.

Hence it leads to concentration of wealth and income in a small section of the society. Planning is a means to achieve a more inequitable distribution of income and wealth.

- Private-sector driven market-oriented economy fails to initiate economic activities crucial for the speedy development of the economy because the RoI (return on investment) of these activities including economic and social infrastructure is rather low and their gestation lag is longer. Planning helps launch such sectors (otherwise called social overhead capital) first and give a 'big push' to the other sectors (otherwise called directly productive activities).
- Planning ensures balanced regional development while the market mechanism, does not.
- Planning facilitates sustainable development of the economy. Sustainable development is development for the present generation without jeopardising the prospects of development for the future generations. This means that planning is necessary for conservation of natural recourses and a balanced environment.

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<u>Types of Planning</u>

<u>Based on plan duration:</u>

<u>Short-term plan</u>, i.e., annual plan

<u>Medium-term plan,</u> usually ranges b/w 4 years and 7 years, e.g., Indian five-year plans.

<u>Long-term plan</u>, also called perspective plan, is a plan for, say,15-20 years, or even 50 years. What we often speak of 'vision-2020'or 'vision 2050' in respect of a sector or project is nothing but a perspective plan for that sector.

<u>Based on the nature of control over the economy:</u>

Planning by Persuasion v/s Planning by Direction:

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Planning by persuasion is a market-friendly planning used in a free enterprise economy, e.g., planning in France, in which the government persuades the private sector through appropriate policies to achieve national goals/targets.
Planning by direction is command economy planning in which goals/targets are thrusted on the economy through regimentation of the economy or a myriad of controls, e.g., Soviet planning. Indian planning from the first to the seventh plans was of the nature of planning by direction while planning since and including the 8th Plan is of indicative planning type.

Based on flexibility / continuity in setting planning objectives/targets
Fixed Plan v/s Rolling Plan;
Fixed plan is one in which, the term once fixed would not be changed in the course of a plan which is set to start-off and terminate on fixed dates. So the objectives, priorities and targets do not change in the course of the plan.
Rolling Plan is one whose term is rolled over every year. Accordingly the objectives, priorities and targets may also be changed as the term rolls over. Rolling plan was introduced in India by the then Janata Party Government in the 6th Five Year Plan starting from April 1978, but with the change in the government in 1980 when the Congress (I) Party came back to power the rolling plan was abandoned with effect from April 1980 and the conventional fixed duration plan was resumed.

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Based on the level of formulation:
Centralised planning and *decentralised planning*
Centralised planning, otherwise called macro-level or top-down planning, involves plan formulation for the economy as a whole by an apex body and then its break up into state-level, district-level, village-level plans. In India the planning by the National Planning Commission has basically been an exercise in centralised planning.

Decentralised planning, also called micro-level, bottom-up, or participative planning, involves preparation of plans from the bottom, say at the village level by a local agency and their integration into district, state and national plans. Though the Planning Commission recognised the need for decentralised planning as far back as 1969, it could be implemented only since 1992 with the Panchayat Raj institutions came to take over the governance of both the local polity and the economy.

To formulate planning at the district level and below in India, a constitutional provision for District Planning Committee (DPC has been made as per article 243ZD of the Constitution of India (vide The Constitution Amendment Bill 2003, covering Amendment of articles 243

ZD and 243 ZE). The Committee in each district should consolidate the plans prepared by the Panchayats and the Municipalities in the district and prepare a draft development plan for the district.

Steps in the planning process

- Pre-plan economic survey
- Specifying objectives
- Setting priorities
- Fixing targets – Physical and financial
- Working out resource mobilisation methods
- Computation of macro-economic parameters and plan strategy
- Plan approval by the NDC and implementation
- Plan monitoring - Mid-term appraisal
- Final, term-end evaluation (which also serves as a data base for the successive plan).

Formula/equation for computing GDP growth rate during a plan:

Planning Commission in India uses the famous Harrod-Domar growth model for computing the growth rate of the economy. (This model is named after Roy F Harrod, a British economist, and Evsey Domar, an American economist, who independently worked on the factors determining economic growth of nations in the post-war years).

$g = s/\sigma$

where , g is growth rate of GDP,

s is rate of savings(=rate of investment), i.e.,percentage of savings to GDP σ is incremental capital-output ratio (ICOR). e.g., the targeted growth rate for the 12th Plan is $g = 0.32 / 4 = 0.08$ or 8 %.

Annual Av. growth rates of GDPfc and Per capita income through the Plans

Year	GDP at factor cost (%)	Per Capita Income (%)
1950-51 to 1960-61	3.9	2.3
1960-61 to 1970-71	3.7	1.3
1970-71 to 1980-81	3.2	0.8
1980-81 to 1990-91	5.4	3.0
1990-91 to 2000-01	5.7	3.6
2000-01 to 2010-11	7.6	5.9

Sectoral Growth rates

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Plan/sectors	VI Plan	VII Plan	VIII Plan	IX Plan	X Plan	EFP
	1980-85	1985-90	1992-97	1997-02	2002-07	2007-12
Agriculture	5.7	2.9	4.8	2.4	2.4	3.3
Industry	5.2	6.5	7.1	4.5	9.2	6.6
Services	5.6	7.4	7.3	8.1	8.8	9.8
GDP	5.5	5.7	6.5	5.7	7.6	7.9

International Comparisons of Investment Rate as a percentage of GDP

Country Name	2000	2005	2009	2010
	as % of GDP			
World	22.40	21.90	19.14	19.90
Bangladesh	23.02	24.53	24.37	24.41
Bhutan	48.21	49.91	41.21	NA
China	35.12	42.10	48.24	47.78
India	24.16	34.66	36.47	34.77
Indonesia	22.25	25.08	31.00	32.49
Japan	25.44	23.57	20.20	20.22
Korea, Rep.	30.56	29.69	26.28	29.15
Malaysia	26.87	19.99	14.44	21.42
Nepal	24.31	26.45	31.66	34.69
Pakistan	17.23	19.08	18.22	15.37
Philippines	18.37	21.55	16.59	20.54
Singapore	33.18	19.92	26.36	23.83
Sri Lanka	28.04	26.83	24.43	27.79
Thailand	22.84	31.44	21.24	25.94

Source: World Development Indicators

Cumulative Plan-wise ICOR (3-year moving average)

Sector	VI Plan	VII Plan	VIII Plan	IX Plan	X Plan	XI Plan
AGR	2.5	3.0	2.9	4.2	4.1	6.6
MQ	7.7	5.0	7.7	4.7	6.6	15.3
Mfg	6.2	6.8	5.9	12.7	6.2	8.7
Elec	20.5	18.4	15.4	18.3	13.0	16.2
Const	1.9	0.7	1.3	1.4	1.7	3.1
THR	1.4	1.4	1.0	1.1	1.1	2.0
TSC	4.9	5.0	4.4	3.8	2.3	2.2
FINRE	2.8	2.5	3.4	4.1	3.9	2.7
ADMOTH	6.3	5.0	5.1	3.4	6.1	4.6
Total	4.3	4.1	4.0	4.5	3.7	4.4

ICOR in 12th Plan vis-a vis immediate past Plans

Sector	X Plan	XI Plan	XII Plan
AGR	4.05	6.58	5.32
MQ	6.64	15.25	10.95
Mfg	6.20	8.68	7.44
Elec	13.02	16.18	14.60
Const	1.66	3.10	2.38
THR	1.13	2.00	1.56
TSC	2.26	2.23	2.24
FINRE	3.95	2.74	3.34
ADMOTH	6.08	4.59	5.33
GDP	3.73	4.37	4.04

Note: AGR = Agriculture and allied sectors; MQ = Mining and quarrying; Mfg = Manufacturing; Elec = Electricity, Gas and Water Supply; Const = Construction, THR = Trade, hotels and restaurants; TSC = Transport, storage and communication; FINRE = Finance, Insurance and Real Estate; ADMOTH = Administration and Other Services.

Investment as percentage of GDPmp at 2004-05 prices

Five-Year Plan Period	PFCE	GFCE	GDCF
VI Plan	74.3%	11.2%	20.0%
VII Plan	70.2%	12.6%	21.3%
VIII Plan	64.9%	11.6%	23.4%
IX Plan	62.7%	12.6%	25.4%
X Plan	59.7%	11.1%	31.3%
XI Plan	59.1%	11.0%	37.7%

12th Plan Growth Rates – Different Scenarios

Sector	Scenario 1	Scenario 2	Scenario 3	Scenario 4
AGR	3.5	3.8	4.0	4.2
MQ	4.2	4.5	4.8	5.0
Mfg	8.6	9.2	9.7	10.2
Elec	6.5	6.9	7.3	7.6
Const	8.2	8.7	9.3	9.7
THR	8.3	8.8	9.4	9.8
TSC	10.4	11.0	11.7	12.3
FINRE	10.0	10.6	11.3	11.8
ADMOTH	7.0	7.4	7.8	8.2
GDP Growth Target	**8.0**	**8.5**	**9.0**	**9.5**

Investment required during 12th Plan under Scenarios

Sector	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	GDP growth target			
	8%	8.50%	9%	9.50%
AGR	20.0	21.2	22.4	23.5
MQ	48.7	51.7	54.6	57.2
Mfg	64.8	68.5	72.3	75.6
Elec	97.3	103.1	108.8	113.9
Const	19.9	21.0	22.2	23.2
THR	13.2	13.9	14.7	15.4
TSC	23.2	24.5	25.8	26.9
FINRE	33.4	35.3	37.2	38.9
ADMOTH	38.1	40.4	42.6	44.6
Investment as a % of GDPfc	**32.9**	**34.8**	**36.7**	**38.5**
Investment as a % of GDPmp	**30.5**	**32.4**	**34.2**	**35.8**

Mobilizing resources for plans:

There are various methods of raising resources for plans, for that matter, for financing the government's development programs. They are:

1. Raise administered prices – prices of goods and services that the PSU's produce and sell,

e.g., prices of petrol, diesel and domestic gas.

1. Tap black money - by various means
2. Remove/reduce subsidies – or else rationalize them
3. Disinvest PSU's – at least selectively
4. Raise profits of PSU's – by reforming them
5. Increase tax base – by introducing alternative taxes such as service tax, presumptive tax, minimum alternate tax (MAT), to cover those left out by conventional ones and by removing irrational tax exemptions

6. Improve tax collections - by improving tax administration and making PAN mandatory.
7. Prune unnecessary government expenditure – by introducing zero-base budgeting in every government department. Fiscal Responsibility and Budget Management Act needs to be implemented effectively, to use the government's resources for socially more useful purposes.

The National Development Council (NDC) or the Rashtriya Vikas Parishad is the apex body for decision making and deliberations on development matters in India, presided over by the Prime Minister. It was set up on August 6, 1952 on the advice of the Planning Commission, to strengthen and mobilize the effort and resources of the nation in support of the Plan, to promote common economic policies in all vital spheres, and to ensure the balanced and rapid development of all regions of the country. The Council comprises the Prime Minister, the Union Cabinet Ministers, Chief Ministers of all States or their substitutes, representatives of the Union Territories and the members of the Planning Commission. The Planning Commission's office also serves as the NDC Secretariat.

Like the Planning Commission, the NDC is also an extra-constitutional and non-statutory body. The first meeting chaired by Prime Minister, Jawaharlal Nehru on November 8–9, 1952. So far 57 meetings had been held. The 57th Meeting of National Development Council was held on 27 December 2012.

Objectives: It has been set up with three main objectives

1. to strengthen and mobilize the effort and resources of the nation in support of the Plan
2. to promote common economic policies in all vital spheres and
3. to ensure the balanced and rapid development of all parts of the country.

Functions: The functions of the Council are

1. to prescribe guidelines for the formulation of the National Plan, including the assessment of resources for the Plan;
2. to consider the National Plan as formulated by the Planning Commission;
3. to consider important questions of social and economic policy affecting national development; and
4. to review the working of the Plan from time to time and to recommend such measures as are necessary for achieving the aims and targets set out in the National Plan.

Planning Commission

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In pursuance of a decision taken at meeting of the Union Cabinet, the Planning Commission was established on 15 March 1950, with then Prime Minister Jawaharlal Nehru as the ex-officio chairman. The Planning Commission is neither a constitutionally mandatory nor statutory body, but is an arm of the Central/Union Government.

Organisation: The composition of the Commission has undergone a lot of change since its inception. With the prime minister as the ex-officio Chairman, the committee has a nominated Deputy Chairman, who is given the rank of a full Cabinet Minister. Dr. Montek Singh Ahluwalia is presently the Deputy Chairman of the Commission.

Cabinet Ministers with certain important portfolios act as ex-officio members of the Commission, while the full-time members are experts in various fields like Economics, Industry, Science and General Administration.

Present ex-officio members of the Commission, are Finance Minister, Agriculture Minister, Home Minister, Health Minister, Chemicals and Fertilisers Minister, Information Technology Minister, Law Minister, HRD Minister and Minister of State for Planning.

The Commission works through its three broad divisions:

- General Planning Divisions
- Programme divisions
- Administration Divisions

The majority of experts in the Commission are economists, making the Commission the biggest employer of the Indian Economic Services.

Functions: The Planning Commission's functions as outlined by the Government's 1950 resolution are the following:

1. To make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting those resources which are found to be deficient in relation to the nation's requirement.
2. To formulate a plan for the most effective and balanced utilization of country's resources.
3. To define the stages, on the basis of priority, in which the plan should be carried out and propose the allocation of resources for the due completion of each stage.
4. To indicate the factors that tend to retard economic development.
5. To determine the conditions which need to be established for the successful execution of the plan within the incumbent socio-political situation of the country.

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6. To determine the nature of the machinery required for securing the successful implementation of each stage of the plan in all its aspects.
7. To appraise from time to time the progress achieved in the execution of each stage of the plan and also recommend the adjustments of policy and measures which are deemed important vis-a-vis a successful implementation of the plan.
8. To make necessary recommendations from time to time regarding those things which are deemed necessary for facilitating the execution of these functions. Such recommendations can be related to the prevailing economic conditions, current policies, measures or development programmes. They can even be given out in response to some specific problems referred to the commission by the central or the state governments.

Highlights of Individual Plans:

I Plan (1951-56):

GDP growth rate: Target: 2.1 %; Achieved: 3.60 %

Objectives:

- Rehabilitation of the economy hit by colonization, partition, II World War and Bengal Famine
- Solving food crisis
- Building economic overheads (otherwise called economic infrastructure) such as roads, irrigation and hydro-electric works, etc
- Checking inflation

Priorities: Agriculture (31 %), Transport & Communication (27 %), Social Sector (23 %), Industry (4 %)

Highlights: The most important feature of this phase was active role of state in all economic sectors. Such a role was justified at that time because immediately after independence, India was facing basic problems—deficiency of capital and low capacity to save.

The first five-year plan focussed on Agriculture. It was a grand success. Many irrigation projects were initiated during this period, including the Bhakra Dam Hirakud Dam and Mettur Dam. Irrigated area increased by 16 million acres. During the plan the net domestic product went up by 15% due to top priority given to agriculture. However the per capita income went up by the 8%. Lower increase of per capita income as compared to GDP was due the rapid increase in population. Price level fell by 13 %. Chittaranjan Locomotives Factory, Sindhri Fertilizers Factory, ITI Bangalore were among the major factories established under the public sector. Community Development Program launched in 1952 and National Extension Service is 2953. Zamindari system was abolished.

By the end of the 1st Plan, five Indian Institutes of Technology (IITs) were started as major technical institutions. The University Grants Commission was set up to take care of funding and take measures to strengthen the higher education in the country.

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II Plan (1956-61):

GDP growth rate: Target - 4.5 %; Achieved: 4.21 %

Objectives

i). Rapid industrialization
ii). Rise in national income
iii). Expansion of employment
iv). Reduction in income inequalities

Priorities: Industry

Highlights: This plan focused on industry, especially heavy industry. Domestic production of industrial products was encouraged, particularly in the development of the public sector. The plan followed the Mahalanobis model (also called Nehru-Mahalanobis model), an industrial development model developed by the Indian statistician Prashanta Chandra Mahalanobis in 1953. This model was an imitation of the Soviet development model originally formulated by a Russian economist Feldman in the 1920s. It gave primacy to heavy and capital goods industries and de-emphasized consumer goods industries, showing only a lip-sympathy to Gandhian philosophy-based village and small industries producing 'wage' goods. The wage goods model was proposed in a book titled "Planning for an Expanding Economy" written by Profs. C.N.Vakil and P.R.Brahmananda in the 1950s.

With the introduction of Mahalanobis model, a host of public sector industries came up; i.e., Giant steel plants at Bhilai (MP), Roorkela (Orrisa), Bokaro (Bihar) and Durgapur (WB), Heavy Engg. Plant at Ranchi (Bihar), Lignite Corporation at Neyveli (TN) and Integral Coach Factory at Perambur (TN). Hydroelectric power projects were taken up. The Atomic Energy Commission was formed in 1957 with Homi J. Bhabha as the first chairman. The Tata Institute of Fundamental Research was established as a research institute.

II Plan was a failure. Unfavourable monsoons in 1957-58 and 1959-60 led to severe food shortages and rise in prices. Fall in foreign exchange form Rs. 700 cr. to Rs. 100 cr.

III Plan (1961-66):

GDP growth rate: Target - 5.6 %; Achieved - 2.72 %

Objectives:

i) Self-sufficiency in food grains
ii) Expansion of key industries
iii) Employment generation
iv) Rise in national income
v) Equality in income distribution

Priorities: Agriculture, industry, transport and communication

Highlights: The planned stress was on agriculture, but due to the Sino-Indian war of 1962 and Indo-Pak war of 1965, the focus was shifted

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towards defence. The wars led to rise in prices, therefore the priority shifted to price stabilization. Food prices continued to rise due to food shortage caused by monsoon failure (esp. in 1965-66 and 1966-67). Food output fell from 89 million tons in 1964-45 to 76 million tons in 1966-67. Food imports had to be stepped up. Industrial recession set in. Recession refers to a situation in the economy in which a few industries face a glut in the market for their goods thereby leading to fall in investment and employment. If unchecked, more number of industries get affected. The Rupee was devalued in 1966 due to rising inflation and growing balance of payments deficit. The 3rd Plan failed miserably.

Plan Holiday: Due to miserable failure of the 3rd Plan, the three following years, 1966-69, were declared as plan holidays. During this break to five-year planning there were three discrete annual plans. The planning exercise tended to lose credibility in the public circles (This break in the five-year planning system is often referred by some advocates of planning to as a “deadly pause”). The economy recovered partly in 1967-68 and 1968-69 thanks to the new agricultural development strategy associated with high-yielding varieties (HYV's). Five-year planning was revived from April 1969.

IV Plan (1969-74)

GDP growth rate: Target - 5.7 %; Achieved - 2.05 %

Objectives:

i) Growth with stability
ii) Self-reliance (doing away with PL- 480 imports)
iii) Social justice (equality in income distribution)
iv) Balanced regional development

Priorities: Agriculture (23.3 %)
Industry (18.2 %)
Transport and Communication (19.5 %)

Highlights: Indira Gandhi’s Government nationalised 14 major Indian banks and a number of area development programs (DPAP,CADP, DDP, TADP, HADP), employment programs (RWP, CSRE) and target-oriented development programs (SFDA, MFAL) were launched. Funds earmarked for the industrial development had to be used for the Indo-Pakistani War of 1971. India also performed the ‘Smiling Buddha’ underground nuclear test (Pokhran I) in 1974, partially in response to the United States’ deployment of the Seventh Fleet in the Bay of Bengal to warn India against attacking West Pakistan and widening the war.

IV Plan was also not a success. Industrial recession and food shortage continued. Prices kept on rising. Fuel crisis emerged in 1973 with a hefty hike in fuel prices.

V Plan (1974-79):

GDP growth rate: Target - 4.4 %; Achieved - 4.83 %

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Objectives:

i) Removal of poverty
ii) Self-Reliance
iii) Minimum needs program (MNP)
iv) Vigorous export promotion
v) Productive employment
vi) Better public distribution system (PDS)

Priorities: Industry (22.8 %), Agriculture (22.2 %)

Highlights: Targets were revised almost five times during V Plan! Growth in food production was fairly good, but raw materials production such as cotton, etc. was below targets. Prices rose. Corruption became more extensive. Jayaprakash Narayan led a national movement against corruption. Indira Gandhi's election was held illegal by Alahabad High Court. In stead of resigning, she caused emergency to be clamped in 1975. Congress lost elections in 1977 and Janatha Party led by Morarji Desai came to power in early 1977. The term of V plan was curtailed by a year and VI plan based on a different industrial development strategy (Gandhian development strategy by abandoning Nehru-Mahalanobis industrial development strategy) was commenced from April 1978.

VI Plan (Janatha Party's 6th Plan 1978-83, also called Rolling Plan)
Rolling plan is one in which targets are reviewed and reset at the end of every year for the next four years along with a formulation of plan for the fifth year. This plan gave priority to rural development (based on Gandhian model of development), employment generation and small-scale industries. But, with the fall of Janatha Party government, the rolling plan was abandoned within two-years after its launching and an altogether new 6th plan was drafted and implemented by the new government!

VI Plan 1080-85 (New plan introduced by the Congress Govt.)

GDP growth rate: Target - 5.2 %; Achieved - 5.54 %

Objectives:

i) Energy development & conservation
ii) Economic & technological self reliance
iii) Protection of environment
iv) Population control
v) Reduction in poverty and unemployment
vi) MNP continued
v) Reduction in regional disparities
vi) High economic Growth

Priorities: (1) Energy (27.9%); (2) Ag (23.9%)
Highlights: Performance was fairly good. Many targets achieved (esp. agricultural and oil production).

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VII Plan (1985-90)

GDP growth rate: Target - 5.0 %; Achieved - 5.5%

Objectives:

i) Improved production and distribution efficiency
ii) High growth rate
iii) Social justice (Equity in income distribution)
iv) Self-reliance

'Professed' priorities: 1)Food, 2) Work, and 3) Productivity

'Allocation' priorities: Energy (30.5%), Agriculture (22 %), Social Services(17.2%)

Highlights: A fair success. To generate employment, NREP, RLEGP, IRDP were strengthened financially. Agricultural Production rose to record 172 mt. Industrial growth rate 8.5%. Exports exceedingly good during most part of the plan.

Plan holiday again! Economic Crisis of the early 1990's: In spite of VII plan being a success, certain adverse developments started taking place towards the end of the plan, i.e., from 1989 onwards. The disintegration of the Soviet Union and the Gulf War in the late eighties gave a severe economic shock to the Indian economy leading to slowing down in exports and increase in oil import bill. As a result, the BoP current account deficit went on rising alarmingly and the forex reserves got depleted very fast – to as low as US$ 1billion - in May 1991. The growth rate in 1990-91 and 1991-92 was also very low, leading to near stagnation situation while the rate of inflation tended to be very high, above 14%. The fiscal deficit of central govt. alone had mounted to over 8% of the GDP. Moreover, there was a flight of capital as the NRIs tended to withdraw their foreign currency deposits in a sort of panic. All these meant an unprecedented economic crisis. Around this time India was rated very poorly by the international credit-rating agencies and even the IMF was reluctant to lend, to tide over the crisis.

Obviously there was another break in the five-year planning; leading to two more plan holidays, for 1990-91 and 1991-92. The Government of India introduced certain far-reaching reforms before the start of VIII Plan on 1st April 1992.

VIII Plan (1992-97)

GDP growth rate: Target:- 5.6%; Achieved - 6.8 %

Major features:

(i) VIII Plan was introduced in the wake of sweeping economic reforms initiated in July 1991. This plan and the succeeding ones represent 'planning by persuasion' or 'indicative planning' while all the earlier plans represented 'imperative or totalitarian planning'.

(ii) Development of Strategy pursued since the 8thPlan: market-friendly, private-sector oriented strategy (also called Rao-Manmohan Singh Strategy).

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Objectives:
i) Generation of adequate employment - Full employment by 2000AD
ii) Population control - through active voluntary participation by people
iii) Universalisation of primary education - eradication of illiteracy in 15-35 age
group.
iv) Provision of safe drinking water and primary health facilities and complete
elimination of scavenging
v) Growth and diversification of agriculture - to achieve self-sufficiency in food and
generating surplus for exports
vi) Strengthening infrastructure - (energy, transport, communication and irrigation)

The plan was a grand success, the achievement far exceeded the targets.

IX Plan (1997-2002)

GDP growth rate: Target: 6.8%, Achievement: 5.4%

Objectives:

i) Agriculture and rural development with a view to generate adequate employment
and eradicate poverty.
ii) Accelerating growth with stability
iii) Food & nutritional security for all
iv) Basic minimum services of safe drinking water, primary health care, universal
primary education, shelter and connectivity to all in a time-bound manner.

Highlights: In view of the emphasis given to the development of economic infrastructure, especially railways, telecom, power, ports, etc., the ICOR was raised to 4.3. The revised 9th Plan was drawn up against the break drop of the burden of implementation of the central 5th Pay Commission pay scales, enhanced defence expenditure due to Kargil War and Pokhran II nuclear explosions and the economic sanctions slapped on the economy by the US Govt. Due to these extra-ordinary circumstances, the growth rate achieved was below the targeted rate.

During the Ninth Plan, the rate of growth declined particularly in the agricultural and manufacturing sectors, as compared to the 8th Plan; whereas in the services sector there was a marginal increase in the growth rate. In so far as agriculture was concerned, three of the five years of the Ninth Plan witnessed poor performance as a result of weather-related shocks. Following the Asian crisis in 1997 and subsequent reduction in the growth rates in the other parts of the world, there was a slow-down in

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the Indian economy as well. The slow-down in the world economy also affected the level of exports. Cyclone in Orissa, earthquake in Gujarat and Kargil War resulted in diversion of resources from planned investment and consequent decline in the growth rates.

X Plan (2002-07):
GDP growth rate - Target: 8 %, Achievement: 7.8 %

The background: Positive factors:
i) Rapid growth of the economy (6.5%) during 1992–2002 (driven by growth of
service sector, esp. software & IT segments)
ii) Rapid reduction in poverty
iii) Fast rise in literacy rate from 52 % to 65 % between 1991- 2001.
iv) Deceleration in population growth from 2.1 % to 1.9 % during 1991- 2001

Negative factors:
i) Employment growth not commensurate with GDP growth
ii) IMR is still high and stable
ii) Land and forest degradation
iii) Over-exploitation of ground water
iv) Rising pollution in cities

Objectives:
i) 8 percent GDP growth rate
ii) If population growth onto comes down to 1.6 %, PCI should grow at 6.4 % per
annum
iii) Enhancement of human well-being
iv) Expansion of economic and social opportunities for individuals

Monitorable Targets:
- Reduction in poverty to 20 % by 2007 and to 10% of the population
- Gainful employment. to additions to labour force.
- Universal access to primary education. (All Children to be in School by 2003 complete 5 years school by 2007)
- Reduction in decadal population growth rate to 16.2 percent by 2011.
- Reduction in gender gaps in literacy and wage rates by at least 50 % by 2007
- Increase in literacy ratio to 75 % by 2007.
- Reduction in IMR to 45/1000 live births by 2007 and to 28 by 2012.
- Reduction in MMR to 2 per 1000 live births by 2007 and to 1 by 2012.

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- Increase in forest and tree cover to 25 % by 2007 and to 33 % by 2012.
- All villages to have access to drinking water by 2007.
- Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.

Macroeconomic Parameters for 10th Plan (2002-07) vis-à-vis IX Plan

		IX Plan	X Plan	Post Plan
1	Domestic savings rate (% of GDP	23.31	26.84	33.01
2.	Current Account Deficit (% GDP)	0.91	1.57	3.13
3.	Investment Rate (% of GDP)	24.23	28.41	36.14
4.	ICOR	4.53	3.58	3.84
5.	GDP Growth Rate (% per annum	5.35	7.98	9.40
6.	Export Growth Rate (% p annum)	6.91	12.38	--
7.	Import Growth Rate (% p annum)	9.80	17.13	--

Growth Performance in Five-Year Plans (Per cent per annum)

Plan	Target	Actual
First Plan (1951 – 56)	2.1	3.60
Second Plan (1956-61)	4.5	4.21
Third Plan (1961-66)	5.6	2.72
Fourth Plan (1969-74)	5.7	2.05
Fifth Plan (1974-79)	4.4	4.83
Sixth Plan (1980-85)	5.2	5.54
Seventh Plan (1985-90)	5.0	6.02
Eight Plan (1992-97)	5.6	6.68
Ninth Plan (1997-02)	6.5	5.35
Tenth Plan (2002-07)	7.9	7.80

Note: The growth targets for the first three plans were set with respect to Gross National Product. In the fourth plan it was Net Domestic Product. In all plans thereafter it has been Gross Domestic Product at factor cost.

XI Plan (2007-2012)

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Target growth: 8.3%; Growth achieved:7.9%

- Main objective – Rapid and more inclusive growth. Recognition that several sections of the society, several areas in the country and several sectors were left out in the previous plans.

- Thrust
    - Focus on basic services – education, skill development, health, water supply and sanitation, urban development
    - Greatly increased Federal funding for these sectors
    - Renewed emphasis on agriculture
    - Policy support for PPP in infrastructure

Sectoral outlay: 10th and 11th Plans (%)			
Sl.No.	*Sector*	*10th Plan (2002-07)*	*11th Plan (2007-12)*
1	*Education*	*7.68*	*19.29*
2	*Rural Devt. & Panchayati Raj*	*10.70*	*13.39*
3	*Health & Family Welfare*	*5.62*	*8.71*
4	*Agriculture and Irrigation*	*6.22*	*8.55*
5	*Social Justice*	*4.47*	*6.35*
6	*Physical Infrastructure*	*10.94*	*9.01*
7	*Scientific Departments*	*3.66*	*4.68*
8	*Energy*	*5.81*	*4.04*
Total Priority Sectors		*55.10*	*74.03*
9	*Others*	*44.90*	*25.97*
Total		*100.00 (8,13,778)*	*100.00 (14,21,711)*
Note: (a) Figures in the parentheses are Rs. in Crore. (b) Source: 11th Five Year Plan (2007-1012), pp. 51			

Reduction of Regional Disparities in XI Plan
- Participatory planning and democratic decentralisation
- Article 243ZD of Indian Constitution – District Planning Committees – Consolidation of plans prepared by local bodies
- Guidelines on district plans issued from Planning Commission
- The Backward Regions Grant Fund (BRGF) – for 250 most backward districts – capacity building for district planning

Monitorable Targets in XI Plan
- Monitorable Targets
    - Key feature in the strategy of inclusive growth
    - Reflect multi-dimensional socio-economic objectives of inclusive growth

- 27 National Targets in 6 major categories
  - Income & Poverty,
  - Education,
  - Health,
  - Women & Children,
  - Infrastructure,
  - Environment
- 13 State specific targets
  - GDP and Agriculture growth,
  - Work Opportunities and Poverty Ratio
  - Drop Out Rate, Literacy and Gender Gap in Literacy
  - IMR, MMR and TFR
  - Child Malnutrition, anaemia in Women and Girls
  - Child Sex Ratio

Following are the monitorable targets of XI Plan

- Income & Poverty
  - Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016-17
  - Increase agricultural GDP growth rate to 4% per year to ensure a broader spread of benefits
  - Create 70 million new work opportunities.
  - Reduce educated unemployment to below 5%.
  - Raise real wage rate of unskilled workers by 20 percent.
  - Reduce the headcount ratio of consumption poverty by 10 percentage points.
- Education
  - Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12
  - Develop minimum standards of educational attainment in elementary school, and by regular testing monitor effectiveness of education to ensure quality
  - Increase literacy rate for persons of age 7 years or above to 85%
  - Lower gender gap in literacy to 10 percentage point
  - Increase the percentage of each cohort going to higher education from the present 10% to 15% by the end of the plan
- Health
  - Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births

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- Reduce Total Fertility Rate to 2.1
- Provide clean drinking water for all by 2009 and ensure that there are no slip-backs
- Reduce malnutrition among children of age group 0-3 to half its present level
- Reduce anaemia among women and girls by 50% by the end of the plan

- Women and Children
    - Raise the sex ratio for age group 0-6 to 935 by 2011-12 and to 950 by 2016-17
    - Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children
    - Ensure that all children enjoy a safe childhood, without any compulsion to work
- Infrastructure
    - Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power.
    - Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015
    - Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012
    - Provide homestead sites to all by 2012 and step up the pace of house construction for rural poor to cover all the poor by 2016-17
- Environment
    - Increase forest and tree cover by 5 percentage points.
    - Attain WHO standards of air quality in all major cities by 2011-12.
    - Treat all urban waste water by 2011-12 to clean river waters.
    - Increase energy efficiency by 20 percentage points by 2016-17.

As the Planning Commission itself had listed, implementation of 11th Plan called for:

- Empowering local service providers – enforce accountability
- Rule of law – Safety and access to justice for the poor
- Business friendly environment

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- Transparency – Civil Society as a watchdog
- Tackling corruption
- Empowerment of PRIs
- Involvement of communities in design and implementation of programmes
- Monitoring and Evaluation of Outcomes.

However, this was only a wishful thinking on the part of the Planning Commission. Most of the above wishes did not materialise.

Growth Performance in the Five Year Plans

(% per annum)

	Plan Period	Target	Realization		Plan Period	Target	Realization
1.	First Plan (1951–55)	2.1	3.5	8.	Sixth Plan (1980–84)	5.2	5.5
2.	Second Plan (1956–60)	4.5	4.2	9.	Seventh Plan (1985–89)	5.0	5.6
3.	Third Plan (1960–65)	5.6	2.8	10.	Annual Plan (1990–91)	–	3.4
4.	Annual Plans (1966–68)	–	3.9	11.	Eighth Plan (1992–96)	5.6	6.5
5.	Fourth Plan (1969–73)	5.7	3.2	12.	Ninth Plan (1997–2001)	6.5	5.5
6.	Fifth Plan (1974–78)	4.4	4.7	13.	Tenth Plan (2002–2006)	7.9	7.7
7.	Annual Plan (1979–80)	–	–5.2				

Note: The growth targets for the first three Plans were set with respect to National Income. In the Fourth Plan it was Net Domestic Product. The actual growth rates are in terms of GDP at factor cost. Average growth rates over a short period can be misleading because of fluctuations in agricultural output due to variable monsoon.

Macroeconomic Parameters

(at 2006–07 prices)

		Tenth Plan	Eleventh Plan
1.	Investment Rate (% of GDPmp)	32.4	36.7
2.	Domestic Savings Rate (% of GDPmp)	30.9	34.8
3.	Current Account Deficit (% of GDPmp)	1.5	1.9
4.	ICOR	4.3	4.1
5.	GDP Growth Rate (% per annum)	7.5	9.0

Note: GDPmp = GDP at market prices.

TABLE 2.3
Sectoral Growth in Recent Plans

(% per annum)

	Sector	Eighth Plan (1992–96)	Ninth Plan (1997–2001)	Tenth Plan (2002–06)	Eleventh Plan (2007–11)
1.	Agriculture	4.72	2.44	2.30	4.0
2.	Industry	7.29	4.29	9.17	10–11
3.	Services	7.28	7.87	9.30	9–11
4.	Total	6.54	5.52	7.74	9.0

Investment and Savings Rates

(% of GDP)

Year	Investment Rate	Savings Rate
Eighth Plan (1992–93 to 1996–97)	24.4	23.1
Ninth Plan (1997–98 to 2001–02)	24.3	23.6
2002–03	25.2	26.4
2003–04	28.2	29.8
2004–05	32.2	31.8
2005–06	35.5	34.3
2006–07	35.9	34.8
Tenth Plan (2002–03 to 2006–07)	32.1	31.9
Eleventh Plan Targets	36.7	34.8

Note: Ratios for Eleventh Plan are at constant 2006–07 price; Ratios for earlier years' Plans are at current price; 2005–06: Provisional Estimates; 2006–07: Quick Estimates.

12th Five Year Plan (2012-2017)

The Draft Approach to the 12th Five Year Plan (2012-2017), approved by the National Development Council in Dec 2012 has the basic objective of achieving "faster, sustainable and more inclusive growth". It proposes a growth target of 8 percent. The document has projected the aggregate Plan resources at Rs37.16 lakh crore during the five year period starting 2012-13.

The growth target was earlier projected at 9% but now Planning Commission feels 8% target is more feasible, and revised the estimate for the second time after slashing it down to 8.2% just three months back from 9%. So in a new trend moving away from previous practice of presenting single growth projection, the Planning Commission has come out with three different economic scenarios for 12th Five-Year Plan. According to planning commission these scenarios will be a function of economic decisions and "policy logjam", and in worse scenario the GDP growth could slow down to 5-5.5 per cent.

Twelfth Plan proposes to bring down poverty by 10 percentage points by the end of the Plan and generate 50 million new jobs in the non-farm sector. For Infrastructure sector the Plan envisages to increase investment to 9 per cent of the GDP by the end of the Plan period.

Some other major targets are:

- Increasing green cover by one million hectare every year and adding 30,000 MW of renewable energy generation capacity in the Plan period.
- To reduce emission intensity of the GDP in line with the target of 20-25 reduction by 2020 over 2005 levels.

- Raising agriculture output to 4 per cent for the full Plan.
- Manufacturing sector growth to 10 per cent for the full Plan.
- Target of adding over 88,000 MW of power generation capacity in the 12th five year plan.

It also wants all the states to set higher targets of growth than what was achieved in the 11th Five Year Plan. All the targets are welcome step and now total care should be taken in implementation process, because that is the field where our government lacks efficiency. In a small blow to the projections, the document envisages 6.7 per cent growth rate in the current fiscal, but now it has been projected at 5.7-5.9 per cent in 2012-13 by the Finance Ministry.

MODULE V: Economic Reforms launched since the early Nineties

Economic Crisis of 1991

A critical situation in the economy caused by:

- Near-stagnation of the economy characterized by slowdown in growth coupled with rising prices. Rate of inflation rose to almost 18% in May 1991. Growing fiscal deficit accentuated inflation.
- Alarming rise in Government's internal and external debt. The domestic debt rose to 60 percent of the GDP.
- Over-valued exchange rate; the rupee was considerably overvalued.
- Chronic balance of payments current account deficit (almost 4% of GDP) and the consequent erosion of forex reserves. Hardly $1 billion foreign exchange balances were left in May 1991, which could last for not more than three weeks. Alarming fall in NRI deposits.

Measures taken to tackle Economic Crisis

The government took two sets of measures to tackle the crisis on the one hand and put the economy on the growing path on the other:

(i) Short-term Policies:

All the major macroeconomic policies namely monetary, fiscal, foreign trade and foreign exchange policies were together used to stabilize the economy through inflation control and reduction in BoP deficit. Monetary policy was made dearer by raising the Bank Rate from 10 % to 12% in July 1991. CRR was kept high at 15%. Selective credit controls were also used. Money supply rose only by 11% in 1992 compared to 14% in 1991. Fiscal deficit was brought down from over 8% of GDP in 1990-91 to 6.5 in 1991-92. Rate of inflation was brought down from 14% in 1991-92 to 6.5 % in 1992-93 by cutting government expenditure by 10-15 %; rationalizing the tax structure and raising the administered prices (adjustments in subsidies). Imports were discouraged by raising customs duties and increasing the negative list of imports. Rupee was devalued in July 1991 by about 21%. NRI deposits started increasing after mid-1991.

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Medium-term policies: Economic Reforms

Also called the new economic policy (NEP), Structural Adjustment Program (SAP); liberation, privatization and globalization (LPG), Washington Consensus (because the SAP was basically masterminded by the Washington financial institutions namely IMF and World Bank for implementation in most developing countries. Far-reaching reforms were initiated in the Indian economy since July 1991, encompassing industry, services, foreign trade and investment, exchange rate, finance and fiscal affairs. The main focus of the NEP is liberalization of the economy dismantling most of the controls, privatization/reform of the public sector and establishment of a market-friendly open economy.

The Economic reforms affected since July 1991 can be brought under seven broad categories namely:

1) Industrial Liberalisation; 2) Privatisation including PSE reforms; 3) Financial Sector reforms; 4) Fiscal reforms; 5) Foreign trade reforms; 6) Foreign Exchange reforms and; 7) Foreign investment reforms.

What is 'LPG'?

LPG means liberalization, privatization and globalisation:

Liberalization: Basically means removing or reducing the controls, regulations and restrictions imposed on the economic activities in general and industry, trade, banking and other services, in particular. Experiments with liberalization began in the mid-seventies, with amendments of IDRA, MRTP Act, and FERA. But the major liberalization was introduced in 1991, with the announcement of the new Industrial Policy Statement in July 1991.

Privatization: Now-a-days the government is looked upon more as a 'hurdle' than as a 'catalyst' in economic development. Privatization refers to the process of reducing the involvement of the public sector in economic activities. Privatization includes: denationalization, entry of the private sector into areas hither to exclusively reserved for the public sector, transfer of ownership, management and control of PSU's to the private sector, limiting the scope of the public sector or stopping further expansion of the existing PSU's. Different degrees of privatization are: divestiture (disinvestment), privatization of management, leasing out and outright sale.

Globalisation: Exposing the Indian economy to the rest of the world by freeing foreign trade, reducing controls on foreign exchange rate and foreign exchange transactions, allowing foreign direct investment, foreign technology and foreign institutional investment. So, globalization entails:

- Increasing exports and imports as percentage of GDP (a policy called outward- looking development policy).

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- Internationalization of financial (capital) market wherein capital flows freely from and into the country.
- Technological transfers to bring down costs and improve equality.
- Expanding markets for domestic products beyond the domestic segment.
- Membership of WTO leading to further globalization of the economy.

What is globalisation?

People around the globe are more connected to each other than ever before. Information and money flow more quickly than ever. Goods and services produced in one part of the world are increasingly available in all parts of the world. International travel is more frequent. International communication is commonplace. This phenomenon has come to be known as "globalisation."

Major Structural reforms (New Economic Policy) introduced since 1991:

- New-look industrial policy 1991 based on liberalization and market friendly economy. End of license raj.
- Opening up of hitherto PSU-monopoly industries for private sector and downsizing/reforming of PSU's.
- Exit policy (Golden Handshake) introduced. This consisted of the scheme of voluntary retirement of excess staff in over-staffed PSU's. National Renewal Fund (NRF) established for the purpose.
- Partially flexible exchange rate system introduced. Convertibility of rupee introduced partially, i.e., to the extent of 40 % of the current account of the BoP (called Liberalised Exchange Rate Management System, LERMS) in the 1992-93 fiscal year and fully (called UERMS) in 1993-94, and 100 % current account convertibility of Rupee since 1993-94.
- Foreign direct investment and foreign portfolio investment allowed. Foreign direct investment ranging from 24% to 100% in the equities allowed in selected sectors.
- Foreign technology freely allowed. Indian companies are now free to negotiate technology transfers.
- Sweeping tax reforms, rationalization of subsidies and curtailment of unproductive government expenditure.
- Foreign trade greatly liberalised. The negative lists for exports and imports substantially pruned. Import duties reduced considerably on many items. Rigorous export promotion drive undertaken through a number of incentives for exporters.
- Extensive financial sector reforms introduced, covering both money and capital markets.

'Second Generation' Economic Reforms refer to the following.

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1. Withdrawal of quantitative restrictions (QR's) on imports.
2. Removal of restrictions on exports of agricultural commodities and processed goods.
3. Introduction of Electronic Data Exchange (EDI) and Electronic Commerce (EC)
4. Rationalization of Labour laws
5. Revamping of commercial sections in Indian Missions abroad.
6. De-reservation of industries in stages.
7. Privatization of cargo berths and sea and airport services
8. All round improvements in infrastructure.

Industrial reforms since 1991

Licensing abolished for all industrial products except for the following six items:

- Alcoholic Drinks
- Cigarettes & tobacco products
- Electronic, aerospace & defence equipment
- Industrial explosives and matches
- Hazardous chemicals
- Drugs & pharmaceuticals

- Automatic clearance for projects requiring import of capital goods if foreign equity participation is assured and for projects requiring 25 % of the value of plant & equipment
- Approvals for FDI simplified
- Foreign Investment Promotion Board (FIPB) constituted in 1991.
- Foreign technology agreements simplified.
- MRTP Act 1969 replaced by competition Act 2002. New competitions policy incorporated in the Competition Act 2002 implements the recommendations of S.V.S. Raghavan Committee on competition. The committee was constituted in 1999 and it submitted its report in 2000. The Competition Commission of India replaces the now defunct MRTP Commission. The objectives of the Competition Act include promotion and sustenance of healthy competition in industry, protection of consumer interests and ensuring freedom of trade of other participants in the market.
- FERA (1973) amended initially and later on replaced by FEMA (in 1999).
- SEBI Act of 1992.
- Indian Co's Act 1956 amended in 2001 and 2006, but substantially in August 2013,
- BIFR replaced by National Company Law Tribunal (NCLT) (After SICA was amended in 2003).

Changes in industrial policy since 1951

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IDR Act (Industries (Development & Regulations Act), 1951, had made industrial licensing compulsory in India: R.K. Hazari committee report (1967) and Dutt committee report (1969) had recommended selective delicensing. The process of delicensing was set in motion in 1985 by the Rajiv Gandhi Govt. In 1986 Government delicensed 23 industries for MRTP and FERA companies located in backward areas. The concept of broad-banding was introduced. Under the Industrial Policy Statement (IPS) of 1985, the asset limit of MRTP Co's was raised from Rs.20 cr to Rs. 100 cr. As a result 112 Co's came out of the MRTP Act's purview leaving 379 Co's still under it.

The 1991 IPS effected far-reaching changes. It was a sharp departure from the previous IPSs. Liberalization of the mid-seventies was called **'reform by stealth**; liberalization of mid-eighties was called **'reform by reluctance'** while the liberalization of the nineties is called **'reform by storm'.**

MRTP Act 1969, MRTP Commission 1970: Objectives: Controlling: 1) monopoly & concentration 2) transfer and acquisition of assets/shares, 3) monopolistic and restrictive trade practices. In the MRTP Amendment of 1991,'M' component was deleted and RTP element retained. Large firms, mergers, etc, allowed to encourage economies of scale and reduce industrial sickness. Competition Act 2002 has since replaced MRTP Act.

Structure of Indian industry by major groups (%)

Group	1956	1960	1970	1980-81	2010-11
Basic industries	23.33	25.11	32.28	39.41	45.68
Capital goods	4.71	11.76	15,28	39.41	08.83
Intermediate goods	24.59	25.88	20.95	20.51	15.69
Consumer Good	48.37	37.25	31.52	23.65	29.81
Total Weight	100	100	100	100	100.00

Indian Companies Act 1956

The Companies Act, 1956, a Central Act, provides various powers to the Central government to monitor, regulate and control the affairs of companies. The companies have mainly to deal with: (a) the Registrars of Companies; (b) the Regional Directors to whom certain powers have been delegated by the Central government; (c) the winding up/liquidation of companies by the offices of Official Liquidators attached to High Courts; and (d) the Company Law Board (CLB), established under the Act which has the powers to adjudicate on petitions filed under the Companies Act, 1956.

The Companies Act, 1956 has been amended a number of times for the past over five decades. The latest amendment has been effected through the Companies (Amendment) Act, 202013.

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Indian companies at work: The number of joint stock companies, both Government and non-Government, incorporated under the Companies Act and at work in India as on 31 March 1999 was 5,15,205. Of these 5,12,053 were limited by shares, 427 with unlimited liability and 2,725 were limited by guarantee or association not for profit. The 5,12,053 companies limited by shares had an estimated paid-up capital of Rs 2,46,901.43 crore. These comprised 71,055 public limited companies and 4,40,998 private limited companies with estimated paid-up capital of Rs 1,62,879.69 and Rs 84,021.74 crore respectively.

Number of industrial items de-reserved by the government for the SME sector

A number of items were de-reserved in a phased but steady manner since 2000 and the number of items still under reservation to MSME(micro, small and medium enterprises) sector 21 (as on 10.10 2008).

Reservation of items for exclusive manufacture in the MSME sector statutorily provided for in the IDRA 1951 has been one of the important policy measures used for promoting this sector. The Reservation Policy had two objectives: (i) ensure increased production of consumer goods in the small scale sector, and (ii) expand employment opportunities through setting up of small scale enterprises. As per the current industrial policy, non-MSME units (i.e., large enterprises) can manufacture reserved items only if they stick to 50% export obligations.

Small and medium scale enterprises (SMEs):

MSMEs play an important role in the Indian economy. Sir M. Visweswaraiah had said: "India doesn't want mass production but production by masses". This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. More than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector.

Definitions of MSMEs

MSMED Act 2006 provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz, micro, small and medium

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Under the Act, enterprises have been categorized broadly into those engaged in (i)
manufacturing and (ii) providing/rendering of services. Both categories have been further
classified into micro, small and medium enterprises, based on their investment in plant
and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services) as under:

Manufacturing Enterprises:
Micro Enterprises (tiny units): investment up to Rs. 25 lakh.
Small Enterprises – investment above Rs. 25 lakh and up to Rs. 5 crore.
Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore.

Service Enterprises:
Micro Enterprises – investment up to Rs. 10 lakh
Small Enterprises – investment above Rs. 10 lakh and up to Rs. 2 crore.
Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore.
As per the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the micro, small and medium enterprises are defined as follows:

All small scale units whose investment in plant & machinery is upto Rs.25 lakh are treated as Tiny Enterprises, irrespective of the location of the unit.

During the past, several Committees/Study Groups had looked into issues relating to MSMEs. These, inter alia, include:

(i) Committee to Examine the Adequacy of Institutional Credit to SSI Sector under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor (1991);
(ii) 'Expert Committee on Small Enterprises' under the chairmanship of Shri Abid Hussain, Former Member, Planning Commission (1995);
(iii) High Level Committee on Credit to SSI under the chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India (1998);
(iv) 'Study Group on Development of Small Scale Enterprises' under the chairmanship of Dr. S.P. Gupta, the then Member, Planning Commission (1999);
(v) Working Group on Flow of Credit to SSI Sector under the chairmanship of Dr. A.S. Ganguly (2003);
(vi) Working Group on 'Rehabilitation of sick SMEs' under the chairmanship of Dr. K. C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank (2007).

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(vii) Prime Minister's Task Force on MSMEs set up in 2009 under the chairmanship of Mr. TKA Nair, its report was submitted in Jan 2010.

The Government had also constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS) in September 2004 to examine the problems confronting enterprises in the unorganized sector and make appropriate recommendations to provide technical, marketing and credit support to the enterprises.

Institutions set up for promoting SMEs:

KVIC established in 1953.
Ford Foundation Team in 1954.
National Small Industries Corporation (NSIC) setup in 1955.
SIDC's set up in various states.
SIDBI estd. in 1996.
District Industrial Centers (DIC's) estd. In 1978

Industrial sickness

According to Companies (Second Amendment) Act, 2002, 'Sick Industrial Company' means an industrial company which has: i) accumulated losses in any financial year equal to 50 per cent or more of its average net worth during four years immediately preceding such financial year; or ii) failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by its creditors. Most of the sick units are in the MSME category. As per data from MSME Ministry, there were more than 90 thousand sick MSME units (about 30% of the total) in 2010.

Causes for industrial sickness

(a) Internal causes

- Improper initial project planning and launching.
- Lack of use of skilled labour and supervising personnel
- Unscientific management
- Use of out-dated technology

(b) External causes

- Changes in the government policies
- Irregular supply of inputs
- Bottlenecks in energy supplies
- Severe competition
- Exploitative unorganized financial sector

Export Processing Zones (EPZ's) Though Export Processing Zones (EPZs) have been a feature of Indian policy of export promotion since 1960, they have

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been much less successful than in ASEAN & China. India was the first country in Asia to establish an EPZ when its first EPZ was set up in Kandla in 1965. This was followed by six others namely: Kandla (KFTZ), Cochin (CEPZ), Santacruz (SEPZ), Falta (FEPZ), Madras (MEPZ),Vishakapatnam (VEPZ), NOIDA (NEPZ). The objectives of EPZs were: 1) To increase foreign exchange earnings through increased exports, 2) to attract foreign investment, and 3) to generate employment. EPZ's have failed in achieve their objectives. EPZs accounted for a meagre 0.66 % of the exports in 1980-81, 3.69% in 1996 – 97, and now it is hardly about 5 at present.

Export Oriented Units (EOUs)

The EOUs Scheme which is now is complementary to the SEZ scheme, was introduced in 1981. The main objectives of the EOU scheme are to: increase exports, earn foreign exchange to the country, transfer of latest technologies, stimulate direct foreign investment and generate additional employment. Major Sectors in EOUs are: Granite, Textiles / Garments, Food Processing, Chemicals, Computer Software, Coffee, Pharmaceuticals, Gem & Jewellery, Engineering Goods, Electrical & Electronics and Aqua & Pearl Culture.

The scheme adopts offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st December 2006, 2168 units are in operation under the EOU scheme. Exports during 2005-06 from EOUs were of the order of Rs.47425.87 crore.

Special Economic Zones (SEZs)

Considering the need to enhance foreign investment and promote exports from the country and realising the need that a level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, the Government of India had in April 2000 announced the introduction of Special Economic Zones policy in the country, deemed to be foreign territory for the purposes of trade operations, duties and tariffs. As of 2007, more than 500 SEZs have been proposed, 220 of which have been created. This has raised the concern of the World Bank, which questions the sustainability of such a large number of SEZs. The Special Economic Zones in India closely follow the China model.

Government of India introduced SEZs in the year 2000 through a revision in the Export-Import Policy 1997-2002. The SEZ Act 2005 was enacted to provide for the legal framework, covering all important legal & regulatory aspects of SEZ development as well as for units operating therein. SEZs are specifically delineated duty-free enclaves treated as a foreign territory for the purpose of industrial, service and trade

operations, with exemption from customs duties and a more liberal regime in respect of other levies, foreign investment and other transactions, domestic regulations, restrictions and infrastructure inadequacies are sought to be eliminated in the SEZs for creating a hassle-free environment. The SEZ scheme seeks to create a simple and transparent system and procedures for enhancing productivity and the case of doing business.

SEZs can be developed in the public, private or joint sectors, or by the State Governments. They are expected to promote the establishment of large, self-contained areas supported by world class infrastructure oriented towards export production. Exploiting the full potential of the concept of SEZs would bring large dividends in terms of economic and industrial development and the generation of new employment opportunities.

Public sector enterprises (PSEs) in India

Key highlights of the CPSEs

- In FY07, the public sector, comprising administrative departments, departmental enterprises and non-departmental enterprises, constituted 21.4% of the GDP and 22.3% of the gross domestic capital formation. In domestic savings, on the other hand, the public sector had a share of 9.3%.
- The share of the public sector in India's GDS was (-) 3.2% in FY00 and 9.3% in FY07.
- The Gross Savings Rate of the public sector was 3.2% in FY07.
- CPSEs account for more than 1/3rd of total revenue receipts of the Central government.
- The net worth of all enterprises stood at Rs 4,530 bn (FY07)
- CPSEs paid a dividend of Rs 268 bn in FY07.
- The public sector accounted for 11% of the total merchandise exports and export earnings grew by 33% during FY04-FY06.
- CPSEs reported a 53% growth in turnover during FY04 and FY07.
- Net profits rose from Rs 695 bn in FY06 to Rs 816 bn in FY07.
- Number of loss-making institutions decreased from 89 in FY04 to 59 in FY07.
- Internal resource generation of CPSEs grew by 21.7% in FY07.

There were altogether 246 CPSEs as on March 31, 2009, with a cumulative investment (paid-up capital plus long-term loans) of Rs 5,28,951 crore. The largest share in this investment belonged to the service sector (46.1 per cent) followed by electricity (26.2 per cent), manufacturing (18.1 per cent) and mining (8.8 per cent). Of the total, 158 CPSEs made net profit and 54 net loss in 2008-09.

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State-level Public Enterprises (SLPEs)

As per the CAG reports, there were around 837 working SLPEs in the country(including 65 in Karnataka) as on 31.3.2007, with total(financial) investment of Rs. 333441 crore. Investment in SLPEs amounts to 79% of total investment in the 246 CPSEs. The SLPEs together employed 18.7 lakh employees, more than the total number of employees in CPSEs (15.70 lakh), as on 31.03.2007. As high as 67% of the investment by SLPEs has been in 'power & energy' sector, followed by industry (9%), financial services (8%), transport services (5%), mining(4.5%), trading & marketing / other services(3.5%) and agriculture (2%).

Objectives of PSE's

- Establishment of socialistic pattern of society and egalitarian distribution of income and wealth.
- Control of strategic sectors of economy and provide infrastructure.
- Develop and manage essential industries in public interest.
- Fill the void left by Private sector in the usage to achieve self-reliance.
- Healthy structural changes in the economy (balanced pattern of industrial development covering industries of all types)
- Balanced regional development
- Generation of surpluses for development.
- Regulated exploitation of natural resources to ensure their optimum utilization.
- Provide capital and consumer goods, services and finance at low prices.
- Prevent growth of monopolistic business houses and foreign economic interests

11. Develop indigenous technology
12. Exploit export potential
13. Generate employment
14. Prevent closure of sick private units.

Disadvantages of privatization (= Advantages of PSEs):

1. Resource allocation may be sacrificed for the sake of improvement in so-called efficiency and privatization proceeds.
2. A market-driven development under the private sector often sacrifices social justice (lack of social safety net)
3. Privatization ignores balanced regional development.
4. Private sector is interested in quick-yielding industrial projects most of which are directly productive activities (DPA's) having a high a return on investment (ROI), while they are least interested in investing in

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social overhead capital (SOC), including power, transport, etc.,(otherwise called infrastructure), the ROI from which is usually low.

Case for privatization (Arguments against public sector)

- Budgetary deficits in India are increasing and are largely due to losses by PSU's resulting in a heavy drain on the economy.
- High K/Q in PSEs
- Wastage of resources by PSEs through idled capacity and mismanagement.
- Political intervention/corruption and scope for politicians and bureaucrats to use PSU's for personal ends at public cost.
- Declining ROI of PSEs, 5 % in 1983-84 but down to 2.43% in 1992-93 (Profits 3396 cr/ Capital Rs.1,39,933 cr) = 0.024268(2.43%).

Case against privatization (Arguments for public sector)

- Private sector in India has not been distinctly better than the public sector in efficiency & productivity. Private sector also suffers from idle – capacity and industrial sickness. Perceived relative efficiency of private sector is often illusory.
- PSU's in recent years have started performing better than before – thanks to MoU's
- Public sector scores over private sector in labour relations and working conditions. In-built resistance – esp. from labour unions for privatization Pvt. Sector is synonymous with labour exploitation
- Private sector will accentuate inequality in the distribution of income and wealth.
- Pattern of industrial development in the private sector would not be compatible with the national goals.
- Private sector in industry leads to oligopoly markets leading to consumer exploitation.
- Privatisation leads the growth of MNC's and regional imbalance in industrial location. State monopoly better than private monopoly.
- Generation of resources for planned development would be affected by privatisation.
- Different norms must be used for evaluation of PSEs. PSEs go by social profits whereas pvt. firms go by commercial profits.

Public sector and privatization

Since 1947 PSEs have come to occupy the centre stage of the Indian economy. The IPR of 1948 laid foundation for PSEs. Nine Industries were put in PSEs exclusive domain. On the eve of Independence, the industrial system in the country was dominated by the Managing Agency System leading to inter-locking of ownership, financing and management of industrial enterprises, which led to heavy concentration of industrial wealth and incomes. Further, the county had only a few consumer goods industries, and the managing agents had monopolized the corporate sector. There were also regional disparities in industrial development and lop-sized infrastructure development.

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The IPR of 1948 referred to three main reasons for emphasizing the PSEs: 1) Constitutional obligation as embodied in the directive Principles of State Policy, 2) Needs of the planned economy and 3) Securing objectives a socialistic pattern of society. The IPR of 1956, which came to be nicknamed as the 'economic constitution of India' (parallel to the political constitution adopted in 1951), extended the tentacles of the public sector vastly.

IPR of 1991 completely reversed the earlier IPR's. The number of Public sector industries reduced to 4 – defence products, atomic energy, railways, and minerals specified in the atomic energy order of 1953.

Motivations for recent change in PSE Policy:

- Decline of Russian Socialist regime and global shift towards privatization.
- WB/IMF conditionalities for opening gates for private sector.
- Falling image of PSU's due to huge and recurring losses.

Types of PSEs in India:

Based on type of production: PSU's cover almost every aspect of economy activity: essential commodities, transport & communications, banking, insurance, trade, etc. These can be classified broadly into: 1) Public utilities - Railways, Posts, Ports, defence production, etc. and 2) Commercial units - SAIL, Oil companies, banks, HMT, etc.

Classification of PSEs based on extent of govt. ownership and control:

- Government department organizations - e.g., Indian Railways, ordnance factories, Dept. of Post, etc. which are owned and managed directly by the government.
- Public Corporations - e.g., RBI, LIC, IFCI, General insurance, etc., established by a special statute enacted for the purpose and which are managed by an autonomous body appointed by the govt. from time to time.
- Government Company - e.g., ITI, HAL, HSL, all oil companies, VSNL, BSNL, ECIL, EdCIL, etc. - is a joint stock company in which not less than 51% of the shares is held by the government. Since the voting principle for election to the board of directors in a company from among the shareholders is one share one vote, holding a 51% or more of the shares in a govt. company would ensure control by the govt. while at the same time providing scope for investment by the private sector.

Modus operandi of public-sector expansion was:

1) Establishment of PSEs in key & heavy industries, and 2) Nationalization of hither-to private sector undertakings

Major milestones in the growth of public sector

1948 - RBI nationalized

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1953 - Private airways nationalized into Air India & Indian airlines Corporation.
1955 - Imperial Bank of India nationalized into SBI.
1956 - LIC's nationalized into LIC of India
1969 - 14 major banks nationalized
1971 - 214 coking coal mines, 12 coke owen plants
1971 - General insurance nationalized
1973 - 711 non-coking coal mines nationalized
1980 - 6 more banks nationalized
1960's & 1970's- Several sick textile units nationalized and formed into National Textiles Corporation (NTC).

Growth of PSEs (non-departmental)

	No.	Investment (Rs.Cr.)
1.4.1951	5	29
1.4.1956	21	81
1.4.1961	48	953
1.4.1966	74	2415
1.4.1974	112	6237
1.4.1985	233	42,811
1.4.1992	246	1,35,444
1.4.2009	246	5,28,951

State level PSU's: More than 600 PSE's at present

Achievements / contributions of PSE's

- Build up of a strong economic infrastructure and key industry base.
- Dispersal of industrial development into hither-to backward regions
- Reduced concentration of economic power.
- Employment generation by PSE's – They account for 71% of the organized sector employment - 23 lakh employees in capital PSE's
- Helped a no. of ancillary industries to come up in SSI sector
- Establishment of pioneering industries (Leading industries in the basic and capital goods sector).

Failures of PSEs - Reasons:

- Bureaucratic culture in management – lack of commercial expertise, delay in decision making – redtapism
- Political interference in management by ministers, legislators and pressure groups – transfers effected on personal grounds
- Poor accountability - frequent transfer of executives leading to a sense of non-responsibility.
- Poor accountability led to inefficiency, wastage and high costs.
- PSU's are charged with making Indian economy a high-cost economy.
- Inefficiency is often covered up by raising administrated prices and prices of public utilities (e.g., electricity tariffs, steel prices etc).

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- Inappropriate pricing policies for PSE products
- Sacrifice of sound business/management principles, deliberate delays in decision making leaving key posts vacant for long periods thus affecting management at top levels.
- Lack of motivation/commitment on the part of lower-rung staff and workers, increased absenteeism and hostile / aggressive attitudes of trade unions pampered by political parties.
- Delays in decision making and execution leading to cost escalation
- Poor capacity utilization by PSU's
- Conflicting objectives: Objective of generating industrial surpluses for further expansion conflicts with objective of providing capital and consumer goods at low prices. PSU's are often caught in this dilemma. (Of late under-pricing trend has been reversed).
- Objective of employment generation conflicts with the objective of labour efficiency and productivity. PSU's are over-staffed. Public sector was forced to take over a number of sick units to prevent unemployment and unrest. But this policy led to heavy financial burden on the Government.

Measures needed for PSE improvement:

1. Reduce dependence on budget support.
2. Disinvest for greater public participation.
3. Imbibe professional management personnel.
4. Improve work culture and productive efficiency especially at lower rungs
5. No political interference - greater autonomy in management.
6. Market-based pricing of PSE products and services.
7. Productivity linked benefits to workers.
8. Fuller capacity utilization

Arjun Sen Gupta Committee (1985) recommended MoU's to be signed between the PSEs and the respective ministries for autonomy. Tenure of Heads of PSEs increased to 5 years to give them a feel of permanence. GoI set up a committee in July 1997 to review the existing PSE guidelines. The committee has recommended deletion of 762 guidelines of which 591 have been dropped. This has left only 171 guidelines.

Prof C. Rangarajan Committee on Disinvestment of PSU's: (Appointed in 1992 and reported in June 1993).

Major recommendations:

- Government to identify specific PSU's for disinvestments.
- Government to retain majority of shares in strategic PSU's and can disinvestment in other PSEs to any extent
- Disinvestment to be effected in phases
- Sale to be so phased as to get best possible prices.
- Workers' interest to be protected and they be allowed to buy shares
- Transparent mechanism for disinvestments of PSEs

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- An autonomous agent with powers and responsibility to off- load government shares to be set up.
- 10% of disinvestment proceeds to be lent to PSEs on confessional terms and the rest to be used by NRF. But so far most proceeds have been used to meet the fiscal deficit!

Steps taken so far to revamp PSU's

- Economic Administration Reforms Committee (L.K. Jha Committee)
- Arjun Sen Gupta Committee (1985). MoU's for ensuring autonomy and accountability introduced in 1988-89.
- C. Rangarajan Committee regarding PSE disinvestment set up in Feb 1992, reported in June 1993.
- Disinvest Commission headed by G.V.Ramakrishna in 1996, dissolved in 1999 recommended PSEs to withdraw from areas serving no public purpose; loss making and unviable PSEs to be closed down
- No of Industrial areas for PSEs down from 17 to 2.
- Sick PSU's brought under the purview of BIFR in 1992. BRCPSEs set up in 2004 to tackle the problem of sick CPSEs.
- Disinvestments of PSU's started with effect from 1991-92.
- Boards for PSEs to be made more professional and 'distanced from politicians and bureaucrats.
- Greater emphasis on performance improvement through MoU (a legally binding performance evaluation contract signed by the PSE and the respective ministry)
- Extremely sick PSEs closed down
- About one lakh employees of various PSEs retired under VRS.
- Holding Company arrangement (like SAIL, NTC, etc) has produced some positive results.

In order to provide greater autonomy in management and for investment the Govt. companies are divided into three categories:

- Maharatna
- Navratna
- Miniratna CPSEs
  - Category I
  - Category II

Navratna was the title given originally to nine Public Sector Enterprises (PSEs) identified by the Government of India in 1997 as "public sector companies that have comparative advantages", giving them greater autonomy to compete in the global market so as to "support [them] in their drive to become global giants".

Navaratna status is conferred by Department of Public Enterprises. To be qualified as a Navaratna, the company must obtain a score of 60 (of

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the total 100).The score is based on six parameters which include net profit to net worth, total manpower cost to total cost of production or cost of services, PBDIT (Profit Before Depreciation, Interest and Taxes) to capital employed, PBDIT to turnover, EPS (Earning Per Share) and inter-sectoral performance. Additionally, a company must first be a Miniratna and must have four independent directors on its board before it can be made a Navaratna.

The 'Navaratna' status offers a company enhanced financial and operational autonomy and empowers it to invest up to Rs. 1000 cr or 15% of their net worth on a single project without seeking government approval. In a year, these companies can spend up to 30% of their net worth not exceeding Rs. 1000 cr. They will also have the freedom to enter joint ventures, form alliances and float subsidiaries abroad.

Miniratnas

In order to make the public sector undertakings more competitive and efficient as a policy objective, it was decided by the government to allow increased autonomy and transferring of power to the profitable enterprises. Thus the government created another category called Miniratna. Miniratnas can also enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions.

Category I: This designation applies to PSEs that have made profits continuously for the last three years or earned a net profit of Rs. 30 crore 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 crore or equal to their net worth, whichever is lower.

Category II: This category includes 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 crore or up to 50% of their net worth whichever is lower.

Maharatna

In 2009, the government established the Maharatna status, which raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investments of up to 15 per cent of their net worth in a project; the Navaratna companies could invest up to Rs 1,000 crore without explicit government approval. The six criteria for eligibility as Maharatna are:

1. Having Navratna status.
2. Listed on Indian Stock Exchange with minimum prescribed public shareholding under SEBI regulations.

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3. An average annual turnover of more than Rs. 20,000. crore during the last 3 years. Earlier it was Rs 25,000 Crore.
4. An average annual net worth of more than Rs. 10,000 crore during the last 3 years. Earlier it was Rs. 15,000 crore.
5. An average annual net profit after tax of more than Rs. 2500 crore during the last 3 years. Earlier it was Rs. 5000 crore.
6. Should have significant global presence/international operations.

List of Maharatna, Navratna and Miniratna CPSEs (as in February, 2013)

Maharatna CPSEs

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
7. Steel Authority of India Limited

Navratna CPSEs

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. NMDC 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
13. Rural Electrification Corporation Limited
14. Shipping Corporation of India Limited

Miniratna Category - I CPSEs

1. Airports Authority of India
2. Antrix Corporation Limited
3. Balmer Lawrie & Co. Limited
4. Bharat Dynamics Limited
5. BEML Limited
6. Bharat Sanchar Nigam Limited
7. Bridge & Roof Company (India) Limited
8. Central Warehousing Corporation
9. Central Coalfields Limited
10. Chennai Petroleum Corporation Limited
11. Cochin Shipyard Limited
12. Container Corporation of India Limited

13. Dredging Corporation of India Limited
14. Engineers India Limited
15. Ennore Port Limited
16. Garden Reach Shipbuilders & Engineers Limited
17. Goa Shipyard Limited
18. Hindustan Copper Limited
19. HLL Lifecare Limited
20. Hindustan Newsprint Limited
21. Hindustan Paper Corporation Limited
22. Housing & Urban Development Corporation Limited
23. India Tourism Development Corporation Limited
24. Indian Railway Catering & Tourism Corporation Limited
25. IRCON International Limited
26. KIOCL Limited
27. Mazagaon Dock Limited
28. Mahanadi Coalfields Limited
29. Manganese Ore (India) Limited
30. Mangalore Refinery & Petrochemical Limited
31. Mishra Dhatu Nigam Limited
32. MMTC Limited
33. MSTC Limited
34. National Fertilizers Limited
35. National Seeds Corporation Limited
36. NHPC Limited
37. Northern Coalfields Limited
38. North Eastern Electric Power Corporation Limited
39. Numaligarh Refinery Limited
40. ONGC Videsh Limited
41. Pawan Hans Helicopters Limited
42. Projects & Development India Limited
43. Railtel Corporation of India Limited
44. Rashtriya Chemicals & Fertilizers Limited
45. RITES Limited
46. SJVN Limited
47. Security Printing and Minting Corporation of India Limited
48. South Eastern Coalfields Limited
49. State Trading Corporation of India Limited
50. Telecommunications Consultants India Limited
51. THDC India Limited
52. Western Coalfields Limited
53. WAPCOS Limited

Miniratna Category-II CPSEs

54. Bharat Pumps & Compressors Limited
55. Broadcast Engineering Consultants (I) Limited
56. Central Mine Planning & Design Institute Limited
57. Ed.CIL (India) Limited
58. Engineering Projects (India) Limited

59. FCI Aravali Gypsum & Minerals India Limited
60. Ferro Scrap Nigam Limited
61. HMT (International) Limited
62. HSCC (India) Limited
63. India Trade Promotion Organization
64. Indian Medicines & Pharmaceuticals Corporation Limited
65. M E C O N Limited
66. National Film Development Corporation Limited
67. National Small Industries Corporation Limited
68. P E C Limited
69. Rajasthan Electronics & Instruments Limited

National Renewal Fund (NRF): established by the Government of India on 3rd February 1992as a part of the New Industrial Policy, 1991. During the period 1992-93 to 1998-99, assistance from the NRF had been provided for implementation of voluntary retirement scheme in Central Public Sector Undertakings and counselling/redeployment scheme for workers rationalised from the organised sector. The Government introduced revised voluntary retirement (revised VRS) on 5th may, 2000 by abolishing NRF 1992. The budgetary support for implementation of VRS in central Public Sector Undertakings is now made available directly to the respective Ministries by Ministry of Finance from the financial year 2001-02 and funds required for retaining/rehabilitation of employees availing VRS has been placed with Department of Public Enterprises from year 2001-02.

Disinvestment of PSU's: Refers to reducing the percentage of share holding by the government in the government companies, through selling part of the shares to the private sector. The Disinvestment Commission set up in 1996, with G.V. Ramakrishna as the chairman, considered 35 PSU's for disinvestment, out of which 20 were categorized as the core-sector group and 15 as the non-core group. Upto 49% disinvestment was recommended for the core group and upto 100% disinvestments for the non-core group like modern Food Industries Ltd. But pressure from employees led to only 50% disinvestments in many non-core group units. The commission had proposed for setting up an Empowered Group to implement and monitor disinvestments. The commission also recommended delegation of powers to identify the strong and week performers and to monitor the performance of the latter PSU's.

Disinvestment Commission

Ministry of Industry (Department of Public Enterprises) , constituted a Public Sector Disinvestment Commission in 1996 for a period of three years under the chairmanship of G.V. Ramakrishna along with four other members. The Commission submitted reports on 58 PSEs. The Commission was reconstituted in July 2001 for a period of two years under Dr. R.H.Patil as Chairman along with four other members. The

term of the Commission was subsequently extended till October 2004. The reconstituted Commission submitted reports on 41 PSEs, out of which 4 PSEs were review cases of the recommendations of the earlier Commission.

In this manner there are 24 reports covering 95 cases which were studied by the first and second Commission. The breakup of the action taken in these cases is as follows.

In 20 cases, the Commission itself did not recommend Strategic Sale.

In 6 cases, the Commission had recommended an offer for sale of minority shares. Out of these an offer for sale of MTNL shares was concluded in December 1997 while in the case of NALCO the disinvestment proposal was not pursued after July 2003.

In 12 cases, the Government decided not to pursue Strategic Sale / disinvestment out of which in 3 cases, the reason was that bidders were not found for these companies.

In 11 cases, Strategic Sale has been implemented out of which in 2 cases, privatization has been partly implemented (19 Hotels of ITDC and 3 Hotels of HCI have been privatized).

Subsequent to the formation of the UPA Government, the Commission was wound up in end October 2004. The remaining 46 cases, which were studied by the Disinvestment Commission, have been referred to the Board for Reconstruction of Central Public Sector Enterprises (BRCPSE) in the case of loss making or sick PSEs for consideration of their revival / reconstruction.

Board for Reconstruction of Central Public Sector Enterprises (BRCPSEs): was established in December 2004 as a part time advisory body to advise the Government on the strategies, measures and schemes for strengthening, modernizing, reviving and restructuring of public sector enterprises. The Board comprises a Chairman, three Non-official Members and three official Members. In addition, Chairman, Public Enterprises Selection Board (PESB), Chairman, Standing Conference of Public Enterprises (SCOPE) and Chairman, Oil and Natural Gas Corporation Ltd. (ONGC) are the permanent invitees.

A company is referred to the BRPSE if it is considered sick and has accumulated losses in any financial year up to 50% or more of its average net worth during the four years immediately preceding such financial year /or a company that is a sick company as per the meaning of Sick Industrial Companies (Special Provisions) Act, 1985. Since its inception BRPSE has received proposals from 64 CPSEs have been received revival/rehabilitation or closure/winding up. Till date (24.7.2013) the BRPSE has received in 66 cases including two for closure. It made recommendations for revival of 42 CPSEs and closure of two has been approved.

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National Investment Fund" (NIF)
The Government constituted the NIF on 27th Jan 2005 into which the proceeds from disinvestment of Central Public Sector Enterprises will be channelized. The Fund would be maintained outside the Consolidated Fund of India. The income from the Fund would be used for (a) Investment in social sector projects which promote education, health care and employment; (b) Capital investment in selected profitable and revivable Public Sector Enterprises that yield adequate returns in order to enlarge their capital base to finance expansion/ diversification. The corpus of the National Investment Fund will be of a permanent nature. The Fund will be professionally managed to provide sustainable returns to the Government, without depleting the corpus.

Seventy-five per cent of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of the Fund will be used 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. Three Public Sector Mutual Funds namely UTI Assets Management Company Ltd., SBI Funds Management Company (Pvt.) Ltd. and Jeevan Bima Sahayog, Asset Management Company Ltd .have been appointed initially as Fund Managers to manage the funds of NIF under the 'discretionary mode' of the Portfolio Management Scheme which is governed by SEBI guidelines. NIF is under the jurisdiction of the Dept. Disinvestment in the Finance Ministry.

In view of the deceleration of GDP growth due to global economic downturn, the Government has approved (on 5th November, 2009) one-time exemption permitting full utilization of disinvestment proceeds deposited in the National Investment Fund, over this and the next two Financial Years, in meeting the capital expenditure requirements of selected social sector programmes decided by the Planning Commission/Department of Expenditure. The status quo ante was restored from April 2012.

MODULE VI: Currency and Financial System

Indian Currency System

The Rupee is the only legal tender accepted in the India and is also accepted as legal tender in neighbouring Nepal and Bhutan, the latter's currency value being pegged to the rupee. The ISO 4217 code for the India Rupee is INR. The word 'rupee' has been derived from the Sanskrit rupya, meaning silver. India has been one of the earliest issuers of coins in the world (circa 6th Century BC). The first "rupee" is believed to have been introduced by Sher Shah Suri (1486-1545), based on a ratio of 40 copper-coin pieces (paisa) per rupee. Among the earliest issues of paper rupees were those by the Bank of Hindostan (1770-1832), the General Bank of

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Bengal and Bihar (1773-75, established by Warren Hastings), and the Bengal Bank (1784-91), amongst others.

During British rule, and the first decade of independence, the rupee was subdivided into 16 Annas and each Anna was subdivided into 12 pies. Following independence in 1947, the Indian rupee replaced all the currencies of the previously autonomous states. Some of these states had issued rupees equal to those issued by the British. Other currencies included the Hyderabad rupee and the Kutch kori. In 1957, decimalisation occurred and the rupee was now divided into 100 Naye Paise (new paisas). After a few years, the initial "Naye" was dropped. The current note issue series which began in 1996 is called the Mahatma Gandhi series. All the coins and currency notes are issued by the Reserve Bank of India, except the Re. 1 note which was traditionally issued by the Government of India until it was withdrawn from circulation.

Money supply in India:

RBI computes four measures/concepts of money supply: They are:
M1 = Currency with the public + Demand deposits of the public.
This is called narrow money
M2 = M1+Post Office savings deposits
M3 = M1+Time deposits of the public with the banks.
This is called broad money or aggregate monetary resources.
M4 = M3 + Total Post Office deposits.

Exchange rate system

Since Liberalisation, India has relaxed controls on foreign exchange, imports and foreign investment. Under the fixed exchange rate system, the value of the rupee was linked to the British pound sterling till 1946 and after independence, 30% of India's foreign trade was to be determined in pound sterling. In 1975, the value of the rupee was pegged to a basket of currencies and was tightly controlled by the Reserve Bank of India.

Since liberalisation, the rupee is fully convertible on trade and current account. The former has enabled Indian businessmen and workers to convert their earnings abroad into rupee at market rates, while the latter has removed all restrictions on foreign exchange for current business transactions as well as travel, education, medical expenses, etc., India has committed to gradually move towards full convertibility, albeit with some restrictions on capital accounts, in order to encourage two-way flow of capital and investment.

Foreign Exchange Regulation

Foreign Exchange Regulation Act (FERA), 1973, introduced in 1947, comprehensively amended in 1973; turned out to be very drastic and hence was amended again in 1993 to make it partially liberal. With liberalization of the economy, a need was felt to remove all the drastic measures of FERA

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and replace them by a set of liberal foreign exchange management regulations. Therefore, the Foreign Exchange Management Act (FEMA), passed in 1999, ultimately replaced the FERA.

Any offense under FERA was a criminal offense liable to imprisonment, whereas FEMA seeks to make offenses relating to foreign exchange civil offenses. Unlike other laws where everything is permitted unless specifically prohibited, under FERA nothing was permitted unless specifically permitted. Hence the tenor and tone of the Act was very drastic. It provided for imprisonment of even a very minor offense. Under FERA, a person was presumed guilty unless he proved himself innocent whereas under other laws, a person is presumed innocent unless he is proven guilty.

Foreign Exchange Management Act (FEMA), 1999, has come into force with effect from June 1, 2000. All foreign exchange transactions are now classified as capital account or current account transactions. "Capital Account Transaction" means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India, and includes transactions by way of giving guarantees or surety for any debt, obligation or other liability of: 1) a person resident outside India; or 2) of a person resident in India and owed to a person resident outside India.

"Current Account Transaction" means a transaction other than a capital account transaction and includes:

- payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business,
- payments due as interest on loans and as net income from investments,
- remittances for living expenses of parents, spouse and children residing abroad,
- expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Under section 5 of the FEMA, any person is free to buy or sell foreign exchange for any current account transaction except for those transactions on which the Central Government has imposed restrictions, vide its Notification No.G.S.R.381(E) dated May 3, 2000. No release of foreign exchange is admissible for any kind of travel to Nepal and Bhutan or for any transaction with persons resident in Nepal and Bhutan.

Capital account convertibility of Rupee: Refers to the convertibility of Rupee in respect of the capital account transactions in the balance of payments. S.S. Tarapore Committee submitted report in June 1997.

Differences	
FERA(1973)	FEMA(1999)
- To conserve forex	- To boost foreign trade and investment

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- Criminal Law. Non-bailable arrest possible even on grounds of suspicion	- Civil law. Arrest possible only if accused defaults on penalty payment.
- RBI permission needed for transactions	- Powers delegated to select forex dealers.
- Applies to Indian citizens living within and outside India	- Will apply to residents in India staying beyond 182 days
- FERA was punitive when we were trying to globalise	- FEMA would be a complement to globalization program

Indian Financial System
The Financial System or sector of a country consists of the institutions, procedures and instruments relating to lending, borrowing and investing money in the economy for various time periods. The financial sector is an important adjunct to the real (i.e., goods and services) sector of a modern economy and it facilitates financing of production and marketing of goods and services and also helps long term investment in economic activities. The financial sector comprises two markets: money market and capital market.
The money market consists of institutions and instruments involved in lending, borrowing and investing money for short time periods while the capital market consists of institutions and instruments engaged in lending, borrowing and investing money for long time periods.

Money Market
The money market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that it is liquid and can be turned over quickly at low cost and provides an avenue for equilibrating the short-term surplus funds of lenders and the requirements of borrowers. The call/notice money market forms an important segment of the Indian Money Market. Under call money market, funds are transacted on overnight basis and under notice money market; funds are transacted for the period between 2 days and 14 days.

The Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising money lenders, pawn brokers, chit funds and indigenous bankers.

Call Money Market
This is the market for very short term funds, known as money at call. The word call money comes from the condition that a call loan actually can

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be called back by the lender any time after it is lent. The interest rate at which funds are borrowed in this market is called `Call Money Rate'. The size of the market for these funds in India is between Rs 60,000 million to Rs 70,000 million, of which public sector banks account for 80% and foreign banks/private sector banks account for the balance 20%. Non-bank financial institutions like, LIC, GIC etc participate only as lenders in this market. 80% of the requirement of call money funds is met by the non-bank participants and 20% from the banking system.

Debt Market

The debt market provides trading facilities for the whole range of debt instruments including government securities, treasury bills, bonds of public sector enterprises and corporate debentures. It is dominated by large participants such as banks and institutions. The debt market is a key factor in the development of the capital markets. A segment of the debt market which deals in government bonds is called gilts market.

Capital Market Instruments

The capital market is characterized by a large variety of financial instruments. While equity and preference shares, fully convertible debentures (FCD's), non-convertible debentures (NCDs) and partly convertible debentures (PCDs) currently dominate, new instruments are being introduced. These include debentures bundled with interest warrants, participating preference shares, zero-coupon bonds, secured premium notes, etc. Equity based instruments are the most popular means of raising finance. The market where these instruments are issued by the business companies for the first time for investment by the public and financial institutions (popularly abbreviated as IPO) is called the primary market while their subsequent sale in the stock markets represents the secondary market.

Types of NRI deposits in India:

Non-resident Indian (NRI) deposits play a significant role in bolstering overall banking capital inflows and the capital account surplus. Currently two types of deposit accounts are available to NRIs to place their money in India with full repatriation facility:
(i) Non-Resident (External) Rupee Account {NR(E)RA} and
(ii) Foreign Currency Non-Resident (Bank) {FCNR(B)} account.
Banks in India can offer NR(E)RA in domestic currency and FCNR(B) deposits in foreign currency (US dollar, Pound Sterling, Euro and Japanese Yen). While term deposits with maturity of one to three years as well as savings deposits are allowed under NR(E)RA, only term deposits of one to three year maturity are offered under FCNR(B).

Status of Non-Resident External Accounts:

1. FCNRA – Foreign Currency Non-Resident A/c (from No. 75 to Aug 95)

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2. FCNR (B) – For. Currency Non-Resident (Banks) A/c (May 1993 & continuing)
3. NR (E) RA - Non-Resident External Rupee A/c's (Feb 70 & continuing)
4. NR (NR) RD - Non-Resident (Non-Repatriable) Rupee deposits (June 92 discontinued in 2002)
5. FCON – Foreign Currency Ordinary Non-Repatriable
6. FC (B&O) D – Foreign Currency (Banks & Others) Deposit (from 12/90 to 7/92).

Chief Financial institutions in India

Reserve Bank of India (RBI)

RBI is the central bank of India, and was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. Since its inception, it has been headquartered in Mumbai. The Reserve Bank of India was set up on the recommendations of the Hilton Young Commission. The commission submitted its report in the year 1926. However, operations began only on April 1, 1945. Originally a private company, RBI was nationalised by the Government of India in 1949. RBI is governed by a central board (headed by Governor) appointed by the Central Government. The current governor of RBI is Dr. Raghuram Rajan. RBI has 22 regional offices across India.

Main Functions

1) Monetary Authority:

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

2) Regulator and supervisor of the financial system:

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

3) Manager of Exchange Control:

- Enforces the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

4) Issuer of currency:

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

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5) Developmental role

- Performs a wide range of promotional functions to support national objectives.

6) Other Functions

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.
- Owner and operator of the depository (SGL) and exchange (NDS) for government bonds.

Monetary policy

It is one of the two major macroeconomic policies used by modern governments to control the level of economic activity in the economy, the other policy being the fiscal policy. Monetary policy refers to a set of instruments or techniques by means of which the monetary authority of a country, the central bank, controls the cost and supply of money to attain a set of objectives oriented towards the growth and stability of the economy. These goals usually include stable prices and low unemployment.

Monetary policy can be either expansionary or contractionary. An expansionary policy increases the total supply of money in the economy rapidly, and a contractionary policy reduces the total money supply, or increases it slowly. Expansionary policy is traditionally used to combat unemployment in a recession by lowering interest rates, while contractionary policy involves raising interest rates to combat inflation. Monetary policy uses two types of monetary control techniques namely quantitative and qualitative techniques. The quantitative techniques are: i) Bank Rate Policy, ii) open market operations, iii) variable reserve ratio, otherwise called cash reserve ratio (CRR) in India and iv) Statutory liquidity ratio. The qualitative techniques, also called selective credit controls, are: i) Moral suasion, ii) direct action, iii) margin requirement, iv) consumer credit control, v) differential interest rates, and vi) credit rationing.

Monetary policy, also called credit policy, is contrasted with fiscal policy, which refers to government borrowing, spending and taxation. The RBI, the monetary in India, has been using monetary policy very actively especially during the last two decades of liberalisation, privatization and globalisation. It is the prime measure used to control inflation in India.

RBI Money Market Rates

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Bank Rate	10.25% (w.e.f. 15/07/2013)	Increased from 8.25% which was continuing since 03/05/2013
Cash Reserve Ratio (CRR)	4.00% (w.e.f. 09/02/2013)	Decreased from 4.25%which was continuing since 30/10/2012
Statutory Liquidity Ratio (SLR)	23%(w.e.f. 11/08/2012)	Decreased from 24% which was continuing since 18/12/2010
Repo Rate under LAF	7.25% (w.e.f. 03/05/2013)	Decreased from 7.50% which was continuing since 19/03/2013
Reverse Repo Rate under LAF	6.25% (w.e.f. 03/05/2013)	Decreased from 6.50% which was continuing since 19/03/2013
Marginal Standing Facility (MSF)	10.25% (w.e.f. 15/07/2013)	Increased from 8.25% which was continuing since 03/05/2013

Structure of the organised banking sector in India. (No. of banks in brackets)

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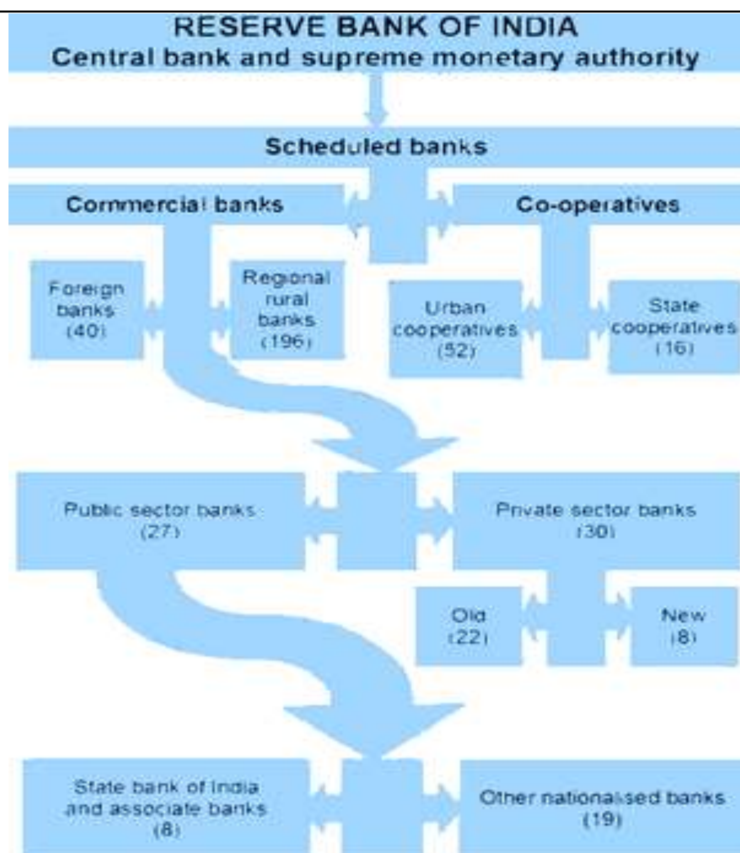

India nationalised 14 banks in 1969, followed by six others in 1980 and made it mandatory for banks to provide 40% of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfil their social and developmental goals. Since then, the number of bank branches has increased from 10,120 in 1969 to 98,910 in 2003 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. After the amalgamation of New Bank of India with Punjab National Bank, and creation of IDBI Bank, currently there are 20 nationalised banks in India:

Since liberalisation, the government has introduced significant banking reforms. While some of these relate to nationalised banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.

Indian Commercial Banking System

State Bank of India and its 7 Associates (State Bank Group):	
• State Bank of India	• State Bank of Mysore
• State Bank of Bikaner	• State Bank of Patiala
• State Bank of Hyderaba	• State Bank of Saurashtr
• State Bank of Indore	• State Bank of Travancor
Public sector Banks	

• State Bank of India • Bank of India • Bank of Baroda • Canara Bank • Corporation Bank • Indian Bank • Indian Overseas Bank • Punjab National Bank • Vijaya Bank • Central Bank of India	• Union Bank of India • Allahabad Bank • United Bank of India • Bank of Maharashtra • Andhra Bank • Dena Bank • Oriental Bank Commerce • UCO Bank • Vysya Bank • IDBI Bank (estd:2004)

Major Private Commercial Banks:

• AXIS Bank • HDFC Bank • ICICI Bank • IndusInd Bank • Kotak Mahindra Bar • Yes Bank • Federal Bank	• Catholic Syrian Bank • HSBC • ABN Amro • Standard Chartered • CitiBank • My Bank • Karur Vysya Bank • Likshmi Vilas Bank

Major Development Banks in India

Industrial Finance Corporation of India Ltd (IFCI Ltd)

As the oldest development bank in India, the IFCI was established in July 1948 under IFCI Act 1948 (HO: Mumbai). The main objectives of IFCI Ltd are to provide medium and long term credit to the industrial undertakings and to assist them in creation of industrial facilities. Its functions include: direct financial support (by way of rupee term loans as well as foreign currency loans) to industrial units for undertaking new projects, expansion, modernisation, diversification etc; subscription and underwriting of public issues of shares and debentures; guaranteeing of foreign currency loans and also deferred payment guarantees; merchant banking, leasing and equipment finance. In 1994, IFCI was converted into a joint-stock company and came out with a public issue of shares. Subsequently the name of the company was also changed to 'IFCI Limited ' with effect from October1999. It has floated institutions such as TFCI, ICRA, etc.

Industrial Credit and Investment Corporation of India (ICICI) / ICICI Bank

ICICI was set up during 1955 as a private company with a view to provide support to industry in India by way of rupee and foreign currency loans, particularly the private international investment and World Bank funds to assist the industry in the country in private sector (HO: Mumbai). It functions included: assistance to industrial undertakings for new projects, expansion, modernisation, diversification

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etc. in the shape of rupee loans or foreign currency loans; subscription and underwriting of capital issues; guaranteeing the payment for credits; merchant banking, equipment leasing and project counselling. It floated a number of institutions successfully which include credit rating agency CRISIL, SCICI (since merged with it) a Mutual Fund etc. It created ICICI Banking Corporation in 1994 and was converted into a company in 1998. In 2001 the parent firm, ICICI Ltd, got merged with the ICICI Bank Ltd, which is now the largest public sector bank in India.

Industrial Development Bank of India (Now IDBI Bank)

IDBI was the apex institution in the area of long term industrial finance (HO: Mumbai). It was established in July 1964 under the IDBI Act 1964 as a wholly owned subsidiary of RBI. Under Public Financial Institutions Laws (Amendment) Act 1976, it was delinked from RBI and transformed into a Govt. Company.

IDBI Bank is engaged in direct financing of the industrial activities as well as in re-finance and re-discounting of bills against finance made available by commercial banks under their various schemes. The objectives of IDBI are to serve as a principal institution for long term finance, to coordinate the institutions working in this field for planned development of industrial sector, to provide technical and administrative support to the industries and to conduct research and development activities for the benefit of industrial sector. Its functions include: direct loans (rupee as well as foreign currency) to industrial undertakings as defined in the Act to finance their new projects, expansion, modernisation etc.; soft loans for various purposes including modernisation and under equipment finance scheme; underwriting and direct subscription to shares/debentures of the industrial companies; sanction of foreign currency loans for import of equipment or capital goods; short term working capital loans to the corporates for meeting their working capital requirements.; refinance to banks and other institutions against loans granted by them.

In 2008 it floated its own bank IDBI Bank and since then the Company name has been changed from Industrial Development Bank of India Ltd to IDBI Bank Ltd. IDBI Bank also has a Mutual Fund.

Industrial Investment Bank of India (formerly IRBI)

IIBI was initially set up as Industrial Reconstruction Corporation Limited (IRC) in 1971 and was renamed Industrial Reconstruction Bank of India w.e.f. Mar 20, 1985 under IRBI Act 1984 to take over the function of IRC. In 1997 the bank was converted to a joint stock company and renamed as Industrial Investment Bank of India. Its earlier functions were to provide finance for rehabilitation and revival of sick industrial units by way of rationalisation, expansion, diversification and modernisation and also to co-ordinate the work of

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other institutions for this purpose.

Export Import Bank of India (EXIM Bank)

Exim Bank was established in 1982 under Export Import Bank of India Act 1982, which took over the export finance activities of IDBI. It is the apex institution for co-ordinating the working of institutions in India engaged in financing exports and import of goods and services. With initial authorized capital of Rs. 200 crore (increased to Rs.500 and then to Rs.2000 crore). It undertakes following kind of functions including: direct finance to exporter of goods; direct finance to software exports and consultancy services; finance for overseas joint ventures and turnkey construction projects; finance for import and export of machinery and equipment on lease basis; issue of guarantees; export bills re-discounting; refinance to commercial banks in India.

Small Industries Development Bank of India (SIDBI)

SIDBI was established under SIDBI Act 1988 and commenced its operations w.e.f. April 1990 (HO: Lucknow) and branches all over the country, as a subsidiary of IDBI. It took over the IDBI business relating to small scale industries including National Equity Scheme and Small Industries Development Fund. The objective of establishment of SIDBI, in particular, is to strengthen and broad-base the existing institutional arrangement to meet the requirements of micro and small enterprises. Its functions include: administration of SIDF and NEF for development and equity support to small and tiny industry; providing working capital through single window scheme; providing refinance support to banks/development finance institutions; undertaking direct financing of micro and small firms, and; coordination of functions of various institutions engaged in finance to micro and small units.

National Housing Bank (NHB)

NHB, the apex bank for Housing, was established in July 1988 under NHB Act 1987, as a wholly owned subsidiary of RBI with **head quarters in New Delhi**. Its functions include: promotion and development of housing finance institutions; refinance to banks and other housing finance institutions for credit facilities granted by them for housing; inspection of books of accounts of housing finance institutions; technical, administrative and advisory assistance to housing finance institutions; providing underwriting and guarantee facilities to housing finance institutions; arranging financing and resources for institutions engaged in housing facilities; advising Central and other govts in the matter of housing and housing finance; collection and publication of information and data relating to housing finance; and, maintaining control over corporate housing finance institutions.

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Infrastructure Development Finance Corporation (IDFC) Ltd– Established in 1997 and headquartered in Chennai, its objectives are: 1) Lending capital to commercially viable infrastructure projects in the private sector and 2) Arranging for 'take out' finance from commercial banks to infrastructure projects in the sense that IDFC can 'take out' the loans of banks when the latter feel they cannot lock the funds for long periods in infrastructure projects.

National Bank for Agricultural and Rural Development (NABARD):

Set up July 1982 under NABARD Act 1981 on the recommendations of CRAFICARD Committee, with a capital of Rs.100 crore contributed by Central Govt. and RBI, with its main office in Mumbai, by merging the Agriculture Credit Dept and Rural Planning and Credit Cell of RBI and took over the entire functions of Agriculture Refinance and Development Corporation (ARDC). It serves as an apex Development Bank for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

In order to promote agricultural and rural development, NABARD is entrusted with: a) providing refinance to lending institutions in rural areas, b) bringing about or promoting institutional development and c) evaluating, monitoring and inspecting the client banks. Besides this pivotal role, NABARD also: acts as a coordinator in the operations of rural credit institutions, extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development, offers training and research facilities for banks, cooperatives and organizations working in the field of rural development, helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development and acts as regulator for cooperative banks and RRBs.

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Primary Agricultural Credit Societies (PACS)

In spite of the vast outreach and volume of operations, the health of a very large proportion of these primary rural credit cooperatives has deteriorated significantly. The PACS are beset with problems like low resource base, high dependence on external sources of funding, excessive Governmental control, dual control, huge accumulated losses, imbalances, poor business diversification, low recovery, etc. Around half

of the PACS are loss-making. The accumulated losses of the system aggregate over Rs. 9,100 crore. Non-performing assets (NPA), as a percentage of loans outstanding are extremely large. These institutions do not, therefore, inspire confidence among their existing and potential members, depositors, borrowers and lenders. Thus, there is a need to find ways for strengthening the cooperative movement and making it a well-managed and vibrant medium to serve the credit needs of rural India, especially the small and marginal farmers.

Non-Banking Financial Companies (NBFCs):

In India there are a large number of privately owned, decentralised, and relatively small-sized financial intermediaries. Most work in different, miniscule niches and make the market more broad-based and competitive. While some of them restrict themselves to fund-based business, many others provide financial services of various types. The entities of the former type are termed as "non-bank financial companies (NBFCs)". The latter type is called "non-bank financial services companies (NBFSCs)". In 1992 RBI constituted **a working group under the chairmanship of Dr.A.C. Shah to suggest reforms and control of NBFCs.** The group recommended **compulsory registration for NBFC's** having owned funds of Rs. 50 lakh and above, a minimum capital adequacy ratio of 6%, prudential norm for income recognition and provision for bad and doubtful debts. RBI has implemented Shah Committee recommendations in a phased manner since 1993. The RBI Act was amended in 1997 empowering RBI to control NBFC's.

Money laundering: A practice of engaging in financial transactions in order to conceal the identity, source and destination of the money in question. In the past, the term "money laundering" was applied only to financial transactions related to otherwise criminal activity. Today its definition is often expanded by government regulators to encompass any financial transaction which is not transparent based on law. Money laundering is a tactic used by criminals and corrupt officials to route proceeds of crimes through different layers in the financial system so that the money appears to have been derived from legitimate sources. Launderers use financial institutions such as banks to enter into transactions designed purely to launder their ill-gotten money. The criminal activities for which laundered money used include a variety of unsocial activities such as drug/sex/child trafficking, smuggling, ***hawala*** transactions in foreign exchange, real estate mafia, hiring of professional assassins, financial crimes like stock market scams and terrorism. Money laundering is all about hiding the proceeds of criminal - or at least illegitimate - activity.

A number of international governmental and private initiatives have been taken to combat money laundering. Prominent amongst these were the European Commission Directives to prevent the use of financial systems for

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money laundering, the Financial Action Task Force (FATF) recommendations and the Wolfsberg Principles on Private Banking. Across the world, banks and financial institutions are required to implement systems to prevent criminals from using the banking channels for money laundering.

Although anti-money laundering in India is a relatively new concept, the enactment of the Prevention of Money Laundering Act and the introduction of the 'Know Your Customers' guidelines by the Reserve Bank of India are designed towards ensuring that banks have robust systems to counter money laundering.

The Money Laundering Act, 2003, passed in India, is in pursuance of various international conventions to which India is a party, and seeks to declare laundering of monies carried through serious crimes a criminal offence, working out modalities of disclosure by financial institutions regarding reportable transactions, confiscation of the proceeds of crime, declaring money laundering as an extraditable offence and promoting international cooperation in investigation of money laundering. It also seeks to provide for reciprocal arrangement for assistance in certain matters and procedure for attachment and confiscation of property to facilitate transfer of funds involved in money laundering kept outside the country and extradition of the accused person from abroad. It also provides for setting up of Money Laundering Tribunal and appeal arising out of the orders of the Tribunal to the Money Laundering Appellate Tribunal and from there to the Supreme Court of India for offences relating to money laundering.

Stock exchanges

Business firms raise long-term funds through: shares, debentures and direct bank loans. Stock exchanges

Bombay Stock Exchange (BSE) estd. 1875
Kolkata Stock Exchange - 1908
National Stock Exchange (NSE) - 1992
OTCEI - 1992

Under the Securities Contract (Regulation) Act of 1956, GOI has so far recognized 23 stock exchanges including NSE and OTCEI. BSE and NSE comprise 83% of the transactions. The Securities and Exchange Board of India (SEBI), established in 1992, regulates the stock markets and other securities markets of the country.

Some important Stock market concepts

- Spot delivery contracts - settled on the spot or the next day.
- Ready delivery contracts - Settled within a short period (not more than 12 days)
- Forward delivery contracts - Settlements that can be postponed to the next settlement – usually for the sake of speculation. This facility is meant only for scrips in List A.

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- 'Badla' charges or Carryover charges or 'Contango' or backwardation paid by a bear to a bull.
- Bull – a dealer who expects stock prices to go up
- Bear – a dealer who expects stock prices to go down
- Stag – A bull who deals in new issues only.
- Margin trading – practice of buying and selling securities by depositing a certain percentage of the value of securities involved in the transaction.
- The objective is to meet the loss, if any, if the client fails to take delivery.
- Arbitrage – buying at low price in one stock exchange and selling at a higher price in another. Helps in integration of markets and uniformity of prices,
- Rigging the Market - prices of particular securities being forced up in the market (generally a result of bull activity, who often create artificially high demand for securities)
- Settlement day – a particular week day fixed for settlement of transactions between buyers and sellers (e.g., Every Monday or Saturday of the week).
- If settlement is not made, badla charges are paid by bears.
- List A – In every stock exchange certain specified securities in respect of which carryover facility is permitted are listed in List A.
- List B securities or Cash securities for which carry over facility is not permitted.
- Jobber (in London Stock Exchange) who deals in securities both in his name and as a broker for his clients (in BSE jobber is called Tarawaniwala).
- Listing of Securities in stock exchange by a company – a must for sale of securities in S.E. – Listed securities are called Scrips. Listing gives continuity of market, enhances the prestige of the firm, provides indirect check against price manipulation by the firm, widens the market for the company's securities.

Factors affecting stock market prices

- Interest rate
- Performance of the Company
- Business cycles
- Changes in Board of Directors
- Activities of financial institutions
- Sympathetic fluctuation (changes in one S.E. transmitted to another S.E.)
- Political events, [wars, etc.]
- Govt. policy changes (e.g. taxation, import-export policies, price controls etc.)
- Miscellaneous factors such as droughts, floods, industrial disputes, terrorism etc.

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Advantages of Stock exchanges (to the firm, to the investor and, to the society at
large)

- S.E. listing enhances the credit and goodwill of a Company
- Extension of markets for shares
- Increase in value of securities
- Facilitates investment for Companies
- Provides better investment opportunity to savers.
- Facilities capital formation.
- Promotes industrial growth
- Ensures proper use of capital

Shortcomings:

- Excessive speculations(BSE is often nicknamed as muggers' paradise)
- Wide fluctuations in stock prices leading to business cycles (e.g. Wall street collapse) leading to Great Depression)
- Capital market funds raised in India form just 6 p.c. of GNP in India (average capitalization) as against 92% in Japan and 80 p.c. in the U.K. and 58/5 in USA.
- Average stock market capitalization in India 10% of GNP.
- The value of stocks actually traded as a fraction of the value listed is 19% in India, as against 93% in Japan & USA & 72% in UK.
- The proposition of population investing in stocks in India is 2% as against over 10% in developed countries.
- Securitization of debt is very poor in India.
- Pherwani Committee on capital markets (Dec. 1991) recommended many new financial instruments such as Zero coupon bonds, detachable equity coupon warrants, floating Interest Bonds (by SBI) Special Premium Notes (by TISCO)

Stock market price indexes

Sensex or the BSE Sensitivity Index is a value-weighted composite index of the stocks of 30 companies started on January 1, 1986. It consists of the 30 largest and most actively traded stocks, representative of various sectors, on the Bombay Stock Exchange. They account for around fifty per cent of the market capitalization of the BSE. The base value of the sensex is 100 on April 1, 1979, and the base year of BSE-SENSEX is 1978-79. The Sensex is generally regarded as the most popular and precise barometer of the Indian stock markets.
Sensex since its inception:
1978 – 79 = 100
1990 – 91 = 1069
1995 – 96 = 3292
6.2.2006 = 10,000

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2.2.2008 = 8,400
24.10. 2008 = 8701
23.7. 2013 = 18000 approx

S & P CNX Nifty: S&P CNX Nifty or more popularly the Nifty is a stock market index of the National Stock Exchange and comprises of 50 stocks that form the index. While the BSE has the Sensex, the NSE has the Nifty. While the Sensex comprises only 30 top listed stocks, based on various criteria, there are 50 stocks that form part of the Nifty. Nifty is owned and managed by India Index Services and Products Ltd. (IISL), which is a joint venture between NSE and CRISIL (Credit Rating and Information Services of India Ltd). The base year for Nifty is 199 with 1000 as base points. As on 23.7.2013 Nifty was 6077 points. IISL has launched several stock indices, including:

- CNX Nifty
- CNX Nifty Junior
- CNX - IT
- CNX 500
- CNX MIDCAP 200 (Discontinued since 18 July 2005)
- CNX MIDCAP Introduced on 18 July 2005

CNX stands for CRISIL NSE IndeXes. Thus, 'C' stands for CRISIL, 'N' stands for NSE and X stands for Exchange or Index. The S&P prefix belongs to the US-based Standard & Poor's Financial Information Services, which has equity stake in CRISIL

National Stock Exchange of India (NSE)

Incorporated in November 1992 as a company, NSE is the largest and most advanced stock market in India. The NSE is the world's third largest stock exchange in terms of transactions. It is located in Mumbai, the financial capital of India. The NSE's VSAT terminals, 2799 in total (31st December 2005), cover 320 cities in India. The NSE was promoted by leading Financial Institutions at the behest of the Government of India. In April 1993, it was recognized as a stock exchange under the Securities Contracts (Regulation) Act, 1956. NSE commenced operations in the Wholesale Debt Market (WDM) segment in June 1994. The Capital Market (Equities) segment of the NSE commenced operations in November 1994, while operations in the Derivatives segment commenced in June 2000. NSE has endeavoured to modernize India's capital and financial markets, and its pioneering efforts include: Co-promoting and setting up of National Securities Depository Limited(NSDL), the first securities depository in India; starting Internet Trading from February 2000, which led to wide popularity of the NSE in the broker community. Currently, NSE has the following major segments of the capital market: Equity, Futures and Options, Retail Debt Market, Wholesale Debt Market.

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Over the Counter Exchange of India (OTCEI)

Estd.28 Nov.1992, on the lines of National Association of Securities Dealers Automatic Quotations [NASDAQ] of New York, to facilitate transactions of securities of small Co's. with less than 3 cr issued capital – which is a limitation put by B.S.E. OTCEI is promoted by UTI, ICICI, IDBI, SBI Cap Markets Ltd. IFC, LIC, GIC & its subsidiaries, and Canara Bank Financial Services Ltd. O.T.C.E.I. operations are supervised by Govt. and SEBI. The minimum issued share capital required of a company that wants to be listed on OTCEI is Rs.30 lakh and the maximum Rs.25 crore. Listing on OTCEI is advantageous to companies because of the high liquidity of these securities, which is a result of compulsory market making, improved access and speed of transactions resulting from the extensive network of electronically interlinked counters. Companies engaged in investment, leasing, finance, hire purchase, amusement parks etc., and companies listed on any other recognized stock exchange in India are not eligible for listing on OTCEI. Also, listing is granted only if the issue is fully subscribed to by the public and sponsor.

Securities & Exchange Board of India (SEBI)

(Modelled after Securities & Exchange Commission of USA-1934), Established on 12 April 1988 in Mumbai, replacing the erstwhile Controller of Capital Issues(CCI), become a statutory autonomous body by virtue of SEBI Act in 1992.

Objectives:

- Registration of brokers and sub-brokers by all stock exchanges.
- Authorization of merchant bankers
- Control over mutual funds
- Issue of insider trading regulations.
- Issue of guidelines for disclosure and investor protection

SEBI can also:

- Inspect stock exchanges
- Arrange for protection of debenture holders
- Stop misuse of promoter's quota
- regulate pricing of public issues
- prescribe entry rules for foreign institutional investors
- prescribes rules for securities of D.F.I's bankers to the issue, guidelines for floating P.S.U. bonds, bonus shares and stock invests

SEBI has introduced the comprehensive regulatory measures, prescribed registration norms, the eligibility criteria, the code of obligations and the code of conduct for different intermediaries like, bankers to issue, merchant bankers, brokers and sub-brokers, registrars, portfolio managers, credit rating agencies, underwriters and others. It has framed bye-laws, risk identification and risk management systems for Clearing houses of

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stock exchanges, surveillance system etc. which has made dealing in securities both safe and transparent to the end investor.

Derivatives trading

SEBI appointed the L. C. Gupta Committee in 1998 to recommend the regulatory framework for derivatives trading and suggest bye-laws for Regulation and Control of Trading and Settlement of Derivatives Contracts. SEBI accepted the recommendations of the committee and permitted phased introduction of derivatives trading in India beginning with Stock Index Futures.

SEBI then appointed the J. R. Verma Committee in 1998 to recommend Risk Containment Measures (RCM) in the Indian Stock Index Futures Market. The report was submitted in November 1998. Derivatives have been accorded the status of `Securities'. The ban imposed on trading in derivatives in 1969 under a notification issued by the Central Government was revoked. Thereafter SEBI formulated the necessary regulations/bye-laws and intimated the Stock Exchanges in the year 2000.

Derivatives trading was started in India at NSE in 2000 and BSE started trading in the year 2001. Two important derivatives introduced are: **futures trading** & **options trading** which are quite popular in developed counties. A futures contract is an arrangement by which a buyer/seller agrees to take/give delivery of securities on a specified future date of a fixed price and make/accept payment of the delivery date. An option is a contract between two parties in which the marker of the option (option writer) agrees to buy or sell a specified number of securities at a later date for an agreed price to the holder of the option (Option buyer) on a due date and time.

Mutual Fund (MF):

A mutual fund is a non-banking financial institution that receives deposits from the public and invests these funds collectively equity and debt instruments in the financial markets. The largest mutual fund in the country is managed by Unit Trust of India (UTI), which was set up by the government in 1964 to encourage small investors to invest in the equity market. UTI has an extensive marketing network of over 35,000 agents spread throughout the country. Private sector mutual funds have been permitted since 1993-94. Schemes offered by MFs include equity oriented growth schemes, balanced portfolio schemes and income schemes. MF’s are of two types: capital market mutual funds and money market mutual funds. Today, numerous mutual funds exist, including private and foreign companies. These firms have introduced a variety of schemes. All MFs are allowed to apply for firm allotment in public issues.

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Capital Market Mutual Funds (CMMF): CMMFs operate in the capital markets; they invest in long term securities such as shares and debentures. Mutual funds are a significant source of investment in both government and corporate securities.

Money Market Mutual Funds (MMMFs): MMMFs operate in the money market and invest in treasury bills, call and notice money, commercial paper, commercial bills accepted/co-accepted by banks, certificates of deposit and dated government securities having unexpired maturity upto one year. In 1995, the RBI permitted private sector institutions to set up Money Market Mutual Funds (MMMFs).

The functioning of mutual funds is regulated by SEBI. SEBI regulations require that all MFs should be established as trusts under the Indian Trusts Act, while the actual fund management activity is conducted from a separate Asset Management Company (AMC). The minimum net worth of an AMC or its affiliate must be Rs. 50 million to act as a manager in any other fund. MFs can be penalized for defaults including non-registration and failure to observe rules set by their AMCs. MFs dealing exclusively with money market instruments have to be registered with the RBI. All other schemes floated by MFs are required to be registered with SEBI. To improve the scope of investments by MFs, funds were permitted to underwrite public issues, and the guidelines for investments in money market instruments were relaxed. Foreign participation in mutual funds and asset management companies is permitted on a case by case basis.

Investment by NRIs or Overseas Corporate Bodies: The Government of India offers a number of facilities and incentives to Non-Resident Indians (NRIs)/Persons of Indian Origin (PIO's) and Overseas Corporate Bodies (OCBs) investing in India. Non Resident Indians (NRIs) fall under the following broad categories:

- Indian citizens who stay abroad for employment or for carrying on a business or vocation or for any other purpose in circumstances indicating an indefinite period of stay outside India.
- Indian citizens working abroad on assignments.

A person is deemed to be of Indian origin if he at any time held an Indian passport or he or either of his parents or any of his grandparents was an Indian and a permanent resident in undivided India at any time. A wife of a citizen of India or of a person of Indian origin is also deemed to be of Indian origin even though she may be of non-Indian parentage.

Overseas Corporate Bodies (OCBs): Include overseas companies, partnership firms, trusts, societies and other corporate bodies which are owned directly or indirectly, to the extent of at least 60%, by individuals of

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Indian nationality or origin resident outside India, as also overseas trusts in which at least 60% of the beneficial interest is irrevocably held by such persons.

For NRIs and OCBs, the automatic approval route is available for investment upto 100% in all 35 industries listed in Annexure III of the New Industrial Policy as distinguished from other FDI where automatic approval is available only for investment upto 51%. In industries other than those listed in Annexure III, NRIs and OCBs may invest upto 100% equity in industries requiring licensing and areas reserved for the small scale sector, except those reserved for the public sector.

Security Depositories:

In a Security depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts. Transfer of ownership of securities is done through simple account transfers. This method does away with all the risks and hassles normally associated with paperwork. Consequently, the cost of transacting in a depository environment is considerably lower as compared to transacting in certificates. The enactment of Depositories Act in August 1996 paved the way for establishment of security depositaries in India.

A Depository facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository Participant (DP), who as an agent of the depository, offers depository services to investors. According to SEBI guidelines, financial institutions, banks, custodians, stockbrokers, etc. are eligible to act as DPs. The investor who is known as beneficial owner (BO) has to open a demat account through any DP for dematerialisation of his holdings and transferring securities.

National Security Depository Ltd (NSDL)

NSDL estd in 1996(HQ: Munbai) is the first security depository in India. It is promoted by Industrial Development Bank of India Limited (IDBI), Unit Trust of India (UTI), and National Stock Exchange of India Limited (NSE). Some of the prominent banks in the country have taken a stake in NSDL. As on 28th February 2010, NSDL has dematted 686 crore securities.

Central Depositary Services Ltd (CDSL)

CDSL was estd in 1998 with HQ in Mumbai. It is promoted by Bombay Stock Exchange Limited (BSE) jointly with leading banks such as State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank, Union Bank of India and Centurion Bank. As on March 30, 2010 CDSL has in its custody 7766 crore dematted securities.

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Stock Holding Corporation of India Ltd (SHCIL), India's largest custodian and depository participant based in Mumbai. It was established in 1986 under the Government of India as public limited company. It is owned by the India's leading Banks and Financial Institutions such as IDBI Bank, ICICI Bank, SU-UTI, IFCI Ltd., LIC, GIC, NIA, NIC, UIC, and TOICL. It is also responsible for e-stamping system around India. Stock Holding Corporation of India (SHCIL), the country's first and one of the largest security custodians to financial institutions will be merged with state-owned lender IDBI Bank, subject to approvals from regulators and other SHCIL stakeholders. The decision was held on October 31, 2012 and merger will come into force effective Quarter 1 of Calendar Year 2013.

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Commissions set up for Financial Sector Reforms

Two committees with Mr. Narasimham, a former Governor of RBI were formed, the first one on financial sector reforms and the second on Banking reforms. The main recommendations are as follows.

NARASIMHAM COMMITTEE - I	NARASIMHAM COMMITTEE - II
Set up in 1991, report submitted 1992	Set up in 1997, report submitted in 1998
Narasimham committee I made the following recommendations 1. Opening of More Pvt. sector banks 2. Motivation foreign banks to expand their network by opening new branches. 3. Deregulation of RBI and Finance ministry of India. Making RBI as a regulator of all Banks and let Banks takes participation in equity market with govt. stake of 51% 4. Regulations introduced by RBI include CAR, Asset classification, NPA ratio 5. Corporate Governance: promoting customer relations and office culture 6. Asset Reconstruction for bringing down NPA in future 7. Risk Management, to raise capital adequacy ratio to 4 % 8. CDR 9. E-Banking and VRS 10. Ensure autonomy of banks	Merge banks to reduce numbers Free bank boards from interference Move to three-tier banking structure Fix CAR at 8 % Ensure autonomy of banks – wind up banking division of the finance ministry

11. Free bank boards from interferen More Strong banks. 12. Move to three-tier structure	

Reforms in Banking Sector

A. Prudential Measures:

- Introduction and phased implementation of international best practices and norms on risk-weighted capital adequacy requirement, accounting, income recognition, provisioning and exposure.

- Measures to strengthen risk management through recognition of different components of risk, assignment of risk-weights to various asset classes.

B. Competition Enhancing Measures:

- Granting of operation autonomy to public sector banks, reduction of public ownership in public sector banks by allowing them to raise capital from equity market up to 49% of paid-up capital.

- Transparent norms for entry of Indian private sector, foreign and joint-venture banks and insurance companies, permission for foreign investment in the financial sector in the form of Foreign Direct Investment (FDI) as well as portfolio investment, permission to banks to diversify product portfolio and business activities.

C. Measures Enhancing Role of Market Forces

- Sharp reduction in cash reserve requirement, market determined pricing for government securities, disbanding of administered interest rates.

- Introduction of pure inter-bank call money market, auction-based repos and reverse repos for short-term liquidity management.

D. Institutional and Legal Measures

- Setting up of Lok Adalats, debt recovery tribunals, asset reconstruction companies, settlement advisory committees, corporate debt restructuring mechanism, etc. for quicker recovery/restructuring. Promulgation of Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFAESI) Act and its subsequent amendment to ensure creditor rights.

- Setting up of Credit Information Bureau for information sharing on defaulters as also other borrowers.

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- Setting up of Clearing Corporation of India Limited (CCIL) to act as central counter party for facilitating payments and settlement system relating to fixed income securities and money market instruments.

E. Supervisory Measures

- Establishment of the Board for Financial Supervision as the apex supervisory authority for commercial banks, financial institutions and non-banking financial companies.

- Introduction of CAMELS supervisory rating system, move towards risk-based supervision, consolidated supervision of financial conglomerates, strengthening of off-site surveillance through control returns.

F. Technology Related Measures

- Setting up of INFINET as the communication backbone for the financial sector, introduction of Negotiated Dealing System (NDS) for screen-based trading in government securities and Real Time Gross Settlement (RTGS) system.

Reforms in Government Securities Market

A. Institutional Measures

- Administered interest rates on government securities were replaced by an auction system for price discovery.
- Automatic monetisation of fiscal deficit through the issue of ad hoc Treasury Bills was phased out.
- Primary Dealers (PD) were introduced as market makers in the government securities market.
- For ensuring transparency in the trading of government securities, Delivery versus Pay (DvP) settlement system was introduced.
- Repurchase agreements (repos) were introduced as a tool of short-term liquidity adjustment. Subsequently, the Liquidity Adjustment Facility (LAF) was introduced. LAF operates through repo and reverse repos and has emerged as the tool for both liquidity management and also signalling device for interest rates in the overnight market.
- Market Stabilisation Scheme (MSS) has been introduced, which has expanded the instruments available to the Reserve Bank for managing the surplus liquidity in the system.

B. Increase in Instruments in Government Securities Market

- 91-day Treasury bill was introduced for managing liquidity and benchmarking. Zero Coupon Bonds, Floating Rate Bonds, Capital Indexed Bonds were issued and exchange traded interest rate futures

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were introduced. OTC interest rate derivatives like IRS/FRAs were introduced.

C. Enabling Measures

- Foreign Institutional Investors (FIIs) were allowed to invest in government securities subject to certain limits.
- Introduction of automated screen-based trading in government securities through Negotiated Dealing System (NDS). Setting up of risk-free payments and settlement system in government securities through Clearing Corporation of India Limited (CCIL). Phased introduction of Real Time Gross Settlement System (RTGS).
- Introduction of trading of government securities on stock exchanges for promoting retailing in such securities, permitting non-banks to participate in repo market.

Reforms in Forex Market

A. Exchange Rate Regime

- Evolution of exchange rate regime from a single currency fixed-exchange rate system to fixing the value of rupee against a basket of currencies and further to market-determined floating exchange rate regime.

- Adoption of convertibility of rupee for current account transactions with acceptance of Article VIII of the Articles of Agreement of the IMF. De facto full capital account convertibility for non-residents and calibrated liberalisation of transactions undertaken for capital account purposes in the case of residents.

B**. Institutional Framework**

- Replacement of the earlier Foreign Exchange Regulation Act (FERA), 1973 by the market friendly Foreign Exchange Management Act, 1999. Delegation of considerable powers by RBI to Authorised Dealers to release foreign exchange for a variety of purposes.

C. Increase in Instruments in forex market

- Development of rupee-foreign currency swap market.
- Introduction of additional hedging instruments, such as, foreign currency-rupee options. Authorised dealers permitted to use innovative products like cross-currency options, interest rate and currency swaps, cap/collars and forward rate agreements (FRSs) in the international forex market.

D. Liberalisation Measures

- Authorised dealers permitted to initiate trading positions, borrow and invest in overseas
- Market subject to certain specifications and ratification by respective Banks' Boards.
- Banks are also permitted to fix interest rates on non-resident deposits, subject to certain specification, use derivative products for

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asset-liability management and fix overnight open position limits and gap limits in the foreign exchange market, subject to ratification by RBI.

- Permission to various participants in the foreign exchange market, including exporters,
- Indian investing abroad, FIIs, to avail forward cover and enter into swap transactions
- Without any limit subject to genuine underlying exposure.
- FIIs and NRIs permitted to trade in exchange traded derivative contracts subject to certain conditions.
- Foreign exchange earners permitted to maintain foreign currency accounts. Residents are permitted to open such accounts within the general limit of US$25,000 per year

Venture capital: Funds made available for start-up firms and small businesses with exceptional growth potential. Managerial and technical expertise are often also provided. Also called risk capital. The chief venture capital institutions are:

- Risk Capital Foundation of India (IFCI) (1975) was reconstituted as Risk Capital & Technology Finance Corporation Ltd. (RCTFCL) in 1988.
- Venture fund of IDBI (1986)
- Venture fund of SIDBI (1992)
- Venture capital fund of Technology Development and Infrastructure Corporation of India (TDICI) set up by ICICI & UTI in 1988.

In addition, there are a number of other venture capital funds established by several banks.

Financial Sector Legislative Reforms Commission (FSLRC)

FSLRC was set up by the Government of India, Ministry of Finance, on 24 March 2011, to review and rewrite the legal-institutional setup of the Indian financial sector. This Commission was chaired by a former Judge of the Supreme Court of India, Justice B. N. Srikrishna and with a mix of expert members drawn from the fields of finance, economics, public administration, law etc.

The setting up of the Commission was the result of a felt need that the legal and institutional structures of the financial sector in India need to be reviewed and recast in tune with the contemporary requirements of the sector. Based on substantive research, extensive deliberations in the Commission and in its Working Groups, interaction with policy makers, regulators, experts and stakeholders; the Commission has submitted its Report in March 2013, which contains a framework for the legal–institutional structure required for the Indian financial sector.

In order to suggest a comprehensive financial legal framework to address market failures and establish a sound financial system, nine components were considered: 1. Consumer protection, 2. Micro-prudential regulation, 3. Resolution, 4. Capital controls, 5. Systemic

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risk, 6. Development and redistribution, 7. Monetary policy, 8. Public debt management, 9. Contracts, trading and market abuse.

The Commission has suggested for merging of financial sector regulators such as SEBI and IRDA into a Unified Financial Agency (UFA) and for the role of RBI be restricted to regulating banks and managing monetary policy. Under the regulatory framework proposed by the Commission, SEBI, Forward Markets Commission (FMC), IRDA and Pension Fund Regulatory and Development Authority (PFRDA) should be merged into a UFA. The Commission has proposed setting up of seven agencies - RBI, UFA, Financial Sector Appellate Tribunal (FSAT), FSDC, Resolution Corporation, Financial Redressal Agency and Public Debt Management Agency- for managing the financial sector. It had also suggested that Financial Sector Development Council (FSDC) be given a statutory framework. The Commission has recommended setting up of a new Debt Management Office (DMO) and merging the existing Deposit Insurance and Credit Guarantee Corporation of India (DICGC) into the Resolution Corporation. The Ministry of Finance, GoI is examining the recommendations.

What is a Foreign Institutional Investor (FII)?

A foreign institutional investor is a firm established to make investments in India. FIIs need to get registered with the Securities and Exchange Board of India. Firms or funds eligible to get registered as FII include pension funds; mutual funds; insurance companies / reinsurance companies; investment trusts; banks; international or multilateral organisation or an agency thereof or a foreign government agency or a foreign central bank; university funds; endowments (serving broader social objectives); foundations (serving broader social objectives); and charitable trusts / charitable societies.

The following entities proposing to invest on behalf of broad based funds, are also eligible to be registered as FIIs: Asset Management Companies, Investment Manager/Advisor, Institutional Portfolio Managers, and Trustees.

FIIs which issue/renew/cancel/redeem **P-Notes**, are required to report on a monthly basis. The report should reach the SEBI by the 7th day of the following month.

The FIIs merely investing/subscribing in/to the Participatory Notes -- or any such type of instruments/securities -- with underlying Indian market securities are required to report on quarterly basis (Jan-Mar, Apr-Jun, Jul-Sep and Oct-Dec).

FIIs who do not issue PNs but have trades/holdings of Indian securities during the reporting quarter (Jan-Mar, Apr-Jun, Jul-Sep and Oct-Dec) and are required to submit 'Nil' undertaking on a quarterly basis.

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FIIs which do not issue PNs and do not have trades/ holdings in Indian securities during the reporting quarter. (Jan-Mar, Apr-Jun, Jul-Sep and Oct-Dec): No reports required for that reporting quarter.

Credit Rating

Fundamentally Credit Rating implies evaluating the creditworthiness of a borrower by an independent rating agency. A credit rating agency is a company that rates the ability of a person or company to pay back a loan. The rating given by a credit rating agency is important because it affects the perceived risk element incorporated into interest rates that are applied to loans. The objective of credit rating is to evaluate the probability of default. As such, credit rating does not predict loss but it predicts the likelihood of payment problems.

Credit rating gives an idea about the future ability, legal obligation and willingness of a borrower to make full and timely payments on principal and interest due to the investors. Banks do rely on credit rating agencies to measure credit risk and assign a probability of default. However, credit rating is not fool-proof. Stock prices are an important (but not the sole) indicator of the credit risk involved. Stock prices are much more forward looking in assessing the creditworthiness of a business enterprise. Historical data proves that stock prices of companies such as Enron and WorldCom had started showing a falling trend many months prior to it being downgraded by credit rating agencies.

Credit Rating Institutions: There are over seventy-five credit rating agencies in the world. Some of the prominent multinational credit rating companies are:

- Fitch Ratings
- IBCA Limited,
- Duff & Phelps Credit Rating (D&P),
- Moody's Investors Service, and
- Standard and Poor's (S&P).

Fitch Ratings is a leading global credit rating agency dual-headquartered in New York and London, operating offices and joint ventures in more than 50 locations and covering business firms in more than 80 countries. It is a wholly owned subsidiary of Fimalac S.A., an international business support services group headquartered in Paris. Fitch has a subsidiary in India with offices in D, M, K & C.

Important Credit rating agencies in India are: CRISIL, CARE, ICRA, and ONICRA Credit Rating, Fitch Ratings India Pvt Ltd, ONICRA Credit Rating Agency of India Ltd.

India was the first LDC to establish credit rating institutions.

1. CRISIL (Credit Rating Information Services of India Limited (1988) floated

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by ICICI & UTI, is the oldest Indian credit rating agency.

2. ICRA (Investment Information and Credit Rating Agency of India Ltd. (1991)
floated by IFCI, UTI, LIC, SBI and 17 other banks.

3. CARE (Credit Analysis and Research Ltd. (1991) floated by IDBI.

4. Fitch Ratings India Pvt Ltd is a subsidiary in India with offices in Delhi,
Mumbai, and Kolkata and Chennai.

5. ONICRA Credit Rating Agency of India Ltd(HQ, Delhi), established by Onida company in 1993. Onicra is recognized as the pioneers of the concept of credit rating of individuals in India. Onicra has developed a comprehensive rating system for various types of credit extensions and provides a platform for both credit seekers and credit suppliers.

CRISIL Ratings (for debentures)

AAA	Highest Safety
AA	High Safety
A	Adequate Safety
BBB	Moderate Safety
BB	Inadequate Safety
B	High Risk
C	Substantial Risk
D	Default

[(+) or (-) signs are added by CRISIL to indicate comparative standings within a category].

- There are four types of credit rating – (1) Shares, (2) Debentures, (3) Bond / Commercial paper and (4) Sovereign ratings
- Sovereign rating is the rating of a country as a whole concerning its credit worthiness, political and economic risks of the country.

RBI and SEBI make it compulsory for public issue of debentures / bonds exceeding 18 months maturity, FD's of non-bank financial companies etc. to get assessed by rating organizations.

MODULE VII: INDIAN FISCAL SYSTEM

Public expenditure:

India's public expenditure is classified as development expenditure (plan expenditure) and non-development (non-plan) expenditure, comprising capital expenditure and revenue expenditure. Central plan expenditure is money spent on development schemes outlined in the plans of the central government and public sector undertakings, while central assistance refers to financial assistance and developmental loans given for

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plans of the state governments and union territories. Non-development capital expenditure comprises capital defence expenditure, loans to public enterprises, states and union territories and foreign governments, while non-development revenue expenditure comprises revenue defence expenditure, administrative expenditure, subsidies, interest on public debt, debt relief to farmers, postal deficit, pensions, social and economic services (education, health, agriculture, science and technology), grants to states and union territories and foreign governments.

Reasons for rapid rise in Public Expenditure

India's non-development revenue expenditure has increased rapidly during the plans. Interest payments are the single largest item of expenditure and accounted for more than 40% of the total non-development expenditure. Defence expenditure increased four-fold during the same period and has been increasing due to growing tensions in the region due to modernisation of the military force. Administrative expenses are compounded by a large salary and pension bill, which rises periodically due to revisions in wages, dearness allowance etc. Subsidies on food, fertilisers, education and petroleum and other merit and non-merit subsidies are continuously rising, especially because of rising crude oil and food prices.

Government revenue

India has a three-tier tax structure, wherein the constitution empowers the union government to levy income tax, tax on capital transactions (wealth tax, inheritance tax, gift tax), sales tax, service tax, customs and excise duties, while the state governments levy VAT, tax on entertainment and professions, excise duties on manufacture of alcohol, stamp duties on transfer of property and collect land revenue (levy on land owned).

The local governments are empowered by the state government to levy property tax, octroi and charge users for public utilities like water supply, sewage etc. More than half of the revenues of the union and state governments come from taxes, of which half come from indirect taxes. More than a quarter of the union government's tax revenues are shared with the state governments.

Taxes

Taxes imposed by the Central govt are broadly classified into two categories: Direct Taxes and Indirect Taxes. These two broad categories are governed by two central bodies under the Union Ministry of Finance: Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC)

Direct taxes are those whose burden cannot be shifted by the tax payer to others. For example, Income Tax, wealth tax, etc. **Indirect taxes** are those taxes whose burden can be shifted by the tax payer to others. For example, Central excise duty, customs duty, service

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tax, CENVAT (Central Value added tax levied on sales of goods and differs from normal VAT. This goes to central Government).

State Governments Levy:

(a) Sales tax or VAT, which is levied on products.
(b) Entertainment tax which is levied on movies and other form of entertainment, (c) Toll tax for entry into city, (d) Professional Tax for carrying on any profession in a city by professionals like teachers, doctors and lawyers, etc.,(e) Excise duty on alcohol.
Education cess of 3% is a kind of residuary tax which is subdivided into: Education cess(EC) @2% and Secondary and Higher Education cess (SHEC) @1%
This tax is levied for purpose of providing education to poor including secondary and higher education.

Tax reforms

The tax reforms, initiated in 1991, have sought to rationalise the tax structure and increase compliance by taking steps in the following directions:

- Reducing the rates of individual and corporate income taxes, excise duty, customs duty and making them more progressive
- Reducing exemptions and concessions
- Simplification of tax laws and procedures
- Introduction of Permanent account number(PAN) to track monetary transactions
- Despite protests from traders, 21 of the 28 states introduced Value added tax (VAT) on April 1, 2005 to replace the complex and multiple sales tax system.

Chellaiah Committee - headed by Prof. Raja Chellaiah, appointed in 1991, reported in 1992.

Objectives: (Terms of Reference)

1. To suggest ways to improve elasticity of tax revenue
2. To increase share of direct taxes in total tax revenue
3. To rationalize and simplify tax structure
4. To moderate tax rate and to broaden the tax base
5. To examine and recommend extension of MODVAT.
6. To identify new areas of taxation.

Important Recommendations:

1. Reduction in corporate tax rate
2. Agricultural income in excess of Rs. 25,000/- to be taxed in the case of non-agricultural households
3. Abolition of tax on interest income
4. Taxation on perks & fringe benefits

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5. Simplification of import duties
6. Extension of MODVAT to more number of goods
7. Move towards complete MODVAT in a few years
8. A stable tax regime to avoid frequent changes
9. Tax assessing officers to be made accountable
10. Constitution of a settlement commission for quick settlement of tax disputes.

Kelkar Committee on Tax Reforms (2002)

In an attempt to overhaul the tax system, the Kelkar Task Force had suggested a hike in the income tax exemption limit to Rs 100,000, reduction in the corporate tax rate from 35% to 30 per cent besides reduction in depreciation rate from 25% to 15 %, and a single countrywide Goods and Services Tax(GST). The task force, set up to implement the Fiscal Responsibility and Budget Management Act, proposed a 3-tier customs duty structure of 5.0, 8.0 and 10 per cent in a bid to bring down import tariffs to ASEAN levels.

The panel also proposed sweeping measures including removal of tax exemptions, simplification of tax procedures and reduction in cost of compliance to wipe out the revenue deficit and reduce the fiscal deficit to less than 3 per cent of GDP by 2009.

Terming the Goods and Service Tax (GST) as the most important proposal, the panel said it would be a "single national value-added tax" that would replace excise, Cenvat, and service taxes levied by the Centre, and sales tax and octroi levied by States. A standard GST of 12 per cent has been proposed to replace the Cenvat of 16 per cent. This is to be supplemented by a standard state GST (VAT) of 8 per cent.

"The 20 per cent total VAT is comparable to OECD standards. The cooperative effort proposed in the report between Centre and States for GST would ease complexities of tax administration as seen by companies and State Governments," it said.

Non-tax revenues to Central Government:

The non-tax revenues of the central government come from fiscal services like fees, interest receipts, profits of public sector, etc., while the non-tax revenues of the States are grants from the central government, interest receipts, dividends and income from general, economic and social services.

Central budget

The Finance minister of India presents the annual union budget in the Parliament on the last working day of February. The budget has to be passed by the Parliament before it can come into effect on April 1, the start of India's fiscal year. The Union budget is preceded by an economic survey, which is released on the eve of the budget and outlines the performance economy during outgoing financial year and the road direction of the budget for the coming year.

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Fiscal Deficit: It is the difference between the government's total expenditure and its total receipts (excluding public borrowing). The elements of the fiscal deficit are (a) the revenue deficit, which is the difference between the government's current (or revenue) expenditure and total current (or revenue) receipts (that is, excluding borrowing) and (b) capital expenditure. The fiscal deficit can be financed by borrowing from the Reserve Bank of India (which is also called deficit financing or printing money) and borrowing from the money market that is mainly from banks).

Revenue deficit: the difference between revenue receipts and revenue expenditure

Effective Revenue deficit

Effective Revenue deficit is a new term introduced in the Union Budget 2011-12. While revenue deficit is the difference between revenue receipts and revenue expenditure, the present accounting system includes all grants from the Union Government to the state governments/Union territories/other bodies as revenue expenditure, even if they are used to create assets. Such assets created by the sub-national governments/bodies are owned by them and not by the Union Government. Nevertheless they do result in the creation of durable assets.

According to the Finance Ministry, such revenue expenditures contribute to the growth in the economy and therefore, should not be treated as unproductive in nature. In the Union Budget 2011-12 a new methodology has been introduced to capture the 'effective revenue deficit', which excludes those revenue expenditures (or transfers) in the form of grants to sub-national governments for creation of capital assets. If this methodology is taken into account, the effective revenue deficit (revised estimates) for 2010-11 was only 2.3 per cent as against the revenue deficit of 3.4 per cent of GDP.

Primary deficit is the difference between the government expenditure and the govt. revenue minus the interest cost of the public debt. The concept is used to emphasise that the budgetary deficit is not quite considerable/alarming if the interest cost of the public debt could be reduced.

Ways-and-Means-Advance: With effect from 1st April 1997, ad hoc treasury bills as collateral for govt. loans from RBI have been discontinued and replaced by ways-and-means advance (WMA).

VAT: Value Added Tax (VAT) is a general consumption tax assessed on the value added to goods and services. It is a general tax that applies, in

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principle, to all commercial activities involving the production and distribution of goods and the provision of services. It is a consumption tax because it is borne ultimately by the final consumer. It is not a charge on companies. It is charged as a percentage of the price, which means that the actual tax burden is visible at each stage in the production and distribution chain. It is collected fractionally, via a system of deductions whereby taxable persons can deduct from their VAT liability the amount of tax they have paid to other taxable persons on purchases for their business activities. This mechanism ensures that the tax is neutral regardless of how many transactions are involved

VAT is a major reform in the indirect taxation system for the following reasons: It eliminates the cascading effect of taxes; it promotes competitiveness of exports; it has a simple and transparent structure; and it improves compliance. VAT has come into effect on April 1 2005.

Fiscal Responsibility & Budget Management (FRBM) Act 2003:

This Act passed in 2003 came into force on 5 July 2004. The FRBM Act is designed to clean up public finances and put them on a sustainable footing. It requires the reduction of the fiscal deficit and the elimination of the revenue deficit of the Central Government by 31 March 2008 (the deadline is to be extended by a year, since the 2004-05 budget could be presented only in July 2004). The Act requires the Central Government to reduce the fiscal deficit by 0.3 per cent of GDP each year, and the revenue deficit by 0.5 per cent each year, beginning with 2004-05 fiscal year. If this is not achieved through higher tax revenues, the necessary adjustment has to be made by cutting expenditures.

The Act stipulates that the government should undertake appropriate measures to eliminate revenue deficit by March 31, 2008 and let the targets to be set for annual reduction in fiscal and revenue deficits remain till then. The Bill seeks to bar the Reserve Bank of India from operating in the primary market for government securities from April 1, 2006. But there is a clause to escape from the rigors of the discipline on grounds of national calamity, security or other exceptional circumstances. It also prohibits direct borrowing by the Centre from the RBI except for meeting temporary cash needs. The Act will be similar to the Directive Principles of State Policy in the Constitution, which are not justiciable.

Income Tax

Personal Income-tax rate:

	Income Slabs	**Income Tax Rate**
i.	Where the total income does not exceed Rs. 2,00,000/-.	NIL
ii.	Where the total income exceeds Rs. 2,00,000/- but does not	10% of amount by which the total income exceeds Rs. 2,00,000/-

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	exceed Rs. 5,00,000/-.	
iii.	Where the total income exceeds Rs. 5,00,000/- but does not exceed Rs. 10,00,000/-.	Rs. 30,000/- + 20% of the amount by which the total income exceeds Rs. 5,00,000/-.
iv.	Where the total income exceeds Rs. 10,00,000/-.	Rs. 130,000/- + 30% of the amount by which the total income exceeds Rs. 10,00,000/-

Corporate Income Tax: 30% on Indian companies and 40% on Multi-antinational companies.

Wealth Tax: Some assets are considered as wealth: residential house, motor car, jewellery, yatch / boat, aircraft, urban land, cash-on-hand. Out of the above list, some are exempted: residential house, one sole house, house held as stock-in-trade, house owned for business/profession, let-out property. The rate of tax: If net wealth exceeds Rs 15 lakh, it is taxable @ 1%.

Banking Cash Transaction Tax (BCTT) was a tax on withdrawal of cash from banks introduced in 2005 at the rate of 0.1 per cent of withdrawals of more than Rs 50,000 (individuals) and Rs 1,00,000 for others in a single day from non-savings bank account maintained with any scheduled bank. **This tax was withdrawn with effect from 1 April 2009.**

Gift Tax: Upto Rs.50,000: nil, Above Rs.50,000: 30%

Fringe Benefit Tax (introduced in 2005-06): Fringe benefit tax is the taxation of perquisites -- or fringe benefits -- provided by an employer to his employees, in addition to the cash wages paid. Any benefits -- or perks -- that employees (current or past) get as a result of their employment are to be taxed, but in this case in the hands of the employer. This includes employee compensation other than the wages, tips, health insurance, life insurance and pension plans. FBT was abolished from 1.4.2009.

Perquisite Tax: Perquisite Tax introduced since 2009-10 (in lieu of Fringe Benefit Tax or FBT) is levied to employees for the non-monetary benefits given to them by their employers. For example, non-monetary benefits given by a company like a rented apartment, a car with a driver; the employee has to pay tax for it. This tax was earlier borne by the employers. Tax rate: 30% of the perquisite received.

Capital Gains Tax: Capital gains in India are divided into 2 groups, long term capital gains and short term capital gain.

- Long term capital gains relate to the sale of an asset that has been held for 3 years or longer (on the sale of negotiable securities on the Indian Stock Exchange, shares that have been held for over a year).

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When the asset has been held for a shorter period than that defined as long term, the capital gain is deemed to be a short term gain.

- The long term tax rate is 20%, and, for purposes of calculation, the cost is adjusted to the increase in the index and deducted from the proceeds.
- Capital gains from the sale of long term negotiable securities on the Indian Stock Exchange are tax exempt.
- A short term capital gain is added to regular income. At the same time a capital gain on the sale of negotiable securities on the Stock Exchange is taxed at 10%.

Securities Transaction Tax (STT): is the tax payable on the value of transaction (both sale and purchase) of taxable securities and their derivatives in recognised stock exchanges. STT was introduced in India by the 2004-05 Union Budget and is applicable with effect from 1st October 2004. The curr4ent rate of STT is 0.10%.

Commodities transaction tax: Commodities transaction tax (CTT) is similar to Securities Transaction Tax (STT), levied in India, on transactions done on the domestic commodity derivatives exchanges. CTT was first introduced in the Union Budget 2008-09 in whic the Government had proposed to impose a CTT of 0.017% (equivalent to the STT on equity futures at that point of time). However, it was withdrawn subsequently as the market was nascent then and any imposition of transaction tax might have adversely affected the growth of organised commodities derivatives markets in India. In the Union Budget 2013-14, CTT has been re-introduced, however, only for non-agricultural commodity futures at the rate of 0.01% (which is equivalent to the STT on equity futures).

Outcome Budget, or Performance Budget: Introduced since 2005-06, it is like a progress card on what various ministries and departments have done with the outlay provided in the annual budget. It is a performance measurement tool that helps in better service delivery; decision-making; evaluating programme performance and results; communicating programme goals; and improving programme effectiveness.

The Outcome Budget comprises scheme-wise or project-wise outlays for all central ministries, departments and organisations listed against corresponding outcomes (measurable physical targets) to be achieved during the year. It measures the development outcomes of all government programmes. The Outcome Budget is expected to ensure efficient service delivery, transparency and accountability.

From the fiscal year 2006-07, Outcome Budget is part of the main budget. The Finance Ministry, together with the Planning Commission, will keep an eye on whether the desired results are being achieved vis-à-

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vis the money being spent on a particular scheme. The Programme Outcome and Response Monitoring Division, under the Planning Commission, will help coordinate the Outcome Budget.

Fiscal Policy:

Fiscal Policy is the policy of manipulating the government expenditures and revenues. FP is one of the two major macro-economic policies used by the governments in the modern market-oriented economies, the other policy being the monetary policy. This policy is the brain child of **John Maynard Keynes,** a renowned British Economist, who emphasized use of this policy to lift the American and other developed market economies from the depths of **Great Depression** into which they had slipped during 1929-33. The notion behind fiscal policy is that since the government expenditures and revenues form a major chunk of the GDP and gross national expenditure, its manipulation would help influence the level of economic activity. The chief instruments of fiscal policy are: 1) taxation, 2) public expenditure and 3) public borrowing.

Budget is the means through which the FP is operated. Budget is a statement of the estimated expenditures and estimated receipts of the government for a given year. Indian budget has two sections or accounts: revenue (or current) account and capital account. Revenue account comprises items arising from current transactions, i.e., receipts from taxes, fees, incomes from PSU's etc. and expenditure on current account. Capital account comprises capital receipts and expenditures like loans, external aid, loan payments, etc. While presenting the budget to the parliament for approval, the finance minister presents two bills namely 1) the Finance Bill - for approving the taxes and 2) the Appropriation Bill – for approving the expenditure.

Tax system in India has the following key features:

Taxation forms only 14 % of GDP. Major portion of the tax revenue (60%) comes from indirect taxes. The tax structure is complex – with a multiplicity of taxes and tax rates; narrow tax base – meaning that only a tiny percentage of the taxable income is taxed, or only a small percentage of the taxable people pay taxes; high tax rates; extensive tax evasion and accumulation of black money, low tax buoyancy; inelastic taxes for state and local governments while the central government keeps the more elastic taxes.

Tax buoyancy: Tax buoyancy, also called tax elasticity, refers to the incremental growth in tax revenues for every percentage increase in the gross domestic product.

Tax buoyancy = % change in tax revenue / % change in tax base

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Typically the base is taken to be GDP, although other bases are possible (e.g. consumption as the base for sales taxes, imports as the base for customs duty, etc.).

Tax buoyancy of personal income tax: 1.1 during 1986-87 thru 1990-91
1.5 during 1991-92 thru 1995-96

Tax buoyancy of corporate taxes: 0.8 during 1986-87 thru 1990-91
1.7 during 1991-92 thru 1995-96

Tax base: Measure upon which the assessment or determination of tax liability is based. For example, taxable income is the tax base for income tax and assessed value is the tax base for property taxes. It also means total of taxable assets, income, and assessed value of property within the tax jurisdiction of a government. Only 2.77% of the population in India pays income tax. The Finance Ministry's estimate of the number of taxpayers for financial year 2011-12 stands at just 3.25crore people. That means less than 3 people in 100 pay income taxes. Out of these 3.25 Crore people, 89% pay taxes in the tax slab of 0 – 5 Lakh rupees, while on the other end of spectrum, only 1.3% of all tax payers have income about 20 Lakh!

Public Debt: Consists of both internal (domestic) and external debt. The ratio of Government Debt to GDP was 67.57 percent in 2012. Historically, from 1991 until 2012, the ratio of Government Debt to GDP averaged 74.6 Percent reaching an all time high of 84.3 Percent in December of 2003 and a record low of 67.6 Percent in December of 2012. Generally, Government debt as a percent of GDP is used by investors to measure a country ability to make future payments on its debt, thus affecting the country's borrowing costs and government bond yields.

The ratio of external debt to India's GDP has been around 20% for the last decade or so. As on December 31 2012, the ratio of short-term external debt to forex reserves was 31.1 per cent, compared with 26.6 per cent at the end of March 2012. The ratio of concessional debt to total external debt fell from 13.9 per cent as of March-end to 12.5 per cent as of December-end, showing the increasing share of non-government debt. India's external debt continued to be dominated by the US dollar, which accounted for 56.8 per cent of total external debt as of December 31, 2012, against 55 per cent as of March 31.

The higher the proportion of short-term debt to total debt, the more difficult it is to manage the debt. It was a rise in short-term debt that had led to the East Asian crisis of the 90s. As of now, India's short-term debt isn't at an alarming level. While the rise in long-term debt was primarily due to non-resident Indian deposits and commercial

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borrowings, short-term debt rose due to trade-related credits.

There is concern on the low forex cover for external debt. Till 2009-10, forex reserves covered the entire external debt. Even in the crisis period of 2008-09, when capital flows from the advanced world got dried up, India's forex cover to external debt stood at 112 per cent.

Rekhi Committee (K.L. Rekhi, former Chairman of Central Board of Excise & Customs) appointed in May 1992, report submitted in May 1993. Its major recommendations were: simplification of customs duties and excise duties, simplification of the modus operandi of duty collection, etc.

Fiscal federalism in India: Devolution of finances from Centre to States

Tax collection and appropriation in India:
According to the Constitution,

- Certain taxes and duties are levied, collected and retained by the Centre – e.g. customs duty, Corporate tax, taxe on capital (other than agricultural land), etc.
- Certain taxes and duties are levied by the Centre but collected and appropriated by states – e.g. stamp duties.
- Certain taxes levied and collected by the Centre but the entire proceeds transferred to states, e.g., estate duties, taxes on air/railway passengers and freights.
- Income tax and excise duty collected by the Centre and shared between the Centre and states, e.g., income tax (other than ag.income tax), Union excise duty, etc.
- Certain taxes levied and collected by States, e.g., VAT, Excise duty on liquors, medical& toilet preparations, entertainment tax, etc.
- Centre gives grants in-aid (over and above tax sharing) to states.
- Loans: Market borrowing and borrowing from Central Govt. and RBI (overdrafts).
- 40-45% of the states' expenditure is met by transfer of resources form the Central Govt.

Finance Commissions:

Under article 280 of the constitution the president is required to appoint a Finance Commission for recommending the criteria for devolution of non-plan revenue resources between the Union and states.

Finance Commissions set up so far:

Finance Commission			Chairman
I	(1952-57)	-	K.C. Neogi
II	(1957-62)	-	K. Santhanam
III	(1962-66)	-	A.K. Chanda
IV	(1966-74)	-	P.V. Rajamannar

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V (1969-74) - Mahavir Tyagi
VI (1974-79) - Bramhanada Reddy
VII (1979-84) - J.M. Shet
VIII (1984-89) - Y.B. Chavan
IX (1989-95) - N.K.P. Salve
X (1995-00) - K.C. Pant
XI (2000-05) - A.M. Khusro
XII (2005-10) - C. Rangarajan
XIII (2010-15) - Vijay Kelkar

The 13th Finance Commission (FC) the submitted its report on December 30, 2009.
Observing that as against the level of 75 per cent targeted by the Twelfth Finance Commission, the combined debt-GDP ratio was 82 per cent in the terminal year (2009-10), the 13th FC focused on anchoring the fiscal consolidation process in a medium-term debt reduction framework. The 13th FC proposes reducing the combined debt-GDP ratio to 68 per cent by 2014-15 with the Centre's debt-GDP ratio declining to 45 per cent. It recommended a calibrated exit strategy from the expansionary fiscal stance of 2008-09 and 2009-10. The 13th FC has recommended fiscal consolidation through the elimination of revenue deficit as the long-term target for both the Centre and States. The 13th FC has recommended the sanction of Rs 50,000 crore as compensation for revenue losses of States on account of the implementation of the GST w.e.f. April 1, 2011. This amount would shrink to Rs 40, 000 crore were the implementation to take place on/after April 1, 2013 and further to Rs 30,000 crore were it to take place on/after April 1, 2014.

The following are some of the key recommendations of the FC-XIII:

- The share of States in net proceeds of shareable Central taxes shall be 32 per cent every year for the period of the award.
- Revenue accruing to a State is to be protected to the levels that would have accrued to it had service tax been a part of the shareable Central taxes, if the 88th Amendment to Constitution is notified and followed up by a legislations enabling States to levy service tax.
- Centre is to review the levy of cesses and surcharges with a view to reducing their share in its gross tax revenue.
- The indicative ceiling on overall transfers to States on revenue account may be set at 39.5 per cent of gross revenue receipts of the Centre.
- The Medium Term Fiscal Plan (MTFP) should be a statement of commitment rather than intent.
- New disclosures have been specified for the Budget/MTFP including on tax expenditure, public-private partnership liabilities and the details of variables underlying receipts and expenditure projections.

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- The Fiscal Responsibility and Budget Management (FRBM) Act needs to specify the nature of shocks that would require relaxation of the targets thereunder.
- States are expected to be able to get back to their fiscal correction path by 2011-12 and amend their FRBM Acts to the effect.
- State Governments are to be eligible for the general performance and special area performance grants only if they comply with the prescribed stipulation in terms of grants to local bodies.
- The National Calamity Contingency Fund (NCCF) should be merged with the National Disaster Response Fund (NDRF) and the Calamity Relief Fund (CRF) with the State Disaster Response Funds (SDRFs) of the respective States.
- A total non-Plan revenue grant of Rs 51,800 crore is recommended over the award period for eight States. A performance grant of Rs 1500 crore is recommended for three special category States that have graduated from a non-Plan revenue deficit situation.
- An amount of Rs 19,930 crore has been recommended as grant for maintenance of roads and bridges for four years (2011-12 to 2014-15).
- An amount of Rs 24,068 crore has been recommended as grant for elementary education.
- An amount of Rs 27,945 crore has been recommended for State-specific needs.
- Amounts of Rs 5,000 crore each as forest, renewable energy and water sector-management grants have been recommended.
- A total sum of Rs 3,18,581 crore has been recommended for the award period as grants-in-aid to States.

Goods and Services Tax (GST)

The Goods and Services Tax (GST) is a Value Added Tax (VAT) proposed to be implemented in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services. India is a federal republic, and the GST will thus be implemented concurrently by the central and state governments as the Central GST and the State GST respectively. Exports will be zero-rated and imports will be levied the same taxes as domestic goods and services adhering to the destination principle.

Integration of goods and services taxation would give India a world class tax system and improve tax collections. It would end the long standing distortions of differential treatments of manufacturing and service sector. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, Central sales tax, State level sales tax, entry tax, stamp duty, telecom licence fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, and eliminate the cascading effects of multiple layers of

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taxation. GST will facilitate seamless credit across the entire supply chain and across all states under a common tax base. GST was first introduced in France and now it is levied in about 140 countries.

Direct tax code (DTC)

Direct Taxes Code (DTC) is the new direct tax law approved by the central cabinet in August 2010 that will replace the existing Indian Income Tax Act, 1961. The DTC is aimed at widening the tax net and increasing federal revenues. The government plans to implement it from April 1, 2014 although it was originally planned to come into effect from April 2012. DTC modernise its direct tax laws, mainly its income tax act which is now over 50 years old. The government wants a modern tax code in step with the changing needs of the economy.

The new tax code is expected to widen the tax base, end unnecessary exemptions, moderate tax rates and add to the government's coffers. One of the key aims of the new tax code is to provide a system which takes into account increased cross border mergers and acquisitions by Indian corporates over the last few years. The new code is also expected to streamline tax rates and administration for foreign institutional investors. A bill for DTC is slated to be presented to the parliament during its 2013 monsoon session starting in late July.

Parallel economy in India:

Parallel economy is called by different names: black market economy, underground economy, moon light economy, unsanctioned economy, unaccounted economy, etc. Black money is estimated to be 10-20 % of the GDP in India.

Measures to check black money: In India three prominent measures have been used so far to unearth black money and the government has met with varying degrees of success:

Voluntary Disclosure of Income Scheme (VDIS) - Introduced occasionally since 1951, i.e., in 1951, 1965(twice), 1976, 1991 and 1997. In this scheme the public would be given grace (amnesty) period to declare the unaccounted money/income and pay tax at the existing/stipulated rates.

De-monetisation - introduced in 1946 and 1978. Refers to withdrawal of certain denominations (units) of money, usually but not necessarily, the bigger denominations such as Rs. 500 / Rs. 1000 notes, from circulation and the public would be given deadline to exchange these denominations for the smaller denominations continued in circulation. The demonetized notes not presented for exchange within the deadline would cease to be legal tender, i.e., they cannot be used for transactions after the deadline is over.

Bearer Bonds: Anonymous bonds (not bearing the name of the purchaser), issued in 1981, Value: Rs. 10,000/- each. Maturity period: 10 years,

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Maturity value Rs. 12,000/-, Interest: 1.8 %. Yielded only Rs. 369 cr as against the target of Rs.10,000 cr.

MODULE VIII: International financial / Trade institutions and international Economic Affairs

Bank for International Settlements (BIS), estd in 1930 at Basel, Switzerland is an international financial organization established under the Hague agreements. BIS is the oldest multilateral financial institution in the world. BIS is regarded as a central bank for central banks; it does not provide financial services to individuals or corporations. The Bank seeks to influence reserve policy among the 60 central banks including the RBI, which are currently its members. As an international institution, it is not accountable to any single national government.

The BIS has played a central role in establishing the Basel Capital Accords of 1988 and 2004. BIS houses, among other things, the secretariat of the Basel Committee on Banking Supervision (BCBS), formed in 1974 following the failure of the Bankhaus Herstatt (Herstatt Bank was a privately owned bank in the German city of Cologne. It went bankrupt on 26 June 1974 in a famous incident illustrating settlement risk in international finance), which affected mostly the G-10 countries signalling a need to coordinate supervisory efforts across countries and lay down minimum banking standards. The committee's efforts over the last three decades have made Basel synonymous with the best practices and standards in banking regulation and supervision.

Perhaps the most far-reaching of these initiatives was the laying down of minimum capital standards in 1988, known as the Basel Capital Accord, to ensure a level playing field in terms of capital required to be maintained by internationally active banks.

Though the Basel Committee has only 13 members, the fact that its capital standards were implemented by more than 100 countries points to their near universal acceptance.

Basel Committee: The Basel Committee on Banking Supervision (BCBS) is an institution created by the central bank Governors of the Group of Ten nations. It was created in 1974 and meets regularly four times a year. Since 2009, all of the other G-20 major economies are represented, as well as some other major banking locales such as Hong Kong and Singapore. The committee does not have the authority to enforce recommendations, although most member countries as well as some other countries tend to implement the Committee's policies. This means that recommendations are enforced through national laws and regulations, rather than as a result of the committee's recommendations - thus some time may pass between recommendations and implementation as law at the national level. The Committee is often referred to as the BIS Committee after its meeting location. However, the BIS and the Basel Committee are two distinct entities.

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Basel Accord: A set of agreements set by the Basel Committee on Bank Supervision (BCBS), which provides recommendations on banking regulations in regards to capital risk, market risk and operational risk. The purpose of the accords is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.

The first Basel Accord, known as Basel I, was issued in 1988 and focuses on the capital adequacy of financial institutions. The capital adequacy risk, (the risk that a financial institution will be hurt by an unexpected loss), categorizes the assets of financial institution into five risk categories (0%, 10%, 20%, 50%, 100%). Banks that operate internationally are required to have a risk weight of 8% or less.

The second Basel Accord, known as Basel II, is to be fully implemented by 2015. It focuses on three main areas, including minimum capital requirements, supervisory review and market discipline, which are known as the three pillars. The focus of this accord is to strengthen international banking requirements as well as to supervise and enforce these requirements.

Basel Norms: A set of international banking regulations put forth by the Basel Committee on Bank Supervision, which set out the minimum capital requirements of financial institutions with the goal of minimizing credit risk. Banks that operate internationally are required to maintain a minimum amount (8%) of capital based on a percent of risk-weighted assets.

Basel I: Basel I was the round of deliberations by central bankers from around the world, and in 1988, the Basel Committee (BCBS) in Basel, Switzerland, published a set of minimal capital requirements for banks. This is also known as the 1988 Basel Accord, and was enforced by law in the Group of Ten (G-10) countries in 1992. This accord focused mainly on credit risk by creating a bank asset classification system. This classification system grouped a bank's assets into five risk categories:

0% - cash, central bank and government debt and any OECD government debt
0%, 10%, 20% or 50% - public sector debt
20% - development bank debt, OECD bank debt, OECD securities firm debt, non-OECD bank debt (under one year maturity) and non-OECD public sector debt, cash in collection
50% - residential mortgages
100% - private sector debt, non-OECD bank debt (maturity over a year), real estate, plant and equipment, capital instruments issued at other banks

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The bank must maintain capital (Tier 1 and Tier 2) equal to at least 8% of its risk-weighted assets. For example, if a bank has risk-weighted assets of $100 million, it is required to maintain capital of at least $8 million.

Basel II: The second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II, which was initially published in June 2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face. Advocates of Basel II believe that such an international standard can help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse. In practice, Basel II attempts to accomplish this by setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk to which the bank exposes itself in its lending and investment practices. Generally speaking, these rules mean that the greater risk to which the bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

Basel-III: These are the new rules prescribed by BCBS to assess risks, and how much capital to set aside for banks in keeping with their risk profile. These rules aim to improve the quantity and quality of the capital, against backdrop of the recent global financial crisis triggered off by the sub-prime financial market crisis in the USA.

While the key capital ratio has been raised to 7% of risky assets, according to the new norms, Tier-I capital that includes common equity and perpetual preferred stock will be raised from 2-4.5% starting in phases from January 2013 to be completed by January 2015. In addition, banks will have to set aside another 2.5% as a contingency for future stress. Banks that fail to meet the buffer would be unable to pay dividends, though they will not be forced to raise cash.

Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to: i) improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, ii) improve risk management and governance and iii) strengthen banks' transparency and disclosures.

The reforms target: (i) bank-level, or micro-prudential, regulation, which will help raise the resilience of individual banking institutions to periods of stress and (ii) macro-prudential, system wide risks that can build up

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across the banking sector as well as the pro-cyclical amplification of these risks over time.

These two approaches to supervision are complementary as greater resilience at the individual bank level reduces the risk of system wide shocks.

The Basel Committee's oversight body - the Group of Central Bank Governors and Heads of Supervision (GHOS) - agreed on the broad framework of Basel III in September 2009 and the Committee set out concrete proposals in December 2009. These consultative documents formed the basis of the Committee's response to the financial crisis and are part of the global initiatives to strengthen the financial regulatory system that have been endorsed by the G20 Leaders. The GHOS subsequently agreed on key design elements of the reform package at its July 2010 meeting and on the calibration and transition to implement the measures at its September 2010 meeting. Basel III is part of the Committee's continuous effort to enhance the banking regulatory framework.

According to RBI Governor D Subbarao, Indian banks are not likely to be impacted by the new capital rules. At the end of June 30, 2010, the aggregate capital to risk-weighted assets ratio of the Indian banking system stood at 13.4%, of which Tier-I capital constituted 9.3%. As such, RBI does not expect Indian banking system to be significantly stretched in meeting the proposed new capital rules, both in terms of the overall capital requirement and the quality of capital. There may be some negative impact arising from shifting some deductions from Tier-I and Tier-II capital to common equity.

Asian Development Bank (ADB): ADB is a multilateral development finance institution dedicated to reducing poverty in Asia and the Pacific. Established in 1966, ADB is now owned by 63 members (including India), mostly from the region. It is headquartered in Manila with 26 other offices around the world.

The World Bank group

The World Bank group is a group of five international organizations responsible for providing finance to countries for purposes of development and poverty reduction, and for encouraging and safeguarding international investment. The group and its affiliates are headquartered in Washington, D.C.

The group comprises:

- International Bank for Reconstruction and Development (IBRD) estd in 1945, often called simply the "World Bank", responsible for providing finance for development.

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- International Finance Corporation (IFC), created on July 20, 1956. for providing market finance to support private ventures in developing countries.
- International Development Association (IDA), created on September 24, 1960, for providing long-term interest-free loans to the poorest of developing countries on terms more lenient than those of the World Bank proper.
- International Centre for the Settlement of Investment Disputes (ICSID), estd on 14 October 1966, for settling disputes between governments and foreign investors
- Multilateral Investment Guarantee Agency (MIGA), on 12 April 1988, for providing political risk insurance to promote foreign direct investment into emerging economies

International Monetary Fund (IMF)

Estd in 1945, IMF is an international organization responsible for managing the global financial system and for providing loans to its member states to help alleviate balance of payments problems. Part of its mission is to help countries that experience serious economic difficulties. In return, the countries who are helped are obliged to launch certain "reforms," such as privatizations of government enterprises.

Special Drawing Rights (SDRs), are an artificial currency unit (a surrogate currency to the US dollar) created by the International Monetary Fund in 1969. SDRs are defined in terms of a basket of major currencies used in international trade and finance. At present, the currencies in the basket are the Euro, the Pound Sterling, the Japanese yen and the United States dollar. The amounts of each currency making up one SDR are chosen in accordance with the relative importance of the currency in international trade and finance. The determination of the currencies in the SDR and their amounts is made by the IMF Executive Board from time to time.

The value of one SDR in terms of United States dollars is determined daily by the IMF, based on the exchange rates of the currencies making up the basket, as quoted at noon at the London market. (If the London market is closed, New York market rates are used; if both markets are closed, European Central Bank reference rates are used.)

SDRs are used as a unit of account by the IMF and several other international organizations. A few countries peg their currencies against SDRs, and they are also used to denominate some private international financial instruments. As on 23rd July, 2013 the exchange rate was 0.6629 SDR per one US$ and 0.01111 SDR per one INR.

General Agreement on Tariffs and Trade (GATT)

GATT was an agreement between countries and other entities on the rules for trade. It was first

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signed in Geneva, Switzerland in 1947 by 23 countries. It was not an international organization, although there had been plans since 1944 to establish an International Trade Organization. The agreement was amended several times, including most recently by the Marrakesh Agreement in 1994, which ended the Uruguay Round of trade negotiations, establishing the World Trade Organization. GATT now serves as the foundation of the WTO trading system, and remains in force, although the 1994 Agreement contains an updated version of it to replace the original 1947 one.

"Rounds" of GATT trade negotiations culminating in the formation of WTO The countries which signed GATT periodically negotiated new trade agreements that all would enter into. Each such set of agreements was called a "round". In general, each of these agreements bound the members to reduce certain tariffs, with many special-case treatments of individual products, and in many cases with exceptions and modifications for each country. The different rounds of GATT held from 1948 till 1994 and the further developments in the form of WTO trade negotiations are presented below.

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GATT and WTO trade rounds					
Name	Start	Duration	No.of Countries	Subjects covered	Achievements
Geneva	April 1947	7 months	23	Tariffs	Signing of GATT, 45,000 tariff concessions affecting $10 billion of trade
Annecy	April 1949	5 months	13	Tariffs	Countries exchanged some 5,000 tariff concessions
Torquay	September 1950	8 months	38	Tariffs	Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%
Geneva II	January 1956	5 months	26	Tariffs, admission of Japan	$2.5 billion in tariff reductions
Dillon	September 1960	11 months	26	Tariffs	Tariff concessions

					worth $4.9 billion of world trade
Kennedy	May 1964	37 months	62	Tariffs, Anti-dumping	Tariff concessions worth $40 billion of world trade
Tokyo	September 1973	74 months	102	Tariffs, non-tariff measures, "framework" agreements	Tariff reductions worth more than $300 billion dollars achieved
Uruguay	September 1986	87 months	123	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc	The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for textiles and clothing from developing countries, and an extension of intellectual property rights.
Doha	November 2001	?	141	Tariffs, non-tariff measures, agriculture, labor standards,environment, competition, investment, transparency, patents etc	The round is not yet concluded.

The Uruguay Round was a trade negotiation lasting from September 1986 to April 1994 which transformed the GATT into the WTO. It was launched in Punta del Este in Uruguay (hence the name), followed by negotiations in Montreal, Geneva, Brussels, Washington D.C., and Tokyo, with the 20 agreements finally being signed in Marrakesh - the Marrakesh Agreement. Under the WTO, the first round was the Doha Development Round launched in November 2001.

World Trade Organization (WTO) WTO is an international organization which oversees a large number of agreements covering the "rules of trade" between its member states. It was created in 1995 as a secretariat to administer the General Agreement on Tariffs and Trade, a trade treaty which laid much of the groundwork for the WTO. WTO headquarters are located in Geneva, Switzerland. WTO members are required to grant one another most favoured nation (MFN) status.

History of WTO

- January 1, 1995 - WTO came into existence, following the Marrakech Agreement.
- 1996 – 1st MHYPERLINK "http://www.wordiq.com/definition/WTO_Meeting_of_1999"inisterial conference in Singapore.
- 1998 – 2nd MHYPERLINK "http://www.wordiq.com/definition/WTO_Meeting_of_1999"inisterial conference in Geneva.
- November 1999 - 3rd ministerial conference in Seattle, Washington, USA. The conference itself ended in failure, with massive demonstrations and riots drawing worldwide attention.
- November 2001 - 4th ministerial conference in Doha, Qatar. Issuance of the Doha Declaration.
- December 2001 - The People's Republic of China joined the WTO after 15 years of negotiations (the longest in GATT history).
- September 2003 - 5th ministerial conference in Cancún, Mexico. An alliance of 22 southern states, led by India, China and Brazil, resisted demands from the North for agreements on the so-called "Singapore issues: investment protection, competition policy, transparency in government procurement and trade facilitation, while calling for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.
- December 2005 – 6th Ministerial Conference held in Hong Kong. A failure.
- Nov – 3 Dec 2009 - 7th Ministerial Conference held in Geneva.
- 15 Dec - 17 December 2011 - 8th Ministerial Conference held in Geneva.
- December 2013(expected) - 9th Ministerial Conference in Bali, Indonesia.

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Iran, which first asked to join the WTO in 1996, has seen its request repeatedly blocked by the United States, which lists Iran as a state sponsor of terrorism. Russia is also not yet a member, and first applied to join GATT in 1993. General Agreement on Trade in Services (GATS):

GATS is a treaty of the World Trade Organization (WTO) that entered into force in January 1995 as a result of the Uruguay Round negotiations to provide for the extension of the multilateral trading system to services. All Members of the WTO are signatories to the GATS. The basic WTO principle of most favoured nation (MFN) applies to GATS as well. For a long time, no need was seen for a trade agreement in services since large segments of the services economy have traditionally been considered as domestic activities that are difficult to trade over borders, e.g. haircuts or seeing a doctor. Furthermore, sectors from rail transport to telecommunications have been viewed as classical domains of government ownership and control, given their infrastructural importance and the perceived existence, in some cases, of natural monopoly situations. A third important group of sectors, including health, education and basic insurance services, are considered in many countries as governmental responsibilities, given their importance for social integration and regional cohesion, which should be tightly regulated and not be left to the rough and tumble of markets.

Nevertheless, some services sectors, in particular international finance and maritime transport, have been largely open for centuries — as the natural complements to merchandise trade. Other large sectors have undergone fundamental technical and regulatory changes in recent decades, opening them to private commercial participation and reducing existing barriers to entry. The emergence of the Internet has helped to create a range of internationally tradable product variants — from e-banking to tele-health and distance learning. A growing number of governments have gradually exposed previous monopoly domains to competition; telecommunication is a case in point. The GATS agreement covers four "modes of supply":

- Cross border trade
- Consumption abroad
- Commercial presence, and
- Presence of natural persons.

Countries can freely decide where to liberalize on a sector-by-sector basis, including which modes of supply they want to cover for which sector.
The GATS document has been criticized for allegedly replacing the authority of national legislature, with the authority of the GATS Disputes Panel. Such allegations argue that GATS intends to override all "burdensome rules". The WTO and member governments disagree with such allegations. GATS hearings are closed and held in secret.

A most favoured nation (MFN) clause is a clause in a trade agreement between two nations providing that each will extend to the other any trading privileges it extends to third nations. MFN clauses are generally subject to exceptions for free trade areas and customs unions. One of the

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basic principles of the WTO is that each party extends to all other parties MFN status.

Trade-Related Intellectual Property Rights (TRIPs)

The WTO Agreement on TRIPs is an international agreement on the subject of "intellectual property". It covers copyright, patents, trademarks, trade secrets, industrial designs, geographical indicia and integrated circuit layouts. The enactment of TRIPs in 1994 was an unprecedented and effectively mandatory globalisation of intellectual property law. Although subsequent developments (see below) have expanded on TRIPs' requirements, the agreement itself remains without doubt the most important international agreement on copyright, patents and other IP rules.

Requirements of TRIPs

TRIPs agreement requires member states to provide strong intellectual property rights in many of these areas. For example, under TRIPs:

- Copyright terms must extend to 50 years after the death of the author (although films and photographs are only required to have fixed 50 and 25 year terms, respectively).
- Copyright must be granted automatically, and not based upon any "formality", such as registrations or systems of renewal.
- Computer programs must be regarded as "literary works" under copyright law and receive the same terms of protection.
- National exceptions to copyright (such as "fair use" in the United States) must be tightly constrained.
- Patents must be granted in all "fields of technology" (regardless of whether it is in the public interest to do so).
- Exceptions to patent law must be limited almost as strictly as those to copyright law.
- In each state, intellectual property laws may not offer any benefits to local citizens which are not available to citizens of other TRIPs signatories (this is called "national treatment"). TRIPs also has a most favoured nation clause.

Many of the TRIPs provisions on copyright were imported from the Berne Convention for the Protection of Literary and Artistic Works and many of its trademark and patent provisions were imported from the Paris Convention for the Protection of Industrial Property.

Intellectual property rights (IPRs)

Intellectual property rights are the rights given to persons over the creations of their minds. They usually give the creator an exclusive right over the use of his/her creation for a certain period of time. The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS),

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negotiated in the 1986-94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time.

Types of intellectual property: The areas covered by the TRIPS Agreement are:

1. Copyright and related rights
2. Trademarks, including service marks
3. Geographical indications
4. Industrial designs
5. Patents
6. Layout-designs (topographies) of integrated circuits
7. Undisclosed information, including trade secrets

IPR legislation in India

Towards meeting the TRIPs obligations stipulated by the WTO, all the member countries 0including India have enacted new laws or amended the existing laws relating to IPRs. In India, there have been a series of new IPR legislations covering every field of activity/technology. Successive amendments of the Indian Patents Act 1970 in 1999, 2002 and 2004 represent very elaborate legal framework along with amendments / enactments of other laws such as the Indian Trade Marks (Amendment) Act 1999, the Copy Right (Amendment) Act 1999, the Designs Act 1999, the Geographical Indications of Goods (Regulation and Protection) Act 1999, Plant Varieties and Farmers' Rights Act 2001, the Biodiversity Act 2002 (and formulation of Biodiversity Rules thereunder, in December 2004), and the Competition Act 2002.

In order to protect the plant varieties and farmers' interest, the government has introduced the Plant Variety Protection and Farmers' Rights Act 1999 which, together with Geographical Indications of Goods (Regulation and Protection) Act 1999 and Biodiversity Act 2002, represents a set of progressive legislative measures to protect plant varieties developed by plant breeders and the traditional knowledge of farmers and other indigenous knowledge systems, from exploitation especially by the developed countries and MNCs. These legislations incorporate both the sui-generis (self generating) system of plant variety protection modelled on the UPOV [Union Pour Obtentions Varietés (in French), International Union for Protection of Plant Varieties(in English)] Convention and the legal provision to protect farmers' and researcher's rights.

The objectives of the Plant Varieties and Farmers' Rights Act in particular are: (i) to safeguard the interests of a plant breeder as an incentive to the development of improved plant varieties for agriculture, horticulture and forestry, (ii) to facilitate recovery of his costs and accumulation of the funds necessary for further investment, (iii) to prevent others from multiplying the breeder's seeds or other propagating material and selling the variety on a commercial scale, without providing recompense to the breeder, (iv) to ensure a continuous supply of new

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varieties by safeguarding the interests of plant breeders. Under this Act, plant breeders have exclusive commercial rights to any variety that is developed from germplasm. A breeder obtains exclusive rights to produce, sell, import and export the protected seed for fifteen years after the date of registration. In the case of trees and vines, the protection is upto 18 years.

A breeder can license his rights over the variety. These rights will extend to varieties that are already registered under the Seed Act, 1966, with retrospective effect from 1984. This clause is designed to prevent other countries/MNCs from acquiring rights over seeds that have been released in India. A plant breeder will also have to reward rural communities in recognition of their contribution. A national gene bank has also been proposed to protect the Indian germplasm. There are exceptions granted to researchers for free and complete access to the protected material. Farmers can also retain their traditional rights to save, use, exchange, share and sell propagated material or seeds from the harvest. But their right is restricted to non-conventional sales and branded seeds cannot be sold.

The Agreement on Agriculture (AoA) is an international treaty of the World Trade Organization. It was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO on January 1, 1995. The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies.

The first pillar of the AoA is "domestic support". The AoA structures domestic support (subsidies) into three categories or "boxes": a Green Box, an Amber Box and a Blue Box. Green Box contains fixed payments to producers for environmental programs, so long as the payments are "decoupled" from current production levels. Amber Box contains domestic subsidies that governments have agreed to reduce but not eliminate. Blue Box contains subsidies which can be increased without limit, so long as payments are linked to production-limiting programs.

The AoA's domestic support system currently allows Europe and the USA to spend $380 billion every year on agricultural subsidies alone. "It is often still argued that subsidies are needed to protect small farmers but, according to the World Bank, more than half of EU support goes to 1% of producers while in the US 70% of subsidies go to 10% of producers, mainly agri-businesses." The effect of these subsidies is to flood global markets with below-cost commodities, depressing prices and undercutting producers in poor countries – a practice known as dumping.

"Market access" is the second pillar of the AoA, and refers to the reduction of tariff (or non-tariff) barriers to trade by WTO member-states. The 1995 AoA required tariff reductions of:

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- 36% average reduction by developed countries, with a minimum per tariff line reduction of 15% over six years.
- 24% average reduction by developing countries with a minimum per tariff line reduction of 10% over ten years.

Least Developed Countries (LDCs) were exempted from tariff reductions, but either had to convert non–tariff barriers to tariffs—a process called tariffication—or "bind" their tariffs, creating a "ceiling" which could not be increased in future.

"Export subsidies" is the third pillar of the AoA. The 1995 AoA required developed countries to reduce export subsidies by at least 35% (by value) or by at least 21% (by volume) over the five years to 2000.

The AoA has been criticised by developing countries for reducing tariff protections for small farmers – a key source of income for developing countries. At the same time, the AoA has allowed rich countries to continue paying their farmers massive subsidies which developing countries cannot afford

Doha Declaration (Doha Development Agenda)
The Doha Development Round is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001 in pursuance of the declaration made at the 4th Ministerial Conference of the WTO held at Doha, Qatar (hence called Doha Declaration). Its objective is to lower trade barriers around the world, which allows countries to increase trade globally. As of 2008, talks have stalled over a divide on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies. The most significant differences are between developed nations led by the European Union (EU), the United States (USA) and Japan and the major developing countries led and represented mainly by India, Brazil, China and South Africa. There is also considerable contention against and between the EU and the U.S. over their maintenance of agricultural subsidies—seen to operate effectively as trade barriers.

Subsequent ministerial meetings took place in Cancún, Mexico (2003), and Hong Kong (2005). Related negotiations took place in Geneva, Switzerland (2004, 2006, 2008); Paris, France (2005); and Potsdam, Germany (2007). The most recent round of negotiations, July 23-29, 2008, broke down after failing to reach a compromise on agricultural import rules. After the break down, major negotiations were not expected to resume until 2009. Nevertheless, intense negotiations, mostly between US, China and India, were held in the end of 2008 in order to agree on negotiation modalities. However, these negotiations did not result in any progress.

Millennium Development Goals (MDGs): Refer to the goals set by the member countries of the UNO in September 2000 for collectively promoting development, eradicating poverty, ensuring livelihood security and fighting

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dreaded diseases like HIV/AIDS, by 2015. The MDGs commit the international community to an expanded vision of development, one that vigorously promotes human development as the key to sustaining social and economic progress in all countries, and recognizes the importance of creating a global partnership for development. The goals have been commonly accepted as a framework for measuring development progress.

List of MDGs:
1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

Multi-Fibre Agreement

Exports of textiles and clothing from developing countries have long faced restrictive blocks to their exports called quotas. Brought in force as a temporary relief measure in favour of the domestic textile manufacturers in the developed countries, it was in force for over 40 years. In 1962, a Long Term Agreement (LTA) regarding international trade in cotton textiles was signed. It replaced the one-year Short Term Agreement that existed at the time. LTA underwent several renewals and was subsequently replaced by the Multi Fibre Agreement (MFA) in 1974, which was expanded to cover exports of synthetic fibres and woolen products, besides cotton.

MFA came into force to allocate export quotas to the low cost developing countries, limiting the amount of imports to countries whose domestic industries were facing serious challenge from rapidly increasing imports. It sought to expand trade, reduce barriers to trade and progressively liberalise world trade. The MFA regime existed for 25 years, until 1994 when the Uruguay Round of Multilateral Trade Negotiations resulted in the Agreement on Textiles and Clothing (ATC). The ATC sought to phase out all quota restrictions in four phases spread over a period of 10 years.

Phased removal of multi-fibre import quotas by developed countries:

Jan. 1995: 1st ATC tranche liberalised by importing countries – 16% of 1990 import volume.
Jan. 1998: 2nd ATC tranche liberalised by importing countries – 17% of 1990 import volume
Jan. 2002: 3rd ATC tranche liberalised by importing countries – 18% of 1990 import volume.
Jan. 2005: 4th ATC tranche liberalised by importing countries – 49% of 1990 import volume.

ISO: The International Standardization Organization was established in 1947 to develop common international standards in many areas. Its HQ

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is located in Geneva, Switzerland and its members come from over 120 national standards bodies. Its code standard ISO – 9000 refers to industrial norms for maintaining quality / standards. ISO – 9000 is a series of standards developed by a Committee of the International Standards Organization. The series contain certification in many areas. A firm may apply for one or more certificates depending on its operations.

Five standard certificates are in force. They are:

- ISO 9000 - Quality management & quality assurance standards – Guidelines for selection and use.
- ISO 9001 - Quality systems: Model for quality assurance in design development, production, installation and servicing
- ISO 9002 - Quality Systems: Model for quality assurance in production and installation
- ISO 9003 - Model for quality assurance in final conception and test.
- ISO 9004 - Quality management and quality system elements: guidelines.

Advantages of ISO certification:

1. Confirming to the international standards
2. Exports will be encouraged
3. New industrial companies gain confidence
4. International sub-contracting is easier
5. ISO-9000 is vitally important for selling in European and American markets
6. Domestic firms become connected with MNC's
7. Government often rewards firms getting ISO-9000 certificates. Firms possessing ISO-9000 certificates are given special import licenses, assistance in modernization and up-gradation of laboratories.

Equivalent Indian and international standards

ISO	IS	EN	Title
9000	14000	29000	Quality management and quality assuran standards, selection and use.
9001	14001	29001	Model for quality assurance in design development, production, installation and servi all elements.
9002	14002	29002	Model for quality assurance in production a installation.
9003	14003	29003	Model for quality assurance in final inspecti and tests.
9004	14004	29004	Guidelines on development of quali management systems to minimize cost a maximize benefits.

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IS = Indian Standards, EN = European Norms, ISO = Internal Standards organization

ISO first published its quality standards in 1987, revised them in 1994, and then republished an updated version in 2000. These new standards are referred to as the "ISO 9000 2000 Standards".

ISO's purpose is to facilitate international trade by providing a single set of standards that people everywhere would recognize and respect.

The ISO 9000 2000 Standards apply to all kinds of organizations in all kinds of areas. Some of these areas include manufacturing, processing, servicing, printing, forestry, electronics, steel, computing, legal services, financial services, accounting, trucking, banking, retailing, drilling, recycling, aerospace, construction, exploration, textiles, pharmaceuticals, oil and gas, pulp and paper, petrochemicals, publishing, shipping, energy, telecommunications, plastics, metals, research, health care, hospitality, utilities, pest control, aviation, machine tools, food processing, agriculture, government, education, recreation, fabrication, sanitation, software development, consumer products, transportation, design, instrumentation, tourism, communications, biotechnology, chemicals, engineering, farming, entertainment, horticulture, consulting, insurance, and so on.

United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. It is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues. The UNCTAD's goals are to "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis". The creation of the conference was based on concerns of developing countries over the international market, multi-national corporations, and great disparity between developed nations and developing nations.

In the 1970s and 1980s, UNCTAD was closely associated with the idea of a New International Economic Order (NIEO).

UNCTAD was established in order to provide a forum where the developing countries could discuss the problems relating to their economic development. UNCTAD grew from the view that existing institutions like GATT and IMF were not properly organized to handle the particular problems of developing countries. UNCTAD has currently 194 member states. The primary objective of the UNCTAD is to formulate policies relating to all aspects of development including trade, aid, transport, finance and technology.

The Conference: Usually once in four years a Ministerial Conference of UNCTAD´s member States takes place to discuss current trade and development issues and the global policy response, and to formulate the mandate of the organization for the subsequent four years. This Conference forms the highest policy-making organ of the organization

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and reports to the General Assembly of the United Nations. The first conference took place in Geneva in 1964, second in New Delhi in 1968, the third in Santiago in 1972, fourth in Nairobi in 1976, the fifth in Manila in 1979, the sixth in Belgrade in 1983, the seventh in Geneva in 1987, the eighth in Cartagena(Colombia) in 1992 and the ninth at Johannesburg (South Africa)in 1996.

The tenth session of the Conference (UNCTAD X) was held in Bangkok, Thailand, in February 2000. The 11th Conference (UNCTAD) XI) was held in Sao Paulo, Brazil in June 2004. At São Paulo, the member nations agreed on a Declaration that they called "The Spirit of São Paulo". UNCTAD's twelfth session was held in Acra, Ghana on April 20-25, 2008. The thirteenth UNCTAD was held in Doha, Qatar in 2012.

One of the principal achievements of UNCTAD has been to conceive and implement the Generalised System of Preferences(GSP). It was argued in UNCTAD fora that in order to promote exports of manufactured goods from developing countries, it would be necessary to offer special tariff concessions to such exports. Accepting this argument, the developed countries formulated the GSP Scheme under which manufacturers' exports and some agricultural goods from the developing countries enter duty-free or at reduced rates in the developed countries. Since imports of such items from other developed countries are subject to the normal rates of duties, imports of the same items from developing countries would enjoy a competitive advantage.

East Asian Currency Crisis (1997)

Substantial loss of foreign exchange reserves by East Asian countries in the first half of 1997. External debt as % of GDP was over 50 in Thailand. Current A/c deficit in BoP rose to nearly 8%. Crisis first surfaced in Thailand. When Thai's baht faced a run on it. This was followed by similar stress on Philippine Peso, Korean Won, Indonesian Rupiah, Malaysian Ringgit and Singapore dollar. These currencies got depreciated against US dollar, ranging from 11% to 74% between June 1997 and March 1998. FII's turned speculative and started off-loading these currencies as well as shares in the stock markets of these countries. Heavy indebtedness of these countries especially with 50% of it being short term loan, made them vulnerable. 1997 - January beginning of the crisis.

Paul Kruggman, wrote an article in "the Economist" in December 1996, forecasting the trouble in East Asia. Crowny Capitalism - a system in which the MNC's and big domestic firms bribed the ruling party and the henchmen/relatives of rulers to obtain favours in business, e.g., Relatives of President Suharto were allotted free shares in some MNC's in Indonesia. Excessive foreign investment in certain sectors (esp. housing sector) by foreign banks led to alarming magnitude of NPA's. FII's decided to withdraw the money invested in

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the share markets. Construction Co's. could not repay their loans because of fall in real estate demand. Indonesian Rupaiya depreciated severely, $1= 15,000 rupaiya. Japanese Companies faced troubles (from $1= 100 yen to $1=140 yen). Indian economy was largely insulated from the E.A. currency crisis, thanks to the RBI's then decision to go cautiously with the capital account convertibility of the rupee.

World Economic Forum (WEF)

This is a Swiss non-profit foundation, based in Cologny, Geneva. It describes itself as an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas. The Forum is best known for its annual meeting in Davos, a mountain resort in the eastern Alps region of Switzerland. The meeting brings together some 2,500 top business leaders, international political leaders, selected intellectuals and journalists to discuss the most pressing issues facing the world, including health and the environment.

The organization also convenes some six to eight regional meetings each year in locations such as Latin America and East Asia, as well as undertaking two further annual meetings in China and the United Arab Emirates. Beside meetings, the foundation produces a series of research reports and engages its members in sector specific initiatives.

It was founded in 1971 (with its original nomenclature as European Management Forum, and changed to the current one in 1987) by Klaus M. Schwab, a business management professor in Switzerland . The Forum has 1000 corporate members most of which are multinational companies. 2013 meeting was held from 23 January to 27 January, with the theme of "Resilient Dynamism," following founder Klaus Schwab's declaration that "the need for global cooperation has never been greater".

WEF is designed as a platform for dialogue and debate about the major social and economic problems of the planet because: representatives of both the most powerful economic organisations and the most powerful political organisations are present; intellectuals also participate; and there is a generally informal atmosphere encouraging wide-ranging debate. Whilst business and political leaders make up the majority of participants, NGO leaders from groups such as Amnesty International, Transparency International, Oxfam and various UN organisations attend, as well as trade union leaders and religious leaders.

The WEF has been criticized for moving away from serious economics and accomplishing little of substance, particularly with the increasing

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involvement of NGOs that have little or no expertise in economics. Instead of a discussion on the world economy with knowledgeable experts alongside key business and political players, Davos now features the top media political causes of the day (such as global climate change and AIDS in Africa). The WEF is dominated by the interests of transnational capitalism. The World Social Forum(WSF) has been created to counter the hegemonic aspirations of the WEF which promotes elite civil society over grassroots civil society and popular democracy.

World Social Forum (WSF)

This is an annual meeting, based in Brazil, that defines itself as "an opened space – plural, diverse, non-governmental and non-partisan – that stimulates the decentralized debate, reflection, proposals building, experiences exchange and alliances among movements and organizations engaged in concrete actions towards a more democratic and fair world....a permanent space and process to build alternatives to neoliberalism". It is held by members of the alter-globalization movement (also referred to as the global justice movement) who come together to coordinate world campaigns, share and refine organizing strategies, and inform each other about movements from around the world and their issues. It tends to meet in January at the same time as its "great capitalist rival", the World Economic Forum's meeting in Davos, Switzerland. This date is usually picked in hopes that having a meeting that promotes alternative answers to world economic problems opposite the World Economic Forum will help the WSF's ideas get better coverage in the news media.

The WSF has prompted the organizing of many regional social forums, including the European Social Forum, the Asian Social Forum, etc. The first-ever US Social Forum took place in Atlanta in June of 2007. Most, though not all, social forums adhere to the WSF Charter of Principles drawn up by the World Social Forum.

The first WSF was held in January 2001 in Porto Alegre, Brazil, organized by many groups involved in the alternative globalization movement. The fourth WSF was held in Mumbai, India, from 16 January to 21 January 2004. The 2013 WSF meet was held in Tunis from 26 to 30 March 2013. The 2014 WSF on Migration will be held in Johannesburg, South Africa.

Organization of the Petroleum Exporting Countries (OPEC), estd in 1960, is a cartel of twelve countries made up of Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. OPEC has maintained its headquarters in Vienna since 1965, and hosts regular meetings among the oil ministers of its Member Countries. Indonesia withdrew in 2008 after it became a net importer of oil, but stated it would likely return if it becames a net exporter in the world again.

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OPEC nations accounts for two-thirds of the world's oil reserves, and, as of April 2009, 33.3% of the world's oil production, affording them considerable control over the global market. The next largest group of producers, members of the OECD and the Post-Soviet states produced only 23.8% and 14.8%, respectively, of the world's total oil production.

Organisation for Economic Co-operation and Development (OECD, is a Paris-based international economic organisation of 30 countries. Most OECD members are high-income economies with a high Human Development Index and are regarded as developed countries. It originated in 1948 as the Organisation for European Economic Co-operation (OEEC), led by Robert Marjolin of France, to help administer the Marshall Plan for the reconstruction of Europe after World War II. Later, its membership was extended to non-European countries. In 1961, it was reformed into the Organisation for Economic Co-operation and Development by the Convention on the Organisation for Economic Co-operation and Development.

OECD aims to foster democracy and the market economy, providing a setting to compare policy experiences, seek answers to common problems, identify good practices, and co-ordinate domestic and international policies.

Association of Southeast Asian Nations (ASEAN): based in Jakarta, is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Its aims include the acceleration of economic growth, social progress, cultural development among its members, protection of peace and stability of the region, and to provide opportunities for member countries to discuss differences peacefully. Unlike the European Union or CARICOM, ASEAN is a loose grouping of countries like the Commonwealth of Nations.

Asia-Pacific Economic Cooperation (APEC): Estd in 1989 and based in Singapore, it is a forum for 21 Pacific Rim countries (styled 'member economies') to cooperate on regional trade and investment liberalisation and facilitation. APEC's objective is to enhance economic growth and prosperity in the region and to strengthen the Asia-Pacific community. Members account for approximately 40% of the world's population, approximately 54% of world GDP and about 44% of world trade.

An annual APEC Economic Leaders' Meeting, attended by the heads of government of all APEC members. The location of the meeting rotates annually among the member economies, and a famous tradition involves the attending Leaders dressing in a national costume of the host member. India (as also some other countries) has requested membership in APEC, and received initial support from the United

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States, Japan and Australia. Officials have decided not to allow India to join for various reasons.

South Asian Association for Regional Cooperation (SAARC).
Based in Kathmandu, Nepal, this is an economic and political organization on December 8, 1985 established by eight countries in Southern Asia: Bangladesh, Bhutan, Maldives, Nepal, Pakistan, India and Sri Lanka. In April 2007, at the Association's 14th summit, Afghanistan became its eighth member.

The objectives of SAARC as defined in the Charter are:

- to promote the welfare of the people of South Asia and to improve their quality of life;
- to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potential;
- to promote and strengthen collective self-reliance among the countries of South Asia;
- to contribute to mutual trust, understanding and appreciation of one another's problems;
- to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- to strengthen cooperation with other developing countries;
- to strengthen cooperation among themselves in international forums on matters of common interest; and
- to cooperate with international and regional organisations with similar aims and purposes.

G-8: (formerly the G-6 and also the G-7) is a forum, created by France in 1975, for governments of six countries in the world: France, Germany, Italy, Japan, the United Kingdom, and the United States. In 1976, Canada joined the group (thus creating the G7). In 1997, Russia got added thus making the G8. In addition, the European Union is represented within the G8, but cannot host or chair. "G8" can refer to the member states or to the annual summit meeting of the G8 heads of government.

The basic aims of the G8 are to resolve conflicts and promote peace between member countries. They also intend to reinforce the global economy and promote cooperation between countries on issues such as finance and trade. Although the countries can come to an agreement on policies, the decision to act on these agreements is strictly voluntary.

There have been many critics of the G8 since its formation. Critics claim that the G8 is an elitist group of superpowers and that their interests are purely self serving. Many countries, including China and India, are not included in the G8. Many critics also query the validity of Russia as

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a member country. It has by far the smallest economy of any of the countries, and its democratic development is questionable.

Lately, both France and the United Kingdom have expressed a desire to expand the group to include five developing countries, referred to as the Outreach Five (O5) or the Plus Five: Brazil, China, India, Mexico, and South Africa. These countries have participated as guests in previous meetings, which are sometimes called G8+5. With the G-20 major economies growing in stature since the 2008 Washington summit, world leaders from the group announced at their Pittsburgh summit on September 25, 2009, that the group will replace the G8 as the main economic council of wealthy nations.

G-20: is a group of finance ministers and central bank governors from 20 economies: 19 countries plus the European Union, which is represented by the President of the European Council and by the European Central Bank. Their heads of government or heads of state have also periodically conferred at summits since their initial meeting in 2008. Collectively, the G-20 economies comprise 85% of global gross national product, 80% of world trade (including EU intra-trade) and two-thirds of the world population.

The G-20 aims to promote cooperation and consultation on matters pertaining to the international financial system. It studies, reviews, and promotes discussion of policy issues pertaining to the promotion of international financial stability, and seeks to address issues that go beyond the responsibilities of any one organization. With the G-20 growing in stature since the 2008 Washington summit, its leaders announced on September 25, 2009, that the group will replace the G8 as the main economic council of wealthy nations.

The heads of the G-20 nations have met semi-annually at G-20 summits since 2008. The most recent was held in Toronto on June 26–27, 2010, and the next will be in Seoul on November 11–12, 2010. Starting in 2011, G-20 summits will be held annually.

BRICS

BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. The grouping was originally known as "BRIC" before the inclusion of South Africa in 2010. With the possible exception of Russia, the BRICS members are all developing or newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional and global affairs; all five are G-20 members. As of 2013, the five BRICS countries represent almost 3 billion people, with a combined nominal GDP of US$14.8 trillion, and an estimated US$4 trillion in combined foreign reserves. Presently, South Africa holds the chair of the BRICS group. The BRICS have received both praise and criticism from numerous quarters.

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The BRICS Forum, an independent international organization encouraging commercial, political and cultural cooperation between the BRICS nations, was formed in 2011. In June 2012, the BRICS nations pledged $75 billion to boost the lending power of the International Monetary Fund (IMF). However, this loan was conditional on IMF voting reforms. In late March 2013, during the fifth BRICS summit in Durban, South Africa, the member countries agreed to create a global financial institution which they intended to rival the western-dominated IMF. After the summit, the BRICS stated that they planned to finalise the arrangements for this new development bank by 2014.

MODULE IX: Miscellaneous topics

India's Foreign trade policy

Prior to the 1991 economic liberalization, India was a closed economy due to the average tariffs exceeding 200 percent and the extensive quantitative restrictions on imports. Foreign investment was strictly restricted to only allow Indian ownership of businesses. Since the liberalization, Indian economy has opened up substantially as a result of far-reaching changes in the foreign trade policy. The successive five-year EXIM policies implemented largely co-terminous with every successive five year plan starting from the 8th Plan, have greatly liberalised imports while creating wide-ranging incentives for exports. Import duties have been slashed to a great extent, especially with the advent of the WTO in 1995. Non-tariff barriers to imports like quotas, import embargo, negative list and canalized imports through the state trading agencies have been either removed or vastly relaxed and open general license has become the order of the day.
The successive EXIM policies 1992-97, 1997-2002, 2002-2007/9 and, now the latest one, 2009-14 EXIM policy, all have removed substantially the restrictions on imports and at the same helped promote exports.

EXIM Policy 2009-14: Highlights:
Higher Support for Market and Product Diversification
1. Incentive schemes under Chapter 3 have been expanded by way of addition of new products and markets.
2. 26 new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania.
3. The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.
4. The incentive available under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.
5. A large number of products from various sectors have been included for benefits under FPS. These include, Engineering products

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(agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway locomotives etc.), Plastic (value added products), Jute and Sisal products, Technical Textiles, Green Technology products (wind mills, wind turbines, electric operated vehicles etc.), Project goods, vegetable textiles and certain Electronic items.
6. Market Linked Focus Product Scheme (MLFPS) has been greatly expanded by inclusion of products classified under as many as 153 ITC(HS) Codes at 4 digit level. Some major products include; Pharmaceuticals, Synthetic textile fabrics, value added rubber products, value added plastic goods, textile made-ups, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminium among others. Benefits to these products will be provided, if exports are made to 13 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).
7. MLFPS benefits also extended for export to additional new markets for certain products. These products include auto components, motor cars, bicycle and its parts, and apparels among others.
8. A common simplified application form has been introduced for taking benefits under FPS, FMS, MLFPS and VKGUY.
9. Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.

Technological Upgradation
10. To aid technological upgradation of our export sector, EPCG Scheme at Zero Duty has been introduced. This Scheme will be available for engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products (subject to exclusions of current beneficiaries under Technological Upgradation
Fund Schemes (TUFS), administered by Ministry of Textiles and beneficiaries of Status Holder Incentive Scheme in that particular year). The scheme shall be in
operation till 31.3.2011.
11. Jaipur, Srinagar and Anantnag have been recognised as 'Towns of Export Excellence' for handicrafts; Kanpur, Dewas and Ambur have been recognised as 'Towns of Export Excellence' for leather products; and Malihabad for horticultural products.

EPCG Scheme Relaxations
12. To increase the life of existing plant and machinery, export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced to 50% of the normal specific export obligation. 13. Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country, has

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been extended for the 5 year Policy period 2009-14.

Support for Green products and products from North East

14. Focus Product Scheme benefit extended for export of 'green products'; and for exports of some products originating from the North East.

Status Holders

15. To accelerate exports and encourage technological upgradation, additional Duty Credit Scrips shall be given to Status Holders @ 1% of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with Actual User condition. This facility shall be available for sectors of leather (excluding finished leather), textiles and jute, handicrafts, engineering (excluding Iron & steel & non-ferrous metals in primary and intermediate form, automobiles & two wheelers, nuclear reactors & parts, and ships, boats and floating structures), plastics and basic chemicals (excluding pharma products) [subject to exclusions of current beneficiaries under Technological Upgradation Fund Schemes (TUFS)]. This facility shall be available upto 31.3.2011.

16. Transferability for the Duty Credit scrips being issued to Status Holders under paragraph 3.8.6 of FTP under VKGUY Scheme has been permitted. This is subject to the condition that transfer would be only to Status Holders and Scrips would be utilized for the procurement of Cold Chain equipment(s) only.

Stability/ continuity of the Foreign Trade Policy

17. To impart stability to the Policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond 31-12-2009 till 31.12.2010.

18. Interest subvention of 2% for pre-shipment credit for 7 specified sectors has been extended till 31.3.2010 in the Budget 2009-10.

19. Income Tax exemption to 100% EOUs and to STPI units under Section 10B and 10A of Income Tax Act, has been extended for the financial year 2010-11 in the Budget 2009-10.

20 The adjustment assistance scheme initiated in December, 2008 to provide enhanced ECGC cover at 95%, to the adversely affected sectors, is continued till March, 2010.

Marine sector

21. Fisheries have been included in the sectors which are exempted from maintenance of average EO under EPCG Scheme, subject to the condition that Fishing Trawlers, boats, ships and other similar items shall not be allowed to be imported under this provision. This would provide a fillip to the marine sector which has been affected by the present downturn in exports.

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22. Additional flexibility under Target Plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for Status Holders has been given to Marine sector.

Gems & Jewellery Sector

23. To neutralize duty incidence on gold Jewellery exports, it has now been decided to allow Duty Drawback on such exports.
24. In an endeavour to make India an international diamond trading hub, it is planned to establish “Diamond Bourse(s)”.
25. A new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/certification purposes has been introduced.
26. To promote export of Gems & Jewellery products, the value limits of personal carriage have been increased from US$ 2 million to US$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US$ 0.1 million to US$ 1 million.

Agriculture Sector

27. To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by APEDA.

Leather Sector

28. Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather from public bonded ware houses, subject to payment of
50% of the applicable export duty.
29. Enhancement of FPS rate to 2%, would also significantly benefit the leather sector.
Tea
30. Minimum value addition under advance authorization scheme for export of tea has been reduced from the existing 100% to 50%.
31. DTA sale limit of instant tea by EOU units has been increased from the existing 30% to 50%.
32. Export of tea has been covered under VKGUY Scheme benefits.

Pharmaceutical Sector

33. Export Obligation Period for advance authorizations issued with 6-APA as input has been increased from the existing 6 months to 36 months, as is available for other products.
34. Pharma sector extensively covered under MLFPS for countries in Africa and Latin America; some countries in Oceania and Far East.

Handloom Sector

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35. To simplify claims under FPS, requirement of 'Handloom Mark' for availing benefits under FPS has been removed.

EOUs

36. EOUs have been allowed to sell products manufactured by them in DTA upto a limit of 90% instead of existing 75%, without changing the criteria of 'similar goods', within the overall entitlement of 50% for DTA sale.
37. To provide clarity to the customs field formations, DOR shall issue a clarification to enable procurement of spares beyond 5% by granite sector EOUs.
38. EOUs will now be allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.
39. During this period of downturn, Board of Approvals (BOA) to consider, extension of block period by one year for calculation of Net Foreign Exchange earnings of EOUs.
40. EOUs will now be allowed CENVAT Credit facility for the component of SAD and Education Cess on DTA sale.
Thrust to Value Added Manufacturing
41. To encourage Value Added Manufactured export, a minimum 15% value addition on imported inputs under Advance Authorization Scheme has now been
prescribed.
42. Coverage of Project Exports and a large number of manufactured goods under FPS and MLFPS.

DEPB
43. DEPB rate shall also include factoring of custom duty component on fuel where fuel is allowed as a consumable in Standard Input-Output Norms.

Flexibility provided to exporters

44. Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorisation / DFIA / EPCG Authorisation has been allowed by way of debit of Duty Credit scrips. Earlier the payment was allowed in cash only.
45. Import of restricted items, as replenishment, shall now be allowed against transferred DFIAs, in line with the erstwhile DFRC scheme.
46. Time limit of 60 days for re-import of exported gems and jewellery items, for participation in exhibitions has been extended to 90 days in case of USA.
47. Transit loss claims received from private approved insurance companies in India will now be allowed for the purpose of EO fulfillment under Export Promotion schemes. At present, the facility has been limited to public sector general insurance companies only.

Waiver of Incentives Recovery, On RBI Specific Write off

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48. In cases, where RBI specifically writes off the export proceeds realization, the incentives under the FTP shall now not be recovered from the exporters subject to certain conditions.

Simplification of Procedures

49. To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.
50. To allow exemption for up to two stages from payment of excise duty in lieu of refund, in case of supply to an advance authorisation holder (against invalidation letter) by the domestic intermediate manufacturer. It would allow exemption for supplies made to a manufacturer, if such manufacturer in turn supplies the products to an ultimate exporter. At present, exemption is allowed upto one stage only.
51. Greater flexibility has been permitted to allow conversion of Shipping Bills from one Export Promotion scheme to other scheme. Customs shall now permit this conversion within three months, instead of the present limited period of only one month.
52. To reduce transaction costs, dispatch of imported goods directly from the Port to the site has been allowed under Advance Authorisation scheme for deemed supplies. At present, the duty free imported goods could be taken only to the manufacturing unit of the authorisation holder or its supporting manufacturer.
53. Disposal of manufacturing wastes / scrap will now be allowed after payment of applicable excise duty, even before fulfillment of export obligation under Advance Authorisation and EPCG Scheme.
54. Regional Authorities have now been authorised to issue licences for import of sports weapons by 'renowned shooters', on the basis of NOC from the Ministry of Sports & Youth Affairs. Now there will be no need to approach DGFT(Hqrs.) in such cases.
55. The procedure for issue of Free Sale Certificate has been simplified and the validity of the Certificate has been increased from 1 year to 2 years. This will solve the problems faced by the medical devices industry.
56. Automobile industry, having their own R&D establishment, would be allowed free import of reference fuels (petrol and diesel), upto a maximum of 5 KL per annum, which are not manufactured in India.
57. Acceding to the demand of trade & industry, the application and redemption forms under EPCG scheme have been simplified.

Reduction of Transaction Costs

58. No fee shall now be charged for grant of incentives under the Schemes in Chapter 3 of FTP. Further, for all other Authorisations/ licence applications, maximum applicable fee is being reduced to Rs. 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs. 50,000 from the existing Rs.75,000 (for EDI applications).

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59. To further EDI initiatives, Export Promotion Councils/ Commodity Boards have been advised to issue RCMC through a web based online system. It is expected that issuance of RCMC would become EDI enabled before the end of 2009.
60. Electronic Message Exchange between Customs and DGFT in respect of incentive schemes under Chapter 3 will become operational by 31.12.2009. This will obviate the need for verification of scrips by Customs facilitating faster clearances.
61. For EDI ports, with effect from December '09, double verification of shipping bills by customs for any of the DGFT schemes shall be dispensed with.
62. In cases, where the earlier authorization has been cancelled and a new authorization has been issued in lieu of the earlier authorization, application fee paid already for the cancelled authorisation will now be adjusted against the application fee for the new authorisation subject to payment of minimum fee of Rs. 200.
63. An Inter Ministerial Committee will be formed to redress/resolve problems/issues of exporters.
64. An updated compilation of Standard Input Output Norms (SION) and ITC (HS) Classification of Export and Import Items has been published.

Directorate of Trade Remedy Measures
65. To enable support to Indian industry and exporters, especially the MSMEs, in availing their rights through trade remedy instruments, a Directorate of Trade Remedy Measures shall be set up.

Land reforms
Under the Indian Constitution, land reform is the responsibility of individual states so while the federal government provides broad policy guidelines, the nature of land reform legislation, the level of political will and institutional support for land reform and the degree of success in implementing land reform have varied considerably from state to state with the agenda remaining unfinished in most states.

The Land Reforms (LR) Division has been, since the First Plan Period, playing a crucial role of evolving national consensus at various stages for taking up major steps towards effective land reforms which include abolition of zamindari and all intermediaries since the beginning of the fifties, introduction of ceiling from mid-fifties, reduction of ceiling limit in 1972 and monitoring the progress of distribution of ceiling-surplus land as a part of the 20-Point Program of the Government. GoI organised a large number of conferences of the Revenue Ministers, Chief Ministers, and initiated amendments of the Constitution 13 times for incorporation of 277 land laws in the Ninth schedule. The last such amendment was the 78th Amendment of the constitution to incorporate 27 land laws in the 9th Schedule.

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Important Committees / Commissions constituted Govt of India on different aspects of the Indian economy

No.	Name	Headed by	Year of Report	Subject
1.	10th Finance Commission (Constituted in 1992)	K.C Pant	Nov. 1994	Centre-state financial relations
2.	Omkar Goswamy committee	Omkar Goswamy	1993	Sick Industries
3.	Tax Reforms Committee	Raja Chellaiah	1992	Tax Reforms
4.	Pherwani Committee	Pherwani	1991	Capital markets
5.	Narasimham Committee I	M. Narasimham	1991	Financial Sector
6.	Malhotra Committee	R.N. Malhotra	1994	Insurance
7.	Janakiraman Committee	Janakiraman	1993	Stock market scam
8.	Joint Parliamentary Committee	Ram Nivas Mirdha (cong. MP)	1993	Stock market scam
9.	Rangarajan Committee	Prof.C. Rangarajan	1993	PSU's
10.	Committee on the Working of the Monetary system	Sukhomoy Chakraborty	1985	Monetary Policy
11.	Marathe Committee	S.S Marathe	1992	Reforms in Co-op Banks
12.	J.S. Gill Committee	J.S. Gill	1993	EOU /E
13.	Shah Committee	Shah	1997	NBFC's
14.	Narasimham Committee -	Narasimham	1997	Banking Reform
15	11th Finance Commission	Prof. A.M.Khusro	1997	Centre-state financial relations
16	12th Finance Commission	Dr.C.Ranga-rajan	2001	Centre-state financial relations
17.	13th Finance Commission	Dr.Vijay Kelkar rajan	2007	Center-state financial relations
18.	Lahiri Committee	Ashok K.Lahiri	2004	Foreign institutional investment

Economic Advisory Council (EAC)

The Economic Advisory Council(EAC) to the Prime Minister has been set up with a view

to provide a sounding board for inculcating awareness in Government on the different point of view on key economic issues. The EAC has been reconstituted time and again with different organisational setup headed by various economists who are of recognised international eminence.

The importance of Economic Advisory Council can be gauged by the fact that Sh. Atal Bihari Vajpayee the then Prime Minister, was the chairman of the Economic Advisory Council. The present Economic Advisory Council is headed by Dr. C. Rangarajan (Chairman), and Dr. Saumitra Chaudhuri, Dr. M. Govinda Rao, Dr. V. S. Vyas, and Sh. Suman K. Bery. Secretary: Mr. Jayant Dasgupta as members EAC office comprises: Director: Ms. Padma Iyer Kaul , Senior Research Officer: Ms. Seema. The Planning Commission is the Nodal Agency for the EAC for administrative, logistic, planning and budgeting purposes.

Functions: Terms of Reference:

- Analyzing any issue, economic or otherwise, referred to it by the Prime Minister and advising him thereon;
- Addressing issues of macroeconomic importance and presenting views thereon to the Prime Minister. This could be either be suo-moto or on a reference from the Prime Minister or anyone else;
- Submitting periodic reports to the Prime Minister on macroeconomic developments and issues with implications for economic policy;
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- Attending to any other task as may be desired by the Prime Minister from time to time.

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Big Mac Index and Burgernomics

The Big Mac Index is published by The Economist as an informal way of measuring the purchasing power parity (PPP) between two currencies and provides a test of the extent to which market exchange rates result in goods costing the same in different countries. The index takes its name from the Big Mac, a burger sold at McDonald's restaurants.

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The Big Mac index was introduced in The Economist in September 1986 by Pam Woodall as a semi-humorous illustration and has been published by that paper annually since then. The index also gave rise to the word burgernomics.

Big Mac Index 2012

Country	Big Mac prices in local currency	Big Mac prices in dollars*	Implied PPP† of the dollar	Actual dollar exchange rate January 11th 2012	Under (-)/ over (+) valuation against the dollar, %
United States‡	$4.20	$4.20	-	-	-
Australia	A$4.80	$4.94	1.14	0.97	18
Brazil	Real 10.25	$5.68	2.44	1.81	35
Britain	£2.49	$3.82	1.69§	1.54	-9
Canada	C$4.73	$4.63	1.13	1.02	10
China**	Yuan 15.4	$2.44	3.67	6.32	-42
Denmark	DK 31.5	$5.37	7.50	5.86	28
Egypt	Pound 15.5	$2.57	3.69	6.04	-39
Euro area††	€ 3.49	$4.43	1.20	1.27§§	6
Hong Kong	HK$ 16.5	$2.12	3.93	7.77	-49
India***	Rupee 84.0	$1.62	20.01	51.9	-61
Indonesia	Rupiah 22,534	$2.46	5369	9160	-41
Japan	Yen 320	$4.16	76.24	76.9	-1
Malaysia	Ringgit 7.35	$2.34	1.75	3.14	-44
Mexico	Peso 37	$2.70	8.82	13.68	-36
New Zealand	NZ$ 5.10	$4.05	1.22	1.26	-4
Norway	Kroner 41	$6.79	9.77	6.04	62
Pakistan	Rupee 260	$2.89	61.95	90.1	-31
Philippines	Peso 118	$2.68	28.11	44.0	-36
Russia	Rouble 81.0	$2.55	19.30	31.8	-39
Saudi Arabia	Riyal 10.0	$2.67	2.38	3.75	-36
Singapore	S$ 4.85	$3.75	1.16	1.29	-11
South	Rand 19.95	$2.45	4.75	8.13	-42

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Africa					
South Korea	Won 3,700	$3.19	882	1159	-24
Sri Lanka	Rupee 290	$2.55	69.09	113.9	-39
Sweden	SKr 41	$5.91	9.77	6.93	41
Switzerland	SFr 6.50	$6.81	1.55	0.96	62
Taiwan	NT$ 75.0	$2.50	17.87	30.0	-40
Thailand	Baht 78	$2.46	18.58	31.8	-41

The Big Mac PPP exchange rate between two countries is obtained by dividing the price of a Big Mac in one country (in its currency) by the price of a Big Mac in another country (in its currency). This value is then compared with the actual exchange rate; if it is lower, then the first currency is under-valued (according to PPP theory) compared with the second, and conversely, if it is higher, then the first currency is over-valued.

After 25 years since the introduction of Big Mac Index, India has finally made it to the Big Mac Index – although, technically, the Big Mac isn't available in India. The January 2013 index shows that Indian currency is one among the undervalued currencies — 61.8% lower than the U.S. dollar. The index also shows the purchasing parity exchange rate between the Indian rupee and the U.S. dollar to be just 20.38. In other words, a good that costs $1 in America can be bought by Rs.20.38 in India. The actual exchange rate was 53.40 rupees for 1 U.S. dollar. McDonald's doesn't sell Big Mac in India because it's made of beef which is not acceptable to Hindus. So, The Economist has instead looked at the price of the Maharaja-Mac burger, made of chicken the price of which in Jan 2013 was Rs.89 ($1.67).

New Foreign investment norms released by the Union Government
The Union cabinet on August 1, 2013 has made it easier for foreign supermarket chains to open for business, and approved increases in foreign direct investment (FDI) limits in the telecom, defence and insurance sectors, pressing ahead with efforts to attract overseas capital to both finance a widening current account deficit, and revive the India story that has taken a beating in the past 18 months.

Although India allowed foreign supermarkets to open in India through FDI in so-called multi-brand retail in September 2012, foreign retailers have preferred to play it safe, waiting for clarifications on some sticky issues. Thursday's meeting provided some of those clarifications.

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For one, the stipulation that 50% of the investment made by a foreign retailer will have to be in the back-end only applies to the minimum foreign investment limit of $100 million, and not the total investment.

For another, the stipulation that foreign retailers in India will have to source at least 30% of their requirements from small companies (with an investment in plant and machinery of up to $1 million) has been relaxed, with the definition now being extended to companies with investments in plant and machinery of up to $2 million. It has been made applicable at the "first engagement with the retailer", meaning that if the small firms expand, the supermarket chains will not have to hunt for new small firms to meet the sourcing requirement.

The government has also clarified that sourcing from agricultural cooperatives and farmers' cooperatives will be considered in this category. "The procurement requirement will have to be met, in the first instance, as an average of five years' total value of the manufactured/processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis," the government said in a statement.

Finally, the current rule that foreign supermarkets chains can open stores only in cities with a minimum population of one million has been removed. States now have the freedom to identify even smaller cities where they may wish to allow such stores.

The clarifications come after representatives of Wal-Mart Stores Inc., Tesco Plc, Carrefour SA and Groupe Auchan SA met commerce and industry minister separately over the past few months, and raised their concerns.

The cabinet also cleared 100% FDI in the telecom and defence sectors and proposed to increase FDI in insurance to 49% from 26%, although this will require new legislation. It also allowed FDI through the automatic route in several sectors—petroleum and natural gas, commodity exchanges, power exchanges, and stock exchanges.

It also raised the limit for FDI in asset reconstruction companies to 100% from 74% and credit information companies from 49% to 74%. In defence, investments up to 26% need approval from the Foreign Investment Promotion Board (FIPB). FDI above that level will be approved by the cabinet committee on security on a case-by-case basis.

The cabinet committee on economic affairs also modified the definition of "control" in case of FDI in a company to align it with that of the definition by the securities market regulator and the Companies Bill.

"Control" of a company will now be defined by the "right to appoint a majority of directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholder's agreements or voting agreements".

The new definition will be applicable prospectively. Currently, a company is said to be "controlled" by resident Indian citizens if they have the power to appoint a majority of the directors in the company. This decision comes just days after FIPB cleared the controversial Jet Airways (India) Ltd-Etihad Airways PJSC deal, where one of the challenges was the issue of control.

MODULE X: Glossary relating to Indian Economic and Social Development

Accredited Social Health Activist (ASHA): One of the key components of the National Rural Health Mission launched by the central government in Jan 2005 is appoint of a community level health worker who has been named ASHA or Accredited Social Health Activist. Selected from the village itself and accountable to it, the ASHA will be trained to work as an interface between the community and the public health system. Following are the key components of ASHA:

ASHA must primarily be a woman resident of the village – married/ widowed/ divorced, preferably in the age group of 25 to 45 years. She should be a literate woman with formal education up to class eight. This may be relaxed only if no suitable person with this qualification is available. ASHA will be chosen through a rigorous process of selection involving various community groups, self-help groups, Anganwadi Institutions, the Block Nodal officer, District Nodal officer, the village Health Committee and the Gram Sabha.

ASHA will have to undergo training to acquire the necessary knowledge, skills and confidence for performing her spelled out roles. The ASHAs will receive performance-based incentives for promoting universal immunization, referral and escort services for Reproductive & Child Health (RCH) and other healthcare programmes, and construction of household toilets. Empowered with knowledge and a drug-kit to deliver first-contact healthcare, every ASHA is expected to be a fountainhead of community participation in public health programmes in her village. She will act as a depot holder for essential provisions being made available to all habitations like Oral Re-hydration Therapy (ORS), Iron Folic Acid Tablet(IFA), chloroquine, Disposable Delivery Kits (DDK), Oral Pills & Condoms, etc.

Balance of Payments (BoP): A systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time, usually a year. The BoP record is maintained in a standard double-entry book-

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keeping method. International transactions enter in to the record as credit or debit. The payments received from foreign countries enter as credit and payments made to other countries as debit. All the transactions entering the balance of payments can be grouped under three broad accounts; (1) Current Account, (2) Capital Account, and (3) Official International Reserve Account.

A typical BoP statement is given below:

Receipts (Credits)	*Payments (Debits)*
1) Exports of goods	1) Imports of goods
Trade Account Balance	
2) Exports of services	2) Imports of services
3) Interests, profits and dividends received	3) Interests, profits and dividends paid
4) Unilateral receipts	4) Unilateral Payments
Current Account Balance (1 to 4)	
5) Foreign Investments	5) Investments abroad
6) Short term borrowing	6) Short term lending
7) Medium and long term borrowing	7) Medium and long term lending
8) Statistical discrepancy (Errors and omission)	
Capital Account Balance (5 to 8)	
9) Change in reserves (+)	9) Change in reserves
Total Receipts = Total payments	

Banking Ombudsman: Banking Ombudsman is a quasi judicial authority functioning under India's Banking Ombudsman Scheme 2006, and the authority was created pursuant to a decision by the Government of India to enable resolution of complaints of customers of banks relating to certain services rendered by the banks. The Banking Ombudsman Scheme was first introduced in India in 1995, and was revised in 2002. The current scheme became operative from 1st January 2006, and replaced and superseded the banking Ombudsman Scheme 2002. From 2002 until 2006, around 36,000 complaints have been dealt by the Banking Ombudsmen.

This scheme was introduced by RBI under Section 35 A of the Banking Regulation Act, 1949. As on date, fifteen Banking Ombudsmen have been appointed with their offices located mostly in state capitals. All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme. The Banking Ombudsman can receive and consider any complaint relating to a wide range of deficiencies in banking services (including internet banking).

Big Mac Index and Burgernomics

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Not all Big Mac burgers offered by the chain are exclusively beef. In India beef burgers are not available at any McDonald's outlets. The chicken Maharaja Mac serves as a substitute for the Big Mac. The June 2013 Big Mac index shows that India has the most undervalued currency among 37 major currencies — 53% lower than the U.S. dollar. The index also shows the purchasing parity exchange rate between the Indian rupee and the U.S. dollar to be just 20.7. In other words, $1 can buy goods worth nearly 21 rupees in India. The actual exchange rate is 44.25 rupees for 1 U.S. dollar. McDonald's doesn't sell Big Mac in India because it's made of beef which is not acceptable to Hindus. So, The Economist has instead looked at the price of the Maharaja-Mac burger, made of chicken.

Blue Chip Company: A nationally recognized well-established and financially sound company. Blue chips generally sell high-quality, widely accepted products and services. Blue chip companies are known to weather downturns and operate profitably in the face of adverse economic conditions. This helps them to achieve long term stable and reliable growth. The name "blue chip" comes from the game of poker in which the blue chips have the highest value.

Blue chip stocks are seen as a less volatile investment than owning shares in companies without blue chip status because blue chips have an institutional status in the economy. Investors may buy blue chip companies to provide steady growth in their portfolios. The stock price of a blue chip usually closely follows the S&P 500.

BOLT: BSE On-Line Trading of securities listed on the BSE, started from 14.3.1995 to replace the open outcry system bidding by members.

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Book building: is a process of share price fixing based on real time feedback from investment. Book builders act as market builders for the sale of shares and help fetch maximum prices for shares by means of road shows and negotiations.

BOT (build-operate-transfer): A form of government concession usually referring to the new projects undertaken by a private firm. Typically in a BOT, a private party (or consortium) agrees to finance, construct, operate and maintain service for specific period and then transfer it to the government or other public authority. Variations in this regard include BOOT (Build-Own-Operate-Transfer). BOLT (BUILD-Own-Lease-Transfer) and BOO (Build-Own-Operate). In the last case, the contract accords the right to construct and operate the service, but the facility is not transferred back to the government.

Brand Equity Fund: Established with an initial contribution of Rs. 1 crore and a corpus of Rs. 500 crore to be raised later. Objectives: to help promote goods and services that bear the name 'Indian' globally.

'Brownfield' Investment, where a site previously used for a "dirty" business purpose, such as a steel mill or oil refinery, is cleaned up and used for a less polluting purpose, such as commercial office space or a residential area.

Business Confidence Index (BCI): Business Confidence Index is a composite index prepared by NCAER starting from 1993 (1993 =100) to assess the business mood or psychology in India. Business 'Expectations' or 'Confidence' surveys are now a regular feature in several countries. BCI acts as a barometer of the economy in the short run. The NCAER began conducting Business Expectations Surveys (BES) on quarterly basis since early 1991. A uniform methodology for calculating Business Confidence Index (BCI) was adopted in July 1993 (Round 7) and has been in use since then. The latest round of the survey for which data is available is 45th round and was conducted in July 2003. The BCI is based on a survey which measures business confidence on four indicators relating to: (1) 'Overall economic conditions six months from now', (2) 'Financial position of the firm six months from now', (3) 'Investment climate' and (4) 'Level of capacity utilisation'. All four indicators carry equal weight. The following graph indicates the fluctuations in BCI over the few years.

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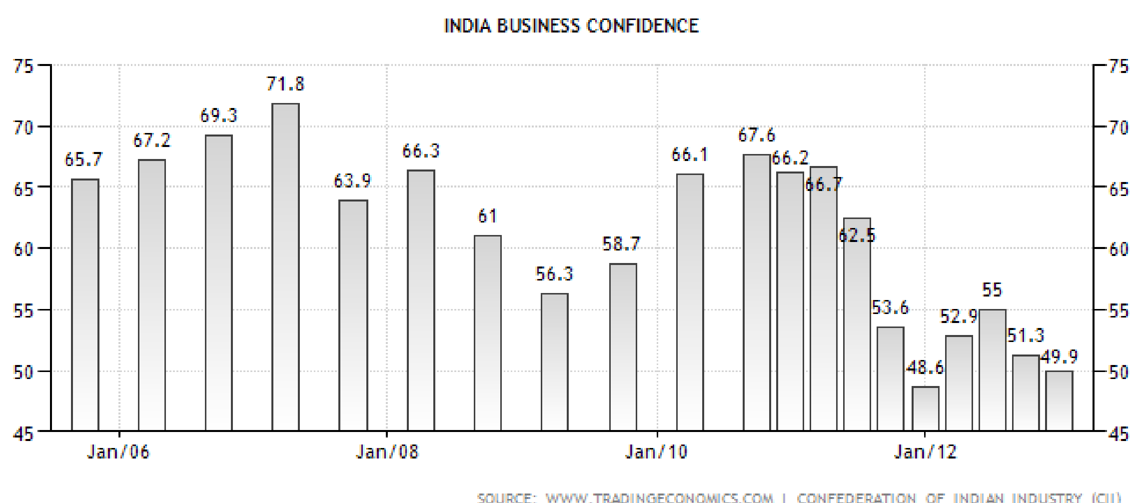

Cash Reserve Ratio (CRR): is the reserve which every bank has to maintain with itself in the form of cash reserves or by way of current account with the Reserve Bank of India (RBI), computed as a certain percentage of its demand and time liabilities. The objective is to ensure the safety and liquidity of the deposits with the banks.

Call Option - Is a contract whereby the purchaser, owner or holder is given the right but is not obligated to purchase the underlying security or commodity at a fixed strike price within a limited time frame. Compare with put option.

Capital Adequacy Ratio - The ratio of the amount of capital to the assets of a financial intermediary. Almost all banking regulators now require a certain minimum of capital against the risk-weighted assets of financial entities. Generally these requirements are set in accordance with treaty under the guidance of Bank for International Settlement.

Carbon Credit: A permit that allows the holder to emit one ton of carbon dioxide. Credits are awarded to countries or groups that have reduced their green house gases below their emission quota. Carbon credits can be traded in the international market at their current market price.

The carbon credit system was ratified in conjunction with the Kyoto Protocol. The Kyoto Protocol is an international agreement signed in Kyoto Japan in December 1997 to limit world greenhouse gas emissions to slow the progress of global warming. The Protocol entered into force on February 16, 2005 after ratification by Russia in November of 2004. Its goal is to stop the increase of carbon dioxide emissions.

For example, if an environmentalist group plants enough trees to reduce emissions by one ton, the group will be awarded a credit. If a steel producer has an emissions quota of 10 tons, but is expecting to produce 11 tons, it could purchase this carbon credit from the environmental

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group. The carbon credit system looks to reduce emissions by having countries honour their emission quotas and offer incentives for being below them.

Carbon footprint: The amount of carbon emissions associated with a particular activity or all the activities of a person or organization. The carbon footprint can be measured in many ways, and may include indirect emissions generated in the whole chain of production of inputs into an activity.

Carbon intensity: Typically, the amount of economy wide emissions of carbon or CO_2e per unit of GDP, that is, the carbon intensity of GDP. May also refer to the carbon emitted per dollar of gross production or dollar of value added by a given firm or sector. Also used to describe the amount of carbon emitted per unit of energy or fuels consumed, that is, the carbon intensity of energy, which depends on the energy sources, fuel mix, and efficiency of technologies. The carbon intensity of GDP is simply the product of the economy wide average carbon-intensity of energy and energy-intensity of GDP.

Capital gains tax: Tax payable on profit made on the sale (disposal) of a capital asset, assessed and levied differently from tax on profit (income tax) realized from sale of goods or services in the normal course of a business. Often, profits on capital assets held for 12 months or longer are taxed at a favorable (lower) rate.

Capital Adequacy Ratio (CAR): A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

$$CAR = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Also known as "Capital to Risk Weighted Assets Ratio (CRAR)", this ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Two types of capital are measured: tier one capital, which can absorb losses without a bank being required to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

Tier 1 Capital: A term used to describe the capital adequacy of a bank. Tier I capital is core capital; this includes equity capital and disclosed reserves.

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Equity capital includes instruments that can't be redeemed at the option of the holder.

Tier 2 Capital: A term used to describe the capital adequacy of a bank. Tier II capital is secondary bank capital that includes items such as undisclosed reserves, general loss reserves, subordinated term debt, and more.

Tier 3 Capital: Tertiary capital held by banks to meet part of their market risks, that includes a greater variety of debt than tier 1 and tier 2 capitals. Tier 3 capital debts may include a greater number of subordinated issues, undisclosed reserves and general loss reserves compared to tier 2 capital. Tier 3 capital is used to support market risk, commodities risk and foreign currency risk. To qualify as tier 3 capital, assets must be limited to 250% of a banks tier 1 capital, be unsecured, subordinated and have a minimum maturity of two years.

Certificate of deposit (CD): A short term debt instrument issued by banks in multiples of Rs. 25 lakh, subject to a minimum of Rs. 1.cr. They mature b/w 3 months and 1 year. They are issued at a discount to the face value and the discount rate is freely determined according to the market conditions. CD's are freely transferable after a lock-in period of 45 days after issue.

Commercial paper (CP): Issued by Indian companies having a net worth of Rs. 10 cr and above and whose securities are listed in the stock exchanges. CP is issued in multiples of Rs.25 lakh subject to a minimum of Rs. 1 cr. A CP matures between 3 months and 6 months. CP's are issued at a discount to the face value and the discount rate is freely determined by the market. A company can raise through CP a maximum of 20% of its permissible bank finance.

Consumer Price Index (CPI)

Labour Bureau computes monthly consumer price indexes separately for three segments of workers. Of these, the most watched inflation number is CPI for Industrial Workers. All-India CPI for Industrial Workers (CPI-IW, base year 2001=100), Agricultural Labourers (CPI-AL, base year 1986-87), and Rural Labourers (CPI-RL, base year 1986-87).

The base year of the Consumer Price Index for industrial workers has been changed from 1982 to 2001. The CPI-IW measures temporal change in the retail prices of fixed basket of goods and services being consumed by the target group, i.e., an average working class family and thus, is an important indicator of the retail price situation in the country. The CPI-IW is mainly used for the determination of dearness allowance being paid to millions of Central/State Government employees as also to the workers in the industrial sectors besides fixation and revision of minimum wages in scheduled employments.

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Core sectors in Indian industry: Eight industries - crude oil, petroleum refinery products, natural gas, fertilizers, coal, electricity, cement and finished steel - have a weightage of 37.9 per cent in the overall Index of Industrial Production (IIP). These are referred to as the core sector industries.

Currency convertibility: The ability to exchange money for gold or other currencies. Some governments which do not have large reserves of hard currency foreign reserves try to restrict currency convertibility, since they are not in a position to handle large currency market operations to support their currency when necessary.

Currency wars

Manipulating their currencies has become some countries' new weapon in the battle for economic recovery. Subsequent to the onslaught of global economic crisis in the closing years of the last decade, a string of countries, from Japan to Switzerland, Colombia to Israel, have tried to devalue their currencies. Some experts call it "competitive devaluation". Others, though, argue that it is nothing short of a currency war - and far from boosting global recovery, it threatens to undermine it. So concerned are policymakers that the issue is dominating talks in the recent meeting of finance ministers and central bankers. Dominique Strauss-Kahn, managing director of the IMF, which hosted the meeting in Washington recently, has said that there is clearly the idea beginning to circulate that currencies can be used as a policy weapon. "Translated into action, such an idea would represent a very serious risk to the global recovery," he said. Ironically the recent currency wars have be n preceded by the publication of a The Currency War, a bestselling book in China and authored by Song Hongbing, reportedly selling over 200,000 copies and is reportedly being read by many senior level government and business leaders in China. Originally published in 2007 the book gained a resurgence in 2009 and is seen as a prominent exponent of a recently emerged genre labelled "economic nationalist" literature.

Debt market: - Market for bonds & debentures of companies.

Debt-equity ratio - refers to the ratio of finance raised by a firm through issue of debentures or direct loans to the finance raised through issue of equities.

Depositary Receipt: A negotiable financial instrument issued by a bank to represent a foreign company's publicly traded securities. The depositary receipt trades on a local stock exchange. Depositary receipts make it easier to buy shares in foreign companies because the shares of the company don't have to leave the home state.

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When the depositary bank is in the U.S., the instruments are known as American Depositary Receipts (ADRs). European banks issue European depositary receipts, and other banks issue global depositary receipts (GDRs).

DEMAT (Short form of dematerialised trading): Introduced by SEBI in December 1996, DEMAT refers to trading in securities by converting them from physical form (material form) into the electronic (de-materialised) form. The certificates are deposited into various accounts by the Depository Participants and the account numbers allotted, on a nominal payment. Advantages of trading in the dematerialised system are: 1) Most people who are regular buyers or sellers of Shares have encountered the scourge of the 'bad delivery'. These are shares, which are either forged, or the signatures don't match or the deed is torn, etc. These problems are overcome by demat, since the share certificates need not be physically handled every time when they are sold / bought. 2) Transfer of shares is easy as they are automatically transferred electronically, 3) A clear account of the investor's portfolio is available to him, and he does not have to worry about shares that he may have misplaced or forgotten all about them.

Dow Jones: The Dow Jones Industrial Average also called Dow 30, or informally the Dow Jones or The Dow) is one of several stock market indices created by nineteenth century Wall Street Journal editor and Dow Jones & Company co-founder Charles Dow in 1896. Dow compiled the index as a way to gauge the performance of the industrial component of America's stock markets. Today the average consists of 30 of the largest and most widely held public companies in the United States. The "industrial" portion of the name is largely historical—many of the 30 modern components have little to do with heavy industry. Often referred to as "the Dow", the DJIA is the oldest and single most watched index in the world. The DJIA includes companies like General Electric, Disney, Exxon and Microsoft. When the TV networks say "the market is up today", they are generally referring to the Dow.

Dumping is said to occur when the goods are exported by a country to another country at a price lower than their normal value. This is an unfair trade practice, which can have a distortionary effect on international trade. Anti-dumping is a measure to rectify the situation arising out of the dumping of goods and its trade distortionary effect. It provides relief to the domestic industry against the injury caused by dumping. The use of anti-dumping measure as an instrument of fair competition is permitted by the WTO.

East Asian economic crisis (1997):

East Asian countries, particularly Indonesia, South Korea, Malaysia and Thailand, which were otherwise economically robust, faced severe currency crisis due to their unsound financial system. Substantial foreign

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funds flowed into East Asia, creating vulnerability to capital flight. Stock and real estate prices boomed. Weak banking system lacked transparency in the financial markets. Foreign funds were deployed in stock and real estate business beyond the absorptive capacity of these countries. The exchange rate regimes gave borrowers a false sense of security, encouraging them to go in for dollar-denominated debt. Exports were weak in the mid–1990's for a number of reasons, including appreciation of U.S. dollar against you the chief currencies in the far eastern region. China's devaluation of Yuan in 1994, and loss of some markets following the establishment of North American Free Trade Agreement (NAFTA), led to fall in exports. Massive capital inflows & weakening exports were reflected in widening current account deficits in the balance of payments.

To make matters worse, a substantial portion of capital inflows was in the form of short-term borrowing, leaving countries vulnerable to external shocks. The crisis first broke out in Thailand in July 1997. Creditors withdrew funds from the region in a panic, and the crisis spread to other countries in the region. Flight of capital was unprecedentedly massive; it led to collapse of currencies. The IMF came to the rescue of these economies in the form of massive bail out.

Economic Sanctions: A major tool of foreign policy, particularly of developed countries like the USA, in pursuit of their ulterior motives. The prime motive is to influence the policies of the developing countries and force them to abide by the dictates of the developed countries. Different forms of sanctions include freezing of aid, restrictions on exports and imports, blocking technology transfer and development assistance. Sanctions reflect the power of the strong against the weak. **Backlash** – e.g., the US ban on export of super computers to India led to loss of market for the U.S, as India has developed its own computers! Eventually the US Government withdrew its sanctions in the face of growing criticisms in the US Senate itself.

Equity market - Market for shares

Escrow - Is a fund held by a third-party custodian.

ESOS, ESPS, ESOPS: Employee Stock Option Schemes and Employees Stock Purchase Schemes of business companies

Export concentration index: Measures the degree to which a country's exports are concentrated in, or diversified among, commodities. The index can be calculated using Hirschman or Herfindahl methodology; the shares of exports in each commodity are squared and summed up; the index is the square root of the sum, normalized to a range zero to one (Zero implies minimum concentration and one, maximum concentration).

Export Processing Zone (EPZ): A defined notified geographical area in India in which manufacturers producing for export are exempted from

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paying duties on imported inputs and often from certain domestic regulations.

Externalities: Costs or benefits resulting from an economic activity or transaction that accrue to persons or entities other than those engaged in it. For example, the cost of production of bricks consists of the internal costs accounted for by the brick factory owner, such as the cost of establishment, mud, labour, coking coal, etc while the costs meted out by the villagers around the bricks factory due to health hazards of the fly ash and carbon emitted by the factory, are the external costs or spill-over costs. Similarly, the rise in the salary of a person by virtue of improvement in his education level is internal or private benefit to the person concerned while the benefits flowing from his learned work to the society as a whole is external benefit.

Fiscal Cliff: A combination of withdrawing tax cuts (i.e., raising the tax rates to the pre-recession levels) and across-the-board government spending cuts by the US federal government scheduled to become effective Dec. 31, 2012. The idea behind the fiscal cliff was that if the federal government allowed these two events to proceed as planned, they would have a detrimental effect on an already shaky economy, perhaps sending it back into another recession as it would cut household incomes, increase unemployment rates and weaken consumer and investor confidence. At the same time, it was predicted that going over the fiscal cliff would significantly reduce the federal budget deficit.

Foreign Currency Convertible Bonds (FCCBs): FCCBs are bonds issued by a company to raise capital in a foreign currency. They have a coupon rate, that is, an interest rate. Buyers have the option of redeeming their investment or converting the bonds into equity at maturity. The payment of the principal is usually in the currency in which the money is raised.

Foreign Direct Investment (FDI)

FDI is permitted in India as under the following forms of investments: 1) through financial collaborations, 2) through joint ventures and technical collaborations, 3) trough capital markets via Euro issues and 4) through private placements or preferential allotments. FDI is not permitted in the following industrial sectors: 1) Arms and ammunition, 2) Atomic Energy, 3) Railway Transport, 4)Coal and lignite, 5) Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc. Recently the multi-brand retailing, civil aviation, media and insurance sectors have been opened up for FDI, subject to certain restrictions.

Foreign Investment through GDRs is treated as Foreign Direct Investment. Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs). There is no restriction on the number of GDRs to be floated by a

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company or a group of companies in the financial year.

The proceeds of the GDRs can be used for financing capital goods imports, capital expenditure including domestic purchase/installation of plant, equipment and building and investment in software development, prepayment or scheduled repayment of earlier external borrowings, and equity investment in JV/WOSs in India. However, investment in stock markets and real estate will not be permitted. Companies may retain the proceeds abroad or may remit funds into India in anticipation of the use of funds for approved end uses. Any investment from a foreign firm into India requires the prior approval of the Government of India.

Forward Markets Commission (FMC) headquartered at Mumbai, is a regulatory authority coming under the purview of the Ministry of Consumer Affairs, Food and Public Distribution, Govt. of India. It is a statutory body set up in 1953 under the Forward Contracts (Regulation) Act, 1952. The Act provides that the Commission shall consist of not less than two but not exceeding four members appointed by the Central Government out of them being nominated by the Central Government to be the Chairman thereof. Currently Commission comprises three members.

The main functions of the Forward Markets Commission are: (a) To monitor and regulate forward markets so as to ensure their healthy and smooth working; (b) To collect and publish information regarding the trading conditions in respect of goods to which the provisions of the act are applicable, including information regarding supply, demand and prices, and to submit to the Central Government, periodical reports on the working of forward markets relating to such goods; (c) To make recommendations generally with a view to improving the organization and working of forward markets; (d) To undertake the inspection of the accounts and other documents of any recognized association or registered association or any member of such association whenever it considerers it necessary.

Gadgil formula: It was evolved in 1969 for determining the allocation of central assistance for state plans in India. Gadgil formula was adopted for distribution of central plan assistance among the states during Fourth and Fifth Five Year Plans. The central assistance provided for in the first three plans and annual plans of 1966-1969 lacked objectivity and did not lead to equal and balanced growth in the states. According to the Gadgil formula, Special Category states like Assam, Jammu and Kashmir and Nagaland were given preference. Their needs should first be met out of the total pool of Central assistance.
The remaining balance of the Central assistance should be distributed among the remaining States on the basis of the following criteria:

- 60 per cent on the basis of population;

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- 10 per cent on the basis of tax effort, determined on the basis of individual State's per capita tax receipts as percentage of the State's per capita income;
- 10 per cent on the basis of per capita State income, assistance going only to States whose per capita incomes are below the national average;
- 10 per cent on the basis of spill-over into the Fourth Plan of major continuing irrigation and power projects;
- 10 per cent for special problems of individual States.

The Gadgil formula was modified on the eve of the formulation of the Sixth Plan. The 10 percent indicator for ongoing power and irrigation projects was dropped and the share of per capita income was increased to 20 percent, to be distributed to those states whose per capita incomes were below the national average. The modified Gadgil formula continued for the Sixth and the Seventh Plans. Compared to the allocations in the Fourth and Fifth Plans, the allocations during the Sixth and the Seventh Plans show a definite shift in favour of the poorer states.

Gadgil-Mukherjee formula: A revised formula approved by the National Development Council on October 11, 1990 is popularly known as Gadgil-Mukherjee formula after the name of then deputy chairman of Planning commission Pranab Mukherjee. The new formula is:

Criteria	Weight (%)
Population	55
Per Capita Income	25
Fiscal Management	5
Special Problems	15
Total	100

GINI index

Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

Gini Index for India as measured by distribution of household consumption over the years is as follows: 1978 - 35.09; 1983 - 31.11; 1988 - 31.88; 1994 - 30.82; 2005 - 33.38.

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Gray Market (Does not usually refer to black market but to the market for smuggled goods and the goods that do not carry guarantee to the consumers)

Foreign reserves (Forex Reserves): Contain holdings of monetary gold, special drawing rights (SDR's), deposits with the IMF and holdings of foreign exchange under the control of the monetary authorities (i.e., RBI in India's case).

Foreign Institutional Investor (FII): means an institution established or incorporated outside India which proposes to make investment in India in securities and is registered with SEBI.

General Anti Avoidance Rules (GAAR):
Tax Avoidance is an area of concern across the world. The rules are framed in different countries to minimize such avoidance of tax. Such rules are known as "General Anti Avoidance Rules " or GAAR. GAAR is a set of general rules enacted so as to check the tax avoidance. People adopt various methods so that they can reduce their total tax liability. The methods adopted to reduce their tax liability can be broadly put into two broad categories: "Tax Evasion"; and "Tax Avoidance" or "Tax Mitigation" or "Tax Planning".

Anti Avoidance Rules are broadly divided into two categories namely "General" and "Specific". Thus, legislation dealing with "General" rules are termed as GAAR, whereas legislation dealing with "Specific avoidance are termed as "SAAR".
In India till recently SAAR was in vogue. Laws were amended to plug specific loopholes as and when they were noticed or were misused enmasse. However, now Indian tax authorities want to move towards GAAR but are facing severe opposition as tax payers fear that these will be misused by tax authorities by giving arbitrary and wide interpretations. We can say SAAR being more specific provide certainty to taxpayers where as GAAR being general in nature can be misused and is subject to arbitrary interpretation by tax authorities.

In India, the real discussions on GAAR came to light with the release of draft Direct Taxes Code Bill (popularly known as DTC 2009) on 12th August 2009. It contained the provisions for GAAR. Later on the revised Discussion Paper was released in June 2010, followed by tabling in the Parliament on 30th August, 2010, a formal Bill to enact the law known as the Direct Taxes Code 2010. The same was to be made applicable wef 1st April, 2012. However, owing to negative publicity and pressures from various groups, GAAR was postponed, and an Expert Committee under the chairmanship of Parthasarathy Shome was set by Prime Minister in July 2012 to rework the GAAR guidelines issued in June 2012. The Shome Committee recommended certain

modifications in the rules to make them more tax-payer /investor friendly and advised for postponing the GAARS for two years. In January, 2013 the GoI partially accepted the recommendations of Shome Committee and has decided to incorporate the GAARs into the Direct Tax Code but the Rules will become effective from 1.4 2016.

Gilts Market: Refers to the market for 'gilt-edged' securities, i.e., government securities/bonds. Primary dealers in government bonds are: STCI, SBI Gilts, PNB Gilts, etc. Secondary dealers in shares and debentures are stock markets

G-5 (nicknamed Rich Nations Club): Group of 5 Countries: France, Germany, Japan, and U.K. & U.S.A. The G5 nations joined together for an active role in the rapidly evolving international order. Individually and as a group, the G5 nations work to promote dialogue and understanding between developing and developed countries. The G5 seek to find common solutions to global challenges. The G5 later became the **G8** with Italy, Canada and Russia being the additional three leading economies.

G-8: The **Group of Eight** (**G-8**) is a forum for the governments of eight countries. It originated with a 1975 summit hosted by France that brought together representatives of six governments: France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States, thus leading to the name **Group of Six** or **G6**. The summit became known as the **Group of Seven** or **G7** the following year with the addition of Canada. The G7 is composed of 7 of 8 of the wealthiest countries on Earth and it remains active despite the creation of the G8. In 1997, Russia was added to the group which then became known as the G8. The European Union is represented within the G8 but cannot host or chair summits. Collectively, the G-8 nations comprise 50.1% of 2012 global nominal GDP and 40.9% of global GDP (PPP).

G-20 major economies: The **Group of Twenty Finance Ministers and Central Bank Governors** (also known as the **G-20**, or **Group of Twenty**) is a group of finance ministers and central bank governors from 20 major economies: 19 countries plus the European Union, which is represented by the President of the European Council and by the European Central Bank. The G-20 heads of government or heads of state have also periodically conferred at summits since their initial meeting in 2008. Collectively, the G-20 economies account for approximately 80 percent of the gross world product (GWP), and 80 percent of world trade (including EU intra-trade), and two-thirds of the world population.

The G-20 was proposed by former Canadian Prime Minister Paul Martin as a forum for cooperation and consultation on matters pertaining to the

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international financial system. The group was formally inaugurated in September 1999, and held its first meeting in December 1999. It studies, reviews, and promotes high-level discussion of policy issues pertaining to the promotion of international financial stability, and seeks to address issues that go beyond the responsibilities of any one organization. With the G-20 growing in stature after the 2008 Washington summit, its leaders announced on 25 September 2009, that the group would replace the G-8 as the main economic council of wealthy nations. Since its inception, the G-20's membership policies have been criticized by numerous intellectuals, and its summits have been a focus for major protests.

The heads of the G-20 nations met biannually at G-20 summits between 2008 and 2011. Since the November 2011 Cannes summit, all G-20 summits have been held annually. Russia currently holds the chair of the G-20, and will host the eighth G-20 summit in September 2013.

G-20: The **G20**, also known as the **Group of 20** (and, occasionally, the **G21**, **G23** or **G20+**) is a bloc of developing nations established on 20th August 2003. Distinct and separate from the 'G-20 major economies', the group emerged at the 5th WTO Ministerial Conference, held in Cancún, Mexico, from 10th to 14th September 2003. The G-20 accounts for 60% of the world's population, 70% of its farmers and 26% of world's agricultural exports.

G-33: The G-33 is a group of developing countries that coordinate on 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.

G-77: A loose coalition of developing nations at the UN, designed to promote its members' collective economic interests and create an enhanced joint negotiating capacity in the United Nations. There were 77 founding members of the organization, but the organization has since expanded to 133 member countries. The group was founded on June 15 1964 by the "Joint Declaration of the Seventy-Seven Countries" issued at the United Nations Conference on Trade and Development (UNCTAD). The first major meeting was in Algiers in 1967, where the Charter of Algiers was adopted and the basis for permanent institutional structures was begun. There are Chapters of the Group of 77 in Rome (FAO), Vienna (UNIDO), Paris (UNESCO), Nairobi (UNEP) and the Group of 24 in Washington, D.C. (IMF and World Bank).

Global Depository Receipts (GDRs): Indian companies can raise foreign capital abroad through the issue of ADRs/ GDRs, in accordance with the Scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme,

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1993 and guidelines issued by the Government of India thereunder from time to time. A company can issue ADRs / GDRs, if it is eligible to issue shares to persons resident outside India under the FDI Scheme. After the issue of ADRs/GDRs, the company has to file a return in Form DR as indicated in the RBI Notification of May 3, 2000, as amended from time to time. The company is also required to file a quarterly return in Form DR- Quarterly as indicated in the RBI Notification. There are no end-use restrictions on GDR/ADR issue proceeds, except for an express ban on investment in real estate and stock markets.

Certain Indian companies are allowed to raise equity capital in the international market through the issue of GDRs. GDRs are designated in dollars and are not subject to any ceilings on investment. An applicant company seeking Government's approval in this regard should have a consistent track record for good performance (financial or otherwise) for a minimum period of 3 years. This condition would be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads. GDRs can be converted into any currency. They can be listed in any international stock exchange. GDRs have facilitated foreign investors to invest in India.

Greenfield Investment: is the investment in a manufacturing plant, office, or other physical company-related structure or group of structures in an area where no previous facilities exist. The name comes from the idea of building a facility literally on a "green" field, such as farmland or a forest. Over time the term has become more metaphoric.

GNP Implicit deflator: (Implicit price index): Is calculated by dividing the GDP at current prices for given year by the GNP at constant prices. This measure of inflation is more broadly based than the one based on WPI or CPI, since it shows the annual price movements for all goods and services produced in the economy.

Gilt funds, as they are conveniently called, are mutual fund schemes floated by asset management companies with exclusive investments in government securities. The schemes are also referred to as mutual funds dedicated exclusively to investments in government securities. Government securities mean and include central government dated securities, state government securities and treasury bills. The gilt funds provide to the investors the safety of investments made in government securities and better returns than direct investments in these securities through investing in a variety of government securities yielding varying rate of returns gilt funds, however, do run the risk. The first gilt fund in India was set up in December 1998.

Green tax: A tax that aims to increase environmental quality by taxing actions which harm the environment.

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Gross criminal product (GCP): Coined by David Bickford, a consultant with the Dutch firm 'Inter Access Risk Management' which provides protection to international banks from fraud and money-laundering resorted to by unscrupulous clients. Bickford suggests GCP as a method to assess the degree of risk associated with lending to clients in countries where black market transactions abound. In developing countries, the black/grey markets transact considerable amount of output, which does not get included in the conventionally measured GNP. The GNP generated in this sector is called Gross Criminal Product (GCP). Thus in LDC's the real measure of GNP is GNP minus GCP.

Greendex: Starting from 2008, National Geographic and GlobeScan have been jointly publishing every year a composite measure of environmentally sustainable consumption called the Greendex. It is a composite index covering consumer behavior in 17 countries four broad areas: household footprint, energy use, transportation habits, food consumption, and the relative penetration of green products versus traditional products. Its value ranges from 0 to 100, so that higher the index the more environment friendly the consumption habit of the country. According to Greendex 2010, latest one so far, India tops with a score of 62.6, while the USA comes at the bottom with a score of 45. This includes measures such as household footprint, energy use, transportation habits, food consumption, and the relative penetration of green products versus traditional products. The Greendex is meant to encourage sustainable consumption by increasing consumer awareness and providing consumers with global reference points for comparing their own consumption patterns.

The Greendex will also provide governments and business firms with the insights they need to facilitate or encourage sustainable consumer behavior, through government legislation, product development, or other sustainability initiatives.

Hard currency: Another name for "strong currency". The demand for a hard currency is greater than its supply as it is a much sought-after currency by other countries.

Hawala (Arabic, meaning *transfer*), is an informal value transfer system based on the performance and honour of a huge network of money brokers, which are primarily located in the Middle East, North Africa, the Horn of Africa, and the Indian subcontinent. It is a parallel or alternative remittance system that operates outside of, or parallel to traditional banking or financial channels.

Human capital: The skills and capabilities embodied in an individual or a work force, in part acquired through improved health and nutrition, education and training.

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Import substitution Policy: It is a trade and economic policy that advocates replacing foreign imports with domestic production. The policy is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products. Domestic industry is protected from foreign competition through a number of restrictive trade policies including high import tariff rates, import quotas and even banning of certain imports. On the contrary, to encourage import substituting industrial production the domestic industries are provided incentives such as tax concession, import of critical capital goods and raw materials. India pursued import substitution policy for four decades from the fifties thru the eighties.

Indonext: BSE Indonext, as it is formally named, is a platform for trading in the securities of small and medium enterprises (MSEs) launched on 7th January 2005. It is a joint project promoted by BSE and the Federation of Indian Stock Exchanges (FISE) representing 18 regional stock exchanges across the country. Typically, the companies listed on RSEs are small and medium and trading in those scrips has come to a halt as most of the regional exchanges are almost closed.

BSE and the participating RSEs have constituted a BSE IndoNext Council to monitor the implementation of the BSE IndoNext. Companies with paid up capital upto Rs 20 crore listed with RSEs but not with BSE, would be included in the BSE IndoNext Segment.

Informal sector (also called unorganized sector): Represents economic activities that are not subject to laws, regulations and taxation in a country and often not covered in the official economic statistics.

Infrastructure, also called social overhead capital (SOC) refers to the basic economic services required for the development of the directly productive activities in an economy including agriculture and industry. Infrastructure is of two types: economic and social>

Economic infrastructure	- Power, shipping dockyards - Cold storage - Irrigation - Transport - Communication
Social infrastructure	- Education. - Health (access to health) - Drinking water - Housing

Insider Trading: An unethical practice of manipulating the value of stocks of a company by non-disclosure of market sensitive information on the affairs of a company. For example, HLL was indicted by SEBI in March 1998, of insider trading in respect of Brooke Bond (Lipton

India Ltd., (BBLIL) when UTI sold Rs.8 lakh shares of BBLIL to HLL without realizing that information about BBLIL's merger with HLL would have had a direct bearing on the prices of these shares. SEBI had slapped a compensation of Rs.3.04 Cr. On HLL to be paid to UTI to cover the loss incurred by the latter due to insider trading by HLL.

LIBOR: London Inter Bank Offer Rate. LIBOR is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks. It is usually abbreviated to LIBOR, or more officially to BBA Libor (for British Bankers' Association Libor) or the trademark bbalibor. It is the primary benchmark, along with the Euribor(European inter-bank rate), for short term interest rates around the world.

Limited liability partnership (LLP)

LLP is an alternative corporate business organisation that would give the benefits of limited liability but would allow its members the flexibility of organising their internal structure as a partnership based on an agreement. The LLP Act was passed by the parliament in 2008 and it came into effect from April 2008. The Registrar of Companies operates the Act. LLP being is a separate legal entity and hence is liable to the full extent of its assets; its partners will be liable only to the extent of their agreed contribution in the LLP. Further no partner will be liable for the independent or unauthorized actions of other partners thereby shielding the partners from the joint liability created by the other partners' wrongful business decisions or misconduct.

Indian Partnership Act shall not be applicable to LLP and the minimum number of partners of a LLP is two and there is no upper limit to the number of partners. An LLP will be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs. LLP can also take actions like mergers amalgamations. Similarly there are provisions for winding up and dissolution.

Every LLP should have two "Designated partners" at least one of whom should be a resident Indian satisfying the conditions stipulated by the Central Government. They should apply and obtain designated partner identification number (DPIN) and digital signature certificate from the designated authority. An intending unlimited liability partnership firm seeking to convert itself into a LLP is required to apply to the Registrar as per form 17 which should be accompanied by written consent from all creditors. When once the Registrar accepts and registers the firm it comes into force and all the assets and liabilities would be transferred to the new LLP. The Central government by a notification in the Gazette can apply any provisions of the Companies act to LLP either fully or with certain modifications.

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Marshall Plan: A scheme masterminded by George C Marshall, the Secretary of State, and introduced by the US government between 1948 and 1952 to help war-torn Western Europe recover from the ravage of World War II. Marshall Plan funds were not mainly directed toward feeding individuals or building individual houses, schools, or factories, but at strengthening the economic superstructure (particularly the iron-steel and power industries). The program--whose official title was "European Recovery Program"--aimed at: (1) increasing production; (2) expanding European foreign trade; (3) facilitating European economic cooperation and integration; and (4) controlling inflation, which was the program's chief failure.

The economic problems in 1947-48 included not only the lack of capital to invest, but also the need for Europeans to overcome a U.S. trade surplus with them so massive as to imperil further trade and to encourage unmanageable inflation. Marshall Plan money helped stimulate the revival of European trade with the world and increased trade among European countries.

The Marshall Plan cost the U.S. $13326 million most of which was in the form grants and a small part, in loans. Marshall received the Nobel Peace Prize in 1953 for his great contribution to the European recovery.

Merchant banking: The new issues market (NIM) is important in successfully managing the initial public offer (IPO) of corporate securities. NIM performs triple functions: origination, underwriting and destination. Merchant banks perform these triple functions. Merchant banks are mostly organized as separate divisions of commercial banks/development banks and are subject to control by both RBI and SEBI.
Merchant banking is a service provided by financial institutions and subsidiaries of many commercial banks for the issue and sale of shares and debentures of private companies to the public. The activities that merchant bankers are authorized to perform are listed by the SEBI and include issue management, loan syndication, lease financing, corporate advisory services, underwriting, portfolio management services and managers or consultants to public issues.

Merit Goods: Essential commodities/services that merit concessions/incentives or subsidized supply, e.g., elementary education, Public health, sanitation, sewerage etc.

MIBOR: Mumbai Inter Bank Offer Rate

Micro Credit: Micro Credit is defined as provision of thrift, credit and other financial services and products 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 Credit Institutions are those which provide these facilities.

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Misery index is an economic indicator, created by American economist Arthur Okun, and found by adding the unemployment rate to the inflation rate. It is assumed that both a higher rate of unemployment and a worsening of inflation create economic and social costs for a country. During the Presidential campaign of 1976, Democratic candidate Jimmy Carter made frequent references to the Misery Index, which by the summer of 1976 was at 13.57%. Carter stated that no man responsible for giving a country a misery index that high had a right to even ask to be President. Carter won the 1976 election. However, by 1980, when President Carter was running for re-election against Ronald Reagan, the Misery Index had reached an all-time high of 21.98%. Carter lost the election to Reagan.

Microfinance: refers to the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is provide poor and near-poor households a permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty. Muhammad Yunus, a Bangladeshi professor of economics developed the concepts of microcredit and microfinance. These loans are given to entrepreneurs too poor to qualify for traditional bank loans. Yunus is also the founder of Grameen Bank. In 2006, Yunus and the bank were jointly awarded the Nobel Peace Prize, "for their efforts to create economic and social development from below."

MoU: Memorandum of Understanding (or Performance agreement) signed between the Government and an organization or an agreement negotiated between the chief of a public utility/PSU and the respective government department or ministry. Its main purpose is to ensure the accountability of both the government and the public enterprise managers by adhering to the goals and targets of public enterprises.

Multifibre Arrangement (MFA): Also known as Agreement on Textile and Clothing (ATC), governed the world trade in textiles and garments from 1974 through 2004, imposing quotas on the amount developing countries could export to developed countries. It expired on 1 January 2005.

Most-favoured-nation (MFN): This refers to a commitment made in trade negotiations between /among countries that a participating country will extend to another participating country the lowest tariff rates it applies to any other country. For instance, all WTO countries undertake to apply such treatment to one another under Article I of the GATT. When a country agrees to cut tariffs on a particular product imported from one country, the tariff reduction automatically applies to

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imports of that product from any other country eligible for most-favoured-nation treatment.

Multi Commodity Exchange (MCX): Multi Commodity Exchange is a govt. recognized commodity exchange based in Mumbai, established in November 2003 by Financial Technologies. The MCX is an electronic multi commodity futures exchange, and enables futures trading of various agricultural and non-agricultural commodities such as Metals, Pulses, Oils, Fiber, Energy, Petrochemicals, Plantation crops, Cereals, Bullion and Spices etc. As of 31st of December, 2007, the exchange was offering futures trading in 55 different commodities.

MCX is said to be the most prominent commodity exchange in the country, and claimed 84% of the total commodity market share in the year 2008. In terms of futures trading on a global level, MCX reportedly holds the 1st rank in the trading of Silver, 2nd rank in Natural Gas and 3rd rank in Crude Oil and Gold commodities. MCX has a network of around 10,000 trading terminals spread across 500 cities nationwide. The exchange also brings out MCX Comdex - the composite index of metals, energy and agro-commodities - which is the only commodity futures price index existing in India (created in June 2005).

National Commodity & Derivatives Exchange Limited (NCDEX): is an on-line multi commodity exchange promoted by ICICI Bank Limited (ICICI), Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD) and National Stock Exchange of India Limited (NSE). Other shareholders: Canara Bank, Punjab National Bank (PNB), CRISIL Limited, Indian Farmers Fertiliser Cooperative Limited (IFFCO), Goldman Sachs, Intercontinental Exchange (ICE) and Shree Renuka Sugars Limited

NCDEX is a public limited company incorporated on April 23, 2003 under the Companies Act, 1956 and commenced its operations on December 15, 2003 and is based in Mumbai. As on May 21, 2009 NCDEX offered contracts in 59 commodities - comprising 39 agricultural commodities, 5 base metals, 6 precious metals, 4 energy, 3 polymers, 1 ferrous metal, and CER. The top 5 commodities, in terms of volume traded at the Exchange, were Rape/Mustard Seed, Gaur Seed, Soyabean Seeds, Turmeric and Jeera.

National Rural Livelihoods Mission (NRLM)

The Government of India's $5.1 billion National Rural Livelihoods Mission (NRLM) is one of the world's largest initiatives to improve the livelihoods of poor rural people and boost the rural economy. It is renamed Swarnajayanti Gram Swarozgar Yojana.

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It aims to make a multidimensional impact on the lives of India's rural poor by mobilizing them, particularly the women, into robust grassroots institutions of their own where, with the strength of the group behind them, they will be able to exert voice and accountability over providers of educational, health, nutritional and financial services. This, based on past experience, is expected to have a transformational social and economic impact, supporting India's efforts to achieve the Millennium Development Goals on Nutrition, Gender, and Poverty.

These village-level institutions will help the poor to promote savings and build productive assets of their own. They will also empower farmers, milk producers, weavers and artisans to link up with markets and negotiate better terms of trade for their products and services. Importantly, the program will equip poor rural youth with the skills and opportunities to secure jobs in India's mainstream economy.

The NRLM aims to directly benefit some 350 million people - or almost a quarter of India's population - in 12 states which account for almost 85 percent of India's rural poor (Bihar, Chhattisgarh, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal). Most of the rural poor in these states belong to traditionally marginalized social and occupational groups.

The World Bank will support the NRLM with a credit of $1 billion, in continuation of its long-term engagement in the sector.

The NRLM aims to ensure that at least one member from each identified poor rural household, preferably a woman, is brought under the Self Help Group (SHG) network in a time-bound manner, benefiting the poor in a number of ways.

National Investment Fund" (NIF)

The Government constituted the NIF on 27th Jan 2005 into which the proceeds from disinvestment of Central Public Sector Enterprises will be channelised. The Fund would be maintained outside the Consolidated Fund of India. The income from the Fund would be used for (a) Investment in social sector projects which promote education, health care and employment; (b) Capital investment in selected profitable and revivable Public Sector Enterprises that yield adequate returns in order to enlarge their capital base to finance expansion/ diversification. The corpus of the National Investment Fund will be of a permanent nature. The Fund will be professionally managed to provide sustainable returns to the Government, without depleting the corpus.

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Seventy-five per cent of the annual income of the Fund will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of the Fund will be used 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. Three Public Sector Mutual Funds namely UTI Assets Management Company Ltd., SBI Funds Management Company (Pvt.) Ltd. and Jeevan Bima Sahayog, Asset Management Company Ltd .have been appointed initially as Fund Managers to manage the funds of NIF under the 'discretionary mode' of the Portfolio Management Scheme which is governed by SEBI guidelines. NIF under the jurisdiction of the Dept. Disinvestment in the Finance Ministry.

In view of the deceleration of GDP growth due to global economic downturn, the Government has approved (on 5th November, 2009) one-time exemption permitting full utilization of disinvestment proceeds deposited in the National Investment Fund, over this and the next two Financial Years, in meeting the capital expenditure requirements of selected social sector programmes decided by the Planning Commission/Department of Expenditure. The status quo ante will be restored from April 2012.

National Manufacturing Policy (NMP): The NMP was approved by the government in October, 2011. The major objectives of the policy are enhancing the share of manufacturing in gross domestic product (GDP) to 25 per cent and creating an additional 100 million additional jobs over a decade or so. The Policy also provides special focus to industries that are employment intensive, those producing capital goods, those having strategic significance, small and medium enterprises, and public sector enterprises besides industries where India enjoys a competitive advantage. The NMP provides for promotion of clusters and aggregation, especially through the creation of national investment and manufacturing zones (NIMZs). Out of twelve NIMZs so far announced, eight are along the DMIC. Besides, four other NIMZs have been given in-principle approval (i) Nagpur in Maharashtra, (ii) Tumkur in Karnataka, (iii) Chittoor district in Andhra Pradesh, and (iv) Medak district in Andhra Pradesh.

DMIC Project: Industrial development initiatives under DMIC project presently cover eight industrial cities that are proposed to be developed along the railway corridor. The Master Planning for the investment regions and industrial areas taken up initially to be developed as new cities in Gujarat, Madhya Pradesh, Haryana, Rajasthan and Maharashtra have been completed and master planning in Uttar Pradesh has started. The State governments have initiated the process of obtaining land for the new industrial regions/areas as well as for the

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Early Bird Projects. Environmental impact assessment (EIA) studies have been initiated for five industrial cities.

National Statistical Commission (NSC): Set up by GOI as per the recommendations of C. Rangarajan Committee in 2001, assumed charge on 12th July 2006. The NSC consists of one part time chairman, four part time members, and one secretary. The NSC will perform the following important functions: to identify the core statistics, which are of national importance and are critical to the development of the economy; to constitute professional committees or working groups to assist the Commission on various technical issues; to evolve national policies and priorities relating to the statistical system; to evolve standard statistical concepts, definitions, classifications and methodologies in different areas in statistics and lay down national quality standards on core statistics; to evolve national strategies for the collection, tabulation and dissemination of core statistics, including the release of calendar for various data sets; to evolve national strategies for human resource development on official statistics including information technology and communication needs of the statistical system; to evolve measures for improving public trust in official statistics; to advise the Government on the requirement of legislative measures on statistical matters including the statute for the National Statistical Commission; to monitor and review the functioning of the statistical system in the light of the laid down policies, standards and methodologies and recommend measures for enhanced performance.

NASDAQ: National Association of Securities Dealers Automated Quotation, located at New York, is an organ of NASAD, National Association of Securities Dealers. It is a computerized system that facilitates trading and provides price quotations on more than 5,000 of the more actively traded over the counter stocks, 500 are those of non-US Co's. Created in 1971, the Nasdaq was the world's first electronic stock market. The Nasdaq is traditionally home to many high-tech stocks, such as Microsoft, Intel, Dell and Cisco.
Only four Indian Co's. 1) Infosys 2) Satyam Infoway 3) Rediff. and 4) Wipro, are listed with nasdaq. Nasdaq has three overseas officers at 1) London 2) Sao Paolo and 3) Bangalore. Nasdaq is biggest stock market in the world, followed by London and Tokyo.

NASSCOM: The **National Association of Software and Services Companies** (*NASSCOM*) is a trade association of Indian Information Technology (IT) and Business Process Outsourcing (BPO) industry. Established in 1988, NASSCOM is a non-profit organization with over 1200 members, of which over 250 are global companies from the US, UK, EU, Japan and China. NASSCOM's member companies are in the business of software development, software services, software products,

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IT-enabled/BPO services and e-commerce. NASSCOM has been a proponent of global free trade in India.

NASSCOM was set up in 1988 to facilitate business and trade in software and services and to encourage advancement of research in software technology. Currently, NASSCOM is headquartered in New Delhi, India with regional offices in the cities of Mumbai, Chennai, Hyderabad, Bangalore, Pune and Kolkata.

Net Asset Value (NAV, of a Mutual Fund): Net Asset Value is the market value of the assets of the scheme minus its liabilities. The per-unit NAV is the net asset value of the scheme divided by the number of units outstanding on the valuation date.

Non-merit Goods: Public goods/services that do not merit subsidized supply by the state, e.g., higher education, urban recreation parks, etc.

Non-resident Indian (NRI): An NRI is an Indian citizen or a person of Indian origin who stays abroad for employment/ carrying on business or vocation outside India or stays abroad under circumstances indicating an uncertain duration of stay abroad.

Non-performing asset (NPA): An asset of a bank or any other financial institution is classified as non-performing asset (NPA) if the dues to it in the form of principal and interest are not paid by the borrower for a period of 180 days. However with effect from March 2004, default status would be given to a borrower if dues are not paid for 90 days. If any advance or credit facilities granted by bank to a borrower become non-performing, then the bank will have to treat all the advances/credit facilities granted to that borrower as non-performing without having any regard to the fact that there may still exist certain advances / credit facilities having performing status.

Overseas Corporate Body (OCB): An overseas corporate body (OCB) includes overseas companies, partnership firms, societies and other corporate bodies owned predominantly by non-resident persons of Indian nationality or origin outside India. OCBs are recognised and permitted by the RBI to make FDI in India.

Participatory Notes: Also referred to as "P-Notes", these are financial instruments used by investors or hedge funds that are not registered with the Securities and Exchange Board of India to invest in Indian securities. Indian-based brokerages buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors. Since international access to the Indian capital market is limited to FIIs, the market has found a way to circumvent this by creating the device called participatory notes, which are said to account for half the investment made by FIIs. Investing through P-Notes is very simple and hence very popular.

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Hedge funds, which invest through participatory notes, borrow money cheaply from Western markets and invest these funds into stocks in emerging markets. This gives them double benefit: a chance to make a killing in a stock market where stocks are on the rise; and a chance to make the most of the rising value of the local currency. However, SEBI is not very happy about participatory notes because they have no way to know who owns the underlying securities. SEBI fears that hedge funds acting through participatory notes will cause economic volatility in India's stock exchanges.

Para-statal: (Also public or state enterprises): An organization engaged in productive activities owned and controlled in majority by the state. Sometimes state-sponsored economic organizations such as co-operatives are also referred to as para-statals.

Pigouvian tax (Tax against environment pollution): A tax on "externalities". The tax is named after the British economist A. C. Pigou (who also developed the concept of externalities). Externalities refer to the costs or benefits arising from the production process but the same are not taken into account by the producer and instead, they are spilled over to the society at large. As an example, pollution is an external activity to many industrial processes. For instance, a cement factory emits considerable amount of fly ash which damages the crops and affects the health of people in the neighbourhood, but the factory owner often gets away without paying for these costs spilled over to the neighbourhood. Therefore, the government might impose a tax on polluters. There also exists the concept of a "negative tax", or a subsidy, to encourage certain activities which spill over benefits to the society (for instance a development project started by an industrialist in an underdeveloped area profits him as well as the people in the area). Examples of Pigovian tax include taxes on alcohol, cigarettes, and gasoline.

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Pension Fund Regulatory and Development Authority (PFRDA):

Fund Regulatory and Development Authority (PFRDA) is the prudential regulator for the the National Pension System (NPS). PFRDA was established by the Government of India on 23 August 2003 to promote old age income security by establishing, developing and regulating pension funds. PFRDA has set up a Trust under the Indian Trusts Act, 1882 to oversee the functions of the PFMs. The NPS Trust is composed of members representing diverse fields and brings wide range of talent to the regulatory framework.

NPS is a defined contribution based pension system launched by Government of India with effect from 1 January 2004. Like most other

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developing countries, India does not have a universal social security system to protect the elderly against economic deprivation. As a first step towards instituting pension reforms, Government of India moved from a defined benefit pension to a defined contribution based pension system. Apart from offering wide gamut of investment options to employees, this scheme would help government of India to reduce its pension liabilities. Unlike existing pension fund of Government of India that offered assured benefits, NPS has defined contribution and individuals can decide where to invest their money. The scheme is structured into two tiers: Tier-I account: This NPS account does not allow premature withdrawal and is available from 1 May 2009; Tier-II account: The tier-II NPS account permits withdrawal.

Since 1 April 2008, the pension contributions of Central Government employees covered by the National Pension System (NPS) are being invested by professional Pension Fund Managers in line with investment guidelines of Government applicable to non-Government Provident Funds. A majority of State Governments have also shifted to the defined contribution based National Pension System from varying dates. 27 State/UT Governments have notified the NPS for their new employees. Of these, 6 states have already signed agreements with the intermediaries of the NPS architecture appointed by Pension Fund Regulatory and Development Authority (PFRDA) for carrying forward the implementation of the National Pension System. The other States are in the process of finalization of documentation.

PIIGS: is a grouping acronym used by international financial analysts, academics, and by the international economic press that refer to the economies of Portugal, Italy, Irland, Greece, and Spain, often regarding the matters relating to sovereign debt markets. Some news and economic organisations have banned the use of the acronym as it is considered derogatory.

Ponzi scheme: A fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors. This scam actually yields the promised returns to earlier investors, as long as there are more new investors. These schemes usually collapse on themselves when the new investments stop. The Ponzi scam is named after Charles Ponzi, a clerk in Boston who first orchestrated such a scheme in 1919.

A Ponzi scheme is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers. One difference between the two schemes is that the Ponzi mastermind gathers all relevant funds from new investors and then distributes them. Pyramid schemes, on the other hand, allow each investor to directly benefit depending on how many new investors are recruited. In this case, the person on the top of the pyramid does not at any point have access to all the money in the system.

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For both schemes, however, eventually there isn't enough money to go around and the schemes collapse.

Several Ponzi schemes are being unearthed in parts of India and SEBI is now being armed with additional powers to tackle the menace of the scheme. For instance, Betul district police in M.P. arrested on 24th July 2013 one Santosh Das for defrauding hundreds of investors of crores of rupees through "Ponzi" schemes by promising to double their investments faster than banks. A sum of Rs 12.45 lakh in cash and incriminating documents were confiscated from his house. Initial investigations suggest more than 4,000 persons had invested in Das scheme lured by offers like - guaranteed return of Rs 4.95 crore in four years against a deposit of Rs 25,000 and Rs 1 crore against investment of Rs 10,000 in five years.

Private Placement - Sale of securities to a small group of "informed" investors.

Public good: A good whose consumption is non-exclusive (so that it is impossible to prevent anyone from enjoying the benefit) and non-rival (so that the enjoyment of the benefit by one individual does not diminish the quantity of benefits available to others). Climate change mitigation is an example of a public good as it would be impossible to prevent any one individual or state from enjoying the benefit of a stabilized climate, and the enjoyment of this stabilized climate by one individual or state would not diminish the ability of others to benefit from it. National defence, police, street lights, public toilets, etc are other examples.

Purchasing Managers Index (PMI): An indicator of the economic health of the manufacturing sector in an economy. The PMI is a composite index of five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change. In India the PMI is worked out and released by the global banking major HSBC. It is arrived at after a poll of 500 purchase managers and is widely regarded for its accuracy.

PURA (Providing Urban Amenities in Rural Areas): A concept popularised by Prof. APJ Abdul Kalam aimed to bridge the gap between rural and urban India. At the basic level, it enhances the quality of life in the rural India by providing transport (road / rail) connectivity, resource accessibility (water and sanitation), and better living conditions (by providing access to health, education and livelihood).

At the second level PURA would identify potential employment opportunities and help rural India to realize it, through public

intervention. At the matured level PURA would make the villages self contained in terms of good living conditions. A cluster of villages would be able to meet the employment opportunities in terms of demand and supply in a self contained manner. Eventually, PURA will reduce the migration of working force from the rural to urban India. The Union Ministry of Rural development has been running pilot PURA programs in several states since 2004.

Put option - An option exercised by the holder of a security to sell the security to the issuer or to the person who wrote the put option. Compare with call option.

Ramsar Convention: It is a global environmental treaty that deals with a particular ecosystem, and the Convention's member countries cover all geographic regions of the planet. It is the Convention on Wetlands of International Importance (named after Ramsar, a city on the shores of Caspian sea in Iran where the treaty was signed in 1971) - and is an inter-governmental treaty that embodies the commitments of its member countries to maintain the ecological character of their Wetlands of International Importance and to plan for the "wise use", or sustainable use, of all of the wetlands in their territories. Unlike the other global environmental conventions, Ramsar is not affiliated with the United Nations system of Multilateral Environmental Agreements, but it works very closely with the other MEAs and is a full partner among the "biodiversity-related cluster" of treaties and agreements.

Red Herring prospectus: It is a preliminary registration statement that must be filed by a company with the Securities and Exchange Board. It describes the issue (IPO) and the prospects of the company. The issue price or issue size is not stated in the Red Herring. It is updated several times before being called the final prospectus. It is called so because it contains a passage in red that states the company is not attempting to sell its shares before the registration is approved by the SEBI.

Rent seeking: Refers to a ploy or manipulation by which an individual, company, or organization uses their resources to obtain an economic gain from others without reciprocating any benefits back to society through wealth creation. An example of rent-seeking is when a company lobbies the government for loan subsidies, grants or tariff protection. These activities don't create any benefit for society; they just redistribute resources from the taxpayers to the special-interest group.

Repos (Repurchase agreements): are financial instruments used in the money markets and capital markets. A more accurate and descriptive term is Sale and Repurchase Agreement, since what occurs is that the cash receiver (borrower/seller) sells securities to the cash provider (lender/buyer) now in return for cash, and agrees to repurchase those securities from the buyer for a greater sum of cash at some later date, that greater sum comprising the cash lent and some extra cash

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(constituting interest, known as the repo rate). In other words it is a contract in which the seller of securities such as Treasury Bills and short-term government bonds(RBI in India's case), agrees to buy them back at a specified time and price. Also called repurchase agreement or buyback.

Reverse repo: A purchase of securities with an agreement to resell them at a higher price at a specific future date. This is essentially just a loan of the security at a specific rate. Also called reverse repurchase agreement. It is simply the same repurchase agreement as described from the buyer's viewpoint, not the seller's. Hence, the seller executing the transaction would describe it as a 'repo', while the buyer in the same transaction would describe it a 'reverse repo'. So 'repo' and 'reverse repo' are exactly the same kind of transaction, just described from opposite viewpoints.

RIB's: RIB's were 5-year maturity offshore bonds floated by SBI in the first half of 1998 and could be purchased by NRIs/PIOs. $4.2 billion was raised through RIBs from overseas investors. This was made into a pool from which the prominent FI's such as IDBI could draw.

Risk-weighted assets: A bank's assets weighted according to credit risk. Some assets such as debentures are assigned a higher risk than others such as cash. This sort of asset calculation is used in determining the capital requirement for a financial institution, and is regulated by the Central Bank of the country.

Robin Hood tax: is a tax on financial institutions and other profit making companies proposed by a campaigning group largely composed of civil society NGOs and supported by economists, politicians and civil society organisations from around the world. Campaigners have suggested the tax could be implemented globally, regionally or unilaterally by individual nations. Conceptually similar to the Tobin tax, it would affect a wider range of asset classes including the purchase and sale of stocks, bonds, commodities, unit trusts, mutual funds, and derivatives such as futures and options. The Tobin tax was proposed for foreign currency exchange only.

The name for tax comes from the fairy tale bandit-hero Robin Hood, who used to rob the rich to help the poor. In 2001 the charity War on Want released The Robin Hood Tax, an earlier proposal presenting their case for a currency transaction tax. In 2008, Italian treasury minister Giulio Tremonti introduced a windfall tax on the profits of energy companies. Mr Tremonti called the tax a "Robin Hood Tax" as it was aimed at the wealthy with revenue to be used for the benefit of poorer citizens, though unlike the tax campaigned for in 2010 it was not a transaction tax nor global nor aimed at banks. A UK based campaign for the Robin Hood tax was launched on 10 February 2010 and is being run by a coalition of

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over 50 charities and organisations, including Christian Aid, Comic Relief and UNICEF.

Round Tripping of FDI: Round Tripping refers to the capital belonging to a country, which leaves the country and is then reinvested into the country in the form of FDI. This route attracts a lot of incentives, which are: Firstly, enterprises set up through FDI enjoy tax benefits, administrative support, and easier access to financial services. Secondly, citizens from countries with weak property laws prefer to remove profits from their country and invest abroad to enjoy property rights rather than reinvesting their profits. Thirdly, Round Tripping is often used as an avenue for laundering one's illegitimate money. It is due to these reasons that tax havens like Mauritius, the British Virgin Islands, Cayman Islands, Cyprus, etc. are used. These places are of immense advantage as money routed through them is exempt from capital gains tax.

Round Tripping of Funds in FDI in India

Round Tripping refers to the capital belonging to a country, which is taken out of the country and is then reinvested into the country in the form of FDI. This route attracts a lot of incentives, which are: Firstly, enterprises set up through FDI enjoy tax benefits, administrative support and easier access to financial services. Secondly, citizens' from countries with weak property laws prefer to remove profits from their country and invest abroad to enjoy property rights rather than reinvesting their profits. Thirdly, Round Tripping is often used as an avenue for laundering one's illegitimate money. It is due to these reasons that tax havens like Mauritius, the British Virgin Islands, Cayman Islands, Cyprus etc. are used. These places are of immense advantage as money routed through them is exempt from capital gains tax.

Lately it has been observed that the RBI is leaning towards legitimizing certain types of Round Tripping. The RBI's view on the subject is that money reinvested in India through a foreign subsidiary of an Indian company should be considered foreign direct investment and that in many parts of the world such as China these aspects have already been legitimized. It feels that doing so would boost the FDI count of the country and render it a more attractive destination for foreign investment. However, the Revenue Department looking from a microeconomic point of view feels that round tripping should not be allowed as Indian companies may use it to evade tax by routing their money through the tax havens. Although in such cases FDI might increase but the country would not benefit in terms of revenue.

Disagreeing with the revenue department's assessment, the RBI cites the Chinese example arguing that where subsidiaries of foreign companies are levied a lower corporate tax, the incidence of round tripping is extremely high i.e. more than 25-30 per cent. However, in India where

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the corporate tax rates are the same for all companies the incidence of Round Tripping is only 2-3 per cent. The RBI stand is with regard to legitimizing Round Tripping within the sphere of the International Monetary Fund's (IMF) definition of FDI only and does not intend to accommodate Round Tripping as a means of escaping tax or laundering ill-legitimate gains. In pursuance of this, recently the RBI has set forth directives with regards to Participatory Notes and tighter Know Your Customer (KYC) norms.

Securitization: - Is the process of homogenizing and packaging financial instruments into a new fungible one. Acquisition, classification, collateralization, composition, pooling and distribution are functions within this process.

Self-Help Group (SHG): 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. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment thereof. In fact, peer pressure has been recognized as an effective substitute for collaterals.

South Asia Free Trade Agreement (SAFTA): It is an agreement reached on 6 January 2004 at the 12th SAARC summit in Islamabad, Pakistan. It created a free trade area covering the SAARC member countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016. The SAFTA agreement came into force on 1 January 2006 and is operational following the ratification of the agreement by the seven governments. SAFTA requires the developing countries in South Asia (India, Pakistan and Sri Lanka) to bring their duties down to 20 percent in the first phase of the two-year period ending in 2007. In the final five-year phase ending 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developed nations in South Asia (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) have an additional three years to reduce tariffs to zero. India and Pakistan ratified the treaty in 2009, whereas Afghanistan as the 8th member state of the SAARC ratified the SAFTA protocol on the 4th of May 2011.

Special Purpose Vehicle - Is an organization set up with a limited purpose or life. Frequently, these Special Purpose Vehicles serve as conduits or pass through organizations or corporations. In relation to securitisation, it means the entity which would hold the legal rights over the assets transferred by the originator. Also called special purpose entity (SPE), SPV is a body corporate (usually a limited company) created to fulfil narrow,

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specific or temporary objectives, primarily to isolate financial risk, such as bankruptcy of the sponsoring company/industry.
In his 2005-06Budget speech, the then finance minister P Chidambaram has proposed the setting up of a financial special purpose vehicle (SPV) to fund projects in the infrastructure sector. The proposed SPV is expected to lend funds, especially debt funds of longer maturity, directly to eligible projects to supplement loans from banks and financial institutions. The SPV, according to the proposal, will become a vehicle for channelizing funds for projects in the roads, ports, airports, and tourism sectors.

SCOPE: Standing Conference On Public Enterprises.
Ways and means advance (WMA): is an advance made by the RBI to the Central and state governments to meet the daily excess of their expenditures over their revenues.

SENSEX: Sensitivity Index, first compiled in 1986, was calculated on a "Market Capitalization-Weighted" methodology of 30 component stocks representing large, well-established and financially sound companies across key sectors. The base year of SENSEX is 1978-79. SENSEX today is widely reported in both domestic and international markets through print as well as electronic media. It is scientifically designed and is based on globally accepted construction and review methodology. Since September 1, 2003, SENSEX is being calculated on a free-float market capitalization methodology. The "free-float market capitalization-weighted" methodology is a widely followed index construction methodology on which majority of global equity indices are based; all major index providers like MSCI, FTSE, STOXX, S&P and Dow Jones use the free-float methodology.

The growth of the equity market in India has been phenomenal in the present decade. Right from early nineties, the stock market witnessed heightened activity in terms of various bull and bear runs. In the late nineties, the Indian market witnessed a huge frenzy in the 'TMT' sectors. More recently, real estate caught the fancy of the investors. SENSEX has captured all these happenings in the most judicious manner. One can identify the booms and busts of the Indian equity market through SENSEX. As the oldest index in the country, it provides the time series data over a fairly long period of time (from 1979 onwards). Small wonder, the SENSEX has become one of the most prominent brands in the country.

Dollex-30

BSE also calculates a dollar-linked version of SENSEX and historical values of this index are available since its inception.

Dollex-30, a dollar-linked version of SENSEX, was launched on July 25, 2001 whereas Dollex-200, a dollar-linked version of BSE-200 was

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launched on May 27, 1994. These indices were initially calculated at the end of the trading session by taking into consideration day's rupee/ US$ reference rate as announced by India's Central Bank i.e. Reserve Bank of India.

BSE introduced Dollex-100, a dollar linked version of BSE-100, on May 22, 2006.

BSE-200 Index (1989-90 = 100)

Over the years, the number of companies listed on BSE continued to register a phenomenal increase; from 992 in to over 3,200 companies by March 1994, with combined market capitalization rising from Rs.5,421 crore to Rs. 3,98,432 crore as on 31st March, 1994.

Though SENSEX (1978-79=100) was serving the purpose of quantifying the price movements as also reflecting the sensitivity of the market in an effective manner, the rapid growth of the market necessitated compilation of a new broad-based index series reflecting the market trends in a more effective manner and providing a better representation of the increased equity stocks, market capitalization as also to the new industry groups. As such, BSE launched on 27th May 1994, two new index series-BSE-200 and Dollex-200.

The equity shares of 200 selected companies from the specified and non-specified lists of BSE were considered for inclusion in the sample for `BSE-200'. The selection of companies was primarily been done on the basis of current market capitalization of the listed scrips. Moreover, the market activity of the companies as reflected by the volumes of turnover and certain fundamental factors were considered for the final selection of the 200 companies.

BSE-500 Index (1999 = 1000): Bombay Stock Exchange Limited constructed a new index, christened BSE-500, consisting of 500 scrips w.e.f. August 9, 1999. The changing pattern of the economy and that of the market were kept in mind while constructing this index.

BSE-500 index represents nearly 93% of the total market capitalization on BSE. BSE-500 covers all 20 major industries of the economy. In line with other BSE indices, effective August 16, 2005 calculation methodology was shifted to the free-float methodology.

S&P CNX Nifty: Nicknamed NSE- 50 or simply Nifty [S&P CNX Nifty (1995=1000)], is the leading index for large companies on the National Stock Exchange of India. The Nifty is a well diversified 50-stock index accounting for 22 sectors of the economy. It is used for a variety of purposes such as benchmarking fund portfolios, index based derivatives and index funds.

The S&P CNX Defty is a U.S. dollar-denominated index based on the S&P CNX Nifty. This index has been developed to provide a benchmark to the international investors, providing them with an instrument for

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measuring returns on their equity investment in dollar terms. While the underlying S&P CNX Nifty is calculated in Indian rupees, the S&P CNX Defty is calculated and denominated in U.S. dollars. This ensures that the risk arising out of currency fluctuation is covered through the S&P CNX Defty.

CNX Nifty Junior (1996 =1000) is an index comprising the next rung of 50 most liquid securities after S&P CNX Nifty. It may be useful to think of the S&P CNX Nifty and the CNX Nifty Junior as making up the 100 most liquid stocks in India.

Singapore Issues: Refer to set four policy measures covering (1) Investment, (2) Competition Policy, (3) Transparency in Government Procurement and (4)Trade Facilitation, proposed by the Singapore Ministerial Conference of WTO at the behest of developed-country lobby. The set of Singapore issues, both individually and jointly, aim to ensure and protect the free entry and exit of MNCs in developing countries. These four Singapore issues are designed to reach and impact behind the border measures that are judged restrictive to MNCs' access to domestic markets. These instruments, jointly and individually, will have an adverse impact on developing-country governments' ability to develop industrial policies that promote small and medium scale enterprises and local capital as part of long-term sustainable and gender sensitive economic development. Women-owned, historically disadvantaged minority-owned and other SMEs, often under-capitalized in developing countries, are not able to compete with the unrestrained and unregulated presence of giant MNCs from developed countries.

Sin tax: A government-sponsored tax levied on products or services that are seen as vices, such as alcohol, tobacco, gambling and prostitution. These types of taxes are levied by governments to discourage individuals from partaking in such activities without making the use of the products illegal. These taxes also provide a source of government revenue.

Short Selling: The selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. Short sellers assume that they will be able to buy the stock at a lower amount than the price at which they sold short. Selling short is the opposite of going long. That is, short sellers make money if the stock goes down in price. This is an advanced trading strategy with many unique risks and pitfalls. Novice investors are advised to avoid short sales.

Soft Currency: Another name for "weak currency". The values of soft currencies fluctuate often, and other countries do not want to hold these currencies due to political or economic uncertainty within the country with the soft currency

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Teaser loan: Also called hybrid loan, it is a loan lure home loan aspirants with dual interest rate schemes. Under these schemes, banks/HFCs would charge highly attractive interest rates for an initial repayment period; say one to three years, and later on, as per prevailing rates. Teaser loans look attractive and may lure customers to seek higher amounts, as in the initial period, EMIs would be calculated at 1.5-2 per cent less than the prevailing rates. But if interest rates go up after the initial period (first one to three years where interest rate charged is much less than market rates and fixed also), higher EMIs may become a burden to the borrowers. Such situations may force borrowers to default on repayments. Large scale defaults may even lead to a 'sub-prime' kind of crisis.

In an attempt to control teaser loan practice of banks, the RBI in Nov 2010 has increased the standard asset provisioning by commercial banks for teaser home loans from 0.4 per cent to 2 per cent. It has also put a ceiling on the loan amount to be restricted to 80 per cent of value of property (loan-to-value ratio of 80 per cent) and increased the risk weight on high quantum loans (Rs. 75 lakh and above) to 125 per cent. If banks decide to continue to offer teaser loans, they will have to increase the provisioning from 0.4 to 2 per cent of such loans, which will block 1.6 per cent of their huge portfolio.

Terms of trade (ToT): Ratio of a country's export price index to its import price index. This indicator shows the changes over the base year in the level of export prices as percentage of import prices. Rising ToT of a country over time implies that it is getting more from its exports than it is paying for its imports.

Tobin tax: A tax suggested in 1978 by Prof. James Tobin, a winner of Nobel Prize in Economics, on all trade of currency across borders. The tax is supposed to put a penalty on short-term speculation in currencies. The proposed tax rate would be low, between 0.05 and 1.0 per cent. Since one country acting alone would find it very difficult to implement this tax, many argue it would be best implemented by an international institution. It has been proposed that having the United Nations manage a Tobin tax would solve this problem and would give the U.N. a large source of funding independent from donations by participating states. Tobin justified the tax on two grounds. First, he argued that it would reduce exchange rate volatility and improve macroeconomic performance of a country. Second, he argued that the tax could bring in a lot of revenue to support international development efforts.

Tortoise Economy: An economy that is growing slowly or not at all over time. The classic example of a tortoise economy is the Japanese economy during the decade of the 1990s. During that time, interest rates remained near 0% while economic expansion was non-existent. The phrase "tortoise economy" was first popularized by Robert Reich in

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his description of the U.S. economy during the financial crisis that began in 2007-08. In the years following the recession, U.S. growth remained slow, and interest rates were very low.

Toxic Asset: An asset that becomes illiquid when its secondary market disappears. Toxic assets cannot be sold, as they are often guaranteed to lose money. The term "toxic asset" was coined in the financial crisis of 2008/09, in regards to mortgage-backed securities, collateralized debt obligations and credit default swaps, all of which could not be sold after they exposed their holders to massive losses.
A toxic asset can be best described through an example: If John Doe buys a house and takes out a $400,000 mortgage loan with a 5% interest rate through Bank A, the bank now holds an asset - a mortgage-backed security. Bank A is now entitled to sell the asset to another party (Bank B). Bank B, now the owner of an income-producing asset, is entitled to the 5% mortgage interest paid by John. As long as house prices go up and John continues to pay his mortgage, the asset is a good one.

If, however, John defaults on his mortgage, the owner of the mortgage (whether Bank A or Bank B) will no longer receive the payments to which it is entitled. Normally, the house would then be sold, but if the house price has declined in value, only a portion of the money can be regained. As a result, the securities based on this mortgage become unsaleable, as no other party would pay for an asset that is guaranteed to lose money. In this example, the mortgage-backed security becomes a toxic asset.

Trade secret: A type of intellectual property such as formulary, know-how, process, system, or confidential information that gives its owner a competitive advantage and unauthorized disclosure of which will harm the owner. Courts generally grant injunctions to prevent a threatened disclosure of a trade secret by the current or former employees because otherwise the relationship of trust between the employer and employee will be destroyed. The employer must, however, demonstrate that he or she actively safeguarded the trade secret and had informed the employees that it was to remain confidential.

Tragedy of commons: An idea that collective ownership of a common resource may not provide the proper private incentives for efficiency because individuals do not bear the full costs of their own decisions but do enjoy the full benefits. As the demand for the resource exceeds its supply, every individual who consumes an additional unit directly harms others who can no longer enjoy the benefits. The tragedy of the commons occurs when individuals neglect the well-being of society (or the group) in the pursuit of personal gain.

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The concept of the Tragedy of the Commons is extremely important for understanding the degradation of our environment. The originates from Garrett Hardin, in his work 'Tragedy of the Commons'(1963), which was further articulated by him in his famous article in Science in 1968, which is widely accepted as a fundamental contribution to ecology, population theory, economics and political science. The concept is often cited in connection with sustainable development, meshing economic growth and environmental protection, as well as in the debate over global warming. "Commons" can include the atmosphere, oceans, rivers, fish stocks, village common property resources such as grazing lands, national parks, and even parking space.

Underwriting: An investment bank acting as underwriter sells securities from the issuer to the public to ensure successful distribution. The types of underwriting are best efforts and firm commitment. With best efforts, the underwriters have the option to buy and authority to sell securities, or if unsuccessful, may cancel the issue and forgo any fees. This arrangement is more common with speculative securities and with new companies. With a firm commitment, the underwriters purchase outright the securities being offered by the issuer.

White goods: Refer to non-essential consumer durable goods generally deemed as comforts or luxuries generally purchased by high-income people (white-collar people!)

Wholesale Price Index (WPI):
The Wholesale Price Index or WPI is the index wholesale prices of a representative basket of goods. Some countries use the changes in this index to measure inflation in their economies, in particular India – The Indian WPI figure was earlier released weekly on every Thursday and influenced stock and fixed price markets. The Indian WPI is now updated on a monthly basis. The Wholesale Price Index focuses on the price of goods traded between firms, rather than goods bought by consumers, which is measured by the Consumer Price Index. The purpose of the WPI is to monitor price movements that reflect supply and demand in industry, manufacturing and construction. This helps in analyzing both macroeconomic and microeconomic conditions. Measurement of inflation rate is based on Wholesale Price Index.

The Indian Wholesale Price Index (WPI) was first published in 1902, and its base year has since been changed from one decade to another. The Abhijit Sen committee appointed by the Planning Commission in 2007 had suggested several modifications in the wholesale price index. Accordingly the government launched a new wholesale price index on 14th Sept 2010 to measure inflation. The new series takes 2004-05 as base year instead of 1993-94 used by old index. The new index has been broad-based with 676 commodities vis-à-vis 435 commodities earlier. The old index with 1993-94 as the base had become outdated because

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the commodities basket was not representative of current consumption pattern. The new series has incorporated consumer items such as ice cream, mineral water, refrigerator, computer, and TV. The price volatility in these items is relatively limited as compared to fuels or food products.

The new data series lowers weightage of the more volatile food items and correspondingly hikes that of core manufactured products. For instance, primary articles would account for 20.1 weightage points as against 22 per cent earlier. Similarly, fuel and power would account for 14.9 per cent as compared to 14.2 per cent. Manufactured products have maximum weightage with 64.97 per cent vis-à-vis 63.8 per cent in the old index. The new WPI is supposed to give a realistic picture of price rise. The broad-basing is expected to smoothen the Index.

The Department of Industrial Policy and Promotion (DIPP) of the Union Ministry of Commerce and Industry which publishes the WPI has changed the frequency of the WPI series to monthly releases from the earlier practice of weekly releases though it continues to provide weekly inflation data for sensitive items such as food and fuel. The DIPP proposes to come out with a Services Price Index (SPI).

Yankee Bond: A bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Yankee bonds are often issued in tranches and each offering can be as large as $1 billion.

Zero-base budgeting (ZBB): Originally proposed by Peter A. Phyrr of Texas Instruments Inc (USA) in 1969 for use by corporate enterprises. Adopted by the departments of the central government since April 1987 to control public expenditure. ZBB requires that even the on-going expenditure (developmental & non-developmental) on different projects must be justified every year; otherwise it is liable to be eliminated from the current budget. This means that public expenditure on any project would not be allocated as a matter of routine; they are subject to scrutiny every time budget allocations are asked for. Zero-Base Budgeting is a technique of planning and decision-making which reverses the working process of traditional budgeting. In traditional budgeting (called incremental budgeting), departmental heads justify only increases over the previous year budget and what has been already spent is automatically sanctioned. No reference is made to the previous level of expenditure. By contrast, in zero-base budgeting, every department's function is reviewed comprehensively and all expenditures must be approved, rather than only increases. ZBB requires the budget request to be justified in complete detail by each division manager starting from the Zero-base.

Zero-tax Co. is one which has shown no provision for corporate tax in its Annual

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Report. The zero tax co's include SAIL, Reliance Industries, SBI, TISCO. Tax avoidance is a legal activity while tax evasion is an illegal activity. Means to avoid taxation: 1) export earnings exempted from corporate tax; 2) tax holidays; e.g. power sector enjoys 5-year tax holiday; 3) investment in backward areas; 4) depreciation allowance.

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