

**VISIONIAS**

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Classroom Study Material

**ECONOMY**

(Part I of III)

November 2015 – August 2016

*Note: September and October material will be updated in November 1<sup>st</sup> week.*

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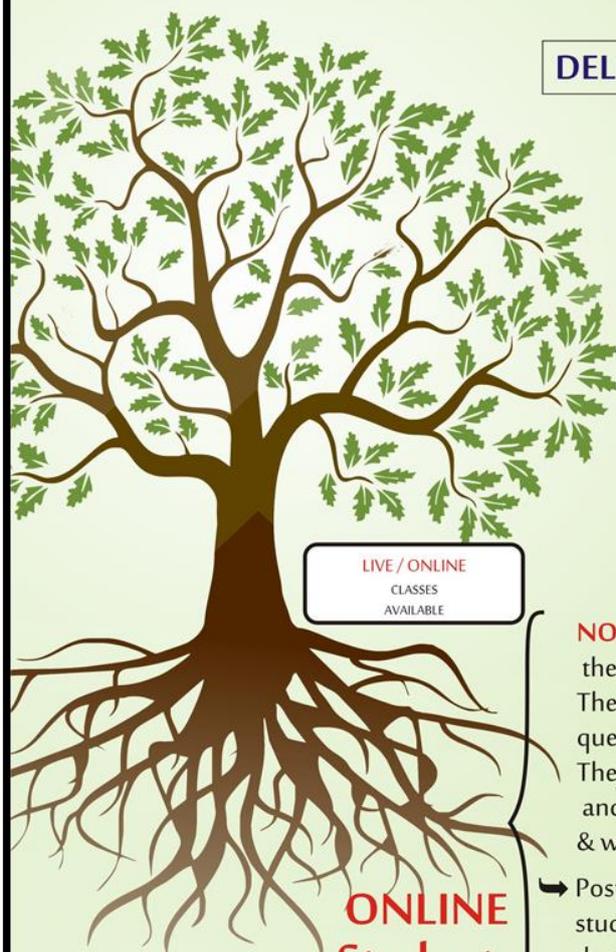
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# FINANCE AND BANKING

## 1. MONETARY POLICY

To reform how monetary policy is decided, the Reserve Bank of India Act was amended. This is going to reset the responsibility of deciding India's monetary policy from the hands of Governor of RBI alone.

Various Committees - **Tarapore, Reddy, FSLRC** and more recently **Urjit Patel Committee** have either directly or indirectly recommended that

- Monetary policy should be decided by a Committee rather than a single person.
- Decision should be based on majority voting.
- Minutes of such meetings should be put in public domain.

### Background

- Until recently, RBI used to take its monetary policy decisions based on the multiple indicator approach. Its rate decisions were expected to take into account inflation, growth, employment, banking stability and the need for a stable exchange rate. Thus, RBI would be subject to hectic lobbying ahead of each policy review and trenchant criticism after it.
- The Government/industries would clamour for lower rates while consumers bemoaned high inflation. Bank chiefs would want rate cuts, but pensioners would want high rates. RBI ended up juggling all these objectives and focusing on different indicators at different points in time.
- To resolve this, RBI set up an Expert Committee under Urjit Patel to revise the monetary policy framework, and it came up with its report in January 2014.
- It suggested that RBI abandon the 'multiple indicators' approach and make inflation targeting the primary objective of its monetary policy.
- It also mooted having an MPC so that these decisions could be made through majority vote. Having both Government and RBI members on the MPC was suggested for accountability.
- The Government would have to keep its deficit under check and RBI would owe an explanation for runaway inflation.
- Thus, it was **long felt need to shift to a Committee System** for deciding monetary policy that is expected to bring "value and transparency" to rate-setting decisions.

#### Difference vis a vis TAC:

- While RBI has a history of working with the technical advisory committee (TAC), the terms of engagement with the new monetary policy committee (MPC) will be different.
- Unlike TAC, where the voting was anonymous, the MPC framework requires the central bank to share the minutes of the MPC meeting.
- One complaint among TAC members was their limited access to information. The amended RBI Act says MPC members can now request at any time, "additional information, including any data, models or analysis".
- The role of the central bank governor and her/his deputies will also change under the new regime. In the past, the governor just had to listen and act independently.

### Monetary Policy Committee Composition agreed by Finance Ministry and RBI

- The Government will nominate three members and the RBI- three members (RBI Governor, Deputy Governor-Monetary Policy & One Executive Director).
- A search committee will recommend three external members, experts in the field of economics, banking or finance, for the Government appointees.
- The RBI Governor, chair of the committee, will have a casting vote.
- Inflation target for the RBI in each financial year will be determined by the Government in consultation with the RBI itself.
- For inflation targeting and for Setting Policy Rates CPI is going to be Sole Parameter.
- For this the Central Statistics Office (CSO) has updated the base year and weights for the various goods and services in the consumer price index (CPI).

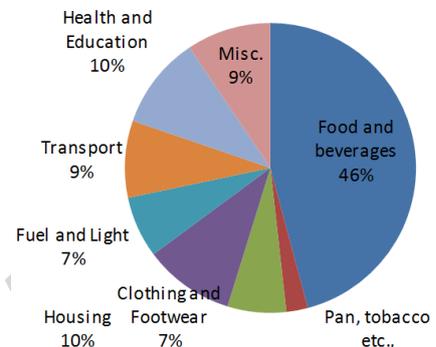
Total	100
Primary Articles	20.12
Food Articles	14.34
Non-Food and Minerals	5.78
Manufactured Products	64.97
Food Products	9.97
Non-Food Products	55
Fuel and Power	14.91

- Before CPI, Wholesale Price Index (WPI) was main index for measurement of inflation in India till April 2014. It gives more weightage to Manufacturing articles and is useful for industry. It doesn't measure retail articles.

### 1.1. ADVANTAGES OF CPI AS SOLE PARAMETER

- CPI better reflects demand side of the economy and market dynamism. It is more close to what the general population is effected by, and therefore a better parameter.
- The revisions in the CPI are way forward. For ex: weightage for food is down from 47.5% to 45.8%, and fuel from 6.5% to 9.8%. The weightage for housing and clothing have increased. These changes reflect the changing consumption pattern.
- CPI includes services sector: is better than WPI for setting policy rates because, CPI indirectly takes into account the services sector as reflected in the spending of health, education, transport and communication etc.,
- The central bank has to maintain the real interest rate and therefore has to target CPI because retail consumers, their ability to consume and buy goods (especially poor), their investment and savings decisions etc., are impacted by it.

**CPI basket with weightages**



But there are certain **Disadvantages of this updation:**

- Distorting: The high weightage for a relatively small consumption basket of food and fuel items if used to determine the overall cost of funds can be distorting.
- Volatile sectors like fuel in CPI basket, supply chain bottle-necks and disruptions are beyond control of rates set by the RBI
- Changing demand patterns not appropriately reflected in CPI: there is rising demand for the so-called superior foods, because of growing incomes and transfer payments.

### 1.2. INFLATION TARGETING: USING POLICY RATES ANCHORED TO CPI

#### Pros

- Credibility: Primary goal is 'price stability'. Stability induces confidence in future and helps in decision making.
- Reduced costs of Inflation: higher inflation leads to uncertainty, leading to lower investment, loss of international competitiveness and reduced value of savings.
- Avoids Boom and Bust cycles: as high inflationary growth may end up in recession like conditions and provides stable and sustainable economic growth.

#### Cons

- Pursuit of one objective may lead to compromise on others.
- Restricted ability of the central bank to **respond to financial crises or unforeseen events.**
- Potentially **poor outcomes in employment.**
- Potential instability in the event of **large supply-side shocks** (for ex: during droughts etc.,)

#### Conclusion

Since the objective of monetary policy is 'to achieve price stability while striking a balance with the objective of the Central Government to achieve growth', the present revision is a good step in the right direction.

Apart from ensuring price stability, monetary policy also tries to contribute to economic growth and stability, to lower unemployment, and to maintain predictable exchange rates with other currencies.

### 1.3. MARGINAL COST OF FUNDS BASED LENDING RATE (MCLR)

#### Why in news?

Reserve Bank of India has directed banks to adopt Marginal Cost of Funds based Lending Rate (MCLR) for determining their respective Base Rates.

#### What is MCLR?

- The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. Thus, it is an internal benchmark or reference rate for the bank.
- **Objective of MCLR**
  - ✓ To improve the transmission of policy rates into the lending rates of banks.
  - ✓ To bring transparency in the methodology followed by banks for determining interest rates on advances.
  - ✓ To ensure availability of bank credit at interest rates which are fair to borrowers as well as banks.
  - ✓ To enable banks to become more competitive and enhance their long run value and contribution to economic growth.

#### Base Rate vs MCLR

- **Base rate calculation** is based on cost of funds, minimum rate of return, i.e margin or profit, operating expenses and cost of maintaining cash reserve ratio while the MCLR is based on marginal cost of funds, tenor premium, operating expenses and cost of maintaining cash reserve ratio.
- **Calculation of marginal cost under MCLR:** Marginal cost is charged on the basis of following factors- interest rate for various types of deposits, borrowings and return on net worth. Therefore MCLR is largely determined by marginal cost of funds and especially by deposit rates and repo rates.

#### Reasons for introducing MCLR

- RBI decided to shift from base rate to MCLR because the rates based on marginal cost of funds are more sensitive to changes in the policy rates.
- This is very essential for the effective implementation of monetary policy.
- Prior to MCLR system, different banks were following different methodology for calculation of base rate /minimum rate – that is either on the basis of average cost of funds or marginal cost of funds or blended cost of funds.

### 1.4. RBI'S ANNUAL REPORT

#### Why in News?

- **RBI** has released its Annual Report 2016 which highlights the current situation of the economy and also states future prospects.

#### Key Highlights of the Report

- The report says that the current prospects for the economy are **brighter than the previous fiscal**.
- Faster clearances of stalled projects have boosted overall business sentiment.
- Sectors such as roads and ports have seen significant improvement.
- A good monsoon and pay commission hike for government employees is likely to **boost consumption which in turn will lead to pick-up in demand**.
- The key challenges before the Central Bank are **economic growth, curbing inflation and ensuring that banks focus on rate cut transmission and balance sheet cleanup**.

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## 2. FINANCIAL INCLUSION: ACCESS TO FINANCE

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.

*“Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom” – Nelson Mandela.*

### Issues in Financial inclusion

Some issues with financial inclusion (**Deepak Mohanty committee**):

- **Last mile service delivery:** A low-cost solution should be developed by utilisation of the mobile banking facility for maximum possible G2P payments.
- **Stability of the credit system:** Fall out of FI initiatives is a stress on health of financial system. A unique biometric identifier such as **Aadhaar should be linked to each individual credit account** and the information shared with credit information companies
- **Gender Inequality:** Banks have to make special efforts to step up account opening for females.
- Introduction of a system of unique identification for all MSME borrowers and sharing of such information with credit bureaus.
  - ✓ It recommended a graded system of certification of business correspondents (BCs), from basic to advanced training. BCs with a good track record and advanced training can be trusted with more complex financial tasks such as credit products that go beyond deposit and remittance.
  - ✓ The committee has recommended the use of application-based mobile phones as points of sale for creating necessary infrastructure to support the large number of new accounts and cards issued under the Jan Dhan Yojana.
  - ✓ In order to increase formal credit supply to all agrarian segments, digitisation of land records backed by Aadhar-linked mechanism is the way forward.
  - ✓ Model land act will be helpful for increasing access to tenant farmers.
  - ✓ Encourage multiple guarantee agencies to provide credit guarantees in niche areas for micro and small enterprises (MSEs), and explore possibilities for counter guarantee and re-insurance

### Steps taken by the Government and RBI

#### 2.1. INCREASING NO. OF BANKS USING ON-TAP BANKING LICENCES

- In past 2 years, RBI has fastened the pace of licensing process to promote financial inclusion.
- 23 entities have been granted banking licenses under different segments - universal banks, payment banks and small finance banks.

#### Benefits of the Policy

- Expedite the setting up of new banks as it will allow continued licensing rather than stop & go approach followed before.
- Standing External Advisory Committee will be formed **to vet** the application after initial screening by RBI. This will allow RBI to
  - ✓ Have a holistic examination of wide variety of institutions applying for banking licenses
  - ✓ Create a transparent process of banking license in India

Criteria for granting licenses in the draft policy:

- A minimum capital of Rs. 500 crore,
- A 10-year track record: Requirement of 10 years' experience for individual applicants in banking and finance,
- Minimum 13 per cent capital adequacy ratio for three years.

#### Issues with the Policy

- Time frame for granting of license has not been fixed. Last time the process of granting license was quite long (roughly 5 years)

- RBI should also communicate the reason on which banking license was denied
- Draft policy outlines that all the entities satisfying criteria will not be granted license. Licensing process should be rule-based and not discretion-based.
- Criteria will only allow financial companies to apply for banking licenses.

## 2.2. PAYMENT BANKS

- Payments banks will mainly deal in remittance services and accept deposits of up to Rs 1 lakh.
- The objective of Payment Banks was to further financial inclusion in India.
- After initial scrutiny, in principle approval was given to 11 companies by RBI.
- But after initial enthusiasm in applying for payment banks, companies like Tech Mahindra, Sanghvis, Cholamandalam Investment have opted out. Government itself decided to establish India-post payment banks.

### Challenges for payment banks in general:

- Low revenue: can't undertake any lending businesses and the income stream is initially restricted to charges on remittances and efficiency of operations.
- 75% has to go into government securities. This limits their ability to earn from the deposit base as well.
- Banks are already offering most services that payments banks can and hence, for payments banks to offer a new and differentiated proposition will not be easy.
- Other saving instruments like kisan vikas patra, gold bonds etc have better returns than payment banks
- Experience from Jan Dhan Yojna has shown that many such no-frill accounts have remained dormant, thus affecting the viability of the banks.

### What are payment banks?

- Payment banks are non-full service banks, whose main objective is to accelerate financial inclusion.
- They will not lend to customers and will have to deploy their funds in government papers and bank deposits.
- They can accept demand deposit, issue ATM/debit cards but not credit cards.
- The promoter's minimum initial contribution to equity capital will have to be at least 40% for the first five years.

## 2.3. ESTABLISHING INDIA POST PAYMENTS BANKS

Union Cabinet has approved the setting up of India Post's payments bank at a total project cost of Rs 800 crore.

- India Post Payment Bank (IPPB), which will generate employment opportunities for about 3,500 skilled banking professionals, will set up 650 branches and 5,000 ATMs across the country.
- IPPB will start operations in March 2017 in about 50 districts and will cover the entire country by the end of FY 2018-19.

### Significance

- Extensive reach and spread of Indian postal system to blocks, taluks and villages ensuring last mile connectivity.
- Old setup, ease of access, years of trust and familiarity of rural people.
- Brick and mortar banks are unviable to setup in many of the remote areas.
- Helpful for migrants, labourers, MSME, poor household, enhancing access to financial services and promoting financial inclusion.
- Provision of debit facility.

## 2.4. REGIONAL RURAL BANKS AND PSL

As of end-March 2015, there were 56 RRBs operating in the country, with a network of 20,059 branches covering 644 notified districts across 26 States and the Union Territory of Puducherry.

### Background:

- Even after nationalization in 1969, there was a feeling that there were cultural issues which made it difficult for commercial banks, even under government ownership, to lend to farmers.
- So, the government set up **Narasimham Working Group** in 1975. And on the basis of this committee's recommendations, Regional Rural Banks Act 1976 was brought into force.

### Salient Features

- The RRBs were owned by three entities with their respective shares as follows:
- Central Government → 50%, State government → 15% and Sponsor bank → 35%.
- Every bank was to be sponsored by a "Public Sector Bank".
- These sponsor banks are required to:
  - ✓ subscribe to the share capital of RRBs
  - ✓ train their personnel
  - ✓ provide managerial and financial assistance .

### What is Priority Sector Lending (PSL)?

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

**Categories under priority sector include**  
Agriculture; 2. Micro, Small and Medium Enterprises; 3. Export Credit; 4. Education; 5. Housing; 6. Social Infrastructure; 7. Renewable Energy; and 8. Others

### Challenges with Priority Sector Lending:

- Currently many banks find it difficult to meet their PSL requirement as they may not find it **viable** to lend to the rural or MSME sector.
- Despite agriculture being a prime focus, no substantial gain in **capital investment** has happened in agriculture because banks tend to lend for short term just to fulfill RBI norms (Economic Survey 2014-15).
- More than half the PSBs (16 of 26) couldn't achieve the 18 per cent agriculture target in 2014, while 13 of the 20 private sector banks failed to achieve sub-targets for agriculture.
- So RBI issued a notification on 7 April permitting the issue and trading in **Priority Sector Lending Certificates** (PSLCs) as recommended by Raghuram Rajan Committee, 2008, whereby banks can buy and sell such credits to manage their priority sector lending requirements.

### What is PSLCs?

- PSLCs are **tradable certificates** issued against priority sector loans of banks so as
  - ✓ To enable banks to achieve their specified target and sub-targets for priority sector lending through purchase of these instruments in the event of a shortfall.
  - ✓ At the same time incentivizing the surplus banks to lend more to these sectors.
- PSLCs are to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks.
- All Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, Small Finance Banks (when they become operational) and Local Area Banks are eligible for PSLC trading.
- There will be no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow. The settlement of funds will be done through the e-Kuber portal.

## Types of PSLCs

There would be four kinds of PSLCs:

- PSLC Agriculture
- PSLC SF/MF (Small and Marginal Farmer)
- PSLC Micro Enterprises
- PSLC General

## Benefits

Essentially the PSLC is a market-driven interest subsidy to those who make priority sector loans.

- Banks unable to meet their priority sector lending targets now have a more viable and easier way to make good their shortfall.
- It offers banks a seamless platform to buy and sell their priority lending targets.
- A bank that is focused on priority sector lending say, agriculture, now has the flexibility to issue and sell certificates with ease in the secondary market.
- Issue of banks scrambling towards the year-end to meet their targets will also be resolved.
- It allows the Banks to focus on their strengths and purchase credits from banks with expertise in making such loans (to Priority sector).

## Concerns

- Lending banks may roll out more than required loans to make profit by selling extra PSL certificates.
- Banks can involve too much in chasing fees through excess PSL trading.
- Secondary trading of such certificates should also be checked.

RBI's move on PSL certificates is an extremely innovative initiative. It has the potential to usher in large efficiencies in Indian banking, without sacrificing on any of the larger inclusion and equity goals.

## 2.5. REVISED PRIORITY SECTOR LENDING NORMS

RBI has revised Priority Sector Lending (PSL) norms for Regional Rural Banks (RRBs).

As per these new norms, the **PSL target has increased to 75 percent of total outstanding from the existing 60 percent.**

Other significant revisions in the PSL norms are:

- Increase in the limit on loans to individual farmers to 50 lakh from 10 lakh.
- Doubling the aggregate limit to Rs. 2 crore per borrower (corporate farmers, producer companies of individual farmers, and partnership firms/co-operatives) engaged in agriculture and allied activities.
- In the case of housing loans: Loans of up to 20 lakh (25 lakh now) will be made available to individuals on PSL for the purchase/construction of a dwelling unit per family.

## 2.6. CHANGES IN MUDRA SCHEME

- For making the lending to micro sector and micro finance institutions more effective, MUDRA Ltd was converted into MUDRA Bank as a wholly owned subsidiary of Small Industries Development Bank of India (SIDBI) and creation of a Credit Guarantee fund for MUDRA loans.

### Objective for creation of credit guarantee fund

- The CGF has been created to reduce the credit risk of MFIs/Banks/NBFCs/other financial intermediaries associated in disbursing loans to Micro and Small units. MFIs can now become Member Lending Institutions (MLI) with MUDRA (SIDBI) Bank for refinance or with NCGTC for credit guarantee.

## 2.7. EASE OF USING BANKING SERVICES: ELECTRONIC PAYMENT AND DISBURSING SYSTEMS

### 2.7.1. RBI'S VISION DOCUMENT FOR 2018

#### Features:

- This document focuses on **migrating to a less-cash and more digital society**.
- The broad contours of Vision-2018 revolve around **5Cs - Coverage, Convenience, Confidence, Convergence and Cost**.
- **Coverage:** To encourage greater use of electronic payments by all sections of society so as to achieve a "less-cash" society i.e., increased e-transactions, e- payment and e- settlement,
- **Convenience:** To promote electronic transactions RBI would review guidelines relating to mobile banking, white label ATM, National Electronic Funds Transfer (NEFT), and prepaid instruments which include m-wallets, prepaid cards and paper vouchers.
- **Unified Payments Interface:** (*Discussed below*)
- **Confidence:** Strengthening of existing payment systems will be done
  - ✓ RBI will review rules governing various payment and settlement channels
  - ✓ RBI will increase the supervisory mechanisms and set an oversight framework to ensure that any newly introduced systems are resilient.
  - ✓ RBI would bring in necessary amendments to the Payment and Settlement Act for greater oversight on central counter parties (CCPs) and in helping resolve issues such as insolvency of CCPs.
- Usage of Aadhaar - for authentication would be encouraged.

#### Advantages of electronic payment systems

- Time savings and convenience.
- Safety from money being lost, stolen, robbed etc.
- Recorded flow of money which can be trailed and taxed; hence, it discourages the growth of black economy
- Interoperability and user-friendly mobile payment options also available
- Availability of short term credit through Credit Cards

#### Limitations

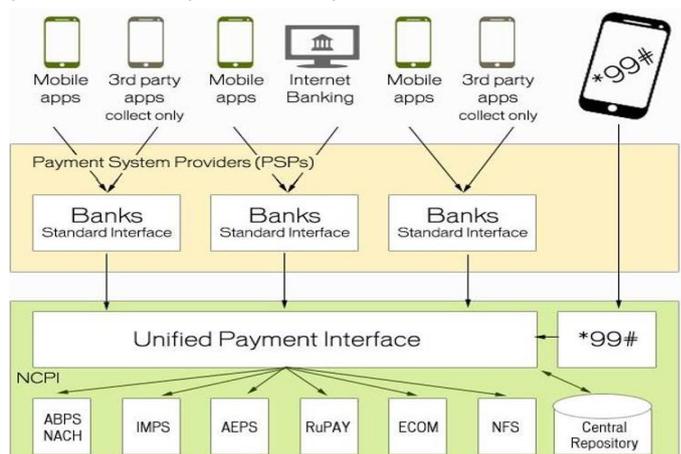
- The risk of being hacked.
- Internet access and quality of internet connections.
- The lack of anonymity.

### 2.7.2. UNIFIED PAYMENTS INTERFACE (UPI)

"Unified Payments Interface (UPI)" was launched by National Payments Corporation of India (NPCI) to revolutionize mobile payment system in the country.

#### What is UPI?

- It is a common platform through which a person can transfer money from his bank account to any other bank account in the country instantly using nothing but his/her UPI ID.
- The interface will be based on the Immediate Payment Service (IMPS) platform.



### How will it work?

- **Easy:** A customer can transfer money to another person through a unique virtual address, or mobile number, or Aadhaar number.
- **Simpler:** Therefore, customers do not need to know the payee's IFSC code, bank account details, etc. and this will make the process simpler.
- **Confidence:** A customer can have multiple virtual addresses for multiple accounts in various banks. There is no account number mapper anywhere other than the customer's own bank. This allows the customer to freely share the financial address with others.

### How is it better than existing payment methods?

- Apart from doing away with the need for account details, one can also raise payment requests and ask for money. Therefore, it is being expected that apart from consumers, even merchants and companies will widely use this platform.

### Significance

- India is still a cash intensive economy with cash to GDP ratio of over 12 per cent. As per estimates 95 % of consumer transactions (volumes) and 65 % (value) in India are carried out in cash. This compares with 40-50 % (volumes) and 10-20 % (value) for advanced economies. UPI is expected to change this.
- The estimated annual cost of currency operations in India is Rs 21,000 crore. By moving to a less cash economy, this cost can be significantly brought down.
- **More interoperability:** Although a large number of banks are offering mobile banking services, these are not completely inter-operable, especially for merchant transactions. Full operationalisation of UPI will facilitate inter-operability in P2B payments.

### Panel to promote card payments

- The government has set up an eleven member panel headed by former finance secretary Ratan P Watal to suggest ways to promote electronic transactions through incentives such as tax rebates, cash back, lottery and changes in existing regulatory mechanism.
- The panel will recommend steps for leveraging unique identification number or other ID proofs for authenticating card and digital transactions and study global best practices in payments.
- It will examine setting up of a Centralised KYC registry and study the feasibility of creating a payments history of all card/digital payments to ensure "instant, low cost micro-credit" through digital means.
- The committee will study introduction of single window system of payment gateway to accept all types of cards/digital payments of govt. receipts, settling them through NPCL and look into the scope of integration of all government systems like Public Finance Management System, PayGov, Bharatkosh and eKuber.

(3 hours class, 30 min MCQ test, 30 min discussion)

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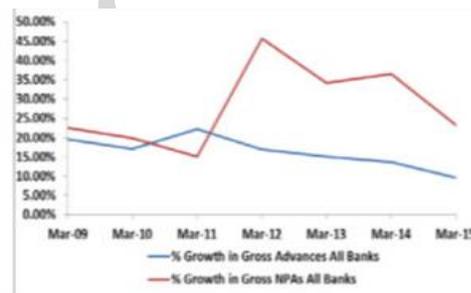
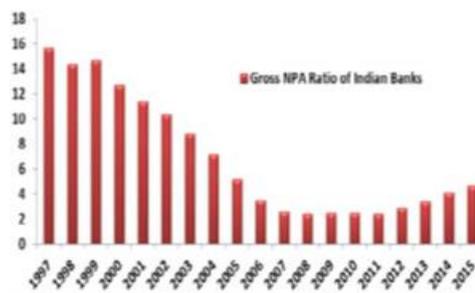
### 3. SOLVING THE STRUCTURAL AND FUNCTIONAL PROBLEMS OF BANKING



#### 3.1. RECOGNITION

##### 3.1.1. FINANCIAL STABILITY REPORT

The level of gross non-performing advances (or GNPA) has risen sharply from 5.1 per cent in September 2015 to 7.6 per cent in March 2016. This is due to asset quality review pushed by the RBI, which involves re-classification of restructured advances to NPAs. **Stressed assets** (NPA and restructured loans) – PSB @14%, private banks @4.6% and foreign banks @3.4%.



#### BAD LOANS AT LAST COUNT: Rs 3 LAKH CRORE

- For year-ending March 2015, gross NPAs of scheduled commercial banks stood at Rs 3.02 lakh crore in absolute terms, or 4.6 per cent of advances. Six months later, this rose to 5.1 per cent.
- The stressed advances ratio – bad loans plus loans that have been restructured by banks – increased to 11.3 per cent in September 2015 from 11.1 per cent in March.
- Private estimates of stressed assets are much higher, and vary between 17.5 per cent and a quarter of all bank advances.

##### 3.1.2. STRESSED ASSETS

- The central bank issued a set of guidelines for a corrective action plan to revitalize distressed assets in the banking system.
- Asset Quality Review:** Central Bank has directed commercial banks to accelerate provisioning requirement and asked Banks to recognize stress assets on proactive basis.
- It will ensure that bank's balance sheet reflects a true and fair picture.
- Through this clean-up exercise and increased provisioning, banks would be in a position to manage stress.
- RBI conducted an asset-quality review across the banking sector in October-December and asked banks to recognize visibly stressed assets as non-performing assets (NPAs)

#### Way forward

- Stressed assets should not immediately be treated as NPA.
- A few stressed assets needs conditions, terms, perhaps changes in promoters and may well repay a fair amount of value in time.
- Few experts are of the view that the current system lacks in transparency and needed to be tightened to ensure efficiency.

#### Stressed assets VS Non Performing Assets

- Stressed Asset - An account where principal and/or interest remains overdue for more than 30 days.
- NPA - A loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

An entity or a person that has not paid the loan back despite the ability to repay it

As per the RBI regulations, willful default covers several broad areas: Deliberate non-payment of the dues despite adequate cash flow and good networth, Siphoning off of funds to the detriment of the defaulting unit, Assets and proceeds have been misutilised; Misrepresentation / falsification of records; Disposal / removal of securities without bank's knowledge; Fraudulent transactions by the borrower.

### 3.1.3. WILLFUL DEFAULTERS

- Willful defaulters owe PSU banks a total of Rs. 64,335 crore or 21 per cent of total non-performing assets (NPA).
- The banks have “evidently failed” to notice the early signs of stress on the loans disbursed by them.
- The sharpest increase in NPAs in the banking industry was observed in mid-size corporates.

#### Recommendations of standing committee on finance regarding willful defaulters:

- The Standing Committee on Finance recommended that state-owned banks **make public the names of their respective top 30 stressed accounts involving willful defaulters.**
- This will act as a **deterrent** and enable banks to withstand pressure and interference from various quarters in dealing with the promoters for recoveries or sanctioning further loans.
- The committee recommended amending the RBI Act and other laws and guidelines.
- The committee is not happy with the management of the problem on both fronts, at the level of the RBI (Reserve Bank of India) and at the level of the banks.
- There is an urgent need for banks to reduce their stressed assets and clean up their balance sheets lest they become a drag on the economy.
- Specially-tasked committees be mandated to continually monitor the status of large loan portfolios and submit periodical reports to government and Parliament on the findings.

## 3.2. RECAPITALIZATION

### I. Revised Norms which unlocks Rs. 40000 crores for banks

- Reviving growth PSBs loans have to increase by 12% which requires an additional Rs.2.4 trillion of capital by end-March 2019 to meet the Basel III requirements.
- RBI has made some amendments to the **treatment of certain balance sheet items** for the purposes of **determining banks regulatory capital.**
- The revisions introduced include recognition of revaluation reserves arising from change in the carrying amount of a bank's property consequent upon its revaluation as common equity tier—I capital instead of the earlier tier 2 capital.
- Banks can recognize foreign currency reserves arising due to translation of financial statements of foreign operations to the reporting currency as common equity tier-I (CET1) capital.
- **Effect of norm revision**
  - ✓ It aligned the definition of regulatory capital with the internationally adopted Basel III capital standards.
  - ✓ The move will unlock Rs. 35,000 crore capital for Public Sector Banks and Rs. 5,000 crore for private sector banks.

Tier 1 capital is a bank's core capital, whereas tier 2 capital is a bank's supplementary capital. A bank's total capital is calculated by adding its tier 1 and tier 2 capital together.

**Tier1:** It is essentially the money the bank has stored to keep it functioning through all the risky transactions it performs, such as trading/investing and lending. It is composed, primarily, of disclosed reserves (also known as retained earnings) and common stock.

**Tier2:** It is more risky. It is composed of items such as revaluation reserves, undisclosed reserves, hybrid instruments and subordinated term debt.

### II. Other Steps taken

- Government announced Rs. 70,000 crore for recapitalization of banks in coming four years in August, 2015.
- Indradhanush scheme.

### 3.3. RESOLVING THE NPA PROBLEM

#### 3.3.1. SCHEME FOR SUSTAINABLE STRUCTURING OF STRESSED ASSETS (S4A)

- It is restructuring large ticket loans where the project is up and running.
- Here the lenders are required to separate a sustainable loan from an unsustainable loan. The bank would convert the unsustainable debt into equity or equity related instruments.
- As a result, on one hand, the debt burden of the borrower is substantially reduced and on the other hand promoter's equity stake is also reduced.
- The idea behind the scheme is that banks would get the upside if the company regains its old glory and it also gives promoters a second chance to revive the company.

#### Highlights

- Banks can split the overall loans of struggling companies into sustainable and unsustainable based on the cash flows of the projects.
- The unsustainable debt could be converted into equity or a convertible security. However at least 50% of the debt should be serviced in the same period as that of the existing loan.
- Once the unsustainable debt is converted to equity, banks can sell this stake to a new owner who will have the advantage of getting to run the business with a more manageable debt.
- An advisory body called **Overseeing Committee (OC)** will be constituted, which will review the resolution plans submitted by the Banks. It will check the reasonableness and adherence to the guidelines and give an opinion.
- Projects with a loan of at least Rs 500 crores and have commenced commercial operations are eligible to be restructured under S4A.
- An external consultant should endorse it as a viable project through a techno-economic viability (TEV) study and the forensic audit should give a clean chit to the promoter
- Bankers cannot tinker with the terms of the sustainable loan.

#### 3.3.2. ASSET RECONSTRUCTION COMPANY

- To tackle rising NPAs, the Union Finance Ministry and NITI Aayog has recommended to set up an Asset Reconstruction Company (ARC) with equity funding from the government and the RBI.
- PSBs condition is particularly bad as compared to private banks because they have to lend under various **government objectives** and under the compulsion of **social banking**.
- **100%** FDI under automatic approval for ARCs.

#### 3.3.3. OTHER STEPS TAKEN BY RBI

- 5:25 Scheme: It allows banks to extend long-term loans of 20-25 years to match the cash flow of projects, while refinancing them every 5 or 7 years.
- Compromise settlement schemes.
- Strategic Debt Restructuring (SDR) - consortium of lenders converts a part of their loan in an ailing company into equity, with the consortium owning at least 51 per cent stake.
- Corporate Debt Restructuring (CDR) mechanism and Joint Lenders' Forum.

BANKING REFORMS	
A bid to cross the bad debt mountain	
<b>MEASURE   IMPACT</b>	
<ul style="list-style-type: none"><li>• Formation of monetary policy committee</li></ul>	<ul style="list-style-type: none"><li>• The amount seems inadequate given public banks have seen surge in bad loans. Will face challenge in raising capital.</li></ul>
<ul style="list-style-type: none"><li>• To increase transparency and accountability of framing monetary policy</li></ul>	<ul style="list-style-type: none"><li>• Bank Board Bureau to be operational, roadmap for consolidation for public sector banks</li></ul>
<ul style="list-style-type: none"><li>• Rs 25,000 crore capital infusion in public sector banks</li></ul>	<ul style="list-style-type: none"><li>• Significant move to reform public sector banks. When BBB becomes operational,</li></ul>
	
	<ul style="list-style-type: none"><li>• government will not be involved in the top management and board level appointment. Consolidation will lead to banks with bigger balancesheet which is required to finance the large infrastructure.</li></ul>
	<ul style="list-style-type: none"><li>• Paring stake in IDBI Bank below 50%</li></ul>
	<ul style="list-style-type: none"><li>• Cutting down stake in IDBI Bank</li></ul>
	<ul style="list-style-type: none"><li>• below 50% will mean the bank is at par with private banks which could increase its efficiency</li></ul>
	<ul style="list-style-type: none"><li>• Listing of general insurance companies</li></ul>
	<ul style="list-style-type: none"><li>• To bring in transparency, accountability and forward looking approach through IPO</li></ul>
	<ul style="list-style-type: none"><li>• 100% FDI in asset reconstruction companies through automatic route</li></ul>
	<ul style="list-style-type: none"><li>• More players will come in. This is required to absorb the surge in badloans</li></ul>



### 3.3.4. INDEMNITY FOR BANKERS TO TACKLE NPAS

It refers to the security or exemption granted to a person from legal responsibility arising from his/her action.

#### Proposal by the Govt.

- Finance ministry is considering the possibility of providing indemnity to bankers dealing with one time settlement of non-performing assets.
- This is expected to provide a safety net to bankers to take up loan settlements and genuine commercial decisions.
- An external panel consisting of finance minister, RBI officials, external experts and Judges would screen the loan settlement proposals.

#### Conclusion

- Some assets are best classified as loss assets and should be written off in the books, even as efforts are made to recover whatever value can be recovered through liquidation.
- New bankruptcy code is a potential game changer, but may take time to operationalize.
- Banks ought to take a large enough haircut on existing debt to make the restructured project attractive for ideas of SDR, S4A, ARCs, NIIF to work
- The proposed National Infrastructure and Investment Fund (NIIF), operating with private partners, will provide both equity and new credit to stressed infra projects going through the SDR mechanism.

## 3.4. REFORMS

### 3.4.1. INDRADHANUSH

It is a seven pronged plan launched by Government to revamp functioning of public sector banks.

#### Bank Board Bureau

- The bureau was announced last August as part of the seven-point Indradhanush plan.
- The bureau will have three ex-officio members and three expert members, in addition to the Chairman.

#### Function and impacts

- To recommend appointments to leadership positions and boards in public sector banks
- To advise on ways for raising funds and mergers and acquisitions to the lenders.
- It will play a critical role in reforming the troubled public sector banks by improving governance.
- With professionalization of appointment in leadership position, the BBB is first step towards Bank Investment Company as recommended by P J Nayak committee.

#### Challenges

- The framework talks about the government putting in Rs 70,000 crore into these banks over the next four years but The PJ Nayak committee report released in May 2014 estimated that between January 2014 and March 2018 "public sector banks would need Rs. 5.87 lakh crores of tier-I capital. So, the government is not investing as much as the public sector banks really need to get out of the current situation that they are in.
- Nayak Committee had proposed a BBB comprising entirely of senior bankers. Under Indradhanush, the government will be represented on the BBB. Further, no reference to disinvestment has been made.

### THE SEVEN-POINT AGENDA

The govt is looking to nurse ailing PSU banks back to health

#### 1 APPOINTMENTS

	Previous position	Current position
PS Jayakumar	Consumer banking head, Citibank	CEO & MD, Bank of Baroda
Ravi Venkatesan	Chairman, Microsoft India and board member, Infosys	Chairman, Bank of Baroda
Rakesh Sharma	Chairman, Lakshmi Vilas Bank	MD & CEO, Canara Bank

Bank of India, IDBI Bank and Punjab National Bank will be headed by public sector veterans **MO Rego**, **Kishor Kharat Piraji** and **Usha Ananthasubramanian**

#### 2 BANK BOARD BUREAU

To monitor PSU banks for key performance indicators

#### 3 CAPITALISATION

Government to infuse ₹25,000 cr into PSU banks, ₹20,000 cr in a month

#### 4 DE-STRESSING

Centre, ministries in talks for speedy project approvals

#### 5 EMPOWERMENT

More flexibility to banks for recruiting staff

#### 6 PERFORMANCE

Out of 100, 80% stress on quantity and 20% on quality

#### 7 REFORMS

Assurance of no political interference, move to reduce pressure on banks

- Experts also believe that the real reform is for the government to vest the ownership of all the banks in a single holding company, whose board comprises professionals of integrity. It can select PSB boards and oversee their working.

### 3.4.2. PSB CONSOLIDATION AND MERGER

#### Background

- Since 1991, with Narasimham committee report, creation of large size banks is demanded. Second edition of **Gyan Sangam** (the annual banker's conclave) also discussed the need for consolidation of banks.
- **High NPAs**, which are eroding the profitability of many public sector banks and the government is under pressure to capitalize them through consolidation.

**Why the need?** A bigger SBI capable of taking on global giants when banking sector is opened up in future. Large banks to get benefits of scale, better diversification of risks and higher profitability

#### Advantages and disadvantages (SBI example)

State Bank of India (SBI) has started the process of merging five of its subsidiaries and Bharatiya Mahila Bank (BMB) with itself.

#### Advantages

- Increased domestic and global presence, increased networking of SBI all over India.
- Assets will swell – massive increase in crediting capacity: SBI can become one of the **anchor banks to finance large infrastructure projects** like dedicated freight corridor, solar energy, Sagarmala etc.
- It will **reduce duplication** as SBI and its associates target the same clients with similar products.
- It will **consolidate resources and infrastructure**, reducing the cost on operations, human resource and technological solutions like reducing managerial positions, overlapping bank branches, reduce inter-banking transaction cost etc.

#### Issues

- Presently these banks have **huge NPAs** thus merger should be planned after sufficient capital is injected.
- **Banking competition may be affected**, as SBI is likely to be five times larger than its nearest competitor.
- It would affect regional flavour which could lead to losing regional focus.
- Large banks lead to consolidation of risks as well e.g. Global financial crisis of 2007.
- India needs more Banking competition than consolidation- to improve banking efficiency.
- Concerns of the employees- effect on promotion prospects due to curtailment of seniority, relocation due to rationalisation of branches.
- Poor government record on mergers e.g. Air India and Indian Airlines.

#### Suggestions

- The govt. should not rush through the process - all stakeholders must be involved in the process
- In the event of further divestment, the govt. share shall not fall below 51% in any case
- Acquiring bank shall not dominate the smaller ones- good practices of both should be combined; conscious and organized efforts to synthesize the differences must be made

#### Conclusion

Bank consolidation is a tricky issue. While it is said that the long-term benefits of consolidation outweigh the short-term concerns, it must not be made a general policy. It is only to be done with right banks for right purpose with proper safeguards.

### 3.4.3. DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS)

#### Why in news?

- The Reserve bank of India (RBI) has recently identified public sector lender State Bank of India (SBI) and its private sector peer ICICI Bank as domestic systemically important banks (D-SIBs) in 2016.

#### What is it?

- SIBs are perceived as certain big banks in the country. Since the national economy is dependent upon these banks, they are perceived as 'Too Big To Fail (TBTF)' because of the expectation of government support for these banks at the time of distress.
- Due to this perception these banks enjoy certain advantages in the funding markets.
- There are two types of SIBs:
  - Global SIBs; the identification is done by BASEL committee on banking supervision.
  - Domestic SIBs; by central Bank of the country.

#### Need for SIB Status

- The perceived expectation can also lead to reckless practices on part of these Banks like increased risk-taking by the banks, reduction in its market discipline, creation of competitive distortions etc. All this can increase the probability of distress in the future.
- Therefore, it is required that SIBs be subjected to additional policy measures to deal with the systemic risks and moral hazard issues posed by them.
- They are forced to have additional capital/backup against financial emergency, so that taxpayer money not wasted in rescuing them during crisis.

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## 4. FINANCIAL REGULATION

Financial regulation has 2 aspects:

### A. Internal Regulation

- ✓ For imposing supervision or oversight and resolve disputes - CCI'S Penalty on Cement Companies, Agency for corporate fraud, Insolvency and Bankruptcy code (covered in Ease of Doing Business section)
- ✓ Regulation facilitating growth (SEBI Relaxing Rules for REITs etc.)

### B. External Regulation

- ✓ Protective: to reduce the volatility in exchange rate (FCNR ruling), to prevent money laundering (SEBI norms).

### 4.1. INTERNAL REGULATION: INSOLVENCY AND BANKRUPTCY CODE, 2015

- The Bankruptcy Law Reforms Committee (BLRC), headed by **T K Vishwanathan**, recently submitted its report with a draft Bill called the Insolvency and Bankruptcy Code (IBC).
- The objective of the code is reducing the delay in resolution of insolvency or bankruptcy cases and improving recoveries of the amount lent. (refer 5.2 for details)

### 4.2. INTERNAL REGULATION: CCI IMPOSES PENALTIES UPON CEMENT COMPANIES FOR CARTELISATION

The Competition Commission of India (CCI) has imposed penalties upon 10 cement companies and their trade association i.e. Cement Manufacturers Association (CMA).

#### Reasons

According to CCI cement companies used the platform provided by the CMA and shared details relating to prices, capacity utilisation, production and dispatch, thereby restricting production and supplies in the market. Further, the CCI also found the cement companies to be acting in concert in fixing prices of cement.

#### Significance

- Actions of the companies and the CMA are detrimental to the interests of consumers
- Detrimental to the whole economy, as cement is a critical input in construction and infrastructure industry, and vital to economic development.

### 4.3. INTERNAL REGULATION: SPECIAL AGENCY FOR CORPORATE FRAUD

#### Background

- The Companies Act 2013 requires the constitution of National Financial Reporting Authority (NFRA), has powers to issue authoritative pronouncements and regulate the audit profession.
- At present, the Institute of Chartered Accountants of India (ICAI) has authority to investigate and take disciplinary action in cases in which an auditor is involved, if fraud is below a threshold value.
- Agency for corporate Fraud was first suggested in the aftermath of **the Satyam fraud**, in which the auditor was also implicated.
- Another important case is **ANTRIX-DEVAS CASE**.
  - ✓ In 2011, a leaked draft audit report noted that there were potentially a number of irregularities in the agreement between ISRO's Antrix and Devas Multimedia.
  - ✓ Shortly after, ISRO cancelled the agreement. Permanent Court of Arbitration at The Hague ruled against the Indian government over the cancellation of a contract and awarded Devas damages of nearly Rs. 4,400 crore.

### Details of the proposed body

- It will be formed under the Companies Act 2013 provisions.
- The agency will be mandated to investigate auditing and accounting frauds certain classes of listed companies or those of Rs 500 crore and more, either suo motu or on referral by the Centre.
- It will have forensic auditors on its panel.
- It will have an overarching role to regulate chartered accountants.

### What is Forensic Audit?

- A forensic audit is the process of reviewing a person's or companies financial statements to determine if they are accurate and lawful. It is used to detect corporate accounting frauds.
- So, financial regulation and transparent auditing are essential for contract enforcement and economy management.

## 4.4. INTERNAL REGULATION: SEBI RELAXES RULES FOR REITS, OFFSHORE FUND MANAGERS

### Why in news?

The Securities and Exchange Board of India (SEBI) has relaxed rules on Real Estate Investment Trusts (REITs) by allowing them to invest more in under-construction projects, rationalised unit holder consent on related party transactions and removed restrictions on special purpose vehicle (SPV) to invest in other SPVs holding the assets.

- The current regulations cap investment of REITs' assets in under-construction projects at 10%, which will be raised to 20%.
- SEBI also proposed to raise the number of REIT sponsors, which is now capped at three.
- Additional relaxation is also proposed on clearing related-party transactions and the number of shareholders needed to pass a resolution.
- The Sebi board has also approved changes to portfolio manager regulations to allow a foreign fund manager to relocate to India as an eligible.
- However, the intent to allow REIT to invest more in under-construction assets may dilute the idea of a REIT.
- Globally, REIT is composed of only stable assets. Allowing more investments in incomplete projects may improve return on investment but on the flip-side it will also increase risks.

## 4.5. EXTERNAL REGULATION: RBI'S STEPS ON FCNR GET FSDC NOD

### Background

- In 2013, the rupee was at an all-time low of 68.85 against the dollar and huge volatility in currency markets volatility on fears of tapering of quantitative easing by the US Fed.
- So RBI asked commercial banks to raise the foreign currency deposits (for ex: FCNR, offshore corporate loans etc.) to shore up reserves.
- Banks had raised about \$34 billion through FCNR deposits.
- The central bank thereafter readied itself by buying forwards dollar.

### What is a FCNR Account?

- An FCNR account is a term deposit account that can be maintained by NRIs and PIOs in foreign currency. Thus, FCNRs are not savings accounts but fixed deposit accounts.

### What foreign currencies can one maintain in FCNR accounts?

- Any currency which is freely convertible. for ex: US dollar, Pound Sterling (GBP), Euro, Japanese Yen, Swiss Frank, Swedish Krona etc.

### The issue

- Most of FCNR deposits of 2013 are due this year.
- RBI estimates that the immediate effect of the maturity of these deposits would be an outflow of about \$20 billion.

- RBI has taken steps like making available swaps and forwards to take care of the dollar requirement so that the effect on foreign exchange reserves is neutral.
- Financial Stability and Development Council has approved this step.

#### Impacts

- The banks may witness deposit base depletion due to sudden outflow.
- Some liquidity will be strained due to increased demand for foreign currencies vis-à-vis rupee.
- Foreign exchange reserve could see some dip in the interim as the swaps and forwards are not timed perfectly.

### 4.6. EXTERNAL REGULATION: SEBI TIGHTENS NORMS TO CURB BLACK MONEY INFLOW

- SEBI has recently introduced new measures to check the flow of black money into the country by tightening the norms for issuing Participatory notes (P- Notes ) or Overseas derivative instruments (ODIs) in line with the recommendations of the Supreme Court monitored SIT on Black Money.
- It has introduced Know Your Client (KYC) compliance for holders of these instruments to bring them at par with domestic investors and has also sought information on the ultimate beneficiaries of these products.
- In case such ODIs are transferred, the issuer should give the complete trail of such transfers to SEBI on demand

#### What are offshore derivatives instruments (ODIs)?

- (ODIs) are investment vehicles used by overseas investors for an exposure in Indian equities or equity derivatives.
- These investors are not registered with SEBI, either because they do not want to, or due to regulatory restrictions.

### 4.7. REGULATORY IMPACT ASSESSMENT

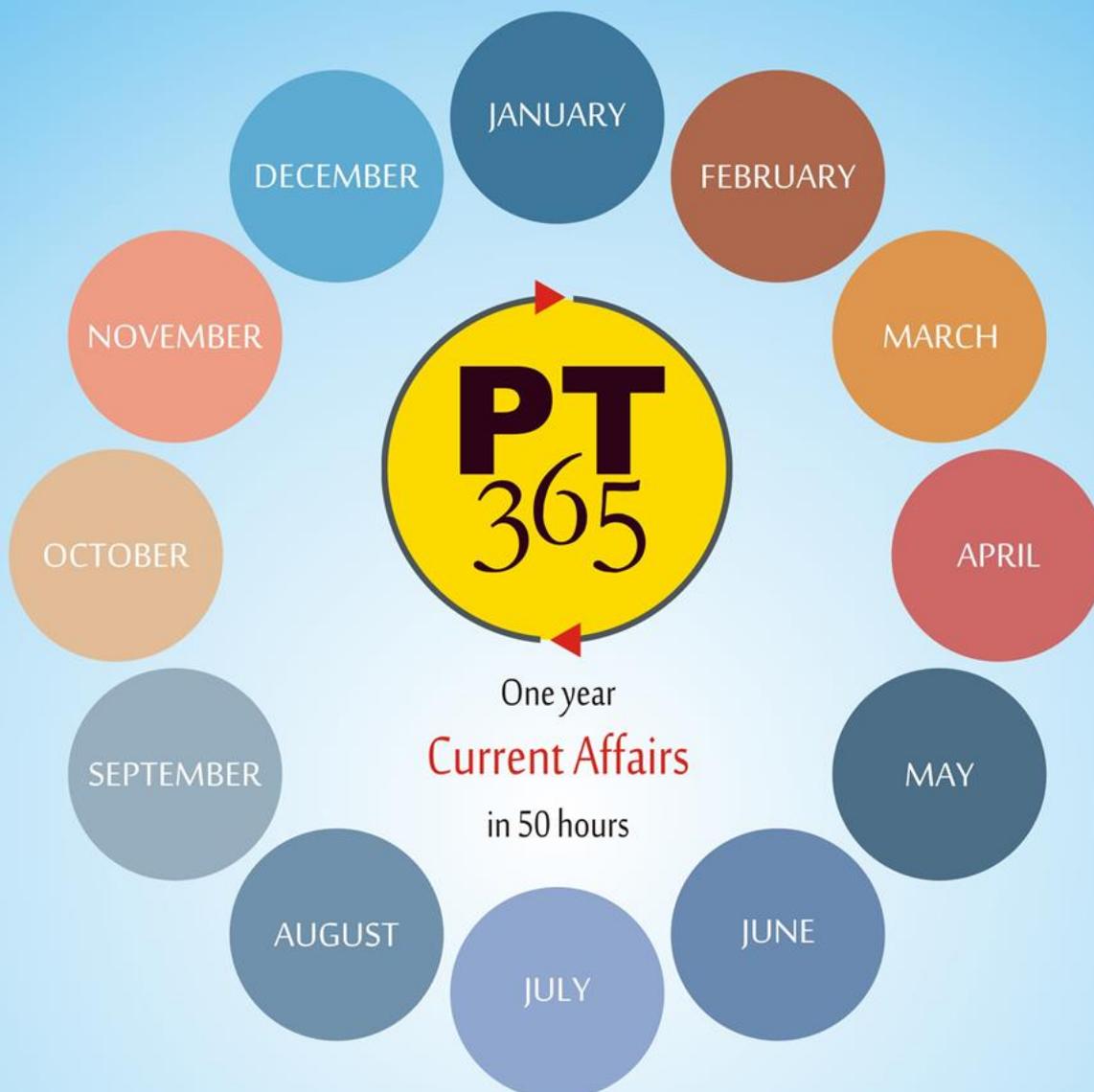
New efforts to reform regulatory architecture to attract investments from abroad for the success of 'MAKE IN INDIA'.

#### What is Regulatory Impact Assessment?

- Regulatory Impact Assessment (RIA) examines and measures the likely benefits, costs and effects of new or changed regulations.
- It provides decision-makers with valuable empirical data and a comprehensive framework in which they can assess their options and the consequences, their decisions may have.
- It can underpin the capacity of governments to ensure that regulations are efficient and effective in a changing and complex world.

#### The benefits of RIA

- Improving the quality and efficiency of government interventions.
- Enhancing competitiveness.
- Increasing transparency and accountability.
- Reducing opportunities for corruption.
- A tool for policy monitoring and evaluation.
- In countries similar to India the annual cost of government regulation accounts for 10-20 per cent of GDP. This means even small improvements in regulatory efficiency can have large payoffs in national income.
- **Customer perspective:** The compliance cost ultimately passes on to consumers whose interest is sought to be protected through these regulations.



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## 5. EASE OF DOING BUSINESS

### Various Initiatives to make India Attractive For Global and Domestic Investment

- Reforms in the banking sector, (covered above)
- Stability in taxation regime (tax disputes with Vodafone, Cairn, Shell)
- Improve Ease of doing business (India is ranked 142 out of 189 countries in the World Bank's ease of doing business index).
- Start-up India, Stand-up India, Digital India and Make in India (initiatives) are designed to give special boost to self-employment, services and manufacturing. India has huge potential in these areas. It would require better integration of Indian economy with global supply chains, markets and trade.
- Government has made various reforms in different sectors including taxation ( covered in Government Budgeting), employment and skill development etc.
- Transparent and fair allocation of natural resources, rolling-out GST at the earliest, address the problems of discoms in the power sector.
- Country's infrastructure sector needs huge investments and foreign investments can give great resources.
- Strengthening of IPRs- To innovate, attract investment.

### 5.1. STABILITY IN TAXATION REGIME

#### 5.1.1. TAX TERRORISM

##### Why in news?

- Recently, tax was raised by IT dept. from a PSU by an incorrect tax demand. This they did in March to meet revenue collection targets of the fiscal year, which ends in March.
- But in April the demand was cancelled and tax refunded pushing the problem to next year.
- To mend this Revenue secretary as a penal measure has ordered transfer of certain officials, which led to a dispute.

##### What is Tax terrorism?

The tag of Tax Terrorism is used in the **context** of practices such as:

- Retrospective taxation cases such as: Vodafone pricing case, Cairn India-Vedanta group case.
- Minimum Alternative Tax – though with right intentions but wrong implementation.
- Enforcement of regulations relating to tax avoidance: GAAR (General Anti Avoidance Regulations) etc.,
- The practice of raising large unjustified tax demands followed up with
  - a. Aggressive recovery procedures,
  - b. Coercive methods
- Adjusting interest rate manually so that refund payable is reduced to zero.
- Many decisions taken by discretion without proper accountability.

##### Impacts

- Economy: Funds that could have been put to productive use by businesses are left lying with the government.
  - a. Ease of doing business is negatively affected. This reduces the competitiveness of India as a market.
  - b. Torpedoes investor confidence.
- Governance: Such practices, which are being followed in the name of public interest, gives the tax department bad publicity.
  - a. Efficient service delivery is denied to taxpayers.

## Way forward

- The Parthasarathy Shome Committee observed that the root cause of such unhealthy practices has been the practice of setting unrealistic revenue collection targets for tax officers in Budget. This has to be reformed.
- The basic problem is the mess of Indian tax laws, a legacy of the socialist era. The system is adversarial and tilted towards enforcement rather than compliance.
- A dramatic overhaul of the tax code is needed.
- Tax officers also need to realise that they are accountable to the public.
- Viewing every transaction with suspect will result in conditions of tax terrorism.
- Recent suggestion of RAPID.
- Recent acts of Revenue Secretary transferring the IT officials for such acts are laudable.

### 5.1.2. EASWAR PANEL

#### Why in news?

- A committee, set up by the government to change direct tax laws, headed by retired high court judge R.V. Easwar, has submitted its recommendations.

Under the presumptive income scheme, such professionals or businesses will not need to maintain a book of accounts but just pay tax based on presumptive income calculations. For instance, for professionals it is proposed that 33.3% of their previous year's receipts will be taken as income on which they will have to pay tax. If their profits are much lower, they will have to maintain a book of accounts clearly categorizing expenditure and pay tax accordingly.

#### Recommendations

- **Simplifying provisions** related to tax deducted at source (TDS), claims of expenditure for deduction from taxable income and for tax refunds.
- Several **taxpayer-friendly measures** to improve the ease of doing business, reduce litigation and accelerate the resolution of tax disputes.
- Deferring the contentious Income Computation and Disclosure Standards (ICDS) provisions and making the process of refunds faster.
- Income-tax department to desist from the practice of adjusting tax demand of a taxpayer whose tax return is under assessment against legitimate refunds due.
- Deletion of a clause that allows the tax department to delay the refund due to a taxpayer beyond six months and suggested a higher interest levy for all delays in refunds.
- Stock trading gains of up to Rs.5 lakh will be treated as capital gains and not business income, a move that could encourage more retail investments in the stock market.
- TDS rates for individuals be reduced to 5% from 10%. Dividend income on which dividend distribution tax has been levied should be treated as part of total income.
- Provide an exemption to non-residents not having a Permanent Account Number (PAN), but who furnish their Tax Identification Number (TIN), from the applicability of TDS at a higher rate.
- Favored deferring ICDS.
- The processes of the income-tax department should be conducted electronically to minimize human interface.
- To make it easy for small businesses, the eligibility criteria under the presumptive scheme be increased to Rs. 2 crore from Rs. 1 crore. Launch a similar scheme for professionals. The presumptive tax is levied on an estimated income and makes life (and work) easier for small businesses.

### 5.1.3. SEED FUNDING TAX TO BE REMOVED

#### Need

- The existing tax norms view the funding as income which takes away nearly 30% of value of investments, so this move would improve cash flow a lot.
- India is the only country in the world to penalize local angel investors in such a manner.

## Benefits

- It will help in easing up the process to start up and doing business in the country.
- According to certain estimates around 65 percent of the startups have moved out of India due to uncertain taxation. This move is aimed at preventing the exodus of startups from the country due to difficulties in doing business.
- It will also help in ensuring transparency, simplification and predictability in tax structure.
- It will improve the cash flow for the startups which will help them in their initial setup.
- It will encourage the local angel investors to invest in startups. Presently, 90 per cent of Indian start-ups are financed by foreign venture capital and angel funds.
- It will also ensure equal treatment of local investors with respect to foreign investors.

### FILLIP TO ENTREPRENEURS



The infographic is titled 'FILLIP TO ENTREPRENEURS' and features a central icon of two hands shaking. The text is organized into two columns. The left column states: 'The govt. has decided to scrap a tax on seed funding for start-ups by angel investors to help domestic financiers fund entrepreneurial ventures under Start Up India campaign'. The right column lists four bullet points: 'Finance Act 2013 introduced a tax on seed capital provided to start-ups by local angel investors', 'This deprives start-ups of 30% of initial investment', 'Domestic angel investments are subject to double taxation', and 'Govt. looks to fix this in Budget next'. Below these are two more bullet points: '90% of Indian start-ups are bankrolled by foreign funds' and 'An estimated \$9 billion was invested in Indian Start-ups in 2015'.

### 5.1.4. TAXATION LAWS (AMENDMENT) BILL, 2016

#### Why in news?

- The Lok Sabha passed the Taxation Laws (Amendment) Bill, 2016, that seeks to amend the Income Tax Act, 1961, and Customs Tariff Act, 1975.

#### Features of the bill

##### A. Income Tax Act, 1961

- **Demerger of public sector companies:** The Companies Act, 1956 allows companies to demerge (split) into multiple companies.
- The Income Tax Act, 1961 takes into account these transfers from the parent company for taxation of resultant companies.
- The Bill clarifies that these provisions will apply in case a public sector company demerges, and the resultant company is no longer a public sector company.
- **Deduction in respect of employment of new employees:** The Income Tax Act, 1961 allows businesses to obtain a deduction on taxable income to the extent of 30% of the cost of recruiting a new employee.
- The Act requires that the employee should have been employed for a minimum of 240 days in previous year.
- The Bill relaxes this limit to **150 days** for businesses which manufacture apparel.

##### B. Customs Tariff Act, 1975

- **Customs duty on marble and granite blocks and slabs:** Currently, the customs duty on imports of granite and marble used for certain purposes is charged at 10%.
- The Bill proposes to increase this to **40%**.

#### Analysis

- Indian garments are all summer garments. The nature of this trade in itself is seasonal. Therefore, companies have been given tax incentive by amending Income tax act to help them be competitive.
- This is in line with the special package announced in June 2016 for employment generation and promotion of exports in textile and apparel sector, in line with its commitment to generate one crore jobs in the textile and apparel industry over next three years.
- The main aim of the proposed amendment in customs acts is to enable the government with greater flexibility in terms of tariffs.
- Currently, imports of marble blocks/slabs and granite blocks/slabs are subject to a combination of non-tariff measures - quantitative restrictions and minimum import price and also a tariff measures, i.e. custom duty.

## 5.2. RESOLVING INSOLVENCY

### 5.2.1. BANKRUPTCY LAW

#### Background

The objective of the code is reducing the delay in resolution of insolvency or bankruptcy cases and improving recoveries of the amount lent.

#### Need

Today, bankruptcy proceedings in India are governed by multiple laws - the Companies Act, SARFAESI Act, Sick Industrial Companies Act, and so on. The entire process causes a lot of delay thus locking capital for a long period.

#### Salient Features of the law:

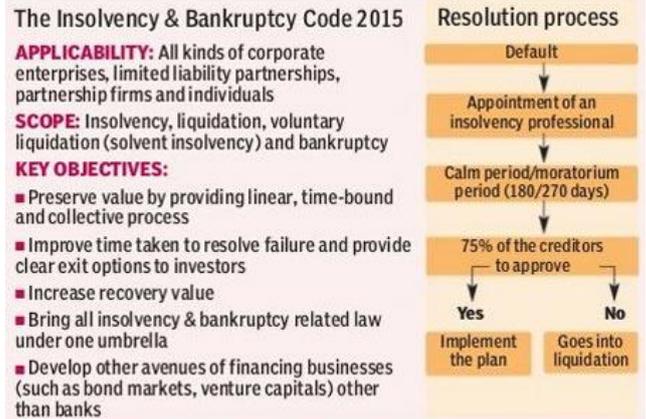
- A unified code for greater legal clarity.
- **Fixed a timeline of 180 days**, extendable by another 90 days, to resolve cases of insolvency or bankruptcy.
- A **new regulator** - the Insolvency and Bankruptcy Board of India (IBBI) to regulate professionals/agencies dealing with insolvency and informational utilities.
- Specialized Bench at the National Company Law Tribunal (NCLT) to adjudicate bankruptcy cases over companies, limited liability entities.
- Debt Recovery Tribunal ("DRT") shall be the Adjudicating Authority with jurisdiction over individuals and unlimited liability partnership firms.
- The code allows the corporate debtor itself to initiate the insolvency-resolution process once it has defaulted on a debt.
- Prioritization of claims by different classes of creditors (Financial creditors and operation creditors.)

#### Issues with the present bankruptcy law

- The insolvency request can be stayed by the adjudicatory authority or an appeal against it can be filed in High court. So, the operational creditor may not have enough resource to pursue the case against the bankrupt company.
- Without repealing the existing laws, the bankruptcy law can further complicate the process.
- If the insolvency resolution plan is not submitted by the Insolvency Resolution Professional within 270 days or if it is disapproved by the adjudicatory authority then liquidation is the only option. However, the law is unclear if the corporate is given a chance to be heard before liquidation.
- The option of liquidation may also lead to parties not giving enough research towards recovery the ailing company.

#### Way Ahead

The Bankruptcy Law is a much needed step towards reducing NPAs and improving ease of doing business in India. However the law must be amended preferably by bringing experts from abroad countries that have experience of handling bankruptcies and distressed debt market.



Key pillars of the bankruptcy code				
Tribunal	Regulator	Insolvency professional	Information utility	Credit committee
NCLT is the proposed forum for corporate bankruptcy and DRT is for individual bankruptcy	Legislative function on procedural details of the insolvency process. Statistical system functions. Legislative, executive and quasi-judicial functions on IP agencies & IUs	Professionals as part of an association; multiple competing private IP agencies, each with legislative, executive and judicial functions; oversight of a regulator	A private competitive industry of 'information utilities' that will store filings and make them available, such as facts about lending, pledges, etc	To comprise of financial creditors, but to ensure payments to operating creditors on priority

#### EASE OF DOING BUSINESS: The weakest links

**136** Resolving insolvency: DoingBusiness, 2016 rank

#### Recovery rate

	(cents on the dollar)	Time (years)
India (Mumbai)	25.7	4.3
South Asia	31.8	2.6
OECD high income countries	72.3	1.7

## 5.2.2 BILL TO AMEND SARFAESI AND DRT ACT

### Why in News?

- The Lok Sabha recently passed a bill to amend the existing Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, and the debt recovery tribunal (DRT) Act.
- It has now been passed by both - the Lok Sabha and Rajya Sabha.

### Need

- The problem of rising NPAs is well known.
- Flaws in the existing debt recovery process have further added to the problem of NPAs. For instance, more than 70,000 cases are pending before **Debt Recovery Tribunal (DRTs)**.
- SARFAESI and DRT were envisaged to ensure quick disposal of cases. However, they have not met the expectations.
- The Bill seeks to address this issue. It will amend four Acts:
  - ✓ SARFAESI Act, 2002,
  - ✓ The Recovery of Debts due to Banks and Financial Institutions Act, 1993,
  - ✓ The Indian Stamp Act, 1899; and
  - ✓ The Depositories Act, 1996.

**SARFAESI:** was enacted to enable Banks and financial institutions to auction residential or commercial properties without the intervention of any court or tribunal to recover loans. It led to the formation of ARCs, enabling banks to take over the management of secured assets etc

**Debt Recovery Tribunal:** They are alternate to civil courts formed for enforcement and recovery of debts. It provided a faster and easier procedure for recovery.

### Benefits

- Faster recovery and resolution of bad debts by banks and financial institutions.
- Making it easier for asset reconstruction companies (ARCs) to function.
- Encourage more asset reconstruction companies (ARCs) to set up business in India and revamp debt recovery tribunals (DRTs).
- Works in complement with the new bankruptcy law and will provide a time-bound framework to deal with stressed assets and loan recovery.
- Will legally strengthen the banking system.

### Salient features of the bill

- SARFAESI
  - ✓ **Allows Banks to take possession of collateral security within 30 days.** This assumes importance in view of Vijay Mallaya controversy
  - ✓ **Expansion of regulatory powers of RBI over ARCs;**
    - RBI will get more powers to audit and inspect any ARC as well as the freedom to remove the chairman or any director and appoint central bank officials to its board.
    - RBI will be empowered to impose penalties for non-compliance with its directives, and regulate the fees charged by these companies to banks at the time of acquiring such assets.
  - ✓ The bill proposes to **widen the scope of the registry that will house the central database of all loans against properties given by all lenders.**
  - ✓ Bill provides that secured creditors will not be able to take possession over the collateral unless it is registered with the central registry. Further, these creditors, after registration of security interest, will have priority over others in repayment of dues.
  - ✓ Enable secured creditors to take over a company and restore its business on acquisition of controlling interest in the borrower company.

- **DRT**

- ✓ To move towards **online DRTs**- electronic filing of recovery applications, documents and written statements.
- ✓ Establish a **time bound process**
- ✓ Taking **interest of creditors**- 50% of the debt has to be deposited with DRT for filing an appeal.

- The bill also proposes to amend the Indian Stamp Act so that stamp duty will not be charged on the transfer of financial assets in favour of ARCs.
- The bill will pave the way for the sponsor of an ARC to hold up to 100% stake. It will also enable non-institutional investors to invest in security receipts issued by ARCs and mandate a timeline for possession of secured assets.
- By fast-tracking the recovery process for banks and other financial institutions.
- Widens the scope of the central registry that will house the central database of all loans against properties given by all lenders.

#### **Issues and challenges**

- **Regulation of ARCs by RBI could amount to conflict of interest.** This is because RBI can direct that ARCs absorb the NPAs at a higher price than they are worth. This is against global practice as well as the business of stressed asset recovery is very different from the business of banking.
- The proposed automation would **require a lot of investment.**
- **Other problems** like lack of presiding officer and staff have not been addressed by the Bill.

### **5.3. CENTRE-STATE INVESTMENT AGREEMENT FOR BILATERAL INVESTMENT TREATIES (BIT)**

#### **Why in news?**

In a Budget proposal, **Union Finance Minister** mooted the idea of a **Centre-State** investment agreement to be signed between the Centre and various State governments to ensure effective implementation of BITs or bilateral investment treaties.

#### **What is a BIT?**

- BITs protect investments made by an investor of one country into another by regulating the host nation's treatment of the investment.
- It includes provisions like non-discriminatory treatment, protection against nationalization, Investor State Dispute Settlement (ISDS) provision requiring investors to exhaust local remedies before commencing international arbitration etc.

#### **What is the Centre-State Investment Agreement (CSIA)?**

- It is a voluntary agreement between state and centre where states will be required to fulfill their obligations under the BITs.
- India's BIT partners will be informed about states, which don't sign the agreement.

#### **Benefits**

- States that sign the CSIA will be seen as a more attractive destination for investments.
- It will ensure better concurrence between centre and state and will better the "ease of doing business".

### Criticism

- Even without the CSIA, under Art 253 of the constitution centre can make legislations to give effect to international agreements, which are binding on states.
- Under the concept of sovereignty, even if states don't fulfill their obligations under CSIA, it is the centre that is held responsible.
- States may see this as shifting the blame of violation of BIT to states.
- States that may not sign the CSIA may be seen unsafe for investment, which may further increase the regional imbalance wrt. to investments.

### Way Ahead

- It is better to sensitize the state government of various provisions of BIT and their obligations under it.
- Consultations with states with respect to international treaties can be institutionalized. For example, forums like NITI Aayog governing council or erstwhile NDC can be created.
- This would be in line with the concept of co-operative federalism and will ensure better implementation of international treaties.

## 5.4. EASING NORMS

- The government is easing rules for granting construction permits around airports, defence establishments and monuments in a bid to give fillip to urban growth.
- **Earlier Norms:** Developers have to get manual permits
- **Now** All has come out with **colour-coded zonal map**, the airspaces used by jetliners for landings and take offs are highlighted in the map. No construction will be allowed in such spaces.
- Construction would be allowed in those areas that fall out of "colour coded" zones.
- The government will soon **empower urban local bodies to follow the colour-coded zonal maps** and authorize real estate development accordingly. This will cut the delay.
- Civil Aviation Ministry also commissioned improved version of **online NOCAS (No Objection Certificate Application System)**
- **Works of Defense Act, 1903** will be suitably amended to remove hurdles for construction activities near defense establishments.
- Culture Ministry has come out with a **mobile-based app** that enables online approval for construction in the vicinity of monuments in just 72 hours through integration of websites of National Monument Authority and those of respective urban local bodies. Time taken at present is about 90 days.

### Proposed Changes that will be notified in near future

- Ministry of Consumer Affairs has **completed revision of National Building Code** enabling speedy building approvals
- **Environment Ministry** has come out with revised and simplified environmental norms and the same will be notified at the earliest after consultations with the Ministry of Urban Development.
- Urban Development Ministry will **soon issue Model Building Byelaws** incorporating all revised and simplified norms and processes enabling urban local bodies to approve building plans in quick time there by enhancing the ease of doing construction business in urban areas.

## 5.5. SWIFT: EASE OF DOING BUSINESS

### Why in News?

- India has moved up four places in the **World Bank's Ease of Doing Business Report 2016** since 2015. It is now ranked at 130 (out of 189 countries) compared to 134 in 2015.
- This improvement comes after the launch of **SWIFT (Single Window Interface for Facilitating Trade)**

### What is SWIFT?

- **Central Board of Excise and Customs (CBEC)** launched SWIFT on **1<sup>st</sup> April, 2016** as one of the initiative to facilitate trade and improve ease of doing business.

- SWIFT enables importers/exporters to file a common electronic integrated declaration on **ICEGATE (Indian Customs Electronic Commerce/Electronic Data Interchange Gateway)**
- The integrated declaration compiles the information required for **Customs, FSSAI, Plant Quarantine, Animal Quarantine, Drug Controller, Wild Life Control Bureau and Textile Committee.**
- It replaces **nine separate forms** required by **six different agencies and Customs.**
- CBEC has also introduced an integral **risk management** facility for **partner government agencies (PGAs).**
- This will ensure that agencies select consignments for testing and examination based on the principle risk management.

## 5.6. MODEL SHOPS AND ESTABLISHMENT BILL 2016

The Union Cabinet recently cleared the Model Shops and Establishment (Regulation of Employment and Conditions of Service) Bill, 2016. It is a model act that has to be enacted by the states.

- Provides for more Worker Welfare Measures
- Creating many more job opportunities for women and
- Providing favourable environment for doing business.

### Highlights

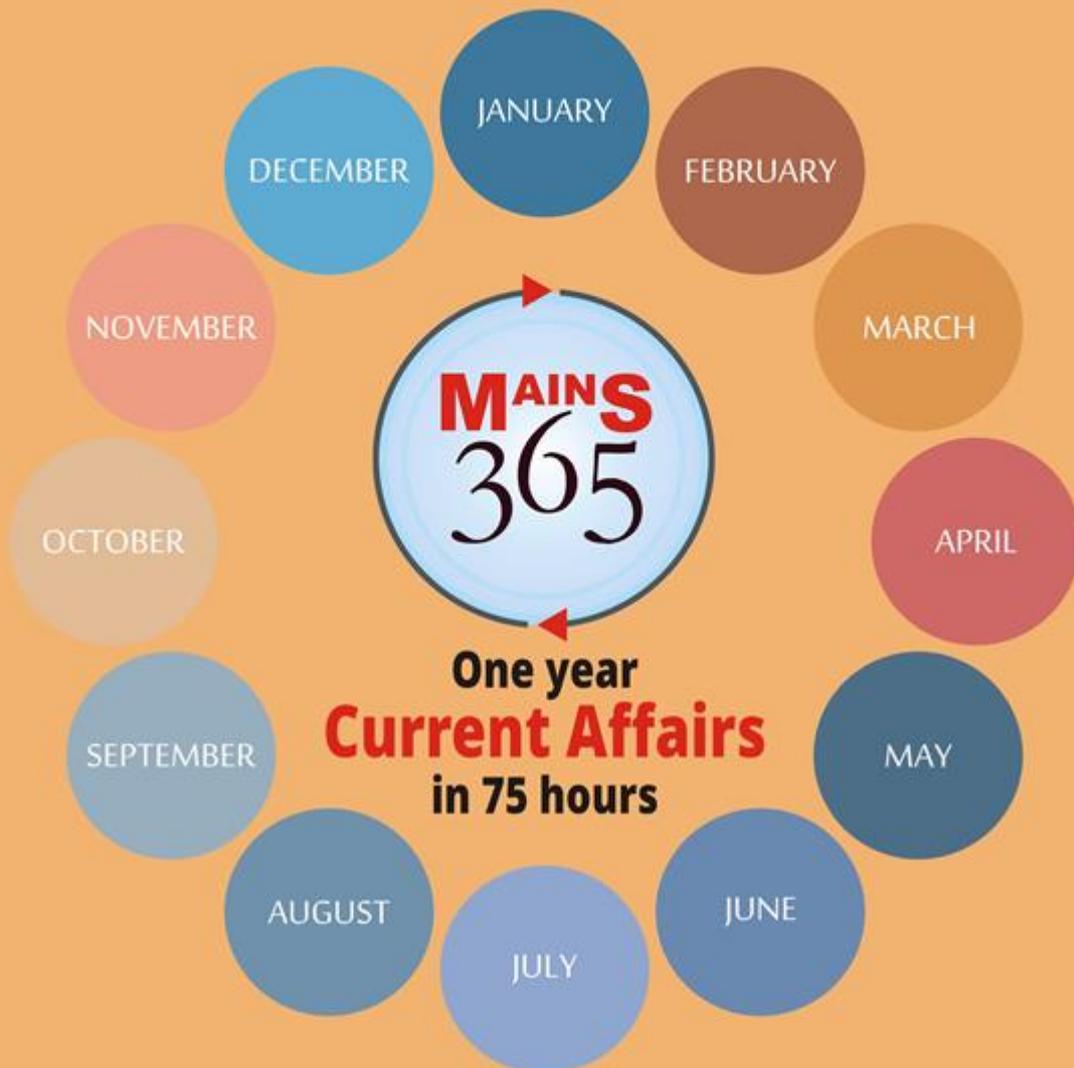
- The law only covers Shops and Establishments Employing Ten or more workers except Manufacturing Units.
- The law provides freedom to operate 365 days a year and opening/closing time of establishment
- The law tries to boost the Employment Generation in general, especially for Women, as they will be permitted to work night shifts, with adequate safety and security provisions.
- It calls for better working conditions for employees such as drinking water, canteen, first-aid, lavatory and crèche facilities.

### Concerns associated with the bill

- The law is focused on raising output by using more labour, rather than developing skills, productivity and innovation, which are important in IT and finance in particular. This will help India retain its competitiveness only in the short run.
- Inconsistencies between the draft law and labour laws pertaining to manufacturing could give rise to confusion, particularly in an integrated workplace performing various roles under a single roof, and employing workers under different terms and conditions. For instance, the Model Bill is silent with respect to minimum wages.
- By leaving out small establishments, it has heightened the possibility of sweat shop conditions being perpetuated there through use of 'family labour', now permissible under the amended child labour laws.
- The energy requirements of urban India working at night could suddenly spike.

### Way forward

- The Centre need to work with stakeholders on widening the social safety net through pension and insurance schemes, so that such reforms do not run into socio-political resistance.
- The Model Bill is a suggestive piece of legislation and has been finalized keeping in view the spirit of co-operative federalism. This gives liberty to States for fine tuning the Model bill to suit their requirements.
- This is expected to generate competitive and challenging spirit amongst the States and create an environment which is conducive for large scale employment generation at every level, especially in smaller and medium towns.



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## 5.7. INTERNATIONAL ARBITRATION MECHANISM

### Why in news?

- India has urged the BRICS nations to develop an arbitration mechanism among them.
- A proposal was made by Finance Minister at BRICS Conference on International Arbitration.

### Need for such a mechanism

- **West's domination:** It is observed that the arbitration centers are concentrated in west with **apprehensions of biased awards against emerging economies.**
- Further, **the emerging economies are not adequately represented in the arbitration area** thus the exigencies and concerns of developing nations are not put forward properly. Thus, there is a need for developing nations to build capacity.
- Recent example- British oil and gas explorer Cairn Energy had initiated international arbitration seeking \$5.6 billion in compensation from the Indian govt. against a retrospective tax demand of Rs. 29,047 crore.

### India's efforts

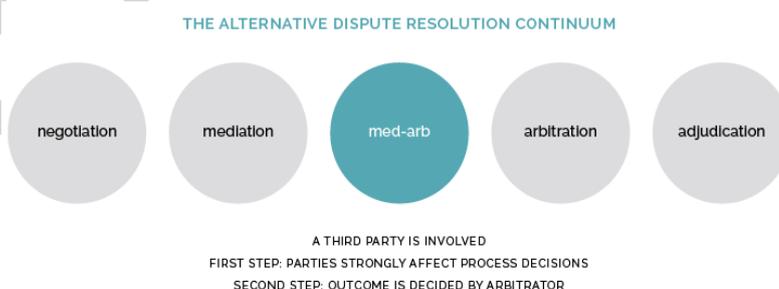
- India is already working towards making itself as global Arbitration hub. Earlier in June 2016, Singapore Arbitration center had agreed to open its branch office at GIFT city.
- It has made changes to its Bilateral Investment Treaty regime.
- Further, we need to show restraint as far as domestic jurisdictions of courts to interfere in those arbitrations. The enthusiasm of domestic courts to interfere in the international arbitration proceedings has brought bad publicity to Indian economy in the past.
- It has made crucial changes to the Arbitration and Conciliation Act.

### 5.7.1. RESOLVING INTERNATIONAL COMMERCIAL DISPUTES IN GIFT CITY

To resolve international commercial disputes with the collaboration of Singapore International Arbitration Centre (SIAC) and the Singapore International Mediation Centre (SIMC) with Indian companies.

#### Highlights

- As per the agreement, GIFTCL, GIFT SEZ and SIAC will collaborate to promote the use of arbitration, mediation and other dispute resolution mechanism.
- It also includes the innovative '**Arb-Med-Arb**' service (Arbitration-Mediation-Arbitration).



#### Economic implications

- Promote SIAC's arbitration services to Indian users.
- Indian parties are among the top five foreign users of SIAC in the last five years & India was the top foreign user of SIAC in 2013 and 2015.
- GIFT city can bring back money lost to other rival financial centres i.e., IFSCs of Dubai, Singapore and Hong Kong.
- Strengthens the GIFT city as International Financial Services Centre (IFSC) as any successful IFSC requires an efficient dispute resolution mechanism.
- SIAC increases the 'Ease of doing business' by improving the contract enforcement, reducing delays, protecting investors, resolving insolvency etc.

#### Areas that need refinement/improvement in the proposed framework

- **New financial arrangement:** If business is found to be viable, possibility of a new financial arrangement between the debtor and the creditor is envisaged in the code.
- **Waterfall priority:** If Central and state government liabilities or PFs.

- **Two-year history:** For ascertaining malfeasance, only two years of history to be checked for diversion.
- **Promoter buyback:** Promoters have the option to buy back the company at a certain price, with a certain debt restructuring.

## 5.8. TAPAN RAY PANEL RECOMMENDATIONS

Tapan Ray panel was formed **to recommend on 2013 Companies Law**. The panel proposed over 2000 suggestions and recommendations.

### Objectives

- To recommend on transition from Companies Act 1956 to Companies Act 2013 easier.
- Also recommends ways to improve Ease of Doing Business and provide for better environment to start-ups.

### Main recommendations

- As per 2013 law, a public sector company is required to seek approval from central government should it want to give total managerial remuneration which exceeds 11% of net profit. The panel has recommended **to do away with the provision**.
- **Harmonizing disclosure standards between SEBI and Companies Act** by suggesting that the independent director should not have **any kind of pecuniary relationship** with the company.
- Defining a **“subsidiary company”** in terms of **voting rights** of the holding company instead of “total share capital” of the holding company.
- On start-ups:
  - ✓ Allowing start-ups to issue **50% of paid capital as sweat equity** against existing norms of 25 %.
  - ✓ Allowing start-ups to **issue employee stock ownership plan (ESOP)** to promoters who are working as employees or employee directors or whole-time directors.
- Removal of provision under Section 2(87), which prohibited the companies to not have more than two levels of subsidiaries.
- Establishment of an independent body, National **Financial Reporting Authority (NFRA)**, to provide for matters relating to accounting and auditing standards.

## 5.9. OTHER INITIATIVES TAKEN BY GOVERNMENT

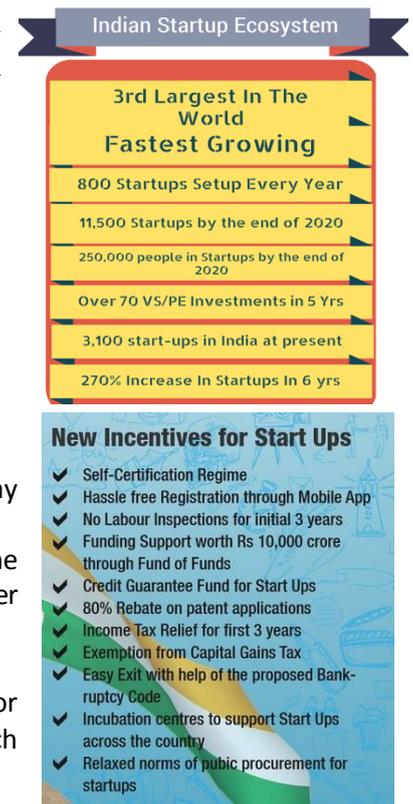
### 5.9.1. STARTUP INDIA PROGRAMME

#### Why in news?

- Prime Minister has announced the **action plan** for start-ups to offer incentives to entrepreneurs to start ventures in India.

#### Key Highlights

- **"Fund of Funds for Startups" (FFS):**
  - ✓ corpus of FFS is Rs.10,000 crore which shall be built up over the 14th and 15th Finance Commission cycles subject to progress of the Startup India scheme and availability of funds.
  - ✓ The expertise of SIDBI would be utilized to manage the day-to-day operations of the FFS.
  - ✓ The monitoring and review of performance is linked to the implementation of the Start Up Action Plan to enable execution as per timelines and milestones.
  - ✓ **Significance:**
    - A corpus of Rs. 10,000 crore could potentially be the nucleus for catalyzing Rs. 60,000 crore of equity investment and twice as much debt investment.



- This would provide a stable and predictable source of funding for Startup enterprises and thereby facilitate large-scale job creation.
- Accelerating innovation driven entrepreneurship and business creation through Start-ups is crucial for large-scale employment generation.
- Exempted seed tax funding. (**Note: Read in Stability of taxation topic**)
- With the intention of reducing regulatory burden on start-ups, they have been exempted from six labour laws and three environmental laws for a period of three years (if startups furnish self-declaration for compliance of nine labour laws for the first year from the date of starting the business, no inspection under these labour laws, wherever applicable, will take place)
- Start-ups will also be provided free legal support in filing intellectual property rights (IPR).
- To provide equal platform to startups in government procurements, the criteria of prior experience or turnover will be exempted without any relaxation in quality standards or technical parameters.
- Government **to set up a Startup India Hub which will be a single-point of contact** for Startups.
- **R&D:**
  - ✓ In order to augment incubation and R&D efforts, 31 centres of Innovation and entrepreneurship will be setup/ scaled up for providing facilities to over 1,200 Startups, at national institutes.
  - ✓ 7 new research parks are proposed to be set up with an initial investment of Rs.100 crore each. These parks shall enable companies with a research focus to set up base and leverage the expertise of academic/ research institutions.

#### Criteria for a startup

- The firm incorporated should be less than five years old.
- Annual Revenue of less than Rs. 25 crore.
- Needs to get approval from inter-ministerial board to be eligible for tax benefits.
- Get recommendation from an Incubator recognized by government, domestic venture fund or have an Indian patent.

#### Way Forward

- The Government should consider providing indirect tax incentives for Startups.
- There is a need to change the mindset of lenders who do not consider start-up entrepreneurs to be good borrowers so that quick funding is available to the startups.
- The easing of rules and creation of a conducive policy environment should not be restricted just to start-ups. It should be extended to all businesses.

#### 5.9.2. DEENDAYAL UPADHYAY SWANIYOJAN YOJANA

Deendayal Upadhyay Swaniyojan Yojana (DUSY) will soon be launched by Ministry of Rural Development to promote rural entrepreneurship under **Start Up India campaign**.

#### Salient features

- The main objective of Swaniyojan Yojana is to provide incentives such as financial assistance to the rural poor looking for self-employment options.
- The scheme will be integrated with MUDRA Bank Loan Yojana, innovative credit linkages and self-help groups.
- It will be funded by the existing National Rural Livelihood Mission.
- It will provide the basic skill set required for self-employment in fields like driving, plumbing, agriculture, dairy farming, grafting and horticulture among others.
- The Ministry will also coordinate with other government departments such as textile, animal husbandry, and food processing to help rural poor setup their own business in these fields.



#### 5.9.3. STANDUP INDIA SCHEME

- To promote entrepreneurship among SC/ST and Women entrepreneurs. Tag line is **“Karen Prayas, paayen vikas”**.

## Salient features

- The Scheme is intended to **facilitate at least two such projects per bank branch, on an average one for each category of entrepreneur.**
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs. 10,000 crore.
- Creation of a credit guarantees mechanism **through the National Credit Guarantee Trustee Company (NCGTC).** The loan under the scheme would be appropriately secured and **backed by NCGTC.**
- Focus is on **handholding support for both SC/ST and Women borrowers both at the pre loan stage and during operations.**
- Bank loans repayable up to 7 years and between Rs. 10 lakh to Rs. 100 lakh **for Greenfield enterprises in the nonfarm sector set up by such SC, ST and Women borrowers.**
- The Stand Up India Scheme anchored by **Department of Financial Services (DFS).**
- It is expected to benefit **at least 2.5 lakh borrowers.**
- The expected date of reaching the target of at least 2.5 lakh approvals is 36 months from the launch of the Scheme.
- Presently only 9% of start-ups in India are led by women.

### 5.9.4. BENEFITS OF START-UP INDIA AND STAND-UP INDIA

- It will help in economic growth of the country.
- It will create more employment opportunities in India.
- It will help in development of entrepreneurship culture in India.
- Leverage the institutional credit structure to reach out to these under-served sectors of the population.

### 5.10. DASHBOARDS TO MONITOR MAKE IN INDIA AND RANK STATES

- Dashboards developed by DIPP to monitor progress made on the two action plans:
  - ✓ Make in India Action Plan
  - ✓ 'State level Business Reform Action Plan.
- **Make in India Dashboard**
  - ✓ Around 21 Ministries covering 22 Sectors identified to boost manufacturing and services as part of the 'Make in India' will view and update the progress of each of their action plans on the dashboard.
  - ✓ It will facilitate timely delivery of identified action points.
  - ✓ Facilitate monitoring and identification of delays in implementation, if any.
  - ✓ It will also allow PMO, Cabinet Secretariat and DIPP to monitor progress and suggest corrective course on the progress indicated.
- **Ease of Doing Business Dashboard**
  - ✓ It will facilitate States to report progress made by them on State Level Business Reforms Action Plan and validation of responses received from the States/UTs by DIPP.
  - ✓ It also has a feature to identify and disseminate information about the good practices followed by the States/UTs.
  - ✓ Real-time ranking of States/UTs once a response is validated by DIPP.
  - ✓ The response posted by the States, their progress and inter-se ranking will be visible to public too.

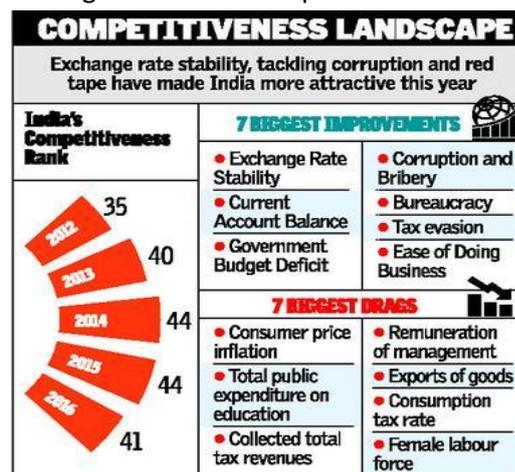
### 5.11. GLOBAL COMPETITIVENESS REPORT

#### Why in news?

India has moved up 16 positions to rank 55th on a global index of the world's most competitive economies in the GCR released by WEF in September 2016.

#### Observations

- Among emerging economies, India has ended five years of decline with a 16-place jump to 55th position. However, South Africa is ranked higher and it has re-entered the top 50, progressing seven places to 49<sup>th</sup>



- WEF said that the most problematic factors for doing business in India include corruption, policy instability, inflation and access to finance.
- The areas where India ranks better were investor protection, gross national savings, quality of education system, venture capital availability, hiring and firing practices, GDP and domestic market size, public trust in politicians and burden of government regulation.
- To improve further, India must stay the course -- its overall ranking is still hampered by one of the highest budget deficits in the world (131 out of 140). It is ranked low on some parameters such as health and primary education (rank 85).
- Although life expectancy has increased, for example, it is still low by global standards, with India ranking only 106th in the world; and while India almost halved infant mortality, other countries did even better, so it drops nine places this year to 115th.
- Further WEF said, "(Besides) the quality of its electricity supply which is still too low (91st) and, surprisingly for a country with so many IT champions, the overall technology readiness of its businesses, which comes in at a poor 120, up just one position on 2014."

**WEF GCR is different from IMD World Competitiveness ranking:** IMD ranking covers 61 countries based on analysis of 340 criteria across 4 factors: *economic performance, government efficiency, business efficiency and infrastructure.*

*India ranked 41. The Infographic on right is for IMD rankings*

## 5.12. WORLD BANK'S LOGISTICS PERFORMANCE INDEX

### Why in news?

The World Bank Group recently launched its bi-annual report 'Connecting to Compete 2016: Trade Logistics in the Global Economy'.

### What is Logistics Performance Index (LPI)?

LPI is a measure that captures the relative ease and efficiency with which products can be moved into and within a country.

### Salient Points

- India has improved its ranking, jumping 19 places from 54th in 2014 to 35th in 2016.
- India was ahead in the BRICS group, with only China ahead at 27.
- Germany and Singapore are ranked highest.
- LPI captures the extent of costs and inefficiency in moving goods internally, especially across states where internal barriers are known to exist.
- LPI does not address how easy or difficult it is to move goods to the hinterland. Domestic LPI is still low and has potential to improve.

### Significance

- Progress in India reflects balanced improvements in policies that facilitate connectivity (in Customs, for example) and improve hard trade-and transport-related infrastructure.
- Efficiency: In 2016, India's international supply chain efficiency was at 75% of top-ranked Germany, which was 66% in 2014.
- Better prospects for 'Make In India' and trade.
- Improved institutional structure: Emergence of skilled professionals and Technological improvements that have enabled services such as track-and-tracing have helped India close the gap with leaders.

### INDIA'S LPI

	2014	2016
<b>Overall LPI</b>	<b>54</b>	<b>35</b>
The efficiency of customs and border management clearance	65	38
The quality of trade and transport infrastructure	58	36
The ease of arranging competitively priced shipments	44	39
The competence and quality of logistics services	52	32
The ability to track and trace consignments	57	33
The frequency with which shipments reach consignees within scheduled or expected delivery times	51	42

Source: World Bank report

Tracking and tracing is a process of determining the current and past locations (and other information) of a unique item/good.

Radio-frequency identification and bar codes are two common technology methods used to deliver traceability.

**CSE 2013**



**GAURAV AGRAWAL**  
**AIR-1**

**CSE 2014**



**NIDHI GUPTA**  
**AIR-3**

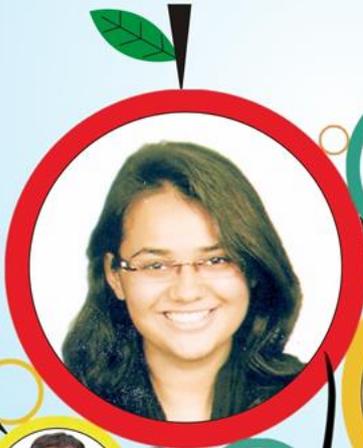


**VANDANA RAO**  
**AIR-4**



**SUHARSHA BHAGAT**  
**AIR-5**

**AIR-1**  
**TINA DABI**



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