WORLD TRADE CENTRE™
MUMBAI

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M. Visvesvaraya Industrial Research and Development Centre

MVIRDC
WORLD TRADE CENTRE MUMBAI
RESEARCH INITIATIVES
2015-2017

Research Studies | Knowledge Papers | Handbooks | White Papers
Occasional Papers | Working Papers | Sectoral Reports
Volume I

Bharat Ratna Sir M. Visvesvaraya

(15 September, 1860 - 14 April, 1962)

MVIRDC World Trade Centre Mumbai is the realization of the vision of Sir M. Visvesvaraya.

MVIRDC is the promoter of World Trade Centre Mumbai. MVIRDC WTC programmes are conducted to guide MSMEs with reliable information for business planning.

Various research based seminars, workshops and training programmes are conducted to sensitize MSME entrepreneurs on various aspects of trade and business and sharpen their skills.

Thus, the objective of MVIRDC research is to enhance MSMEs' competitiveness and promote their integration into the global markets.

MVIRDC

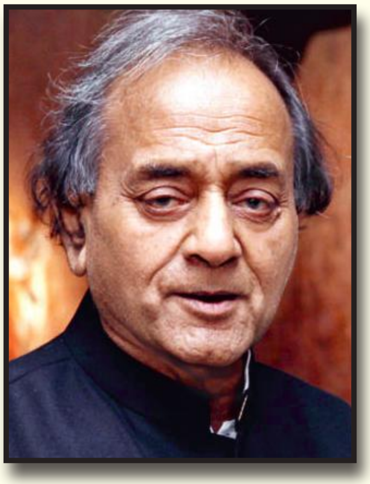
M. Visvesvaraya Industrial Research and Development Centre

M. Visvesvaraya Industrial Research and Development Centre (MVIRDC) is a non-profit company registered and licensed under Section 25 of the Companies Act, 1956 (currently Section 8 of the Companies Act, 2013). MVIRDC became a member of the World Trade Centers Association, New York, in 1971 and established the World Trade Centre Mumbai.

MVIRDC, having spearheaded the movement of World Trade Centres in India with the establishment of WTCs at Bhubaneswar, Goa and Jaipur, is assisting MSMEs and exporters in these regions through Trade Research and knowledge programmes.

World Trade Centre Mumbai has been awarded as 'Asia's Fastest Growing Exhibition Venue' at Exhibition Excellence Award 2017.

Chairman's Message



Dear Member,

I am pleased to place before you this Compendium on Research Studies conducted by our Centre during the period 2015- 16 and 2016-17.

This Compendium is a compilation in summarized form of the research studies, monographs, knowledge papers, and articles prepared during this period. The research studies focused on various sectors spanning agriculture, manufacturing, services, international trade, MSMEs, environment and social issues.

These studies are based on primary and secondary sources of information through consultations and discussions with experts, industry leaders, academicians, diplomats, among others.

As you are aware, as part of our ongoing activities, our Centre conducts research on wide-ranging subjects covering India's international trade, industry, infrastructure and agriculture, among others. The research activity is in keeping with our Centre's objectives to contribute to the promotion of India's international trade and enhance India's trade competitiveness with a view to facilitate India's integration with global markets.

The research studies are conducted keeping in view the imperatives of improving the growth and development of industry, especially the MSME sector in the country and enhancing their competitiveness in the global markets.

Through these research studies, papers, monographs and various memoranda, we analyze the impact of government's policies and formulations and guide Indian businesses to strategize their businesses effectively.

The findings of the research studies are disseminated to the policy makers, trade and industry experts, chambers of commerce, industry associations, academicians and MSMEs, among others. Research thus forms a core activity of our Centre and supports our Centre's other activities.

The Research Department of our Centre conducted a comprehensive research study on the BRICS economies. The study discusses the scope and the potential of future collaboration among

BRICS countries based on their potentials and capabilities. Studies were also conducted on India-Ecuador economic relations, India-UK economic partnership, India-Mauritius co-operation and so on.

A knowledge paper on India-SAARC partnership explores the avenues of collaboration among the seven member countries of the South Asian region. Some of the issues discussed in the study are trade facilitation, renewable energy, agriculture, among others. Another paper, explored the impact of foreign direct investment on Indian economy in terms of job creation, technology transfer, skill development and other areas.

Research studies on issues in the realm of WTO were conducted with a view to sensitize industry and trade of the implications of WTO on Indian trade and business activities.

Our Centre also presents policy recommendations on various issues impinging on the Indian economy. A policy paper on improving exports from Rajasthan offers useful suggestions to the state government on how to enhance exports in the state by strengthening the export promotion schemes, upgrading infrastructure, capacity building and so on.

The Compendium also includes white papers on environment and social sector issues such as water management and women's empowerment. The White Paper on women's empowerment presents useful policy recommendations to promote women's participation in entrepreneurship, education, public administration and other spheres of the economy.

Some of the other research papers featured in this Compendium are on the topics ,namely Agrarian stress in India, India's Renewable Energy Programme, MSMEs and Global Value Chains, 25 years of Economic Reforms, Challenges in Attracting Foreign Direct Investment into India, Smart Cities in India, Non - Performing Assets in the Banking System, etc.

This Compendium is brought out with a view to provide members a glimpse into the research initiatives of MVIRDC World Trade Centre.

Apart from the research papers published in this Compendium, World Trade Centre Mumbai has also conducted studies on topics such as Trade Credit:Its Relevance to Global Value Chains, Brexit, Enabling Food for All, Impact of Microfinance on Financial Inclusion, Indo-Russia Business, Prospects of Mining Industry in Odisha, Export Potential of Rajasthan, among others.

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Chairman

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This work is a product of MVIRDC World Trade Centre Mumbai. The research work presented in this book is part of the mission of MVIRDC World Trade Centre Mumbai to promote international trade through knowledge-based services. The findings, interpretations, and conclusions expressed in this work are those of MVIRDC World Trade Centre Mumbai.

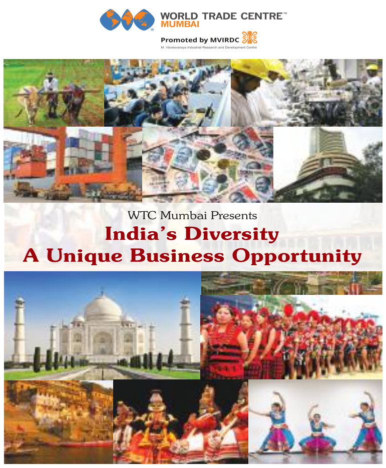
Key economic and financial data mentioned in the research papers are collected from secondary sources such as official statistical agencies, surveys conducted by various organizations, financial disclosures of commercial organizations, press information bureau of government and various other sources.

The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of MVIRDC World Trade Centre Mumbai concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Contents

MVIRDC Research Publications

2015-2016



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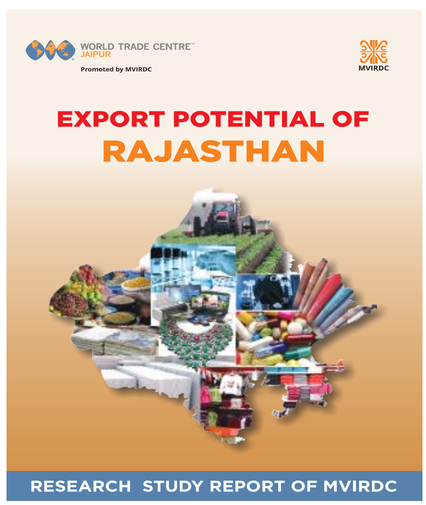
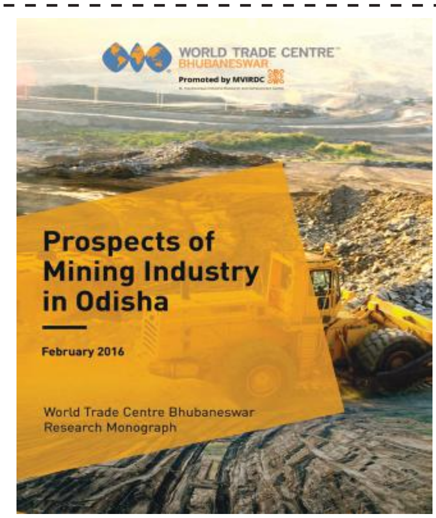
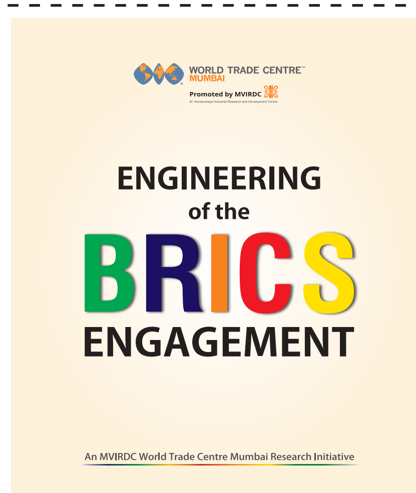






MVIRDC Research Initiatives in 2015-16

AGRICULTURE

Overview of Agriculture Sector in India

Agriculture and allied sectors are the backbone of the Indian economy as a substantial proportion of the population is dependent on these sectors. Cultivators and agricultural labourers constitute around 54% of the total labour force in India (Census 2011). Agriculture, forestry and fishery sectors together contributed 17% to the gross value added of the Indian economy in 2014-15 (provisional estimate of Central Statistical Organisation). India has 138.35 million operational farm holdings and 159.59 million hectare operated farm area (according to India's agriculture census 2010-11).

Of the 138.35 million operational holdings in the country, the highest one belonged to Uttar Pradesh (23.33 million) followed by Bihar (16.19 million), Maharashtra (13.70 million), Andhra Pradesh (13.18 million), Madhya Pradesh (8.87 million), Tamil Nadu (8.12 million), Karnataka (7.83 million), West Bengal (7.12 million), Rajasthan (6.89 million), Kerala (6.83 million) etc. with the lowest of only 714 operational holdings in union territory of Chandigarh.

Out of a total of 159.59 million hectare operated area in the country in 2010-11, the highest contribution was made by Rajasthan (21.14 million hectare) followed by Maharashtra (19.77 million hectare), Uttar Pradesh (17.62 million hectare), Madhya Pradesh (15.84 million hectare), Andhra Pradesh (14.29 million hectare), Karnataka (12.16 million hectare), Gujarat (9.90 million hectare) etc. with the lowest operated area of 923 hectare in the union territory of Chandigarh.

India ranks first in the world in the production of milk, pulses, ginger, bananas, guavas, papayas and mangoes. Further, India ranks second in the world in the production of rice, wheat, vegetable and horticulture products (Annual Report 2014-15, Union Ministry of Food Processing). According to the Fourth Advance Estimates of the central government, the country's total production of foodgrains stood at 252.68 million tonne in 2014-15. For the 12th Five-Year Plan Period (2012-17), a growth target of 4 percent has been set for the agriculture sector.

India ranks first among the world's milk producing nations since 1998 and milk production peaked at 137.97 million tonne in 2013-14 (Year-end Review of the Ministry of Agriculture for the year 2014-15). India has the largest bovine population in the world. The bovine genetic resource of India is represented by 37 well recognized indigenous breeds of cattle and 13 breeds of buffaloes. Indigenous bovines are robust and resilient and are particularly suited to the climate and environment of their respective breeding tracts.

There is tremendous scope to increase India's contribution to the world food system by adopting an optimal blend of modern technologies, which includes information and communication technologies and organic farming.

While India's share in the world population is nearly 18%, its share in the world export of agriculture products is only 3% and its share in the world import of such products is only 1% [2012 data from the Food and Agriculture Organisation (FAO) indicates].

Data from the FAO also indicates that 14% of the world area under cereal crops is in India, while India produces only 11% of the global cereal output (2013 data). Similarly, 15% of the world area under vegetable crops is in India while India contributes only 11% to the world vegetable production (2013 data).

According to the Agriculture Census 2010-11, the total number of operational farm holdings in India was 138.35 million with average size of 1.15 hectare. Of the total farm holdings, 85 per cent are in marginal and small farm categories of less than 2 hectare. These small farms, though operating only on 44 per cent of land under cultivation, are the main providers of food and nutritional security to the nation, but have limited access to technology, inputs, credit, capital and markets.

However, according to the Vision 2050 document released by the Indian Council for Agriculture Research (ICAR), the size of an average farm holding would increase by 2035 led by negative growth rate of rural population. This would promote mechanization of agriculture, ICAR argues. By 2050, very few well-trained and farmer-cum-entrepreneurs will produce food. Their production systems are likely to be more commercial-oriented, operating at high productivity levels in a highly mechanized environment, the Vision document says. It is more likely that today's small holders will organize themselves into producer companies and will have more bargaining power, the document says.

In order to unleash the potential of the agriculture sector, there is a need for a vibrant policy regime, effective co-ordination with agriculture research institutions and an enterprising farming community. A sound policy regime must make farming competitive and profitable with the ultimate goal of attaining self-sufficiency in food commodities. In order to simplify the policy regime and make it more effective, the Indian government replaced the erst-while 51 schemes on agriculture with 5 missions and 5 schemes as under –

Mission	Schemes
1) National Food Security Mission (NFSM)	1) National Crop Insurance Programme (NCIP)
2) Mission for Integrated Development of Horticulture (MIDH)	2) Integrated Scheme on Agri-Census & Statistics (ISAC&S)
3) National Mission on Oil Seeds and Oil Palm (NMOOP)	3) Integrated Scheme of Agriculture Marketing (ISAM)
4) National Mission for Sustainable Agriculture (NMSA)	4) Integrated Scheme of Agriculture Cooperation (ISAC)
5) National Mission on Agricultural Extension & Technology (NMAET)	5) Secretariat Economic Service

In order to ensure sustainable development of agriculture sector, the central government took a number of steps during the budget 2014-15. These steps include enhanced institutional credit to farmers, promotion of scientific warehousing infrastructure including cold storages and cold chains in the country for increasing shelf life of agricultural produce, improved access to irrigation through Pradhan Mantri Krishi Sichayee Yojana, provision of Price Stabilisation Fund to mitigate price volatility in agricultural produce etc.

The central government is implementing the Rashtriya Gokul Mission, a project under the National Program for Bovine Breeding and Dairy Development, to conserve and develop indigenous breeds in a focused and scientific manner. The mission aims to enhance the productivity of the indigenous breeds through professional farm management and superior nutrition, as well as gradation of indigenous bovine germplasm.

Some of the influential schemes announced recently by the central government are as follows –

Name of the Scheme	Details of the Scheme
Paramparagat Krishi Vikas Yojana (PKVY)	Under this scheme, government would provide financial assistance for groups of farmers to take up organic farming. Fifty or more farmers will form a cluster having 50 acre land to take up the organic farming under the scheme.
Soil Health Card Scheme	Under the scheme, soil health labs across the country would collect soil samples, test them and offer guidance to farmers on the appropriate usage of fertilizers. The scheme also envisages building up a single national database on soil health for future use in research and planning.
Pradhan Mantri Krishi Sinchayi Yojana (PMKSY)	Central government allocated Rs 50,000 crore for a period of 5 years (2015-16 to 2019-20) to boost irrigation and water management infrastructure under this scheme. The scheme is intended to amalgamate all the existing schemes for irrigation.

In order to ensure policy co-ordination at all levels of the government structure, the central government assists state governments in the overall development of agriculture sector. Effective policy measures are in position to improve agricultural production and productivity and address problems of farmers. State governments are also impressed upon to allocate adequate funds for development of agriculture sector in state plan, as well as initiate other measures required for achieving targeted agricultural growth rate and address problem of farmers.

Food Processing Sector

In India, the food processing sector has been growing faster than the agriculture sector and consequently it contributes more to the national GDP (gross domestic product) as compared to agriculture and manufacturing sectors. The food processing sector registered an average annual growth rate of 8.4% between 2008-09 and 2012-13 compared to the average annual growth rate of 3.3% for agriculture in this period (Annual Report 2014-15, Union Ministry of Food Processing)

In India, there are 37,175 registered units in the food processing sector and these units are mostly in the business of grain mill, sugar, edible oils, beverages and dairy products. Food Processing Industry is one of the major employment intensive segments constituting 13.04 per cent of employment generated in all Registered Factory sector in 2012-13 and there is an immense potential in this sector to generate employment in the country.

The time has come for India to leap forward and move up the value chain of the agro sector by strengthening its food processing industry, food warehousing and logistics industry.

Food Value Chain

India must strengthen its food processing and logistics industry not only to cater to the increasing demand for ready-to-eat food by its huge consumer base (whose disposable income is rising) but also to reduce the post-harvest loss of food items.

According to a study conducted by the Central Institute of Post-Harvest Engineering and Technology (CIPHET) for 2012-14, the extent of harvest and post-harvest losses varies from 4.58% to 15.88% in respect of fruits and vegetables and 4.65% to 5.99% in case of cereals.

The study finds that major reasons for wastage of food grain produce are poor farm operations like harvesting, threshing, storage, insect or pest infestation etc.

The central government, the state governments, and the Reserve Bank of India have taken various steps to encourage entrepreneurs investing in the food processing and food logistics sector (**see below**).

Central Government schemes and initiatives for food processing and logistics sectors	
1)	Scheme for Development of Infrastructure for Food Processing having components of Mega Food Parks, Integrated Cold Chain, Value Addition and Preservation Infrastructure and Modernization of Abattoirs
2)	Scheme for Quality Assurance, Codex Standards, Research & Development and Other Promotional Activities.
3)	Launching of Investors' Portal for promoting investment in Food Processing sector
4)	Identifying APMC issues affecting food processing for appropriate amendments in APMC Act.
5)	Enhancing allocation for Infrastructure Development schemes: 42 Mega Food Parks, 138 cold chain projects, 60 abattoirs
6)	Regular interaction with industry and state governments for activating single window clearance
7)	Excise duty on food processing and packaging machinery reduced from 10% to 6%.

Continuted on next page.

8)	Special fund of Rs 2,000 crore set up in National Bank for Agriculture and Rural Development (NABARD) to provide affordable credit to the food processing units to be set up in the designated Food Parks.
9)	Application Forms of all the Schemes currently being implemented by Ministry of Food Processing Industries has been simplified.
10)	Requirement of supporting documents such as affidavit, agreements etc earlier required to be submitted with the proposal reduced.
11)	A Food map of India identifying surplus raw material has been prepared and uploaded on the Ministry website. Idea is to identify the surplus and deficient areas in the country of various agricultural and horticultural produce so as to plan processing clusters by means of setting up processing facilities under current schemes.
12)	Sectoral Skill Council on Food Processing working in Federation of Indian Chamber of Commerce and Industry (FICCI).
	State Government's role
1)	In April 2012, the Centrally Sponsored Scheme National Mission on Food Processing (NMFP) was launched. This scheme has been delinked from Central Government support since the current financial year (2015-16) except the union territories.
	Reserve Bank of India's initiative
1)	Reserve Bank of India allowed bank loans to food processing units with an investment in plant & machinery not exceeding Rs 5 crore to be classified under priority sector lending. This enables food processing companies with the above investment limit to avail bank credit at concessional rate.

The union government is implementing a Central Sector Scheme for Infrastructure Development for Food Processing having components of Mega Food Parks and Integrated Cold Chain, Value Addition and Preservation Infrastructure. Under the scheme, financial assistance is provided in the form of grant-in-aid to eligible entrepreneurs, including women entrepreneurs, @ 50% in general areas and @ 75% in North-Eastern Region and difficult areas, subject to a maximum of Rs 50 crore for establishment of Mega Food Park and Rs 10 crore for establishment of Cold Chain Infrastructure.

In order to promote food processing units in the country, Ministry of Food Processing Industries was implementing a Scheme for Technology Upgradation or Establishment or Modernization of Food Processing Industries under the National Mission on Food Processing (NMFP) through state or UT governments. However, the NMFP has been delinked from central government support with effect from April 2015. These measures are expected to increase the level of processing of agricultural and horticultural produce, with particular focus on perishables, in the country and thereby to check the wastage. The considerable post-harvest loss in food commodities, the rising income of the country's population and a vibrant policy environment present an excellent opportunity for entrepreneurs to invest in the food processing, logistics and infrastructure service sector.

If the opportunity available in the food sector is utilized to the full extent, the food processing industry as a whole would grow at an annual rate of more than 15% projected by the KPMG Advisory Services in its report on Human Resource and Skill Requirements in the Food Processing Sector. In the report, the consultancy firm projected the food processing industry to grow at a compounded annual rate of 15% during 2012-17 (see the table below).

Sector	Compounded Annual Growth Rate in market size (2012-17)
Fruits and Vegetables	4%
Milk and Milk Products	11%
Meat and marine products	17%
Grain and Oil seeds	16%
Packaged Foods	15%
Beverages	15%
Food Processing Industry	15%

Source: Report on Human Resource and Skill Requirements in the Food Processing Sector by KPMG Advisory Services

Opportunities in India's food processing sector
➢ Increasing demand for secondary processing and packaged food items.
➢ Mandating contracts with organised retailers that may improve adherence to international quality standards, which could, in turn, encourage skill improvement for food processing players, leading to improved access to domestic and export markets.
➢ Growing role of regional food processing players due to increased need for localisation and customisation of offerings by food companies to suit the Indian palate.
➢ Extremely low processing levels especially in F&V sub-sector.
➢ Gradual liberalisation of the retail sector leading to improved backward linkages with processors
Source: KPMG Advisory Services Report

Foreign Direct Investment

Indian government allows public, private and foreign direct investments (FDI) in the agriculture and allied sectors. However, FDI up to 100% is allowed under automatic route only in specified activities of the agriculture and allied sectors. According to the consolidated FDI policy circular 2015, the central government allows FDI in floriculture, horticulture, apiculture and cultivation of vegetables and mushrooms under controlled conditions. Further, FDI is allowed in the development and production of seeds and planting material, animal husbandry, pisciculture, aquaculture, under controlled conditions and services related to agro and allied sectors. Besides the above, FDI is not allowed in any other agricultural sector or activity.

Year-wise FDI equity inflows in agriculture services sector

Year (Apr-Mar)	FDI (Rs. crore)	FDI (US$ million)
2012-13	875.90	161.47
2013-14	559.66	91.01
2014-15	352.37	57.87
2015-16 Apr-May	37.64	5.99
Grand Total	1,825.58	316.34

Source: Department of Industrial Policy & Promotion (DIPP)

In the food processing sector, government allows 100 percent FDI under the automatic route except for alcohol and beer.

Marketing Reform

At present, there is no common unified market for the agriculture sector throughout India as agro-commodities originating at different states are traded in the respective state's Agriculture Produce Market Committee (APMC) market yards. In order to unify all these market yards and provide a common platform for trading of agro-commodities, the Central Government formulated a Central Sector Scheme for "Promotion of National Agriculture Market through Agri-Tech Infrastructure Fund (ATIF)". This scheme was to be implemented with a budgetary outlay of Rs 200 crore during 2015-16 to 2017-18.

This ambitious scheme aims to connect 585 regulated APMC markets across different states through an appropriate common e-market platform by 2017-18. In addition, big private markets will also be allowed access to the software to enable better price discovery.

The central government would offer financial assistance to the state governments to meet expenses on software and its customisation and in addition will also give grant as one time fixed cost subject to the ceiling of Rs 30.00 lakh per market for related hardware including equipment or infrastructure.

Research and Development

The Central Government is laying emphasis on research and development in the agriculture sector to boost productivity, evolve climate-friendly, cost-effective farm practices, reduce post-harvest losses etc.

The Indian Council of Agricultural Research (ICAR) conducts and disseminates research in the sector through its 100 research institutes, 73 Agricultural Universities and 642 Krishi Vigyan Kendras (KVKs). The combined effort of these bodies is expected to enhance the competitiveness of Indian farming to make farming a viable, self-sustaining and internationally competitive enterprise.

ICAR is also taking efforts to generate quality human resource through effective agricultural education, need-based training in India and abroad, adopting information and communication technologies (ICT) in agriculture development, strengthening social science skills, promoting public-private sector partnership, strengthening policy analysis and vision-oriented market-led intelligence analysis skills, strengthening agri-business development and intellectual property regime (IPR) management.

Besides improving productivity, agriculture research also aims to generate best practices in processing of high value products, linking production with processing and marketing with focus on small and marginal farmers and farm workers, developing high yielding varieties combining with high protein content and other characteristics demanded by the importing countries.

The central government has been spending at least Rs 2,500 crore annually on agriculture research in recent years (see table below).

Year-wise spending on agriculture research by Government of India

Year	Budget Estimates (Rs. in crore)	Revised Estimates (allocation) (Rs. in crore)
2012-13	3220.00	2520.00
2013-14	2415.00	2600.00
2014-15	3715.00	2500.00

(Source: Press Information Bureau, Government of India)

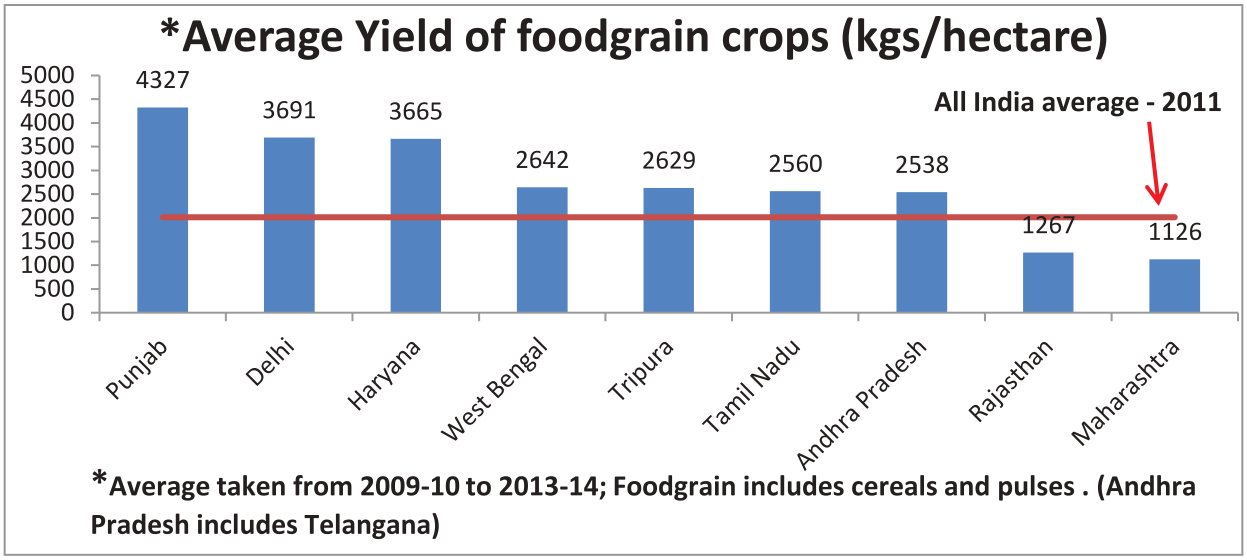
The Indian Council for Agriculture Research (ICAR) has re-oriented its research agenda to keep its work relevant to the changing needs of farmers and the agriculture system in India. Based on its analysis of the emerging scenario of the Indian agriculture sector, ICAR has carved out the following focus areas for its research.

ICAR Vision 2050: Focus Areas of Research

• **Genetic potential enhancement of agricultural commodities**
• **Agricultural productivity, efficiency and profitability improvement**
• **Resilience to climate change and abiotic and biotic stresses**
• **Improve nutritional food, and health security**
• **Risk management against climate change and market stressors**
• **Agricultural value chains**
• **Sustainability of natural resources base of agriculture**
• **Valuation of ecosystem services**
• **Agricultural markets, policies, and institutions**
• **Bio-security, especially the one emerging from gene piracy and cross-border vector-borne diseases**
• **New products and uses (eg., bio-energy, new crops, synthetic foods, special foods)**
• **New educational and learning systems and environments**

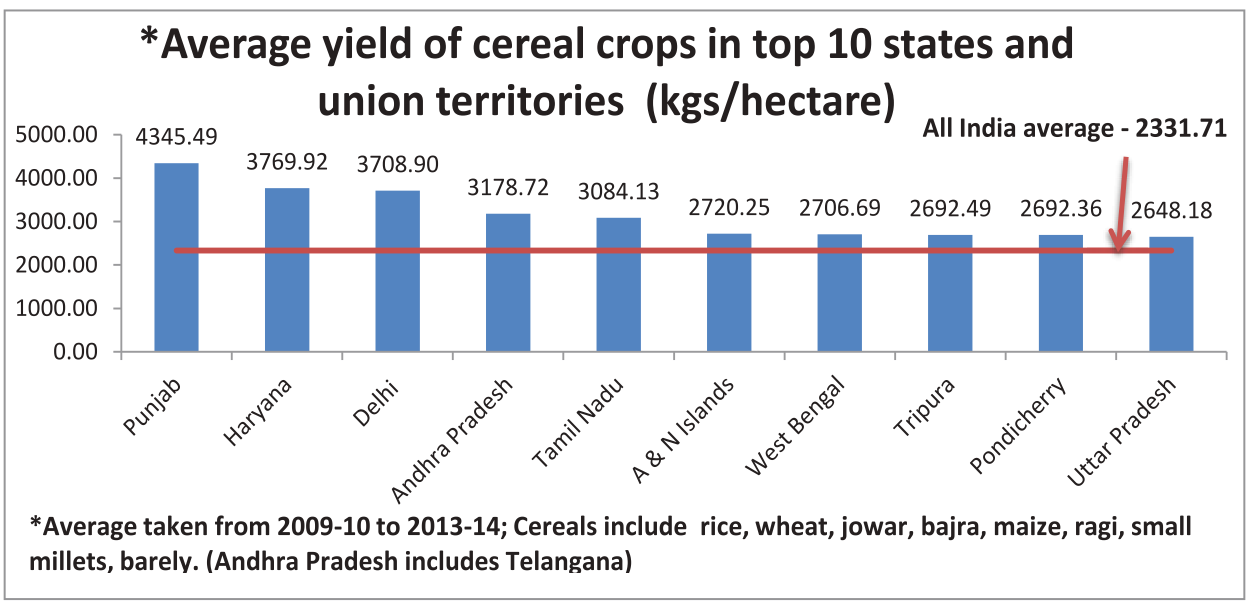
Performance of states

There is huge variation in the agriculture performance of different states in India as they fall under different agro-climatic zones. Owing to the diverse agro-climatic conditions in different states, productivity of crops also varies in these states. For example, yield of foodgrain crops (which include rice, wheat, maize, millets, pulses, jowar, bajra, ragi) is the highest in Punjab (at 4327 kg per hectare), followed by Delhi (3691 kg per hectare), Haryana (3665 kg per hectare). On the other hand, the yield is the lowest in Maharashtra (at 1126 kg per hectare), Rajasthan (1267 kg per hectare). Note that these are the average yield of the crops during the four year period from 2009-10 to 2013-14.



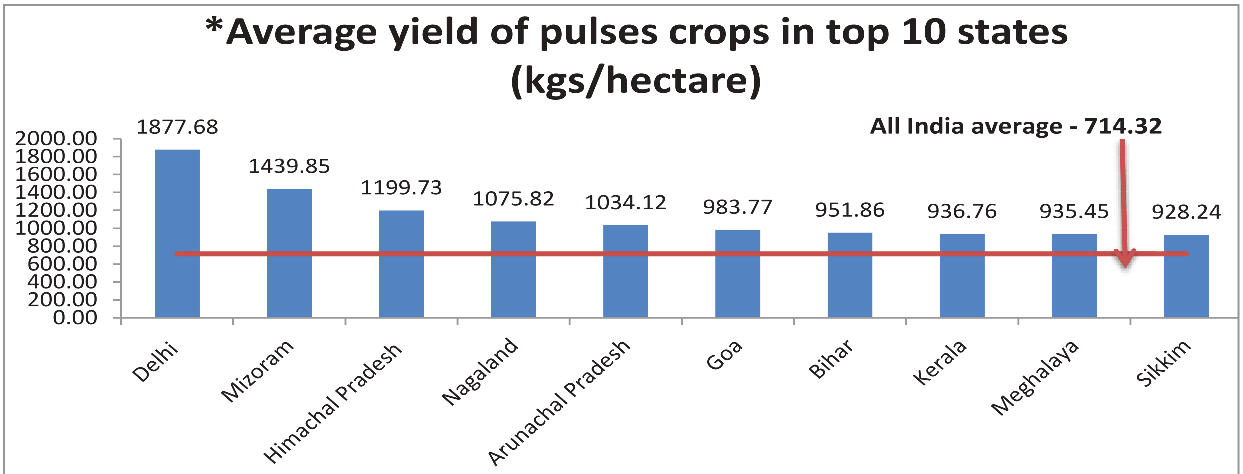
Source: Department of Agriculture Cooperation & Farmers Welfare, Government of India

Specifically, yield of cereal crops, which include rice, wheat, jowar, bajra, maize, ragi, small millets, is the highest in Punjab (4345.49 kgs per hectare), Haryana (3769.92) and the lowest in Maharashtra (1299), Mizoram (1318).



Source: Department of Agriculture Cooperation & Farmers Welfare, Government of India

Similarly, productivity of pulse crops [which include tur (pigeon pea), gram (chickpea), moong (green pea), urad (black gram)] is the highest in Delhi at 1877.68 kgs per hectare followed by Mizoram (1439.85), Himachal Pradesh (1199.73), Nagaland (1075.82).



*Average taken from 2009-10 to 2013-14; Pulses include tur (pigeon pea), gram (chickpea), moong (green pea), urad (black gram)

Source: Department of Agriculture Cooperation & Farmers Welfare, Government of India

While India may be the second largest producer of food grains across the globe, it has miles to go to achieve food security for all its citizens. According to 'The State of Food Insecurity in the World, 2015" report released by the Food and Agriculture Organisation (FAO), 194.6 million people (15.2% of the country's population) are undernourished in India. By this measure India is home to a quarter of the undernourished population in the world. Therefore, addressing the food security issues in India holds key for the overall achievement of food security in the world. India may be one of the fastest growing economies in the world. However, the higher economic growth has not been fully translated into higher food consumption, let alone better diets overall, suggesting that the poor and hungry may have failed to benefit much from overall growth, the FAO report says. This indicates that food security is not only about the availability of enough quantity of food grains. Food security is a multi-dimensional issue requiring a concerted action from the government, agriculture research institutions, community-based organizations, farmers and agri-business enterprises.

India has implemented the first Green Revolution to increase farm productivity. Now, the next Green Revolution must focus on imparting climate-smart farming practices among small and marginal farmers, training farmers on appropriate value addition of their farm commodities, improving access to quality inputs, insurance, credit, market etc, reduce post-harvest losses of food commodities, creating a supply chain infrastructure etc.

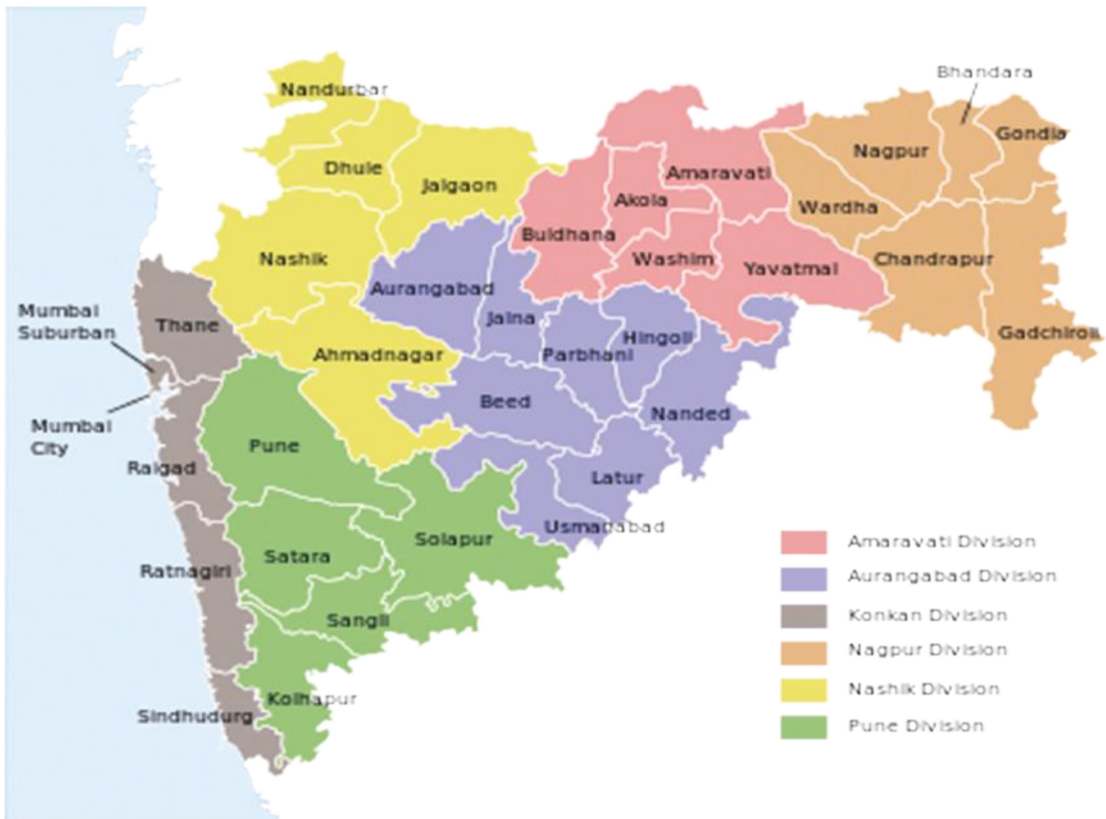
India agriculture sector at a glance

- The agricultural crop year in India is from July to June. There are two main cropping seasons in India - (i) Kharif and (ii) Rabi based on the monsoon
- The kharif cropping season is from July –October during the south-west monsoon and the Rabi cropping season is from October-March (winter). The crops grown between March and June are summer crops
- India is the second largest producer of rice, wheat and vegetable crops in the world after China
- India is the largest producer of pulses in the world. Australia ranks second in pulses production
- According to the land use statistics 2011-12, the total geographical area of the country is 328.7 million hectares, of which 195.2 million hectare is the gross cropped area. The net irrigated area in India is 65.3 million hectare
- Over 70 per cent of the rural households depend on agriculture as their principal means of livelihood in India
- According to the latest population census of India, agriculture provides employment to 263.1 million people of which 118.8 million are cultivators and 144.3 million are agricultural labourers
- India is the major producer, consumer and exporter of spices in the world. The country grows over 60 different varieties of spices because of varied agro-climatic conditions and soil types
- India produces about 6 million tonne of spices, of which, about 0.69 million tonne (11%) is exported to more than 150 countries
- Government of India has introduced several policies for the development of the agriculture sector. These include Rashtriya Krishi Vikas Yojana (RKVY), National Food Security Mission (NFSM), National Horticulture Mission (NHM), Gramin Bhandaran Yojana, Integrated Scheme of Oilseeds, Pulses, Oil palm, and Maize (ISOPOM), etc.

White Paper on Agricultural Stress and Relief Measures

Strategy Building

The number of districts in the state of Maharashtra is 36. These districts are grouped into six administrative divisions.



Districts and Divisions of Maharashtra

Regions

Geographically, historically, and according to political sentiments, Maharashtra has five main regions:

Vidarbha - *(Nagpur and Amravati divisions)* - (Old Berar Region)

Marathwada - *(Aurangabad Division)*

Khandesh and Northern Maharashtra Region - *(Nashik Division)*

Pune - *(Pune Division)* - *West Maharashtra Region*

Konkan - *(Konkan Division)*

Divisions

Name of Division (Headquarter)	Region	Districts	Largest City
Amravati Division (HQ: Amravati)	Vidarbha	Akola Amravati Buldana Yavatmal Washim	Amravati
Aurangabad Division (HQ:Aurangabad)	Marathwada	Aurangabad Beed Hingoli Jalna Latur Nanded Osmanabad Parbhani	Aurangabad
Konkan Division (HQ: Mumbai)	Konkan	Mumbai Mumbai Suburban District Thane Palghar Raigad Ratnagiri Sindhudurg	Mumbai
Nagpur Division (HQ: Nagpur)	Vidarbha	Bhandara Chandrapur Gadchiroli Gondia Nagpur Wardha	Nagpur

Name of Division (Headquarter)	Region	Districts	Largest City
Nashik Division (HQ: Nashik)	Khandesh	Ahmednagar(Ahmednagar being a part of Nashik division is not a part of Khandesh region, it is a part of Desh region) Dhule Jalgaon Nandurbar Nashik	Nashik
Pune Division (HQ: Pune)	Desh	Kolhapur Pune Sangli Satara Solapur	Pune

Of the total population of Maharashtra state, around 54.78 percent live in villages. In actual numbers, males and females were 31,539,034 and 30,017,040 respectively. Total population of rural areas of Maharashtra state was 61,556,074. The population growth rate recorded for this decade (2001-2011) was 54.78%. The number of villages in Maharashtra is 43,711 .

Strategy 1

Operational Framework

It is observed from the primary analysis that agriculture in Maharashtra does not have a organized mapping. Certain areas have strong KVK which impart valuable direction in agricultural methods and on the other hand certain areas have no such support. This has led to a major information loss among the farmers as a whole leading to poor development of the small farmer. The whole of Maharashtra needs to have information symmetry to achieve the goal of well being of the smallest farmer in the poorest districts of Maharashtra. Maharashtra display prosperity in agriculture represented by the flourished divisions on one hand and farmers suicides from impoverished villages on the other hand displaying an information asymmetry which is the main cause of problems and issues.

To overcome this deficiency the government needs to put in place a proper integration network of personnel for each of its villages throughout the state. Maharashtra has 43,711 villages, allocation of one personnel trained in agricultural sciences and financing needs to be assigned to each of this village with an annual salary of Rs 2.5 lakhs pa which will mean allocation of 1092 cr from state budget for paying salary to these personnel. This will give rise to creation of 43711 jobs in agriculture. Skilled personnel in agricultural and financing sciences will act like agriculture doctors and help in propagation and guidance of the farmers in agriculture. A constant presence of support will translate into development of organized farming operations impacting deep at the village level. These personnel can be also used for constant point for monitoring and feedback. In addition these personnel will not only serve as doctors and point of government contacts but also will help the in range of activities beyond farming. They will act as a strong rural support network which will assist in farmers in getting loans for farming but also help in documentation and understanding of the terms and conditions. They will also act as support to rural institutions such as the rural banks and nodal points for implementation of various government rural schemes. They will also facilitate the work of the KGKs to reach deep into the villages. They will also provide the government and other allied agencies information about the cropping patterns and help in establishing efficient rural linkages with the private entities. These rural agri doctors will report every fortnight to the district officer the developments and issues related to agriculture in his area.

The district officer will sort such issues within a fort night and settle the issue by next meet.

These agri- doctors will be trained at regular intervals and provided with information on farming methods and new schemes for the farmers. These personnel will play an important role during climatic chaos and subsequent declaration of subsidies to the farmers during such environmentally chaotic periods.

Strategy 2

Fortification of farmers from the poor districts by Government acting as the private procurement company

Maharashtra provides mid day meals 261.81 lakh students per year from rural and municipal . Rural and municipal hospitals catering to 100 lakh patients per year which also provide mid day meals. Government of Maharashtra needs to ear mark the poor districts of the state which are able to produce only a certain quality of grain which is commonly consumed by the population for procurement of the same for its meals program.

The farmers producing cereals in poor districts of Osmanabad and Gadchiroli do not have good price and have certain cereals as a sole crop in these areas . Government can outsource its requirements for provision of meals to government run hospitals and schools from such small farmers. A bread making factory with tie up with a SME to be set up for each taluka from such poor districts to process these grains and farmers to be paid a good market price for their produce .

Strategy 3

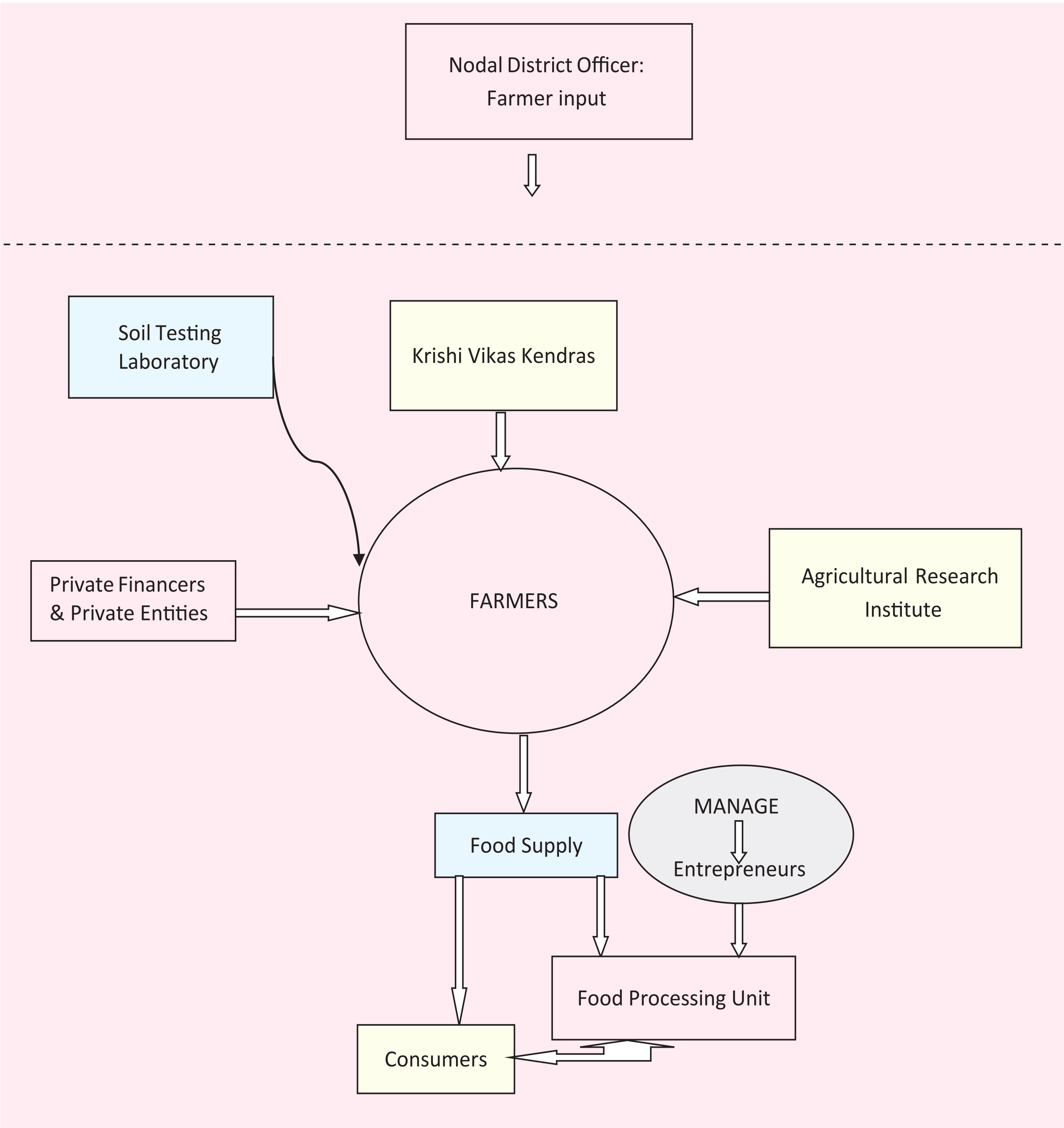
Integration of the functions involving food supply and agriculture: The government departments responsible for food supply, nutrition and food based agriculture and related industry should be integrated so that the entire value chain can be fortified and optimized and monitored

Strategy 4

50 % Subsidy in GST to be provided to the retailer who can collect agriculture based perishable food from remotest villages and maintain a outlet for the sale of the same at the taluka or at a main market place or arrange a house to house distribution network.

Strategy 5

1. Knowledge and awareness of farm inputs especially of healthy seeds which will sprout and give good crop in any weather conditions.
2. Lending rates should be as low as possible and easy availability of capital.



INFRASTRUCTURE

India’s Water Wealth

India’s alleviation as a blue economy from water exports! Only if this resource was adorned with high important status central to the Indian base with 60 % of Indian economy being water driven. However treatment meted out to water management is extremely poor in India. Source of water for use in India is through ground and through taps. In remote inaccessible areas river or stream water is still in use which is one of the most tedious tasks. Inadequate infrastructure for storage , treatment and distribution of water stored from rivers or rain has led to groundwater playing a crucial role as a decentralized source of drinking water for millions rural and urban subjects.

According to some estimates, it accounts for nearly 80 per cent of the rural domestic water needs, and 50 per cent of the urban water needs in India. To a certain extent India’s share in world population is 17.1% and that of water availability is 4%. The world per capita availability rank of water in India is 132 and that of water quality is 122. India receives average annual rainfall of 1160 mm, the world average being 1110 mm. Even after receiving rainfall which is above world average India’s water availability rank remains only at 132 .This displays infrastructural deficiencies to hold water in India.

India’s reservoir capacity of 57% is held only in five states of Maharashtra, Madhya Pradesh, Karnataka, Odisha and Gujarat. There is an urgent need to build water storage capacity across India in form of reservoirs and dams especially in weak precipitation areas and link these reservoirs to reservoirs in higher precipitation areas via canals. It is found that reservoirs in excess precipitation areas discharge the extra water into rivers which is further wasted into sea. India being an agriculture based economy water is a huge economic value generator especially in the rural area. There is a huge rural demand for water which mainly grows water intensive crops like rice, pulses and wheat especially in the states of Haryana, Punjab and Rajasthan. The annual ground water demand in these states well exceeds availability with other states approaching threshold breaching limits.

Moreover, this is fuelled by more than 19 million electric and 10 million diesel pump sets. More and more land is being pulled in for farming purposes with the water pump serving as a tool to pump out water from the underground streams. In spite of average or above average rainfall rural India lacks infrastructure to store rain water with a higher dependency on ground water mainly for two reasons one being avoidance due to divergence of agricultural space to water storage and secondly ease of operation using water pumps.

Capacity building of such a water storage infrastructure has not been seriously looked at even when this exercise can be game changer for the Indian economy. Excessive use of ground water in absence of a feeder reservoir for underground streams leading to a near disaster resulting in deep as good as 600 feet deep wells with no water left to be pumped out.

About decade back extensive network of canals was built around villages but these have been running dry due to excessive silting which is not cleared by authorities on one hand and on the other hand the share of water which needs to be flowing through these canals is being illegally diverted by political players. Such is the political oppression of water in dams that it has become an issue of criminalities. Lack of appropriate protection to the engineers managing dams has led to political honchos playing their strength. This has led to a necessity of a Water Regulatory authority that would be empowered as a tribunal to solve water disputes especially the ones belonging to water distribution. This water regulatory body should also be authorized to acquire land barren for agriculture to be used for rain water harvesting in form of small lakes and ponds. The Narmada River project in India which can be excellent example of how the excess water has been channelized to seasonal water basins making them perennial thus providing a healthy water table to the adjoin areas along their course. Nearly three states are benefitting out of this arrangement and at the same time there has been no conflict between due to smooth management of this operation.

This mighty project has made electricity generation possible through hydro electricity generation plant lighting numerous homes. On the other side there have been instances of inefficient water management and regulation which has given rise to interstates water disputes of Cauvery in Karnataka and Tamil Nadu and the Ravi and Beas river water dispute between Punjab, Haryana, Himachal Pradesh, Rajasthan, Jammu and Kashmir and Delhi.

Water supply capacities are further hampered due to the indiscriminate water wastage especially due to leakages in the distribution systems and water contamination happening both at urban and rural areas. Wastage of water in an urban surrounding is much higher than a rural one and non treatment of used water adds to more worries. Groundwater is generally less susceptible to contamination and pollution when compared to surface water bodies. Also, the natural impurities in rainwater, which replenishes groundwater systems, get removed while infiltrating through soil strata.

But, In India, where groundwater is used intensively for irrigation and industrial purposes, a variety of land and water-based human activities are causing pollution of this precious resource. Its over-exploitation is causing aquifer contamination in certain instances, while in certain others its unscientific development with insufficient knowledge of groundwater flow dynamic and geo-hydrochemical processes has led to its mineralization. In an urban setting untreated water mostly contaminates drinking water due to leakages in large pipes carrying freshly treated water. Instances of contamination of ground water in India are rampant.

The incidence of fluoride above permissible levels of 1.5ppm occur in 14 Indian states, namely, Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal affecting a total of 69 districts, according to some estimates. Iron content above permissible level of 0.3 ppm is found in 23 districts from 4 states, namely, Bihar, Rajasthan, Tripura and West Bengal and coastal Orissa and parts of Agartala valley in Tripura. High levels of arsenic above the permissible levels of 50 parts per billion (ppb) are found in the alluvial plains of Ganges covering six districts of West Bengal.

Presence of heavy metals in groundwater is found in 40 districts from 13 states, viz., Andhra Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal, and five blocks of Delhi. Non-point pollution caused by fertilizers and pesticides used in agriculture, often dispersed over large areas, is a great threat to fresh groundwater ecosystems. Intensive use of chemical fertilizers in farms and indiscriminate disposal of human and animal waste on land result in leaching of the residual nitrate causing high nitrate concentrations in groundwater. Nitrate concentration is above the permissible level of 45 ppm in 11 states, covering 95 districts and two blocks of Delhi. DDT, BHC, carbamate, Endosulfan, etc. are the most common pesticides used in India.

Pollution of groundwater due to industrial effluents and municipal waste in water bodies is another major concern in many cities and industrial clusters in India. A 1995 survey undertaken by Central Pollution Control Board identified 22 sites in 16 states of India as critical for groundwater pollution, the primary cause being industrial effluents. A recent survey undertaken by Centre for Science and Environment from eight places in Gujarat, Andhra Pradesh and Haryana reported traces of heavy metals such as lead, cadmium, zinc and mercury. Shallow aquifer in Ludhiana city, the only source of its drinking water, is polluted by a stream which receives effluents from 1300 industries.

Excessive withdrawal of groundwater from coastal aquifers has led to induced pollution in the form of seawater intrusion in Kachchh and Saurashtra in Gujarat, Chennai in Tamil Nadu and Calicut in Kerala. Mercury is reported to cause impairment of brain functions, neurological disorders, retardation of growth in children, abortion and disruption of the endocrine system, whereas pesticides are toxic or carcinogenic. Generally, pesticides damage the liver and nervous system.

Tumour formation in liver has also been reported. The presence of fluoride in water cannot be detected without the help of water quality testing equipment. High fluoride content is often detected from such symptoms on human beings as yellowing of teeth, damaged joints and bone deformities, which occur from long years of exposure to fluoride containing water.

Due to this reason, by the time the community realises the “menace”, a large section of the population is already affected. A recent survey by the International Water Management Institute (IWMI) in north Gujarat showed 42 per cent of the people covered in the sample survey (28,425) were affected; while 25.7 per cent were affected by dental fluorosis, 6.2 per cent were affected by muscular skeletal fluorosis and 10 per cent by both. The potential biological and toxicological effects of using fluoride contaminated water are also dangerous.

Study on fluorotic populations of north Gujarat revealed an increase in frequency of sister chromatic exchange in fluorotic individuals indicating that fluoride might have genotoxic effect. Fluoride had been reported to cause depressions in DNA and RNA synthesis in cultured cells. Conditions including ageing, cancer, and arteriosclerosis are associated with DNA damage and its disrepair. Prolonged exposure to water containing salts (TDS above 500ppm) can cause kidney stone, a phenomenon widely reported from north and coastal Gujarat.

Arsenic contamination of drinking water causes a disease called arsenicosis, for which there is no effective treatment, though consumption of arsenic free water could help affected people at early stages of ailment to get rid of the symptoms of arsenic toxicity. Arsenic contamination is by far the biggest mass poisoning case in the world putting 20 million people from West Bengal and Bangladesh at risk though some other estimates put the figure at 36 million people.

India has been rampantly urbanized, however urbanization is not courting water security at the same pace forcing reliance on ground water for domestic use as the only measure relied upon . This has worsened the condition of residents. Mumbai is the only tier 1 city to have been secured with steady supply of water through five major lakes this feature being absent among other tier 1 cities of India. Extensive use of ground water for urban usage coupled with no treatment for sewage water will in future result into a monster which is going to be difficult crisis to handle. India consumes about 251 billion cubic meters of ground water annually against China and US using 112. India has been rising in its cities which will also increase industrial demand for water along with domestic one in the urban cities which is presently 2% compared to China's 26%.Pressure on water resources will rise with growth and is expected to increase by 50% between 2000 and 2050 and these water withdrawals will be maximum in the emerging economies.

There is an urgent need to have separate national body and one at state level for water management to the status of Ministry which could relate to such issues. The prime objective of this body should be water management across states segregating the urban and rural needs. Rural needs with respect to water are drinking and irrigation where as urban needs vary to a large extent with water being required for many other purposes other than the drinking one.

The central authority in form of Ministry for Water needs to draw policy guidelines which could probably avoid wastage of water and promote recycling of used water. Treatment for industrial use of water needs to have a different set of rules for development of a policy framework.

The first step towards evolving measures to prevent and cure groundwater quality deterioration is generating reliable and accurate information through water quality monitoring (WQM) to understand the actual source/cause, type and level of contamination. However, there are a few observation stations in the country that cover all the essential parameters for water quality and hence the data obtained are not decisive on the water quality status.

Secondly, WQM involve expensive and sophisticated equipments that are difficult to operate and maintain and require substantial expertise in collecting, analyzing and managing data. Since water technology is still not advanced in India, it is very likely that the available data is less reliable. The existing methodology for WQM is inadequate to identify the various sources of pollution. Integration of data on water quality with data on water supplies, which is very important from the point of view of assessing water availability for meeting various social, economic and environmental objectives, is hardly done. And finally, in the absence of any stringent norms on water quality testing, results can change across agencies depending on sampling procedure, time of testing, and testing instruments and procedure.

FINANCIAL SERVICES

Indian CDR Strategies

Today the Indian economy is in a very chaotic conflict between the Indian industry, RBI and the government administration. The gap analysis seriously indicates that though all the three counterparties are for growth the actions made by the administration are not at all in tune with the industry interface and RBI is too risk averse to follow the industry's choices.

The administrative pace is 60%behind the schedule pace of the industry in terms of growth. Though Rajan slams the jugaad way of working however he has been prudently restricted to his limitations. The string of growth is being pulled at 3 ends instead of coming together with a straight line boosting growth with a single edge rather than a 3 sided sword which is not only difficult to handle but not sharp enough to cut through the barriers of growth.

Today one cannot be out of place to mention that India has succeeded in it mission in agricultural surplus inspite of the drought conditions however we still find reasons to imply the cut in growth rates based on monsoon advances which leads to higher inflationary predictions leading tight lending rates which later affect the industrial economy.

India has shown a very poor performance in terms of Infrastructure with no roads or very kaccha roads deep in the rural terrain which inhibits rural development in regions of healthy agriculture. As per sources Nitish Kumar has achieved wide publicity mainly due to the improvement in infrastructure in Bihar especially public infrastructure like roads, electricity, etc and most importantly maintaining law and order situation.

India has surplus of natural and human resource which when put into proper gear could have made it transform it into a developed country in 67 years of its independence. The main issue which shattered India's future is the availability of cheap capital to the individuals of this country. Rich monetary capital in the hands of few made Indians service dependent rather than a higher percentage of its population turning into an entrepreneur.

In stark contrast to the steel and coal export driven economy in the past we see today the services sector is having sustainable and maintained growth over a period of time which employs about 44% of the employable human resource. One can safely say Indian economy is driven by its population rather than its abundance of natural resources and manufacturing abilities.

It was during the pre independence times that the Tata scion found the USP of Indian economy in its abundance of natural iron resources and set up the world acclaimed industry dedicated to the manufacturing of products from this raw material, thus exporting not only crude iron or steel but also the manufactured products.

India once an exporter of steel has now become one of the importers due to the mere reason being non manageability of the issues in mining of iron. Domestic consumption of steel by China for urban infrastructure is to the tune of 700 million tons compared to India which consumes 80 million of which 30% is imported. Only 14 % of the world rubber production is contributed by India and the same is totally consumed along with the remaining being imported to complete the 100% requirement. India once an exporter of steel has missed its own record by importing it.

Though rich in natural resources India today is not able to prove its strength due to the ongoing issues in management of the same. Environmental management being the biggest issue in case of natural resource exploitation though there is hardly any thrust made by the Government to manage the environment pollution resulting from issues not related environmental pollution from natural resource exploitation.

The issue of non simplification and rationalization of the tax regime, inspector raj, harassment at every check level has not only led to dampening growth due to divergence of profits to unnecessary corrupt elements rather than the worker himself. Transportation costs is another factor which leads to minus in the growth miles , internationally the transportation costs account to 3-4% of the GDP however, in India it is more than 6% of the GDP.

The present economic scenario demands creation of demand for goods manufactured at a competitive price in context to global price situation by the developed world from India. To cater to this situation it is mandatory for India to create margins for the Manufacturing Industry community to make availability of the products at a lower value.

The dollar earnings in the export scenario have risen by 31% since 2010, however export of goods has not risen to an extent so as to make the most out of the dollar price growth. This is mainly due to the fact that the manufacturing cost has not dropped due to the inflationary conditions prevalent post 2007 some being contributed by the subprime conditions, crude oil inflation etc and more importantly the Indian government's lack of interest in boosting manufacturing by easing out the interest rates pulling down the artificial inflation.

Today, though the CPI inflation is controlled at 4.37% .We find that the interest rates rose due to depression or due to heightening inflation have not eased to couple growth in the manufacturing sector by lowering higher interest costs of working capital involved.

India's balance sheet viz a viz the manufacturing sector's balance sheet shows debilitate conditions. India has reduced its fiscal deficit along with the current account being in negative mode. However, the financial crisis especially in case of debt management exists deeply in each of the companies in the manufacturing sector which can be tackled only by providing subsidized capital.

Consumer demands innovation in products along with price competitiveness. Manufacturing companies keeping the same in mind research for better plant and machinery to achieve the same. Such projects consume expenditure in the initial set up phases and other set of annual expenditure until the project starts earning positive returns. Businesses open such new projects only in a lower interest rate scenario when the cost of capital is not more than 12% pa.

Absence of such a scenario is not conducive to either innovation or new product range making the business uncompetitive leading to stagnation in the type of product and its utility. Moreover the Indian projects which had commenced during the boom in the economic scenario in 2007 will now almost complete a decade requiring a replacement of plant, machinery and technology. However, the mismatch in the economic scenario then and now has forced them to remain under developed in terms of the above criteria.

It is very clear that with divergence of profits other than to the industry it becomes very difficult to train personnel for the industrial jobs and employers expect skilled labor. Another point to note is that only 30% of the Indian population is skilled as per the industry requirement. Though Government has set up the NSDC its reach is limited to comply with the industry expectations unless and until the content of the syllabus is absorbed in the natural college curriculum.

There is a strong need to relook at the non performing assets norms which need to be adjusted to gear with the need of the emerging economic conditions. Government has given the CDR package to such non performing industries for 2 years however the same does not suffice its working capital conditions. Banks being risk averse have not been of any special help as realignment of debt is only possible if policy conditions favor these industrial units.

In conclusion, if the industry needs to climb out forcefully from this slumber like situation then its most urgent that financial capital is made available to them at a subsidized rate on an urgent basis either by pulling down the interest rate or allowing disbursal through a development fund at a lower rate and in bands for offer with limitations such as consistent profit margin of 10 to 15% p.a. with sizeable amount of un distressed collateral at higher band or effective profit margin of 6-7% with 50% collateral etc.

Probability of Default and NPAs

Growth across all sectors of the economy is desirable to stimulate the impending precedence of tight liquidity and credit impediments. We are making this representation to highlight the urgency to evolve a new measure other than the 90 day rule for declaring non repaying credit asset as an NPA.

This representation from small businesses comes in wake of the move to focus the plight of these businesses that have been contributing 40% of the GDP and are presently under distress not only due to slowing economic conditions, tight liquidity but also due to the 90 day rule. The 90 day rule which has declared most of the small businesses or SME s as NPA should note that, in spite of the undesirable economic conditions , are trying to match their assets and liabilities best as possible and this plea has been further discussed deeply in this representation.

Creation of alternate jurisdictions for dumping of negative assets would act as a temporary arrangement in absence of an appropriate and permanent solution so as to inoculate the banking system from the very cause which gives rise to an NPA. Periodic cleaning of bad loans can be treated as a process for keeping the banking system healthy without prejudice to the prevalent conditions of NPAs due to which the same has been proposed.

In order to find a permanent solution to the NPA distress, one needs to understand and absorb the requirements of the economy which support the banking industry in realty. In precedence of the present scenario it should be noted that the previous NDA regime had implemented a system of freezing of the interest and one time settlement of the principle between the banker and the obligor which had boosted not only growth but also prevented the hassles of NPA for both the entity. A non recurrence of bad debt also was observed in this type of settlement which helped cleansing of the NPA distress right from the root.

In a situation of zero credit demand it would be unviable to have the massive credit infrastructure in India in the form of different types of institutions right from money lending to International banking agencies, hence underlying norms for credit recovery need to be reviewed and reset as per economic scenario requirement and its urgency to be treated with priority.

There are two issues which the banking industry especially the public sector needs to take care of, the cleansing of the balance sheets on one hand and prohibition of future assets turning bad on the other. It has been suggested through various forums that in order to cleanse stressed balance sheets a separate entity needs to be developed to load the stressed assets which would be later discounted and sold as stress bonds to private players.

However, it is very pertinent to note that the, factor which terms a credit asset as bad is the duration i.e. the 90 day period. This principle of terming a loan asset bad needs urgent review to test its efficacy in the present global economic conditions. The very fact which rules the this principle ghastly, is that the period for receipt of dues against the delivery of goods itself is 90 days which is used as an asset liability match by many of the creditors while working out their working capital requirement . Due to unavoidable prevalent systemic global economic issues there has been a lag in receipt of dues in many economic sectors, these issues along with others such as inherent delays in project clearances like environment license, land acquisitions etc have put projects in a back log and non earning of revenue, inspite of promising futures they would deliver for the Indian economy.

Such relevant bottlenecks have turned good business propositions rated excellent by authorities like CIBIL into black holes by the 90 day NPA rule. It is also a very evident fact that our Government has been implementing and accepting international standards as it is without consideration of the same to the local need and demand or after having consultation with the very people who are liable to be affected by it.

Government of most of the countries especially the developed countries have had better representation at the International law making benches in the banking industry and have not made International practices mandatory in their own countries without inspecting their viability thoroughly, some European countries have not even accepted the 90 day NPA rule as a measure to detect bankruptcy or NPA status.

The 90 day rule proposed as per international standards no doubt is an excellent measure to safeguard the banking industry against a probable default however, research indicates that huge defaults have been impeded by large business houses rather than small time businesses.

The 90 day rule has shooted trouble for the small businesses who have limited recourse to funds and probably no political recommendations to summon their pleas. In a situation such as this we strongly recommend that a continuous credit risk monitoring process needs to be built so as to assess the creditor for his valid pleas for nonpayment of banking liabilities and inept decisions such as the 90 day rule should be avoided grading the loan asset as an NPA.

This would prove handy even for smooth decision making for the applicable banking authority for eg the branch manager or the chief loan disbursal manager to rely upon to judge the credibility of the creditor thus removing bias while granting relief to an eligible creditor seeking an extension for payment towards his liabilities.

The internal system should be based on entity like the probability of default which encompasses all the conditions measured, and input for calculation of the same so as to term an asset a NPA. The PD is calculated at the phase of inception to determine the credit risk involved while initiating the release of credit.

This measure needs to be continuously calculated through the duration of the obligation, as the same factors from the obligor's end parameters like inadequate cash flow to service debt, declining revenues or operating margins, high leverage, declining or marginal liquidity, the inability to successfully implement a business plan, revenue growth (wholesale), number of times delinquent in the past six months (retail) and macroeconomic information like house price indices, unemployment, GDP growth rates, economic environment and the degree to which it affects the obligor etc.

Thus, the information available to estimate PD can be divided into two broad categories obligor specific information and macroeconomic information. This proposition would be critical sensor to probable realistic default.

This parameter can be emboldened by linking the creditors loan obligations at the various banking outlets with a single ID so that the continuous PD is strong indication of a probable default. The 90 day rule can also be worked in coordination with this parameter so that there is a cross referencing. The proposed frequency for PD calculation should be 2months from the point of inception of such a lending.

This proposition spells 90% confidence before terming a loan asset bad ready to be dumped to a separate jurisdiction thus will not only save operational procedures but will bring relief to the SME . On the other hand, it should be noted that in case of medical emergency like heart attack a patient is treated and undergoes medical procedures to save him from possible death, but the ill is that in case of business operation, the 90 day NPA rule has created an illusion that the business is dead on defaulting payment for 3 months and needs to be directly sent to the morgue instead of undergoing a probable remedial measure.

Quantitative Easing in Indian Scenario

Monetary or fiscal policy is the backbone of a country's economy. A sound monetary policy acts as an osmosis regulating the balance of the domestic viz a viz the international currency. Fiscal policy affects macroeconomic stability, growth, and income distribution. Citizens expect their governments to ensure value-for-money for public spending, a fair and efficient tax system, and transparent and accountable management of public sector resources.

Monetary dynamics in India are a very unique one. A trend has been noted that in spite of the subprime crisis, India remained nearly unaffected. If Indian fiscal status did get affected it was only due to the recent heightened prices of the crude oil purchases and gold to a certain extent. Another contributing reason being the low exports and large inflation, leading to the widening of the CAD. Though today we see that the inflationary tendencies are under control and the CAD is in a better position, however only due to decreasing crude oil prices. India's export competiveness shows a very feeble growth and at the same time weak contribution to the fiscal deficit. Recently, there are also reports predicting a higher sovereign rating to India which can be a valued precursor to the inflow of foreign investments into India. However, keeping in tune with all these positive foot prints at the country level economics, we see that the activity on the ground level is hardly in pace with the national marathon on growth.

Primarily because of the weak capital available to businesses to pump in the necessary infrastructure and at the same time poor public investment in transport and communication infrastructure, cost of importing a certain item of certain weight from UAE is 10 times lower in transporting the same from a port in Mumbai to Nagpur. In conditions such as these promotion of manufacturing in India and export of the same seems illogical. Along with these, administrative reforms and judicial reforms, are the two fundamental challenges that need to be changed.

There are debates on improvising the fiscal policy to be in tune with the International standards and adopting fiscal procedures upon the suggestions of the IMF. The IMF being the leading source of fiscal policy and management expertise worldwide which also monitors and analyzes global fiscal trends and advises IMF member countries on fiscal issues directly. Fiscal measures such as Quantitative easing have been prescribed to be adopted in the Indian context. QE is a relatively simple process in developed economies as they have a very strong bond market. But the problem with QE is that the Central Bank doesn't know when to apply brakes to it. The fact of just stopping the QE creates panic in the markets, which is evident nowadays when all the economies are anticipating a rate hike by Federal Reserve.

So inflation is only a monetary phenomenon (Milton Freidman) for the developed economies and it can be controlled by having a strict monetary policy. While the Indian side of the story is that inflation is not purely a monetary phenomena but majorly linked to supply constraints. Another problem is that the policy rates in India are not the transmission rates unlike in the US.. So changes in policy rates come with a major lag and may not in most of the cases affect the base rates of banks. As base rates by the Indian banks are calculated on average principle rather than marginal principle .This makes QE tough to have an effect on the economy because only interest rates can't affect investors' sentiments, there are several other factors that determine their level of investment. If it does have an effect, then in case of India the inflation, if not controlled, will be far tougher to deal with. Thus, it is difficult for easing out capital to Indian business at a competitive rate even when the RBI brings about a cut in the interest rate.

It has been the IMF's prerogative to stabilize economies of the countries and stop the negative effect of downfall of one on the other. This is done by IMF by easing out capital requirements to the weakened economy on low interest rates. One benefit is that governments are able to borrow money cheap and the addition to their debt is limited to mainly the principle amount and addition to the debt in the form of interest is limited. However, it becomes very important for IMF and the weakened economy that the low interest loaned capital reaches the sector where the same invested will trigger growth. Sixty percent of the Indian population resides in villages and unfortunately no attempt is being made to enhance transport and communication infrastructure and make it a most important agenda of rural development. It is unfortunate that either the IMF suggested or the Indian government thought it imperative to make Smart Rural India as the slogan campaign instead of 100 smart cities. Digital India efforts which are being done since 25 years now require restructuring because it is based on old silos. Today, we need cloud computing, open source software through low cost models and all of that requires total revamping of the system, and nobody is prepared to do it.

Another issue with fiscal policy is that most of the currencies are pegged with the dollar. Dollar represents strength of the US economy thus acting as a conduit to spread distress if in one, to the connected economies. Though there are increasing practices to have country to country currency link up such as the Iran India pact on crude oil sale on rupee value. The growth in such political decisions has not been an encouraging one, the probable issue being the strong importance of dollar in the economy. Last time, when Fed announced in 2013 that they were planning to withdraw stimulus in phases, it created a knee-jerk reaction in the global financial markets. The countries which had twin deficit, saw their currencies depreciating very sharply within a few weeks. Only when Fed communicated to the world its intention, did the markets stabilise.

Similar trend was observed, when analysts expected Fed to raise interest rates from Sep 2015. But Fed communicated saying that despite conditions were ripe for US to raise interest rates, in the interest of the global economy and financial markets, the decision was being postponed. Every economic expert says that if US raises the interest rate, it will affect the world. There was also monetary easing in Europe, Japan and now in China. Despite all, these, every one gives more importance to the policy action from US. This has raised volatility in markets again, this year expecting, US to raise interest rates.

The crisis witnessed from 2008, was unique and for the first time, there was a synchronised slow down across the world. Of course, countries like India and China were able to weather the storm. The developed countries used all the conventional Monetary and Economic Policies and since there was no end in sight for the trouble, they had to resort to Unconventional Monetary policies. The governments have played a major role in bringing some stability to the economies. IMF is also acting in concert and trying to find a feasible solution to end the troubles. But so far, the efforts taken by all the authorities did not meet the expectations when these policies were introduced. There are views that IMF should advise countries to shun the Unconventional Monetary policies.

MSMEs

MSME Financing and Credit – Trends and Issues

1. Background

As per the 4th Census of MSME Sector, this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country which is next only to the agricultural sector. It is, therefore, only appropriate that public policy has accorded high priority to this sector in order to achieve balanced, sustainable, more equitable and inclusive growth in the country.

The MSMEs primarily rely on bank finance for their operations and as such ensuring timely and adequate flow of credit to the sector has been an overriding public policy objective. Over the years there has been a significant increase in credit extended to this sector by the banks. As at the end of March 2011, the total outstanding credit provided by all Scheduled Commercial Banks (SCBs) to the MSE sector stood at Rs.4785.27 billion as against Rs. 3622.90 billion in March 2010 registering an increase of 32%.

In a highly competitive environment, finance is needed not only for running an enterprise and operational requirements but also for modernization/upgradation of technology, capacity expansion, marketing etc. Inadequate access to finances the root cause of poor technological and marketing performance of MSMEs. Credit to the sector has consistently declined over the years. It is suggested that at least 20 per cent of banks lending must be reserved for the MSME sector.

To increase the credit flow to the MSME sector, it is essential to improve the accounting practices followed by MSMEs and proper documentation is also crucial. Improvement in accounting practices and documentation can provide transparency in the business operation of enterprise and banks will be able to assess the credit - worthiness of such borrowers proficiently.

Due to high collateral requirements and complex procedure followed by banks in lending, MSMEs prefer to use own funds or borrow from informal sources. In few regions cooperative banks have been very active in lending to MSMEs, but the higher rate of interest charged by these banks pushes the cost of production.

Keeping in mind the need of the SMEs a special Equity Fund could be created with an initial corpus of around Rs 50,000 crores. Contribution to the fund could come from the PSU Banks, and the management of the same could also be with the PSU Banks.

The purpose of the Equity Fund would be to provide capital to SMEs through equity stake in companies upto 25 percent. This would provide SMEs with long term funding as well as meet their margin money requirements.

When large capital flows both on account of portfolio flows and direct investment are sought to be sterilized to hold on to monetary targets, tight credit conditions are imposed on domestic firms. Such credit tightening operates asymmetrically between firms that have access to foreign capital inflows and foreign direct investment (FDI)and domestic firms that lack such access. Small firms, being dependent upon intermediated banks for finance much more than other firms, are particularly affected. Structural distortions in the regulation of banks and in incentive structures within banks accentuate the SMEs credit difficulties.

For most scholars, small industry policies have typically meant narrow sector-oriented policies such as reservation, duty concessions, directed credit, and government regulation, controls, and extension. The major impact of macroeconomic policies both monetary and fiscal on the sector has been almost entirely missed in both government's discussion of policies and academic debate. Similarly - Infrastructural policies and development, which specially impinge on the sector - since most firms cannot develop their own infrastructure, have got inadequate systematic attention.

Many specific macroeconomic policy-induced distortions work against the small-scale sector.

1.1 Tariff Inversion

Tariffs are not entirely free from inversion, that is, higher rates on inputs like steel, plastics, energy, and metals semi-manufactured than on finished products. This inversion which, since the reform was at its peak in the late 1990s, has declined but not disappeared. Inversion particularly hurts small firms since they have a comparative advantage in .manufacturing. in its original sense. Additionally, the very high uncompensated costs of energy, especially electricity and petroleum - based energy, which are not vetted even for export industries, impose large costs on location of manufacturing.

1.2 Exchange Rates Not Aggressive Enough

Exchange-rate policies have been particularly hurtful to small firms, especially in areas dominated by SMEs, like textiles. The effective exchange rate of the rupee has been higher than the value that prevailed at the end of the stabilization period.

If it can move back to those values the small firms of export can rise, as can manufactured goods production. It is worth remembering that export-led growth economies greatly under- valued their currencies for long periods to prime the export engine.

1.3 Erroneous Sickness Data

In reporting the data on lending to small firms banks include loans made out under many sop programs of the Planning Commission. Most of these are giveaways at best. Naturally, this magnifies the scenario of overall sickness of and loans outstanding against small firms. In reality, the nonperforming loans outstanding against small firms are much smaller than in lending to medium and large firms. Such erroneous data bases not only outsiders against lending to small firms but the bankers themselves.

1.4 Underdeveloped Venture Capital Industry

Compounding the problem of non-availability and high cost of credit is the fact that venture capital institutions in the country are shy of exploiting emerging entrepreneurial opportunities for small firms. They suffer from a banking mindset, bureaucratic norms, and target orientation, and focus on the growth phase of enterprises.

1.5 Exit System

Considering the volatile market situation in India, businessmen particularly in the MSME sector are walking a tight financial rope. Amidst uncertainties, entrepreneurs need government help in exiting a business when it is no longer financially viable or at least after he has spent his last rupee to keep it running.

About a third of small industries at the all India level are classified as “sick.” According to the third All India Census of SSIs 2001-02, 11 States of the 35 States and Union Territories share among themselves 89% of the sick and incipient units and 9 among them have 69% of the units ‘closed’. These numbers speak of the units that have entered the books of the financing institutions. There are many who did not borrow but fell sick. They have assets like the land and machinery, which are locked for decades without remedy. A rough estimate of such assets in the industrial estates alone would be 5-6% of the GDP.

The acknowledged problems common to small enterprises as a whole persisting for over four decades include: lack of demand, lack of access to finance, non-availability of raw material, inadequate and high cost infrastructure, low capability for technological up-gradation etc.

The direct intervention in the credit market for SMEs did some good, but it has also engendered the growth due to the banks lending to some sectors that lead to avoidable portfolio risks. Banks carry now as much as 30-35% in the unacknowledged sick industries portfolio. RBI Annual Reports on sickness and rehabilitation, despite redefining sickness and reformulating guidelines for rehabilitation, indicate that the banks are averse to take on rehabilitation.

The recent slowdown in industry affecting micro industries in a big way, the absence of a clear exit policy is hurting many entrepreneurs. It is easy to start a small scale or micro unit but it is difficult to run it and almost impossible to close it.

The question arises that do we have a satisfactory exit system? As we don’t have a satisfactory exit system in the country, the risk taker or the entrepreneur will lead to insolvency and bankruptcy, which drives him to commit suicide.

There are need of a proper and single point of exit in case of corporate failure, provision of second chance in case of insolvency and bankruptcy, need to reform in the judicial system of corporate exit, rivalry issue, harassment by money-lenders, and the most importantly, need to change the mindset of the borrower.

A recent study undertaken by and industrial organization in Chennai, identifies bank regulations on loans, statutory obligations such as ESI, PF and retrenchment compensation as some of the barriers to easy exit for entrepreneurs when the chips are down. It was felt that for a sick industry, many of these schemes do not benefit either the employee or the employer as it is difficult for the entrepreneur to keep his unit alive.

There should be a structured exit policy, taking into account the length of time the unit functioned before going “sick.” It was suggested, for settlement of all labour disputes in tribunals or courts within six months, closure of all accounts related to taxes and duties within three months and creation of social security for entrepreneurs who had been generating employment for 20 years and more. Framing a suitable exit policy will ultimately benefit the MSME sector.

While there were number of studies in the past and limited attempts on the part of the RBI resulting in formulation of certain guidelines for reviving the sick but potentially viable enterprises, they all remained largely on paper. The banks, in the meantime, as part of the reform process, have moved to revised asset classification according to which the units that fall in arrears of payment of either principal or interest for 90 days or more will be treated as NPAs.

Assets locked up in sick SEs should be released within the quickest possible time after identifying them as sick or potentially viable so that the factor productivity does not become negative. Therefore, the future policy focus has to be not merely on certain key issues for sustained growth like raising total factor productivity and price competitiveness, ensuring quality standards and facilitating export growth, but also on providing a safe exit route for unviable enterprises.

There should be basic recognition that enterprises have their inevitable failures (even the top 500 companies in the world were never the same every year). There is a need to understand that the failed entrepreneurs have an urge to restart their enterprises with a new agenda or in a new shape after drawing lessons from their failure. Legally, bankruptcies among the SEs would need recognition to facilitate exit route. All developed nations have bankruptcy laws that define exit rules giving honor and dignity to failed entrepreneurs to make an honorable living.

2. MSME Finance and Credit Policies

2.1 Adequate and timely finance

The MSMEs should have access to adequate and timely credit. An effective regulator of banks should check and ensure compliance to the instructions and guidelines given by RBI.

The future credit policy for this sector should aim at providing a level playing field with others in the domestic and global market. Reduction in the cost of credit to the extent possible, within the overall condition of the economy. The government should make an endeavour to bring it at par with other countries particularly those with whom we have to compete. To begin with, the cost of credit could be made identical for both small as well as large units.

Availability of higher amounts of loan without insistence on collaterals and third party guarantees. This will, however, depend to a great extent on the experience under the Credit Guarantee Fund Scheme.

2.2 Working Capital

A large segment of MSMEs particularly those who are part of supply chains face working capital shortages due to unpaid or delayed bills. In majority of the cases the delay is greater than 180 days. The NPA norms classify a bank a/c as NPA after 90 days (extended to 120 days now), whereas the payment cycle is 180 days and beyond.

The impediments in the use of factoring should be addressed and should be promoted among the MSMEs. The Working capital loan enhancement is time consuming and additional collateral is being insisted upon during enhancement.

2.3 Commodity Crash

Many MSMEs that contracted for import of raw material during 2008 suffered heavy losses. There being no precedence of such situations, most bankers fail to come to their rescue. One time waiver needs to be considered with Government help.

2.4 Term Loans

Many progressive companies that went for expansion or started a new unit during boom period (last 4-5 years) are finding extremely difficult to service periodic re-payments as market conditions have suddenly reversed. In current situation neither top line nor bottom line targets could be met by borrowers. Therefore repayment plans have gone awry and defaults become imminent. A Moratorium for one year is needed for the affected MSMEs. There is also need for more sensitive restructuring guidelines having strict time frames.

The Banks should clearly spell out their restructuring norms as branch managers remain clueless and MSMEs are unaware what they could expect.

2.5 Access to funds for new projects/ start ups

New projects/startups find it difficult without access to funds as either loan proposals are not acknowledged or not disposed. Venture funds and private Equity funds have also disappeared. The Banks continue to discourage Credit Guarantee Cover in lieu of collateral and have deposited more money under SLR/CRR than what is required instead of lending.

There is a need to reverse incentives for not lending. Reduction of Repo/reverse Repo may be considered further. The loan margin requirement may be reduced by 5 -10% and allowing longer gestation by 12 months. Collateral free lending up to Rs. 25 lakhs under Credit Guarantee may be made mandatory for a year. The Government also may consider putting in place alternative market for raisin equity.

2.6 Interest rate and service charges

MSMEs get the raw deal in interest rate, made to pay higher charges for all types of chargeable services particularly non-fund based limits such as bank guarantees. The RBI should benchmark maximum services as is done by TRAI and make continuous efforts for their reduction.

The interest is supposed to be charged based on performance of the borrower. The process of judging is internal, non transparent and subjective. The findings are never shared with the borrower. Over the years, if there is improvement on some parameters, values are changed to keep the borrower under higher slab of interest. There is a need to improve transparency, internal credit rating/ scoring report must be shared with the borrower.

2.7 Collateral

RBI should constitute a Committee for issuing guidelines on extent of collateral. Collateral greater than 100% (besides mortgage of plant and machinery) should be refunded.

2.8 Third Party Credit rating

The third party credit rating requirement under BASAL II for loans portfolio above Rs. 10 Cr. has unnecessarily burdened SMEs. There is need to review their efficacies of credit rating models and fee structure and service quality. Moreover, these conditions be withdrawn for unlisted SMEs.

2.9 Losses due to Exotic Forex Derivatives and Forward Contractors

Exotic Forex derivative instruments were sold by some banks to unsuspecting SMEs to manage their Forex risks. Losses worth more than Rs. 2000 cr. are reported to be absorbed by SME exporters alone. RBI circular has given temporary respite but status quo remains. Similar is the fate of SME exporters that signed Forward contracts. There may be one-time settlement of MSME cases with ‘no-profit no-loss.

2.10 Subsidies/Credit

- The SME sector is not given any subsidies, incentives or tax exemption as given in case of large scale sector.
- Creation of a widespread institutional network for credit rating for SME projects at affordable cost to them.
- Introduction of newer and more innovative finance schemes such as factoring services and venture capital supported by incubation centers for new entrepreneurs. The policy measures required for popularizing venture capital concept may be initiated by Ministry of SME & ARI.
- In order to mitigate the post sale problems of SME, there is a need to encourage bills culture, without recourse, to SME. In this context, Government of India be requested to help creating conducive climate for development of factoring services through appropriate policy prescriptions/legislative changes to ease the problems relating to stamp duty, registration fee, assignment of debt, etc. A task force should be appointed to look into these problems.
- Strengthening of the financial/capital base of the SFCs, the institution that has played important role in the development of the SME sector by providing fixed capital. The respective state governments, SIDBI and IDBI would have to play a major role in revamping the SFCs.
- There is a need for continuous and rigorous monitoring of the guidelines/directions issued by the RBI to the banks and other financial institutions for improving the flow of credit to SME sector.
- Commercial banks may be instructed by RBI not to take all future fixed assets of assisted units for securing its existing advances. This will help units going in for technology upgradation, modernization, etc to avail assistance from financial institutions for such programmes without difficulties.
- The Credit Guarantee Trust Fund Scheme may be extended from Rs. 50 Lakhs to Rs. 1 crore but most of the banks are not considering the proposal under the scheme and the SME entrepreneurs are not benefiting from the scheme.
- There is a need for a change in the attitude and orientation of commercial bank staff in their lending to the SME sector.
- RBI may take up the matter with the banks for sub-allocating the overall limits sanctioned by banks to such large borrowers specifically for meeting the payment obligations in respect of purchases from SMEs either on cash basis or bill basis.
- SIDBI should promote financial intermediaries as venture capital funds, equity funds, marketing consortia, co-operative industrial banks, incubators, consultancy services at national, state and district level to be operated by different agencies including industrial associations.

- Commercial banks should fulfill priority sector lending targets by lending directly to SME sector instead of adopting soft approaches like subscription to bonds of SFCs/NABARD etc.
- Within the amount earmarked for SMEs, sub targets may continue to be fixed for lending on incremental basis to micro, tiny and other SME units.
- The various committees appointed from time to time like the Nayak Committee, Kapur Committee, Ganguly Committee have given their recommendations to Reserve Bank of India (RBI) and many of these have not been implemented till date which should be looked into and necessary follow-up action for implementation should be taken by the Government to meet the adequate and timely financial need of the SME Sector.
- Moreover SIDBI should be made full fledged bank for the SMEs to meet the group needs of the sector.

3. Systematic Reforms for MSME Growth

(i) **Business Laws:**

The current legal system does not recognize failure of business as a possibility. There is a need to evolve Insolvency and Bankruptcy Codes.

(ii) **SEBI Norms on Delisting**

The Securities Laws (Amendment) Act 2005 allowed delisting of securities, necessitating the creation of a delisting framework. Even after repeated announcements, simplified delisted names have not been announced as yet. The de-listing norms for SMEs should be announced without delay as it is causing enormous burden on such SMEs that have applied for de-listing.

(iii) **Taxation**

- Implementation of nationwide GST to reduce transaction costs and also to remove distortions
- Location based Tax breaks should be immediately revoked
- High stamp duties on transfer of property and on commercial transactions such as on financial instruments (Bank guarantees; Factoring etc.) create huge cascading effect. There is a need to harmonise the Stamp Duties across states and to reduce them drastically.
- Income Tax rates on labour intensive MSMEs may be fixed at 50% of normal rate. This will help in capital formation and growth of this sector as has happened in IT sector. FBT is a retrograde step in direction of tax reforms and has proved to be the biggest nuisance tax
- FBT has increased the tax compliance cost for MSMEs hugely; needs to be done away with.

4. Suggestions

4.1 Affordable credit to MSMEs:

- Banks must adhere to the recommendations of Task Force on MSME and provide 60 per cent of the MSE credit to micro enterprises. The Committee should closely track the flow of credit to micro enterprises and advise the Ministry of MSME, if shortfall in 60 per cent sub-target falls short;
- Micro enterprises may also be provided with interest subvention on their loans as recommended by the Task Force. The Committee may discuss the ways and means of providing interest subvention to the micro enterprises;
- The Industry Associations be provided fund for appropriate guidance and consultancy to the micro enterprises for resolving problems faced by them in preparation of balance sheet, maintain a proper accounting practices as also bringing up awareness towards importance of credit rating, benefits of CGTMSE and advantages of the same. Creating awareness on credit guarantee trust for micro and small enterprises at grass roots levels is particularly important;
- As regards other segments of the MSME sector, regular monitoring is necessary to ensure strict adherence by the banks of the stipulated target of lending to MSME sector within the next banking credit;
- With a view to increasing the level of lending to MSMEs, the banks may go in for simplification of procedures and delegation of adequate powers to the Branch Officials;
- As present collateral is invariably insisted upon. The Banks need to be asked for not insisting upon collateral if the loan has guarantee coverage of CGTMSE. Further the quantum of collateral free loan may be mandatory upon the level of Rs.10 lakhs.
- Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) has been very helpful for the MSME sector. However to make it stronger and support more and more MSMEs, the corpus of the CGTMSE may be extended so that all loans could be adequately covered. This might also help in bringing down the rate of interest. At present higher interest rate dampens and inhibit the MSMEs endeavours.

4.2 SME Exchange

In view of the fact that the cost of raising capital MSMEs is quite high and they do not have easy to funds from Angel Investors and PE players. The Task Force recommended setting up of a dedicated stock exchange for the SME sector so that the SMEs can access capital markets easily. Since such a platform would be of great help to SMEs to raise capital other than the banking channel, which, at present, is the only way for getting capital. A number of SMEs have evinced interest to raise IPO through the Exchange as soon as it is functional.

4.3 Delayed Payment

Despite Government directions to expedite payment to the sector that supplies goods and services, MSMEs face innumerable hurdles for getting payments against their supplies to Corporates and PSUs. Due to delayed payments, the units are defaulting on bank loans, which are being declared as non-performing assets. Specific steps are needed to ensure timely payment to MSMEs against supplied made by them to Corporates. It is suggested that the delayed payment provision under the MSMED Act i.e. payment should be made within 45 days should be strictly enforced.

4.4 Venture/Risk Capital

Presently Venture Capital availability to SMEs is not widespread due to various reasons like limited opportunities of third party or IPO exits, absence of corporatization, high handling and monitoring cost, act. This is considered very critical especially for the knowledge-based MSMEs, since India has large pool of budding entrepreneurs with rich professional and technical experience and innovative business ideas. This area needs attention.

4.5 NPA

Banks classify a borrower as non-performing assets when any commercial loans for which interest or repayment of principal or both remain outstanding for a period of 90 days. In view of the inordinate delay in receiving payments even from the PSUs and demand slump in the market, it is submitted that 90 days time-frame be enhanced to 365 days with immediate effect.

4.6 Securitization and Reconstruction of Assets

The Securitization Act allows lenders to take over the assets of defaulting companies and auction them to recover their dues or take over the management of companies after serving a notice for a period of 60 days. It is suggested that recovery of loan under the Securitization Act is extended to Rs.1 crore from the existing limit of Rs.1 lakh.

4.7 Debt Recovery Tribunals

Debt Recovery Tribunals be converted into SME Rehabilitation Tribunals. Rehabilitation Committee be formed at national, state and district level and they should be empowered to perform. The performance of these committees should be monitored on monthly basis.

4.8 Rehabilitation of Sick Units

The Unit should be identified at pre-sick stage and timely action should be taken before they fall sick. Investment upto Rs. 10 lakh in sick units should be exempted from Income Tax for at least five years and the Income Tax Authorities should not harass investors. Identified at the incipient stage itself and appropriate measures taken to avert the sickness. Sick units viable for rehabilitation, contingency loan assistance need to be arranged at concessional rate of interest with longer moratorium for start-up, repayment to pressing creditors, working capital requirement, etc. There should be a time bound special package for easy exit policy for the non-viable sick units without cumbersome procedures together with a Social Security Scheme for all the sick units.

4.9 Timely /Adequate Availability of Credit

The adequate /timely availability of credit has been a long standing issue confronting the vibrant sector of economy. Various committees were set up in 90s by RBI/Govt. such as P.J. Nayak Committee, S.L. Kapoor Committee to address the issue. P.J. Nayak Committee had recommended that 20% of sales achieved should be provided bare minimum & banks were liberty to justify/ verify, if additional working capital is required. It is an admitted fact that since Nationalization in

1969, banks were conservative in sanctioning the working capital limits. Banks were reluctant to provide 20% of sales achieved. The recommendations were not implemented in letter & spirits. The Task Force was constituted in Sept., 2009, which has recommended 60% of MSE credit to Micro Enterprises, which is to be achieved in stages. The fact that 50% was to be achieved in 2010-2011 (both manufacturing & Service sector).Needless to mention that the focus of Nationalized banks is on SMEs & not on Micro Enterprises/service enterprises. Moreover, there is no separate data with commercial banks. Even after 6 months have passed, many banks have not provided data of 50% to Micro/Service Enterprises, which is quite worrisome /undesirable. There is a lot of difference between providing Micro finance & credit to Micro /Service Enterprises. Thus, it is evident that the recommendations have not been implemented in letter & spirit.

4.10 Collateral Free Loan

The limit of collateral free lending to MSEs has been enhanced from Rs.5 lacs to Rs.10 lacs and banks are mandated not to accept collateral security. The limit of collateral free lending of Rs.10 lacs of RBI as per nationalized Banks is not mandatory. No loan is being sanctioned without collateral guarantee. The Branch Managers need to be trained/educated to implement the mandated directions of RBI to be implemented in toto. The branch level functionaries don’t encourage availing the credit Guarantee Scheme Cover.

4.11 Banks Service Charges

At present, the Public sector Banks charge hefty service fee for each & every service provided by the banks such as processing/recital charges etc. No doubt, RBI has de-regulated the service charges and it was learnt that a working group was constituted by RBI, wherein, users representatives were not represented in the working group. It is also learnt that the commercial banks used to charge on the minimum balance of Rs.10, 000/- in the current account & Rs.1000/- in the saving account, if there as a shortfall in any quarter, Rs.400/- was charged.

It seems that IDBI will be the first bank to do away with the minimum balance requirement and simultaneously waiving off service charges, as no interest is being paid on the current account by any public sector banks. It is suggested that that other public sector bank should follow IDBI.

4.12 Interest Subvention

The government was providing interest subvention @2% upto 31.3.2010 to the Agriculture Sector. The Govt. has further provided 2% interest subvention in the budget 2010-11 to the Agriculture Sector. Thus, the agriculture sector is getting loan @5%. Recently 3% interest subvention has been granted to weavers. Needless to mention that erstwhile SSI Sector now Micro Sector is the largest employment generator next to Agriculture. National Commission on Enterprises in the un-organised sector had submitted its report on credit to Dr. Man Mohan Singh, Hon’ble Prime Minister of India and had demanded that the interest subvention should be provided to the Micro & the rate of interest should be charged at par with Agriculture sector. It is high time that the interest subvention of 4% should be provided to Micro Sector in view of its enormous potential / contribution.

4.13 Securitization Act, 2002

The Act was enacted to bring around defaulters/big fishes, but, unfortunately, the banks have exploited clause 13(2) as limit was Rs.1 lakh and the banks issue 60 day's notices under 13 (2). It is high time that limit should be raised to Rs.10 lacs instead of Rs. One lakh at present. No relaxation is being granted to Small borrowers by Banks, where the value of collateral security is much more and the commercial banks are quite rigid in the case of MSEs.

4.14 Role of SIDBI

The Small Industries Development Bank of India (SIDBI), which was set up on 02.4.1990, as Principal Financial Institution exclusively for SSI to cater to its need, has shifted its focus since 2005 on SME's only, which is contrary to its interest of the erstwhile SSI Sector now Micro Sector. It is suggested that the Government direct SIDBI to meet the credit needs of the Micro Sector.

4.15 Credit Guarantee Fund Trust for MSEs

The Public Sector Banks don't encourage sanction loans under Credit Guarantee Fund Trust Scheme. The borrower had to bear guarantee fee & annual service charges, which added to the cost of the borrowers. However, SBI has come out to waive guarantee fee and annual service charges for loans to SMEs under Credit Guarantee Fund Trust Scheme. It is suggested that the guarantee fee & annual service fees should be borne by Public Sector Banks.

4.16 Uniform Rate of Interest

It was noticed that no uniform rate of interest is being charged by the banks for SMEs. It was noticed that differential rate of interests are being charged even by State Bank of India, which was the only bank, which provided loans to SSI, under a pilot scheme in 1956. The higher rate of interest is being charged by other Public sector banks from the Micro/Small Enterprises.

4.17 NPA Account

- PSBs have surpassed the target of 20 per cent year-on-year growth in outstanding credit to micro and small enterprises, as on March 2009, 2010 and 2011.
- The share of outstanding credit to Micro Enterprises vis-à-vis total outstanding credit to MSE sector by PSBs stood at 46.80% as on March 2010 which declined marginally to 46.24% in March 2011 as against the target of 50% for the year 2010-11. However, it may be noticed that of the total MSE units financed, majority i.e. 88.35%, are the micro units as on March 2011.
- Similarly as against the annual target of 10% growth in number of accounts of micro units, PSBs registered a growth of 8.73% during the year ended March 2011.
- Private sector banks could not achieve the target of 20 per cent year-on-year growth in outstanding credit to micro and small enterprises, as on March 2009, but they surpassed the said target as on March 2010 and 2011 by registering a growth of 38.94% and 35.9% respectively.
- The share of outstanding credit to Micro Enterprises vis-à-vis total outstanding credit to MSE sector by private sector banks stood at 24.37 % as on March 2010 which increased to 28.08% in March 2011 as against the target of 50% for the year 2010-11. However, it may be noticed

that of the total MSE units financed, majority i.e. 64.45%, are the micro units as on March 2011.

- Similarly, as against the annual target of 10% growth in number of accounts of micro units, private sector banks registered a growth of 116.63% during the year ended March 2011.
- Foreign banks could not achieve the target of 20 per cent year-on-year growth in outstanding credit to micro and small enterprises, as on March 2009, 2010 and 2011.
- The share of outstanding credit to Micro Enterprises vis-à-vis total outstanding credit to MSE sector by foreign banks stood at 20.96% as on March 2010 which increased to 23.67% in March 2011 as against the target of 50% for the year 2010-11.
- Similarly as against the annual target for 10 % growth in number of accounts of micro units, foreign banks registered a growth of 21.67% during the year ended March 2011.

5.2 Sick Micro and Small Units

The increasing trend of sick MSME units was discussed in detail in the 8th meeting of the Standing Advisory Committee on Flow of Institutional Credit to MSE Sector held on 16.1.2007 at RBI, Mumbai. The Committee observed that there was considerable delay in rehabilitation /nursing of the potentially viable units.

The Working Group in its Report observed that the identification of a unit is so late that the possibilities of its revival recede. To hasten the process of identification of a unit as sick, the WG had recommended a definition of sickness in order to remove the delay factor.

A micro/small enterprise would be classified as sick if it has been classified as NPA for a period of three months or more, whereas earlier it was classified as substandard for more than six months. However, as the period of delinquency for classification as NPA had been reduced to 3 months from 6 months as prevailing on the date of last definition of sickness, a unit could be classified as sick only after 3 months after its classification as NPA.

Prior to 2002, the norms stipulated for identification of sick units were very tough. A unit had to wait for minimum two and half years before it is declared sick. The Kohli Committee submitted its report when 180 days norms were there for NPA classification.

The committee reduced the time span from two and half years to one year but suggested that the unit has to wait for one year to become sick even if NPA classification norms are reduced from 180 days to 90 days. Thus as present the unit is declared sick after one year or Nine months after it became NPA.

Delay in identifying a unit as sick considerably affects its rehabilitation. By the time it is identified as a sick unit, its net worth is eroded to almost zero. To keep pace with NPA classification norms and in order to quicken the process of identification of sick units, it is imperative that the time span for declaring a unit be reduced from 160 days to 180 days. In other words, if an MSE account remains NPA for more than 3 months, it should be declared sick.

The second condition for identifying a unit as sick is that there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent during the previous accounting year. Cash loss refers to losses incurred on account of cash transactions and they are computed without providing depreciation. Such losses normally reflect negative cash flows.

Accumulated loss on the other hand is a much wider terminology and has a direct impact on capital. In banking terminology, accumulated losses are used for calculation of net worth and not cash losses. Hence there is a strong case to migrate to accumulated losses from cash losses.

The present stipulation of the unit in commercial production for at least 2 years needs to be removed so as to enable the banks to rehabilitate units where there is delay in commencement of commercial production and there is a need for handholding due to time/cost overruns etc.

Analysis of the sick units' data for the period ending March 2011 reveals that banks found 84.88% of the units not viable and they accounted for 68.87% of the amount outstanding in respect of sick small enterprises. It may be appreciated that timely action on assessing the viability of a unit is critical. It may be stated here that RBI so far as not prescribed any procedure to be followed by banks before a sick unit is declared unviable.

It is therefore, proposed that along with changing the definition of sick units it is also necessary to prescribe a new set of guidelines to make viability study an effective tool for rehabilitation of sick micro and small units. Thus, the suggestions of the Working Group on procedure to be followed by the banks before declaring any sick micro and small enterprise as unviable as follows may be accepted for implementation.

5.3 Collateral free lending to MSE sector and Credit Guarantee Cover

In terms of RBI guidelines dated May 6, 2010 banks have been mandated to provide collateral free loans up to Rs.10 lakh to MSE enterprises, based on the recommendations of the Working Group (WG) on CGTMSE. The banks could take cover for the collateral free credit facilities under Credit Guarantee Scheme (CGS) to cover their risk in the event of default.

As per the practice internationally as well as in India, the CGS seeks to reassure lenders that, in the event of a default by MSE unit covered by the guarantee, the Guarantee Trust would meet the loss incurred by the lender up to a certain per cent of the outstanding amount in default. Thus, Credit Guarantee Schemes are instruments of credit enhancement for targeted sections.

It is, however, observed that the CGS Scheme has not picked up so far. As on March 2011, only 24.70% of the collateral free loans up to Rs 25 lakh were covered under CGS as against 21.97% as on March 31, 2009 i.e. as at the time of the WG's study.

The reasons for the CGS cover not picking up were examined, in detail, by the WG, which included, among others, need for simplification of procedural issues in settling claims by the Trust in addition to the fair value of the guarantee fee, inadequate publicity, etc.

The WG has suggested that the guarantee fees for credit facilities up to Rs.10 lakh, to micro enterprises, may be borne by the Trust. There could broadly be three options of bearing the guarantee fees:

(i) Guarantee can be borne by the borrower ; or
(ii) By the banks; or
(iii) By the Government of India/Trust

It would be difficult for the borrowers to bear the guarantee fee as they cannot afford the same. It was therefore; felt that the borrower should not be burdened with the fees. As 92% of the sector is financially excluded, it is imperative that the MSE sector and within them, the micro units and first generation entrepreneurs, are financially included into the formal banking system.

Micro enterprises generally have a weak financial structure and banks are generally reluctant to finance them for this reason. The need for credit enhancement either by secondary collateral security or by a third party guarantee gets accentuated in these accounts. However, most such entrepreneurs, being very small, have little or no secondary collateral security to offer.

Further, if banks were made to bear the fee, they would either discourage lending to MSEs, especially Micro Enterprises, or somehow indirectly load the same on the customer by charging a higher rate of interest on the facility provided thereby defeating the very purpose of fostering and developing the MSE sector.

Moreover, banks being the commercial entities, any scheme for banks has to be a reasonable business proposition for it to be a readily acceptable. As guarantee schemes are primarily a safety net for MSEs, the government may bear the credit guarantee fees formicro enterprises in order to encourage financial inclusion in the sector. In this context, it may be mentioned that Government of India had made initial contribution to the Guarantee Fund and as such, the Government had already taken the burden for the MSE borrowers.

5.4 Government to set up Rs 5,000-crore venture fund for MSMEs, introduce MFI Bill: Union budget 2012-13

The country's micro, medium and small enterprises (MSMEs) and agrarian sectors got a boost from finance minister Pranab Mukherjee, as he unveiled a host of fiscal measures designed to shore up the often-embattled sectors. MSMEs will have access to a government-sponsored venture fund with a corpus of Rs 5,000 crore. The India Opportunities Venture Fund will be channeled through the Small Industries Development Bank of India, which had also recently asked the government for the same amount, to lend to the sagging MSME sector, which comprises of more than 25 million units.

The Finance Minister also recommended the sector to involve itself in the manufacture of low-cost medical devices, and proposed reducing basic customs duty to 2.5% with concessional CVD of 6% on specified parts and components for the manufacture of disposables and instruments.

State-run National Bank for Agriculture and Rural Development (NABARD) will be allocated Rs 10,000 crore to refinance regional rural banks, through a short-term credit refinance fund. The much-anticipated Microfinance Institution Regulation Bill, along with a host of others, will be introduced in the current parliamentary session.

INTERNATIONAL COMMERCE

Global Value Chains and Changing Patterns of Value Added Trade in Developing Economies

WTO Public Forum 2015 marked the twentieth anniversary of World Trade Organization (WTO) with the theme 'Trade Works'. The Public Forum was held from September 30-October 2, 2015. The Forum focused on how trade works through the multilateral system to boost growth, lift people out of poverty, increase access to goods and services and promote peaceful mutually beneficial relationship between nations. The Forum looked at those areas where trade can work better and what role WTO can play.

The opening plenary debate was addressed by a distinguished panel of experts comprising Ms. Lilianne Ploumen, Minister for Foreign Trade and Development Cooperation of the Netherlands; Ms. Amina Mohamed, Cabinet Secretary for Foreign Affairs and International Trade, Kenya; Ms. Yuejiao Zhang, Appellate Body Member of the WTO; Ms. Susan Schwab, Former United States Trade Representative; Ms. Anabel Gonzalez, Senior Director, Trade and Competitiveness Global Practice, World Bank Group, Mr. Roberto Azevedo, Director General, World Trade Organization and moderator Ms. Lerato Mbele.

The Forum organised 88 powerful sessions over three days covering wide range of subjects focusing on trade as a tool of growth and development.

Opening the Public Forum, Mr. Roberto Azevedo, Director General, WTO expressed that trade works to leverage economic growth and development resulting in huge benefits. However, trade works if it is accompanied by right policies; if countries are supported to build the capacity they need to compete and if the world promotes a transparent system of rules which are agreed together and are enforced in a fair, open and cooperative way. WTO strives to create that platform.

Reflecting on the gains over the last twenty years, Mr. Azevedo said that tariffs were brought down by half and trade volumes doubled. Benefits of trade extended to million more people as developing countries' share in global merchandise trade surged from 27 per cent to over 43 per cent. Through the 'Aid for Trade' initiative, 245 billion dollars were disbursed to help countries improve their trading ability. Further, the Trade Facilitation Agreement and the important decisions on Agriculture and in support of Least Developed Countries were significant outcomes at Bali in 2013. The Trade Facilitation Agreement will make trade work better for everyone. It will cut the cost of moving goods across borders. The majority of benefits will accrue to the developing and the least developed countries, Mr. Azevedo averred.

Likewise, the recent advances in the negotiations to expand the Information Technology Agreement are a welcome move. This will eliminate tariffs on over 200 IT products - worth approximately 7 per cent of global trade, Mr. Azevedo observed. Finally, trade played an important part in the Millennium Development Goals to cut extreme poverty by half that was reached by 2010 – well before the 2015 deadline.

Global Value Chains (GVCs) and Changing Patterns of Value Added Trade in Developing Economies:

World Trade Centre (WTC) Mumbai and All India Association of Industries (AIAI) officials participated in the WTO Public Forum 2015 and organised a session on September 30, 2015 on the theme 'Global Value Chains and Changing Patterns of Value Added Trade in Developing Economies.' The session was addressed by eminent experts drawn from prestigious organisations of international repute. Ms Rupa Naik, Director–Projects, WTC Mumbai and Executive Director, AIAI moderated the session.

The panelists discussed key issues of global value chains and examined the effects of GVCs on value-added trade. The discussion focused on strategies to integrate developing countries into the GVCs to maximise their competitiveness in global markets.

Mr. James Bachus

In his opening remarks, Mr. James Bacchus, Chair, Commission on Trade Development and Investment Policy of International Chamber of Commerce (ICC) sought to establish a linkage between sustainable development goals, poverty alleviation and global value chains. All countries agreed by consensus to sustainable development goals – the ambitious goals of our times. The first goal is to eliminate poverty everywhere in 15 years by helping those who have the least to get more. How to do that? Every country has to decide for itself based on its sovereign decision making as to how it is going to achieve this goal. One way is to work together with other countries and the best way to engage is international trade and investment.

History reveals that no country has ever grown and sustained its growth in any other way other than by opening up its economy to the wider world and keeping it open and making it even more open. GVCs are the best way to begin helping the lowest among these to pull out of poverty. In India and elsewhere all over the world, particularly in the developing countries, the best way for small and medium-sized enterprises to connect with global economy and become more prosperous is by becoming a part of global value chains. SMEs can piggy back on the efforts of bigger companies to engage in the wider world, increase productivity, increase growth and prosperity. That is the real issue.

Referring to the benefits of trade facilitation Mr. Bacchus said, trade facilitation is one of the best ways to smooth trade along global value chains (GVCs) by eliminating inefficiencies and by enhancing the capabilities of developing countries to participate in global economy. It is important that it should be fully implemented as early as possible. The potential gains are $1 trillion annually added to global GDP with most of it going to the developing economies.

Mr. Oliver Wieck

According to Mr. Oliver Wieck, Secretary General, International Chamber of Commerce Germany, in the last three to four decades, governments and businesses have been part of a far-reaching economic transformation, made possible by remarkable advances in information, communication and transport technologies. The proliferation of global supply chains has changed the economic and political landscape in fundamental ways.

Advances in technology and an enabling policy environment have allowed businesses to internationalise their operations across multiple locations in order to increase efficiency, lower costs and speed up production. Business today looks to add value in production where it makes most sense to do so; indeed this has become a key element of corporate competitiveness. For their part, some governments – though not all – recognise that participating in global value chains will bring value and opportunities to their workers and economies. For many economies today imports are increasingly a key-component of local production and exports. For example in Asia, since the year 2000 intermediate goods have comprised over 50 per cent of exports and over 60 per cent of imports. That is also why it is important to look not only at the gross figures of trade but also in value-added terms. When we measure exports in terms of their import content it becomes clear that many products today comprise inputs from a number of countries. Products today are 'made in the world', rather than made in a single country.

Dr. Javier Lopez Gonzalez

Dr. Javier Lopez Gonzalez, Policy Analyst, Trade and Agriculture Directorate, Organization for Economic Co-operation and Development (OECD) highlighted on the import side of GVCs and how firms and SMEs demonstrate by importing more sophisticated and more competitively priced intermediates.

According to Dr. Gonzalez, a lot of it is happening regionally. The regional component is also important. GVCs are underpinned by three factory systems - Factory Europe, Factory Asia and Factory North America. That has implications in terms of the regional integration efforts that are taking place. Deep agreements are taking place within the factory systems. The general perception is that of value added, inclusiveness and jobs upgrading productivity. GVCs are creating and sustaining a lot of jobs. Jobs related to export activity are growing much faster than domestic jobs in general. Jobs related to exporting activities grew nearly 2.2 times faster than total jobs. However, jobs associated with producing intermediates used in GVCs grew over 6 times faster.

So how can developing countries benefit from GVCs? Developing country firms are no longer having to master the entire production process of a good and are slotting into different segments of 'global production' according to comparative advantages. On the input side, having access to more sophisticated and competitively priced imported intermediates has a technological component that helps firms. Importing is essential for export competitiveness but also for selling in the domestic market.

Therefore, participation in GVCs is growing and value chains are very heterogeneous. Natural resource producers that generally engage in selling help add value to other countries production and of exports and other economies such as China, Mexico, Korea, Singapore and Thailand which are mostly engaged in buying. Implications of participation in value chains are clearly evident. Countries are increasingly relying on foreign value added to produce their export and share of domestic content of exports is falling. However, even as the share of domestic content of exports has fallen, its value has grown considerably over the last decade. For example in the case of electrical and optical exports of China , the share of domestic content of exports fell from 87% in 1995 to 57% in 2009 while the value of exports has risen sharply from 19 billion in 1995 to 248 billion in 2009.

Dr. Ikuo Kuroiwa

Dr. Ikuo Kuroiwa, Executive Senior Research Fellow, Bangkok Research Centre, JETRO Bangkok presented a case study of Thailand's automobile GVCs focused on four key areas viz., the automobile industry in Thailand, industrial policy of Thailand, automobile GVCs in Asia and the challenges faced by Thailand and other Asian countries. According to Dr. Kuroiwa, South East Asian countries including Thailand have high foreign content of automobile exports implying that in order to export automobiles, they have to import a lot of intermediate input from other countries. In Japan, EU and China, foreign content is very low because they procure the best from local part suppliers. These countries hardly depend on foreign imports. The foreign content has been increasing in automobile exports implying the deepening of automobile GVCs in many countries of the world.

Deliberating on the changing profile of the foreign content in Thailand auto exports, Dr. Kuroiwa said, new patterns are emerging. In 1995, Thailand had high shares of intermediate inputs from Japan, EU, USA. During 1995 – 2011, there was rapid increase in the share of inputs from China and South East Asia, in particular Indonesia and Philippines. Thailand became more dependent on import from South East Asian neighbouring countries rather than developed countries.

However, there are challenges. Thailand is not facing the middle income trap. The top priority of the Government of Thailand is to avoid middle income trap. To do so, Thailand needs to upgrade to GVCs shifting from production hub to innovation hub in South East Asia. Economic growth has slowed down since 2008. Government of Thailand is trying to invite FDI, R&D facilities at regional headquarters and the Government of Thailand is now promoting the eco-car project.

Mr. Ricardo Melendez-Ortiz

According to Mr. Ricardo Melendez – Ortiz, Chief Executive Officer, International Centre for Trade and Sustainable Development (ICTSD) value chains are more regional than global. Mr Melendez-Ortiz elucidated with examples of Factory North America, Factory US, Factory Japan, Factory China, Factory Europe and mostly Factory Germany where the drivers, the leading firms in value chains are located. In these regions the policy environment has been favourable for the development of value chains.

However, the issue is about integration of SMEs into global value chains. Even though small and medium enterprises make up nearly 95 per cent of all enterprises around the world, provide around 60-70 per cent of private sector employment, they continue to be very much behind participation in global markets with marginal contribution of 20-25 per cent of global GDP. Their ability to participate in global value chains is an area of particular concern. Participation in value chains not only help capture the gains in terms of employment but also generate positive spill over in the economy in terms of technology, innovation etc.

Have developing countries really benefitted from value chains? The phenomenon of GVC is evident mostly in the locations, regions (Factory North America, Factory US, Factory Japan, Factory China, Factory Europe and mostly Factory Germany) discussed above. Some developing countries have participated, drawn by the many firms located in those countries and they have taken advantage particularly in the context of the preferential arrangements and other forms of economic integration. However, the most developing world continues to be absent in the phenomenon of value chains, Mr. Meledez–Ortiz pointed out.

Ms. Luisa Santos

Ms. Luisa Santos, Director, International Relations, BUSINESSEUROPE expressed that in the past 20 years the digital revolution has led to a world that is better connected to the global value chains. Today's products and services are not produced in a single location, but are the result of a combination of tasks executed in different countries, with the lion's share of traded goods being intermediates. Businesses have new opportunities but many of them are outside traditional markets. By 2015, 90% of world economic growth is expected to be created outside Europe - 1/3 alone in China. Developing and emerging countries are likely to represent nearly 60% of world GDP by 2030 (< than 50% today).

Governments tend to develop industrial policies taking into account existing GVCs. Of course this means that choices are being done, in many cases forsaking traditional industries in favour of new industries that in theory are more innovative and prepared for the future. Sometimes these choices do not have the expected results as they are designed without considering existing realities -- overcapacities, lack of skills or lack of infrastructure. Temptation to create domestic champions by protecting domestic markets from foreign competition will lead to uncompetitive sectors that are unable to compete at international level. The GVCs in the long run will tend to be unsustainable.

Ms. Rupa Naik

Ms. Rupa Naik, Director–Projects, World Trade Centre and Executive Director, All India Association of Industries said that now more than ever, SMEs in Asia have the opportunity to engage in international trade given the falling barriers to trade and fragmentation of production whereby the production of final goods is spread over firms located in several countries, with each one undertaking an individual ‘task’ in the overall process. Firms no longer need to have the expertise to export to a modern market; instead, they can simply support the value chain as suppliers of intermediate inputs, such as parts and components and act as subcontractors several levels down from the ultimate buyer.

SMEs that invest in technology and those with high labour productivity are more likely to be part of the GVC. The extent to which a firm actively engages in improving its technology, production and processes positively influences its participation in GVCs.

According to Ms Naik, increased internationalisation through trade and participation in GVCs provides SMEs in many developing economies the opportunity to achieve economies of scale, expand market share and increase productivity. Additionally, participation in GVCs and cooperation within a network of upstream and downstream partners can enhance a firm’s information flows and learning possibilities, as well as introduce new business practices and more advanced technology leading to greater growth and earning potential.

China, Japan, the Republic of Korea and Malaysia dominate Asia’s GVC trade. India is also opening up to GVC activities in a significant way. The electronics sector is particularly exposed and is the key driver of these countries participation in these chains. Relatively good infrastructure, bureaucratic efficiency when dealing with multinational corporations, political stability, abundant cheap local and foreign labour and an English-speaking labour force are some of the propellers that distinguish these countries from other countries for electronics firms looking to develop locations for labour-intensive assembly activities.

China is the largest exporter in the world and China is by far the main exporter in textiles both in value added and gross terms.

India participates strongly in manufacturing GVCs for automobiles, chemicals, electrical equipment and other manufactures. India’s participation in manufacturing GVCs is in general due to the sourcing of intermediates from abroad. The majority of the final demand for manufactured goods and market services in Brazil represents value added that has been created domestically.

Policy makers should think business and think global - or at least regional. A country cannot develop a competitive offer of goods or services in isolation. This implies that imports are not an expression of foreign competitiveness, but rather a means for firms to access the most efficient inputs and free resources to focus on core competences.

Impact of Foreign Direct Investment on Economy

World Trade Centre Mumbai conducted a study to examine the impact of foreign direct investment in the economy of India. The study examined the role of FDI in creating employment, increasing exports, transferring technology and promoting overall economic growth. The impact of FDI was analysed using a few case studies of key foreign investment in India. Following is the graphical representation of the study.

Difference between Foreign Direct Investment (FDI) and Foreign Institutional Investment (FIIs)

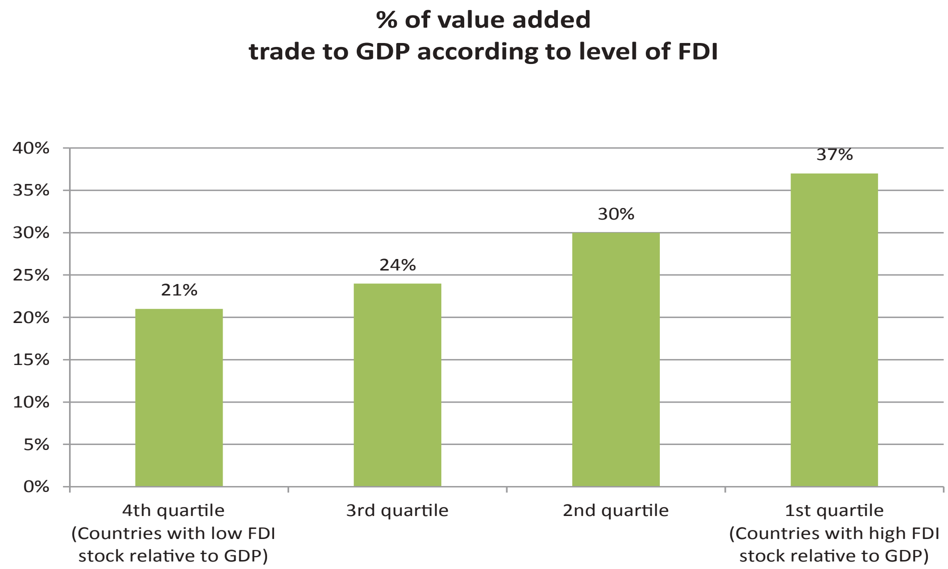
Foreign Direct Investment (FDI)	Foreign Institutional Investment (FII)
Under Foreign Direct Investment, a foreign company invests in India directly by setting up a wholly owned subsidiary or getting into a joint venture with an Indian company, and conducting their business in India	**Under Foreign Institutional Investment, a foreign investor invests in the shares of a company that is listed in the stock exchange of India, or in bonds offered by an Indian company.**
FDI can be made in many ways. It can be made by investing in new projects in foreign countries, expanding the existing projects in foreign countries, acquiring local company in the foreign countries or setting up a subsidiary company in foreign countries	**FII can be made through investment in shares or bonds of an existing company in foreign countries**
It is a durable investment as capital is committed for a long period of time	**FII may be either short-term investment or long term investment**

FDI enhances global trade of countries

Exporters	% Share in total world exports	% Share in world FDI
China	12.3	10.46%
United States	8.5	7.52%
Germany	7.9	1.79%*
Japan	3.6	0.17%
Netherlands	3.5	2.46%
France	3.1	1.24%
Korea, Republic of	3.0	0.81%
Italy	2.8	0.93%
Hong Kong, China	2.8	8.41%
United Kingdom	2.7	5.88%
Singapore	2.2	5.50%
Mexico	2.1	1.86%
India	1.7	2.80%
Chinese Taipei	1.7	0.23%

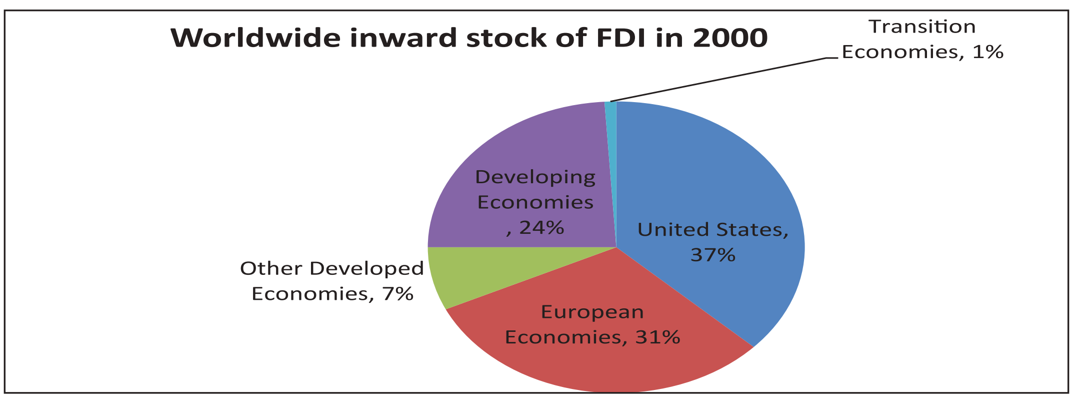
Source: UNCTAD and WTO; Data pertains to calendar year 2014; * For Germany, the average of last four years ending 2014 is taken as 2014 was abnormal year for FDI in that country

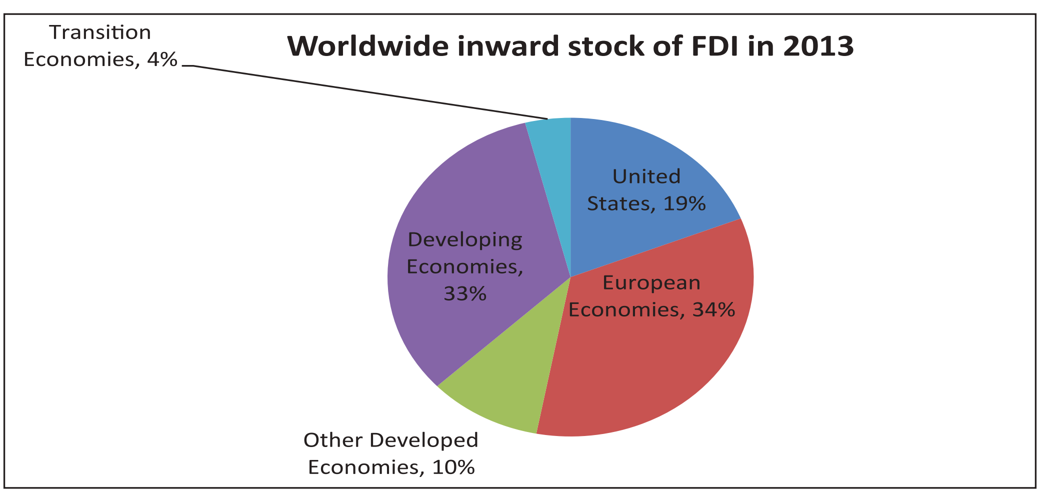
Share of value added trade in GDP increases with increase in the amount of FDI



Source: UNCTAD World Investment Report 2013

Recent Global Trends in FDI flows





Worldwide, cumulative foreign inward investment rose to $25.5 trillion through 2013. The U.S. share dropped to less than one-fifth last year from more than a third in 2000 because competition for foreign investment dollars has increased, and multinational companies have expanded their investments in faster growing developing markets. For the fourth consecutive year, more than half of all foreign direct investment in 2013 flowed to developing and transition economies; in fact, developed countries now account for only 39 percent of global FDI inflows.

Success stories of FDI-led development across the globe

Country	Strategy	Outcome
Malaysia	Penang Development Corporation (PDC) attracted multinational companies in the electronic sector by investing heavily in infrastructure around Penang International Airport	Malaysia shifted from being a resource-based economy, known throughout the world for rubber and tin, to a manufacturing powerhouse centered on large-scale electronics exports. Manufacturing's share of total exports rose from 6 percent in 1970 to over 70 percent 2013. Along with several other states, the regional authorities in Penang played a pivotal role in this transformation.
Country	**Strategy**	**Outcome**
Czech Republic	CzechInvest shifted its focus from light industry to the attraction of investors with higher engineering requirements. CzechInvest has used the country's scientific and engineering base to encourage foreign companies to undertake research and development in conjunction with export operations.	As of 2013, the agency claims credit for more than 224 R&D projects, 37 in automotive and 52 in precision engineering
Costa Rica	CINDE, the foreign investment promotion agency of Costa Rica, persuaded chip major Intel to invest in the country in 1997. CINDE wanted to diversify the economic activity of the country as the economy was dependent heavily on textile sector.	Within 10 years of Intel's initial investment, CINDE managed to attract new investments from 56 electronics fi rms employing 11,000 workers. It also targeted medical device investors, bringing in 23 firms employing 6,000 workers, and developed a new focus on service investors—48 firms employing 5,000 people.
Thailand	Thai government shifted its policy focus to export-oriented manufacturing and creating investor friendly-environment	Thailand economy grew at double digit rates during 1988-1990 and again grew by over 8% per year during 1991-95. Share of manufacturing sector grew from 11.6% in 1960 to 29.9% in 1995 and further to 40% today. Share of ex-ports in GDP rose to around 73% as of 2013 from 50% in 1997

A brief introduction of FDI regime in India with focus on sectors identified under Make in India programme

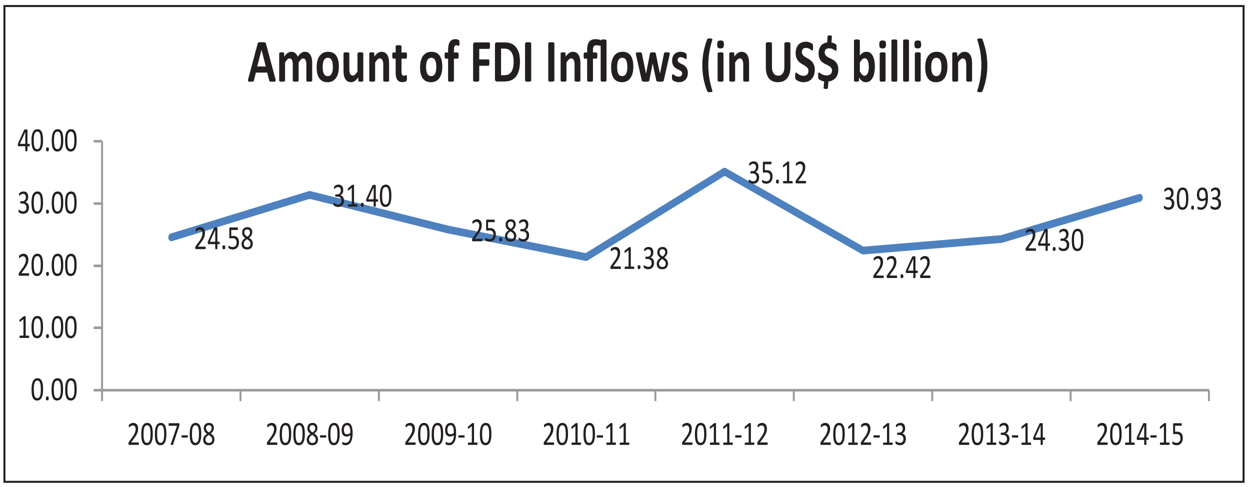
Sectors where 100% FDI is permitted through automatic route	Sectors where 100% FDI is allowed through government approval route	Sectors where FDI is restricted below 100%
Tourism and hospitality		Defence (Up to 49% investment is allowed under the government route, above 49% on a case-to-case basis on approval by the Cabinet Committee on Security)
Automobiles		Media and Entertainment (newspapers and periodicals pertaining to current affairs, and TV news channels only 26% under government approval route
Autocomponents		Pension and insurance sectors (49%)
Greenfield airport projects	Brownfield airport projects	PSU banking (20%)
Greenfield biotechnology projects	Brownfield biotechnology projects	
Greenfield pharmaceutical projects	Brownfield pharmaceutical projects	
Power (except atomic energy)		Power exchanges (upto 49% permitted under automatic route)

Sectors attracting highest FDI inflows in India

Amount in $US million			
Sector	2013-14 (Apr-Mar)	2014-15 (Apr-Mar)	2015-16 (Apr-Sep)
SERVICES SECTOR	2,225	4,443	1,464
CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	1,226	769	81
COMPUTER SOFTWARE & HARDWARE	1,126	2296	3057
TELECOMMUNICATIONS	1307	2895	659
AUTOMOBILE INDUSTRY	1517	2726	1464
DRUGS & PHARMACEUTICALS	1279	1498	226
CHEMICALS (OTHER THAN FERTILIZERS)	878	763	393

Amount in $US million			
Sector	**2013-14 (Apr-Mar)**	**2014-15 (Apr-Mar)**	**2015-16 (Apr-Sep)**
TRADING	1343	2728	2308
Power	1066	707	360
METALLURGICAL INDUSTRIES	568	359	253
Total	24,299	30,931	16,631
Source: DIPP FDI database – equity capital component only			

FDI and GDP growth



Some Case studies

Multiple advantages – a case study of FDI in information technology sector

Improving trade balance and creating employment opportunities

Apple – Plans to build its first technology development centre outside the US in Hyderabad with an investment of $25 million (Rs 170 crore), likely employing about 4,500 people. The unit is expected to start operation in the latter half of 2016

Google – Plans to open South Asia's biggest campus and its only facility outside the US in Hyderabad in the next few years

Microsoft – Plans to expand operations in Telangana. The company operates through officies in 9 locations across India and employs around 6,000 people

Automobile Industry

Hyundai, Nissan, Volkswagen and Ford have set up plants in India to manufacture cars and cater to foreign demand. This increases India's exports.

Before 1991, the automobile industry of India was ruled by national vehicle manufacturers like Premier Automobile, Hindustan Motors, Maruti Udyog Limited (with its foreign partner Suzuki). In 1991, the government of India liberalized its policies regarding the automobile industry. FDI in automotive industry was permitted. Since then, the world's leading automobile manufacturers like Hyundai, Mercedes Benz, Nissan, General Motors have set up manufacturing plant in India and are exporting vehicles from here. India's export of automobiles (including two wheelers, passenger cars, commercial vehicles, three wheelers) has almost doubled from 18,04,426 units in 2009-10 to 35,73,806 units in 2014-15.

The automobile industry accounts for 7.1 per cent of the country's gross domestic product (GDP). It provides direct and indirect employment to over 19 million people. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs. Engine and engine parts, transmission and steering parts, suspension and braking parts, electrical parts etc. Information technology sector also caters to the automotive industry.

Introducing corporate best practices and competition

In 1996, Pizza Hut an American restaurant chain and international franchise, known for pizza and side dishes entered into Indian market and has since then tried to customize its products to the taste and habits of Indians. The biggest competitor Domino's Pizza has been able to differentiate its products in terms of pricing strategies. The single level business strategy of having its operations under Jubilant Food works Limited, India's largest and fastest growing food service company has helped the company's growth graph move upward.

It has used cost reduction techniques by not focusing specifically on its ambience. It serves the best in home delivery which gives Indians a feel of lesser expense on their pocket. The 30 minute's delivery is successfully implemented and delivers excellence in terms of service. Jubilant FoodWorks Ltd and its subsidiary operates Domino's Pizza. Domino's Pizza India operates 959 restaurants across 29 states and union territories, covering 218 cities. It provides jobs to thousands of delivery boys.

Competition and wide consumer choice

In smartphones, Samsung was the largest player with 24% share of the market, followed by Micromax (16.7%), Intex (10.8%), Lenovo (9.5%), and Lava (4.7%), data from International Data Corporation shows. Samsung products are easily accessible due to its strong and efficient distribution network. Despite this, Indian brands lead the market when it comes to the most number of devices launched with 7 out of 10 of the top brands being Indian during the first half of the calendar year 2015. Indian companies like Intex, Micromax have launched 41 brands and 24 brands of smartphones during Jan-Jun 2015 compared to 21 brands by Samsung, 12 brands by HTC and 9 brands by Sony.

South Korean electronics major Samsung, has two factories - in Noida and Tamil Nadu, where it makes 90% of the mobile phone handsets it sells in the country - and three R&D facilities. The company employs around 45,000 people, of whom 11,500 people are in R&D. The spanning of Indian market by Samsung mobile phones, ranging from low end to premium smart phones, tabs and smart TVs have significantly affected the market share in India. Samsung in the recent years has been the global leader in mobile technology. They are the ones to beat when it comes to Android platform and easily give the beating to Apple when it comes to products sold per number.

Promoting research and development: A case study of biotechnology sector

India is among the top 12 biotechnology destinations in the world and ranks third in the Asia-Pacific region. One of the reasons for the development of the biotechnology sector is the effective partnership with foreign companies.

Foreign collaboration

Indian partner	Foreign Partner	Deal
Sea6 Energy	Novozymes (from Denmark)	For research and development in the biofuel sector. The joint venture aims to produce biofuels through seaweed
Clinigene International	Pacific Biomarkers Inc (USA)	To cater to global pharmaceutical and biotechnology industry
Avesthagen	Limagrain (France)	to produce and market high quality seeds to farmers in India and abroad
Syngene	Endo Pharmaceuticals (USA)	to develop biological therapeutic molecules against cancer

Recent FDI commitments in India

Foreign Companies	Commitment
Foxconn	To invest $5 bn on a manufacturing and R&D facility in Maharashtra
BAE Systems Plc	To set up a facility for assembly, integration and test (AIT) of the M777 Ultra Lightweight Howitzer (defence equipment) in partnership with Mahindra Defence Systems Ltd
Oracle	To set up nine incubation centers at an investment of USD 400 million
Vestas	To set up wind mill blades manufacturing unit at Ahmedabad
Tar Kovacs Systems	To set up offshore platform for marine applications in Gujarat. A separate agreement was also signed by the company with the Government of Karnataka to set up ocean based renewable energy project

India-Taiwan Commercial Ties

Key Indicators (India and Taiwan)

Key Indicators	India	Taiwan (Chinese Taipei)
Population (in million)	1252.14	23.37
GDP (billion current US$)	1876.8	489.10
Trade to GDP ratio (2011-2013)	54.2	139.8%
Rank in world trade of goods exports	19	20
Rank in world trade of goods imports	12	18
Rank in world trade of services exports	6	26
Rank in world trade of services imports	9	30
Merchandise exports f.o.b (billion US$)	313.23	305.44
Merchandise imports, c.i.f. (billion US$)	466.04	269.89
Share in global merchandise exports	1.66%	1.62%
Share in global merchandise imports	2.47%	1.43%
Share in global services exports	3.25%	1.11%
Share in global services imports	2.84%	0.95%
Major destination for merchandise exports	EU 28 (16.7% of India's exports), US (12.5%), UAE (10.1%), China (4.9%), Singapore (4.2%)	China (26.8%), Hong Kong (12.9%), US (10.7%), EU 28 (8.3%), Singapore (6.4%)
Major source countries of merchandise imports	China (11.1%), EU 28 (10.6%), Saudi Arabia (7.9%), UAE (7.1%), Switzer-land (5.3%)	Japan (16%), China (15.8%), US (9.5%), EU 28 (8.8%), Republic of Korea (5.8%)
Note: All figures are of the year 2013 and are sourced from WTO		

Trade

In the year 2013-14 (April-March), India's exports to Taiwan stood at **US$ 1.98 billion** and its import from the country stood at **US$ 3.44 billion**. Thus, India had a trade deficit of US**$ 1.45 billion** on an annual basis. It may be noted that bilateral trade between both the countries rose from **US$ 0.92 billion** in 2001-02 to **US$ 5.43 billion** in 2013-14.

The major commodities exported by India to Taiwan include mineral oil, mineral fuel, iron and steel, organic chemicals, zinc, cotton, agricultural commodities, nuclear reactors and boilers. Major commodities imported by India to Taiwan include electrical machinery and equipments, plastic and plastic products, organic chemicals, nuclear machinery and appliances, tanning and dyeing extracts, fruits and vegetables, animal products.

Investment

Potential sectors for investment co-operation between both the countries	Food processing, Information and communication technologies, retail, logistics, automobile and auto-components, human resource development, pharmaceuticals, renewable energy
Steps needed to be taken by Indian authorities to promote investment by Taiwanese companies in India	Provide single-window mechanism for clearing investment projects, re-examine bilateral air service agreements (to promote flight connectivity), liberalizing visa norms for students of both the countries, have a stable regulatory regime for foreign investment in education
Potential Benefits for India (from investment co-operation with Taiwan)	Access to cutting-edge technology in manufacturing sector, access to capital, increase in export potential, educational and skill development potential
Potential Benefits for Taiwan (from investment co-operation with India)	Access to cheap labour and other raw materials, access to huge consumer market

Between April 2000 and January 2015, India received foreign direct investment worth **US$ 89 million** from Taiwan. However, this does not fully represent the total investment by Taiwan into India because some amount of Taiwanese investment is routed through countries such as Singapore, China, Mauritius and Thailand. So far, India received investments from **over 90 Taiwan companies**, mostly in the areas of information and communication technology, shipping, construction, foot-wear, automobile parts and accessories.

Taiwanese companies used to outsource manufacturing activities to China and Southeast Asian countries owing to the availability of cheap labour in these regions. But, with the cost of labour rising in these countries, Taiwan could make India an outsourcing destination for its manufacturing and services activities.

Agreement Signed

- In March 2013, India's FICCI and Taiwan's TAITRA signed an agreement on Carnets and its protocol. This agreement permits duty free temporary movement of goods between the two countries without the need to raise customs bond, payment of duty and fulfillment of other customs formalities. The agreement applies to goods that are temporarily moved between both the countries for fairs and exhibitions.
- In August 2011, the governments of both the countries enforced the double taxation agreement (DTA) to avoid double taxation and the prevention of fiscal evasion with respect to taxes on income.

In July 2011, both the countries signed the Customs Co-operation Treaty which aims to simplify the clearance procedures for import and export of goods and upgrade trade security.

- In October 2002, the India-Taipei Association in Taipei and the Taipei Economic and Cultural Center in New Delhi signed Bilateral Investment Promotion and Protection Agreements (BIPA) and it came into effect from February 2005.

Agreements signed in human resource development and research

- In 2012, Taiwan's Academia Sinica and Indian National Science Academy signed a Memorandum of Understanding for mutual co-operation.
- In 2010, Foundation for International Cooperation in Higher Education of Taiwan (FICHET) and Association of Indian Universities (AIU) signed a Memorandum of Understanding on acknowledgement of each other's university degrees.
- In 2007, Taipei Economic and Cultural Center (TECC) and India-Taipei Association (ITA) signed a Memorandum of Understanding on Scientific and Technological Cooperation.

Ongoing Initiatives

- Since 2009, both the countries have been considering a plan to enter into a free trade agreement (FTA). In November 2014, Taiwanese government assured that it would attempt to forge closer economic ties with India and enter into an FTA. Various studies conducted by think tanks in both the countries have shown that the two economies would benefit immensely if they sign a comprehensive economic co-operation agreement that involves trade in goods and services, investment, services and trade facilitation.
- Trade and industry associations in both the countries are regularly holding joint business council meetings and are exchanging visits of business delegations.

Planning India-Taiwan Co-operation

A study conducted by the Indian think tank ICRIER found that India and Taiwan can enhance their economic co-operation in the following way –

- Companies from the two countries must jointly develop regional production and supply chain networks in East Asia and to link India with ASEAN countries, such as Thailand and Vietnam, where Taiwanese companies also have their production bases.
- In order to improve connectivity between India and the ASEAN countries, the Taiwanese companies must be encouraged to invest in the northeastern states of India in road and rail connectivity. Rail and road connectivity would enable Taiwanese companies to integrate their manufacturing units in India with those in ASEAN countries through Myanmar. The northeast of India must be developed on the lines of the Delhi-Mumbai Industrial Corridor.

POLICY


POLICY
GUIDELINES
PRACTICES
STANDARDS
RULES
REGULATIONS
COMPLIANCE

India's Taxation Regime

Central taxes that The GST will replace

Central Excise Duty

Duties of Excise (medicinal and toilet preparations)

Additional Duties of Excise (goods of special importance)

Additional Duties of Excise (textiles and textile products)

Additional Duties of Customs (commonly known as CVD)

Special Additional Duty of Customs (SAD)# Service Tax

Cesses and surcharges in so far as they relate to supply of goods or services

State taxes that The GST will Subsume

State VAT

Central Sales Tax

Purchase Tax

Luxury Tax

Entry Tax (all forms)

Entertainment Tax (not levied by local bodies)

Taxes on advertisements

Taxes on lotteries, betting and gambling

State cesses and surcharges

The Indian taxation system works on the objective of revenue collection rather than compensation against government services. Levying of tax should be a result of services provided by the government against various services offered by it and supply of goods to its citizens which can be sanitation, good roads, food, medicines, safety and security etc. However, in the Indian taxation system two most critical issues are tax evasion and double taxation.

Tax evasion per say happens 60% due to complex nature of taxes and fear of double taxation. Hence, legally certain tax evasion issue may be a pro case of non-payment of taxes due to fear of double taxation. Again, India's two types of taxes i.e. direct and indirect taxes have no points of intersection even in the case of the new concept of GST.

Only 11% of Indian population is sincerely paying @ 35% of their income towards taxes however , the service they receive against payment of this tax is not reflected in any of the Government actions. This 11% population is again subjected to about 65 another set of taxes leading to double taxation and receive discreet service against this taxation which many times results into only 30% value addition. Thus , an average tax payer loses 70% of his income in taxes gaining no returns at all. This 70% income of 11% population does not provide any accountability, hence can be fairly termed as black money in the hands of the government.

Government's fiscal expenditure is supported by tax revenue, trade and returns on investments in viable projects. However, in the present scenario trade is albeit hardly contributes to national income or GDP with major proportion being that of tax from 11% population and small proportion of returns on investment. If this is the case the resultant services from government side such clean water , sanitation, good roads , 24 hour electricity remain a distant dream.

The GST proposes to take into its ambit 70% of the taxes however, there are about 73 known number of taxes and at the same time there are number of many other taxes which may be still unknown to higher administrative concerns and are levied on tax assessees. Another issue with these lesser known taxes is their quantification when transgressed into the GST system of taxation.

Quantification of lesser known taxes is forecasted to play havoc in the future against the worth of tax paid and the supply of service. These taxes which were of miniscule nature amounting to amount 2-6% will strikingly rise to GST level with the tax assessees having to pay more. He might achieve respite in future setbacks but this will eat up his present working capital. Looking at the time variation cost of capital will rise and imply no cost benefit to him.

This is the very reason why the GST policy formation does not ensure 100% benefit in case of GST implementation and there is only an arbitrary statement about benefit. As reiterated in further discussions a complete reform with new infrastructure is a must without which the Government will not achieve any prospective good results. Today, the need of the hour demands convergence of taxes under one realm so as to avoid double taxation.

Taxation needs to be subject to services provided so that there is transparency in service delivery and clarity of purpose subject to deduction of tax for those services. For eg a GST paid towards services delivered for maintenance of a patch of toll road needs to declare its yearly maintenance budget and zero tolerance to road mishaps due to presence of pot holes and rough road patch.

The best form of GST applied world over is being drafted in the country with two members from 30 members of the GST draft committee are being invited by other countries to draft GST in their countries. However, with the present existence of so many small taxes proposed on the basis of need has complicated the system to such an extent that it will be difficult to sort the application of GST in real terms. Imposition of GST needs simplification of systems along with the strengthening of the MIS in the whole process of GST application.

Data capture and integration in systems should be strong and there should be paperless application of GST.

Let's take for example an importer manufacturer exporter cycle. The importer pays central excise duty as the same is not merged with GST and sells the import to manufacture at GST, a point should be noted that the importer is buying at central excise duty which is lower than GST and selling at GST to manufacturer which is higher thus the importer gets relief at a higher margin than the manufacturer. The manufacturer while selling domestically or to the exporter gets a relief on equal par. Thus, there is a hole in the system as the manufacturer is selling a value added service and taking a higher setback than the importer. This has avoided double taxation but the parity still exists.

Here we have taken a simple eg but in realty there is presence of more than one importer manufacturer, export party in a value chain which would naturally create larger parity issues. In presence of data capture and integration on an online portal upon registration of parties in this value chain an appropriate award of setback is possible. This avoids confusion, informed and stream lining of taxes in the entire cycle.

SGST and CGST both would be applicable on locally manufactured goods as this will be a dual taxation system. CST was not refundable but following GST, CGST would be refundable. Amount collected under SGST would remain in the state. This would decrease the parity between central and state tax collection regime. GST is also supposed to bring parity in transaction with two states.

Direct taxes implied on individuals don't find relief in most of the circumstances. The major issue in case of direct taxes is the TDS which is implied on savings which are already net of taxes. Introduction of ceiling for TDS deduction for a interest ceiling of Rs10000 has become obsolete with the inflation zooming to 8% sometime back and weak savings rate of 8% which led to erosion of already taxed savings deposit thus resulting into an higher effective taxation rate of 30% leading to loss on savings.

The ceiling on TDS deduction against total FD interest needs to be urgently raised making the slab at least upto 30000 making further deposits possible and allowing banks more liquidity in long run. Bank deposits are being discouraged so as to park funds in other investment measures such as mutual funds , NPS etc , however, the nearly zero risk criteria offered by bank FDS for parking savings is not available with the other investment avenues. Again, investment avenues should be matter of choice after filtering the risk capacities of individual investors or parties balancing their funds.

Forcing of choice on individuals or parties by Government by manipulating long term forecasted interest rates on savings creates havoc in management of savings for retirement purposes as in the case for manipulation of PF and PPF interest rates which have been steady at 8% pre tax returns , a forced diversion of funds towards the newly introduced NPS was wrong strategy as each investment avenue needs to acquire its market price in terms of incentives provided by it and not by forcibly inducing attraction by subduing another tax lucrative avenue like PF and PPF. Moreover, direct taxes paid on account of salary received produce ideally zero benefit to the tax payer.

There is no significant incentive in terms of medicines and education at all upon payment of taxes as the one available in some western countries. The slab of 2 lakhs for tax exemption hardly provides for relief in case of medicines or educational expenditure which has risen to about 40% of the earnings for a family of four.

Tax evasion is a result of tax confusion. Increasing number types and levels of taxes leads to two issues one is error in payment of the tax due and the other being fear of erosion of profit leading to evasion of tax. Normally, in the Indian scenario as mentioned earlier payment of taxes does not ensure satisfaction of services which becomes a precursor to tax evasion. Moreover, the weakened economy demands goods at lower prices with this parity fuelled by cheap Chinese imports.

Complex web of charges increases value of goods at the consumer level and fine example of this is the popularity of the ecommerce portals which portray cheaper prices for goods than their retail value which is nothing but filtering of the levels of retailers in the value chain who have to pay taxes at each level thus leading to double taxation.

Thus tax confusion can be eliminated by by installing a newly built tax infrastructure replete with data information, capture and integration with sturdy MIS. A system like GST if implemented on an already existing architecture as happening in case of only partial coverage of taxes under the GST ambit will lead to further confusions.

There are 73 known and even more taxes levied on need based strategy. Complete abolition of the earlier taxation system is the only solution to have a healthy beginning to newer India. The Initiatives like MAKE in INDIA have failed to take a grip due to India's protectionist and conservative and rigid Tax infrastructure. In the past tax revenue was very weak and even today it is not strong enough to be an asset. Complexities in taxes have lead to decrease in tax revenue collection and thereby leading to litigations and disputes which have not been beneficial to any of the parties.

This practice needs to be eased out better value addition to goods and services needs to be the objective against the payment of taxes. If this practice is built into the system the projected tax revenue collection will wipe out most of the Indian fiscal deficit.

Memorandum on Smart Cities

One of the most basic objectives of the Smart City initiative is to provide easy mobility, work ability and pollution free environment replete with the basic amenities. If we take the example of Mumbai city alone having area of 4355 km having a population burden of 22 million people with 50% population staying in slums, which is disastrous. An ambitious project was initiated in and around the year 1997 which later was named as the SRA project. However, the success of this project has been minimal.

The Indian cities have a worse problem of ever increasing population over a period of time due to mass migration to the cities in search of employment. Hence, even if we decide upon the framework for a smart city today we are totally clueless about the efficacy of this framework may be ten years down the line. Hence when we conceptualize the basics of a smart city it is very important that we fix a population to area ratio for every smart city so that there is a check on populations migrating to city thereby the existing population is not falling short of amenities and facing congestion issues as there is no further scope for increase in area.

The concept of smart city needs to address the issues of existing cities, the newly proposed and implemented ones and the proposed ones. The existing ones need special attention to undergo the process of transforming into a smart city as it remains the most challenging task. Against this backdrop, the government has recently provided for the addition of Rs 48,000 crore for the smart cities project and Rs 50,000 crore for the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) mission. The smart cities project will cover 100 cities and will provide for Rs 100 crore per year, for the next five years for selected cities with a population of over 1 million, while AMRUT will cover 500 cities with a population ranging from 100,000 to 1million.

The challenges here include the lack of empowerment of mayors; the rotational reservation clause that does not provide an incentive to invest time and energy in creating lasting projects, as they do not have a means of getting re-elected and their tenures are short; and the lack of capacity in building viable self sustaining projects, such that funds available to ULBs remain unutilised to the extent of over 25 per cent. The greatest need of the hour, though, is a change in mindset - a long-term vision would enable the introduction of lifecycle costing and an integrated approach over a silo approach. Despite all obstacles, the first steps have been made in the right direction with the empowerment of the state, with city p l a n n i n g b e c o m i n g a p r i o r i t y, inculcation of financial discipline and of course, the political will, which comes straight from the office of the Prime Minister. Further discussed are some of the propositions which need to be kept in backdrop while deciding the concept of smart cities.

Integrated Planning for Cost-Effective Solutions

It is observed that states and municipalities often focus on a requirement individually on one on one basis. As a result, we sometimes assess and implement the best alternative to solve one problem at a time without full consideration of all the other obligations. This approach may have the unintended consequence of constraining a municipality from implementing the most cost-effective solutions in a sequence that addresses the most serious issues first. Encouraging municipalities to work with the states to engage local partners regarding all of their civic related obligations in an orderly manner is the need of the day.

A comprehensive and integrated planning approach needs to be implemented to provide greatest opportunity for identifying cost-effective and protective solutions and implementing the most important projects first.

Integrated planning will put municipalities on a critical path to achieve success in identifying efficiencies in implementing sometimes overlapping and competing requirements that arise from separate civic issues, including how best to make capital investments and meet operation and maintenance requirements. Integrated planning also can lead to the identification of sustainable and comprehensive solutions, such as green infrastructure. In embracing an integrated approach to tackle civic issues it is not suggested that existing regulatory or permitting standards that protect communities depend be lowered. Rather, it is simply suggested that such an approach will help municipalities responsibly meet their obligations by maximizing their infrastructure improvement rupees through the appropriate sequencing of work.

Green Infrastructure

When we talk about green infrastructure one need to be kept in mind 1. Sewage management 2. Energy efficiency 3. Pollution reduction. Multiple benefits are associated with green infrastructure, which strongly encourages related innovative technologies, approaches, and practices to manage the above. There have been many successful examples of cities who utilize green infrastructure to meet regulatory requirements while also benefiting from green jobs, neighborhood enhancements and more sustainable communities. Community partnership program needs to be launched to identify communities with which the municipality will work on green infrastructure implementation issues. Technical assistance resources need to be developed for partnerships on using green infrastructure on sites and slowly infiltrating soils and evaluating codes and ordinances for barriers. The current economic times make the need for sensible and effective approaches even more pressing to pursue innovative and cost effective solutions to the above challenges.

Open Urban ICT Platforms for Smart Cities and Communities

Opening urban ICT platforms are a pre-requisite to support fast take-up of smart solutions in cities to allow many stakeholders of a city to participate and for different vendor solutions to be easily integrated. Objective of such a platform is to accelerate the opening up of the Smart Cities Market, ensure suitable industry input, and an open dialogue with cities and communities in order to take into account their needs and concerns, to develop the Urban Platform open market by creating competition for supply side and confidence for demand side. The urban Platform means the implemented realisation of a logical architecture/content/design that brings together (integrates) data flows within and across city systems and exploits modern technologies (sensors, cloud services, mobile devices, analytics, social media etc … providing the building blocks that enable cities to rapidly shift from fragmented operations to include predictive effective operations, and novel ways of engaging and serving city stakeholders … in order to transform, in a way that is tangible and measurable, outcomes at local level (e.g. increase energy efficiency, reduce traffic congestion and emissions, create (digital) innovation ecosystems).

The rapid deployment of ICT technology in urban infrastructures and the growth of the Internet of Things will lead to new service portfolios, especially using real-time information. Urban data provided by cities and infrastructure providers will enable new business models and service portfolios. A common data and service ontology will ensure a seamless commercialization of these new service portfolios.

Urban Water Resource Management

Integrated urban water management (IUWM) is described as the practice of managing freshwater, wastewater, and storm water as components of a basin-wide management plan. It builds on existing water supply and sanitation considerations within an urban settlement by incorporating urban water management within the scope of the entire river basin. IUWM seeks to shift urban water management away from ad hoc solutions to a more integrated approach. IUWM within an urban water system can also be conducted by performance assessment of any new intervention strategies by developing a holistic approach which encompasses various system elements and criteria including sustainability type ones in which integration of water system components including water supply, waste water and storm water subsystems would be advantageous. Simulation of metabolism type flows in urban water system can also be useful for analysing processes in urban water cycle of IUWM.

IUWM is commonly seen as a strategy for achieving the goals of Water Sensitive Urban Design. IUWM seeks to change the impact of urban development on the natural water cycle, based on the premise that by managing the urban water cycle as a whole; a more efficient use of resources can be achieved providing not only economic benefits but also improved social and environmental outcomes. One approach is to establish an inner, urban, water cycle loop through the implementation of reuse strategies. Developing this urban water cycle loop requires an understanding both of the natural, pre-development, water balance and the post-development water balance. Accounting for flows in the pre- and post-development systems is an important step toward limiting urban impacts on the natural water cycle.

Sewage Management

The scope of sewage management has evolved throughout history with changes in socioeconomic conditions, city structures, and the environment. Today, sewage infrastructure that is well planned and operated supports urban sanitation and related activities. Effective sewage management is essential for nutrient recycling and for maintaining ecosystem integrity. It is also important for:

- Improving the environment through proper drainage and disposal of wastewater;
- Preventing floods through removal of rainwater;
- Preserving receiving water quality.

The sewage treatment process facilitates the achievement of water quality objectives. In addition to nutrient recycling, advanced treatment of wastewater often includes associated unit processes which support the optimization of resource use. Some of these unit processes include the conversion of sludge into various beneficial by-products, and the process of extracting thermal energy from sewage and wastewater. In addition, the sewage collection system can be used as a conduit for optical fibre cables and other communications infrastructure.

A. Sewage Works Planning and Administration

Sewage works should be planned and executed by municipalities in collaboration with other levels of government. The authority for the construction and management of treatment plants, trunk sewers and branch collectors varies depending upon the jurisdictional arrangements in a given country. The Metropolitan Government carries out the construction and management of these facilities within the regional sewage system, while the municipalities themselves are responsible for connecting the branch sewers with the trunk sewers.

B. Water Recycling Master Plans

Some cities have established a water recycling master plan to ensure the efficient use of precious water resources. Under such a plan, water-related measures are examined from the viewpoint of water recycling and all activities within the city are carried out in a manner consistent with the master plan. The objectives of a water recycling master plan should include the creation and nurturing of a water cycle that has a minimal impact on the environment while fostering a beneficial relationship between humans and nature. This involves the establishment of efficient water and wastewater systems within the city and ensuring sufficient flexibility to cope with the possibility of environmental emergencies and possible disasters such as earthquakes and drought.

Sustainable Urban Transport Management

Strategic objective of local communities is to achieve the transport system configuration which recognizes four vital dimensions:

- the transport dimension – adequate balance between public and private transport share in satisfying the needs of all the market segments,
- ecological dimension – retaining of the overall volume of pollution caused by the transport modes at an acceptable level,
- economic dimension – creation potential of new financial resources by the solutions of giving “value for money” and the capacity for inducing the desired behaviour (demand) of the users through fair charging mechanisms (without discrimination),
- social dimension – providing the citizens with transport system which suits their needs.

Since it is difficult to achieve an ideal system, in modelling of the urban public transport the acceptable solution is also the one of establishing certain compensation among these domains in compliance with the socio-economic and cultural reality of every specific urban district, and the conditioned political option and the accompanying financial support as the result of interaction between the local, regional, and national levels of interventions.

Work life balance

Work-life balance of an employee is largely determined by the nature of his job, the industry in which his company operates and the employee leave benefits offered by the company. However, the civic infrastructure and other features of a city or town also play a role in improving the work-life balance of an employee. Civic administrations in smart cities can contribute to the work-life balance of the employees by improving commuting or travel infrastructure, encouraging amusement centers, parks, museums etc. For example, setting up infrastructure for seamless transportation would reduce commuting time for office goers and hence increase the amount of time available for spending with family.

WOMEN IN BUSINESS

Empowering Women: the Holistic Way

According to Census 2011, women comprise 31% of the total labour force in India. In other words, there are 149 million women workers out of the total labour force of 481 million in the country. If we include the number of women entrepreneurs in the organized sector and self-employed women in the unorganized sector, the number of working women may increase further. Some of the key factors that directly and indirectly affect the productivity of women workers and women entrepreneurs are mental and physical wellbeing, financial literacy, digital literacy, insurance etc. The term women empowerment means enabling women to be productive in their workplace and ensuring their maximum contribution to the economy.

Success of women in their personal and professional life hinges on their mental and physical wellbeing. Factors like environmental pollution, sedentary life styles, stress at work place, family responsibilities, pregnancy related problems not only affect women's physical health, but also their mental health.

There is a need to create awareness among women about their common health vulnerabilities like anemia, breast cancer, arthritis, sexually transmitted diseases etc. Women must also be trained to handle stress at home and workplace efficiently as a large number of women are afflicted by common mental disorders including depression.

Financial literacy is another determinant of worker productivity, especially for people making career in accounts, banking and self-employed women. Sound knowledge of financial statements and systematic book keeping practices enable women entrepreneurs in the unorganized sector access institutional sources of credit to meet working capital needs and also for expansion of business.

A financially literate woman is capable of planning her personal finance efficiently, thereby ensuring the financial security of the entire family. Women must learn the art of financial planning in order to budget for long term family expenses like buying flats, higher education of children, their marriages, medical emergencies and also to make provisions for post-retirement life. A futuristic financial planning reduces the possibility of financial hardship and its resultant mental stress on women, thereby contributing indirectly to the productivity of women at workplace.

Effective financial planning also involves mitigating financial risks arising out of sudden death of the earning member of the family or medical emergencies. Women working in the unorganized sector and self-employed women don't have the privilege of insurance facilities provided by employers in the formal sector.

These women must take both life insurance and medical insurance policies in order to minimize the financial risks arising out of death and health emergencies. It is also advisable for women using two-wheelers and four-wheelers to take vehicle insurance. A well insured woman is likely to be free from the mental stress arising out of any eventuality in life.

Information and communication technologies (ICT) have revolutionized business processes and have also improved the ease of personal and professional life of women. ICT is a boon for women as it offers them an opportunity to earn money while staying at home.

Today, many housewives work from home in the fields of interior designing, paintings, data entry operation, online tutorial etc. Women who have to commute long distance to reach office can save a lot of time in shopping by making online purchases of grocery items, ready to eat food, even clothes, mobile phones and other luxury items. Even banking and other household financial transactions can be executed online through net banking and other electronic services.

Thus, women can devote more time for their career and professional life by performing many of their household responsibilities online. However, women need to be well versed on latest information technologies and they must also be aware of the security risks involved in online activity. This calls for creating widespread awareness on digital literacy among women. Digital literacy also expands the number of career options for women as they can run internet browsing centres, mobile recharge kiosks, utility bill payment centres etc.

A holistic approach to women empowerment involves addressing issues of mental and physical wellbeing, financial literacy (along with financial inclusion), insurance and digital literacy.

Financial Inclusion

According to the Global Findex database 2014 released by the World Bank, only 43% of Indian female adults have an account with a bank or any other financial institution or mobile money provider compared to 63% of male adults.

Financial inclusion of women is the first step to economic empowerment of women as they cannot begin any sustainable income generating business activity without having an account with a bank or any other financial institution.

Women own or manage 20.21 lakhs or 9.43% of all the Micro, Small and Medium Enterprises (MSME) in India (according to the fourth All India MSME Census 2006-07). However, 90% of these women enterprises do not have access to formal source of credit and hence they have to depend on informal sources (like friends, family, own savings) to meet their capital needs.

Women depend on informal sources of finance because of various reasons like lack of awareness about financial products or services available in the formal system, lack of adequate collateral, need for support from male family members to avail institutional loan, lack of financial literacy etc. Banks are also wary of lending to women entrepreneurs because of high risk perception.

There is a lack of awareness among bankers of the potential business opportunity presented by women entrepreneurs. Women present attractive client base for banks as numerous studies have found that the likelihood of default by women borrowers is less compared to men. Also, women tend to be more loyal in the long term to a chosen financial institution and they are better depositors into bank savings accounts.

In the past, the central government and various public sector undertakings have taken measures to promote access of institutional credit by women entrepreneurs.

The central government provides financial assistance to women entrepreneurs under the Trade Related Entrepreneurship Assistance and Development (TREAD) programme. Women entrepreneurs get 30% of the project cost as government grant under this programme, while the remaining amount is given as loan assistance by financial institutions.

The Small Industries Development Bank of India (SIDBI) runs two special schemes - Mahila Udyam Nidhi and the Mahila Vikas Nidhi – to offer equity financing and developmental assistance to income generating business activities of women.

In 2013, the central government set up Bharatiya Mahila Bank Ltd to serve the financial needs of women, especially the economically neglected, deprived, discriminated, under-banked, unbanked, rural and urban women.

Microfinance institutions (MFIs) offer small amount of loans (without collateral) to tiny businesses or home-based income generating activities of women. According to Sa-Dhan, the Self Regulatory Organisation of the Microfinance industry, MFIs are present in 568 districts of India and they provide financial service to 37 million clients, 97% of which are women borrowers.

On its part, the public sector financial institution NABARD is promoting women's access to institutional credit by linking self help groups with banks. NABARD has so far linked over 8 million self help groups with banks under its Self Help Group – Bank Linkage Programme (SHG-BLP) across the country.

Despite the above efforts, women entrepreneurs continue to suffer poor access to institutional source of credit. In order to improve the credit-worthiness of women entrepreneurs, they must be trained and appropriate managerial and technical skills must be developed by incubators. This would make them more credit worthy in the eyes of financial institutions, thereby encouraging the latter to offer loans to them.

Across India, there are business incubation centres, both at the private sector and at the public sector, that train budding entrepreneurs in enterprise building and make them capable of running a successful business venture.

While food processing, textile designing, child day care services have been the traditional sectors of choice for women entrepreneurs, they must also be trained to pursue entrepreneurship in other sectors like wellness, biotechnology, media and entertainment, pharmaceuticals which figure in the central government's 'Make in India' campaign.

Also, women entrepreneurs must be trained to maintain financial statements of their business activity so that banks can assess the financial performance of the business and take an informed decision on lending to the business.

In order to provide financial services to women entrepreneurs in remote unbanked villages, banks and other institutions must leverage information and communication technologies like mobile phones, launch business correspondents etc.

Timely access to formal source of credit enables women entrepreneurs expand their business activity and generate more employment opportunities in the economy.

Women Entrepreneurship in India

Women play an important role in the economic growth of India, although a large section of women are working in the unorganized sector. Out of the 58.5 million establishments in India, around 8.05 million or 13.76% are owned by women entrepreneurs*. These women-owned establishments employ 13.45 million people and they contribute 10.24% to total employment in the country.

On account of the unorganized nature of their operations, women-owned enterprises face challenges in accessing credit from institutional sources. As a consequence, around 79% of the women-owned establishments are self-financed. Around 14.65% of women-owned enterprises depend on donation or transfer from other agencies to run business. Financial assistance from government sources supports 3.4% of women-owned enterprises in the country.

Government of India has introduced various schemes to enhance flow of institutional credit to women enterprises. In 2016, Government of India announced the "Stand up India Scheme", under which women entrepreneurs can access loan upto Rs. 10 million to set up new enterprise. The scheme also allows women entrepreneurs to access working capital credit through debit cards.

Government of India also runs the Trade Related Entrepreneurship Assistance and Development (TREAD)' scheme. Under this scheme, the government offers a grant of upto 30% of the total project cost to the Non-Government Organisations (NGOs) for promoting entrepreneurship among women. The government provides the remaining 70% of the project cost as credit to women enterprises through lending agencies. Other schemes for women entrepreneurship introduced by Government of India include cluster development programmes, credit guarantee scheme and so on.

Timely access to credit would enable women enterprises expand their business operation. It is noteworthy that 83% of the women-owned establishments do not hire any worker. Providing credit facility to these establishments would encourage them to expand scale of operation by hiring workers, installing new machineries and renting land.

Especially, enterprises in the agriculture sector require special assistance as considerable share of women-owned enterprises is concentrated in this sector. The following table shows over 30% of the women-owned establishments are found in livestock sector, which includes animal husbandry, cattle rearing, poultry and so on. Enterprises in livestock sector requires long term credit for buying more animals, working capital loans for buying animal feed, meeting healthcare expenses of animals and so on. Manufacturing sector constitute the next major share of women-owned enterprises with 29.8% of establishments engaged in this sector.

Sector-wise distribution of women-owned enterprises

Sectors	Livestock	Other agricultural activities	Manufacturing	Retail	Accomodation & Food Services	Others
Percentage of Women-owned enterprises	31.6%	2.7%	29.8%	17.8%	2.77%	15.33%

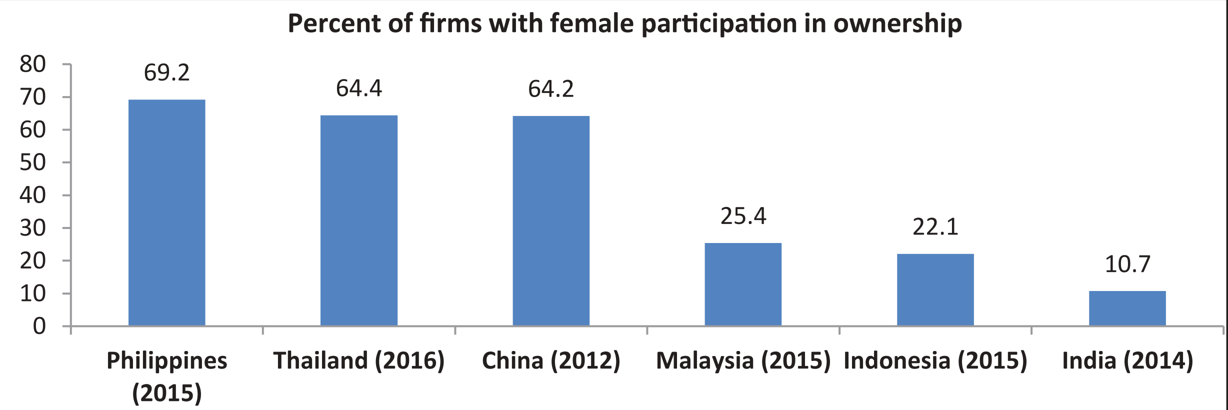
Source: Sixth Economic Census (2013), Government of India

*According to the Sixth Economic Census (2013) of Government of India

Women-owned enterprises are largely concentrated in a few states in India. As can be seen from the table below, 54% of women-owned enterprises are located in Tamil Nadu, Kerala, Andhra Pradesh, West Bengal and Maharashtra.

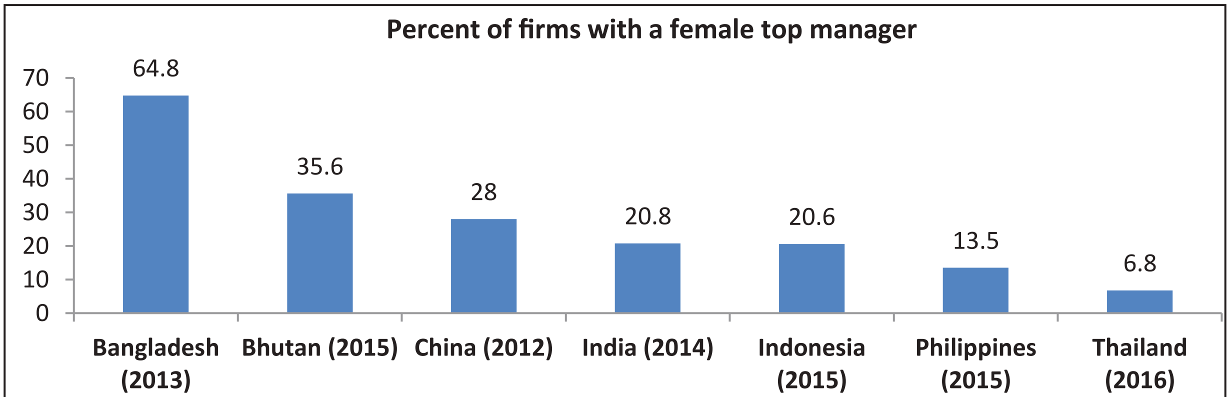
Share (in %) of major states in total women-owned enterprises in India	
Tamil Nadu	13.51%
Kerala	11.35%
Andhra Pradesh	10.56%
West Bengal	10.33%
Maharashtra	8.25%
Source: Sixth Economic Census (2013), Government of India	

According to a World Bank Enterprise Survey, many developing countries are ahead of India in terms of proportion of female owned enterprises. India has only 10.7% of firms with female participation in ownership compared to 69% in the Philippines, 64% in Thailand and China, 25% in Malaysia, 22% in Indonesia and so on.



Source: World Bank Enterprise Survey; Year in which the survey is conducted is provided in the brackets

However, India's performance is mediocre in terms of proportion of firms with a female top manager. The World Bank Enterprise Survey shows India has 20% of firms with a female top manager.



Gender Equality and Women's Entrepreneurship

Gender equality is no longer viewed narrowly as an issue impacting women's rights, but it is identified as a cornerstone for attaining sustainable development objectives such as eradicating poverty, ensuring health and wellbeing, attaining quality education, decent work and economic growth. According to a report by McKinsey Global Institute, gender inequality undermines the ability of a society to attain maximum possible economic growth by constraining women's rights and their contribution to economy.

Although women represent almost 50% of the world population, only 13.7% of firms, across the globe have majority female ownership. Women are still under-represented in top level management and boards of most companies on account of the prevalence of glass ceiling. Women spend considerable amount of their time in performing unpaid household chores, taking care of children and elders in the family. Therefore, their involvement in paid employment is limited, both in lower income countries and high income countries.

Gender equality continues to remain a distant reality across the globe because attaining this objective requires reversing the well-entrenched mindsets and prejudices against women, mainstreaming gender-specific perspectives in policy making and co-ordinating the actions of government, academic institutions, business organizations and civil society towards this objective.

The emerging forces of trade liberalization and globalization affect the competitiveness of women-owned enterprises and employment opportunities for women. For instance, liberalizing trade and tariffs in sectors that employ largely women workers may expose them to foreign competition and thereby threaten their existence.

On the other hand, globalization also offers opportunities for women-owned enterprises for foreign collaboration through foreign direct investment (FDI), joint ventures, and strategic alliances.

Therefore, in the age of globalization, government policies must focus on empowering women-owned enterprises to face foreign competition, encouraging transfer of advanced technologies to women-owned enterprises, imparting alternative skills to displaced women workers and so on.

Entrepreneurship is a powerful tool for women empowerment as it not only makes them financially independent but enables them to provide jobs for other women in the society and act as torch bearers for their fellow sisters.

Indian society, which is dominated by patriarchal social structure, does not provide a conducive environment for the development of 'high potential' female entrepreneurship. In this paper, the World Trade Centre Mumbai presented the changing dynamics of women entrepreneurship in India and emphasized the need for government action in promoting women entrepreneurs.

According to the Gender- Global Entrepreneurship and Development Index (GEDI) 2014, India was ranked 26th out of 30 countries on women entrepreneurship development. While the top three countries in the index were United States, Australia and Sweden, India's 26th rank was worse than other developing countries like Thailand (17th rank), Turkey, Russia (18th rank), Malaysia (21st rank), Nigeria (23rd rank) and Brazil (20th rank).

The poor ranking of India in women entrepreneurship is understandable given that our country lacks the right attitude (to accept women in leadership positions), norms, values and legal environment. Women face external and internal barriers in their pursuit of entrepreneurship.

External barriers include lack of access to finance, education, and other resources, gender discrimination, family responsibility etc., while internal factors include lack of risk-taking abilities, aspiration, leadership qualities etc.

External factors can be changed through government actions and support from civil society groups like NGOs, women support groups etc. Internal factors, on the other hand, can be changed only through self-effort, counseling and training programmes.

The number of women entrepreneurs in the country would rise only if the attitude of women about their entrepreneurial talent improves. According to the GEDI survey, on an average 55% of women in India believe male business executives are better than female business executives. The comparable figure for Thailand is 41%, Malaysia 43% and South Korea 40%.

More than the external factors, the internal factors, especially lack of self-confidence and inner drive, are the major obstacles for women entrepreneurial development. The story of **Kalpana Saroj**, a dalit woman entrepreneur from Maharashtra who went through child marriage, physical abuse and other ills to the point of attempting suicide in her early years, suggests that self-initiative contributes significantly to entrepreneurial success despite the existence of external barriers.

There are several such success stories across the nook and corners of India where less educated women entrepreneurs are engaged in micro enterprises, while taking care of husband and children and without having any help at home.

While most of the social discriminations against women are typically associated with rural areas, it is also true that many rural women have successfully established their economic independence under challenging times. Owing to circumstances like early death of husband, desertion, or male out-migration, women head an estimated 20% of rural households in India.

Agriculture is a pre-dominant choice of livelihood for rural women as 79.4% of all rural women workers are in this sector compared to 62.8% of all rural men workers, data from the NSSO survey in 2009-10 shows.

Another phenomenon that is driving women entrepreneurship in rural areas is the growing number of self help groups (SHGs), of which 60% are known to be women's SHGs.

While agriculture is the main livelihood of women in rural areas, women in towns explore opportunities in the service sector and in businesses that conform to conventional female roles - such as beauty parlors, food processing and retailing, day care centres, sewing etc.

Success stories of women entrepreneurs in India shows that Indian women are also resilient enough to rise against all odds, and leverage their communication and leadership skills, management abilities and economizing instinct to build a viable business.

Emerging trends

Globalisation and advancement in the information and communication technologies (ICT) offered new opportunities for women to explore entrepreneurship in non-traditional areas like travels and tourism, software consultancy, management consultancy, running internet café, organized retail stores, e-commerce, mobile recharge services etc.

It is worth recalling the success story of Dipali Sikand, who sensed great demand for personalized concierge services from busy managers in IT companies and set up Les Concierges. This company services over a million customers globally through its specialised concierge services, a pioneering initiative in India. According to the Global Entrepreneurship Monitor (GEM) Survey 2013, among all early-stage entrepreneurs, around one-third or 32% are women.

Policy Push

At present, the Government of India has over 27 schemes for women operated by different departments and ministries. These programmes must enable women in towns and villages to seize the opportunities of offered by globalization and information and communication revolution.

Although globalization and communication revolution have offered new avenues for entrepreneurship, they are mostly in the skill-intensive or knowledge-based sectors, which are beyond the bounds of under-privileged sections of the society.

Therefore, government needs to provide skill training, vocational training and technology education to under-privileged women so that they can seize these opportunities. Government must also take initiatives to ensure that the professional social networking platforms reach women in rural and backward areas.

Besides extending the reach of internet and social platforms to rural areas, the government must also work on some key areas to promote women entrepreneurs in the country. It is observed that complex administrative procedures for registering a business establishment discourages women from formalising their small business activities and scaling it up.

Therefore, government must ease the procedures for starting, running or exiting a business so that women who are already doing business on a small scale at their home can expand it by setting up a dedicated work place, employing more people etc.

The Jan Dhan Yojna of the government must enable women to have access to a formal bank account, which is a necessary precursor to financing—bank loans, credit lines, etc.—that fuels business growth.

India is one of the countries where 50% or more of the female population is unbanked. Besides these, the government must also address issues like unequal legal rights for men and women, discriminatory treatment for women on health, education etc. Conducive government policy actions along with their proper implementation create enabling framework for women entrepreneurship in India.

It is argued by some experts that India's economic reforms, which began in 1991, has not ensured inclusive growth, which means the fruits of the economic growth have not reached the underprivileged sections of the society.

MVIRDC Research Initiatives in 2016-17

INFRASTRUCTURE

India's Renewable Energy Program

Development agenda will stand true to its enactment only,replete with power efficiency. The power generation dialogue confronts with three main issues unrestricted and stable reach of power to the consumers , power distribution to the remotest Indian human settlement and low level of carbon foot prints in generation of power.

Though the energy shortage has been successfully curtailed to 2.1 per cent, which is the lowest ever in a single year in 2015-16 the current power infrastructure in India is still not competentently converged to meet the requirements of the above three issues. Facts to be noted in context to the same are, India is the world's third largest electricity producer and consumer of electricity after the United States and China however, the electrical infrastructure is generally considered unreliable.

An estimated 27% of energy generated is lost in transmission or stolen, while peak supply falls short of demand by an average of 9%. The nation suffers from frequent power outages that last as long as 10 hours, 400 million people have zero access to electricity since the grid does not reach their areas. India's coal-fired, oil-fired and natural gas-fired thermal power plants are inefficient and offer significant potential for greenhouse gas (CO_2) emission. India's thermal power plants emit 50% to 120% more CO_2 per kWh produced when compared to the average emissions from their European Union (EU-27) counterparts.

In the present scenario sliding fuel prices have led to stability in power commitments to the existing users. During the fiscal year 2015-16, the electricity generated in utility sector is 1,090.851 billion KWh with a short fall of requirement by 23.557 billion KWh (-2.1%) against the 2.2% deficit anticipated. The peak load met was 148,463 MW with a short fall of requirement by 4,903 MW (-3.3%) against the 2.7% deficit anticipated.

Owing to the import of power from Bhutan, promotion of use of renewable energy, commissioning of nuclear and natural gas based power plants the total power output has risen but the ground realties still do not prove the fact that India has at least achieved any kind of power sufficiency in terms of continuity, reach and carbon emissions.

India may produce surplus power from the existing facilities by 2018 but one needs to sincerely examine the quality of power surplus in terms of 24 hours power supply to existing users, reach of power to the remotest villages and near total reduction in carbon foot prints. This will sound more of a success story than just having power surplus. Development without 100% power self sufficiency is an unlikely dream.

Present long term strategies deviate from achieving power efficiency with any reduction in carbon foot print and pollution. India has been bestowed with a 360-day sunshine in addition to abundant water channels. In a scenario such as this India's power policy should have embraced atleast 60% power production through renewable sources such solar, biomass and hydro electric means.

Renewable sources of power coupled with highly efficient automation support will be driver of growth not only in terms of power but also in the employment sector. Renewable power sector can turn urban garbage dumps into sprawling area of power production and oxygen rich breathing grounds as the waste product of biomass is an organic fertilizer which can be used to curb deforestated and desilted lands to grow more trees. As compared to coal fired thermal power station which produces tons of soda ash which pollutes not only the environment but also arable land and rivers.

Moreover, the power generation through thermal means is raw material centric where as power generation through renewable is human resource centric. The only evident problem in case of renewable is the issue of unstable generation of power however the same can be curbed by the use of efficient automation systems that comprise of high batteries and transformers which are used for the storage of excess generated power and to output the same when there is a lag in power production.

Moreover installation of renewable supported mini grids in remotely connected human settlements areas will help reach of power to them. Setting up of thermal power stations at remotely connected areas is an issue as most of these are situated close to densely populated areas due to the huge power requirement. Renewable power Mini grids support the power requirement of such small populations thus reaching power to the remotest. In the hilly areas these mini grids are mostly the small hydro electricity power stations where as in the plain forest and rural areas they can be those of solar, biomass or wind based renewable power sources.

Another important aspect of renewable source is that it does need any changing policy requirement as the one that happens in case of coal prices. A renewable energy project can be installed and involves a one-time implementation cost and a fixed servicing cost unlike the thermal power plant whose operating cost of production changes with changes in coal prices thus leading to huge losses at the generation phase itself.

Moreover, 70% of the thermal power generation plants are handled by Government subsidiaries rather than working on a PPP basis. Such is not the case with renewable power generators who can be private players who can sell the generated power to the main grid upon agreement of a price with the government authorities.

Thus feature supports the Make in India and start up India initiative. Another advantage renewable energy is that it supports power requirement not only at the grid level but also at the individual consumer level that can set up solar or bio mass machinery at the residence level.

Setting up of individual micro solar stations by industrial areas will help curb electricity theft as a stable power supply will be maintained to these units. India's NPAs in the power structure have played a negative role to curb the irregularities in the power sector.

India presently boasts of high service sector enterprises in the hospitality and IT sector. However, the opportunity that lies in the renewable energy service sector is immense. The maintenance of renewable energy micro and mega projects require service engineers as well as other personnel for a round the year activity post implementation this will provide allied jobs in maintenance especially to the rural youth who can dispense their time between farming and service where such projects have been implemented.

More innovation needs to be brought in the renewable power generation sector apart from the stereo type usage of thermal power to suit the requirement merit of the industrial sector. Large industrial infrastructure conglomerates like the MIDC, SEZs , etc have to now start rethinking and make it their policy to include renewable power generation sources to be set up amongst their infrastructure rather than depend on the traditional power supply sources.

A long vision strategy needs to be put in place in consistent to the requirement of the solar power equipment in years to come if India wishes to wipe of its carbon foot pints and aide the climate change protection agenda.

This is possible only by setting up Joint technology transfer groups between Indian and International majors to manufacture solar panels and other renewable energy infrastructure requirement in India to cater to the replacement of power generation through the renewable energy means. At the same time, the BEE certification needs to acknowledge the use of renewable power use in its validation process. This certification has currently acquired superior footage in most of the residential and industrial areas which can cater to boosting the renewable energy use at the same time along with energy efficiency.

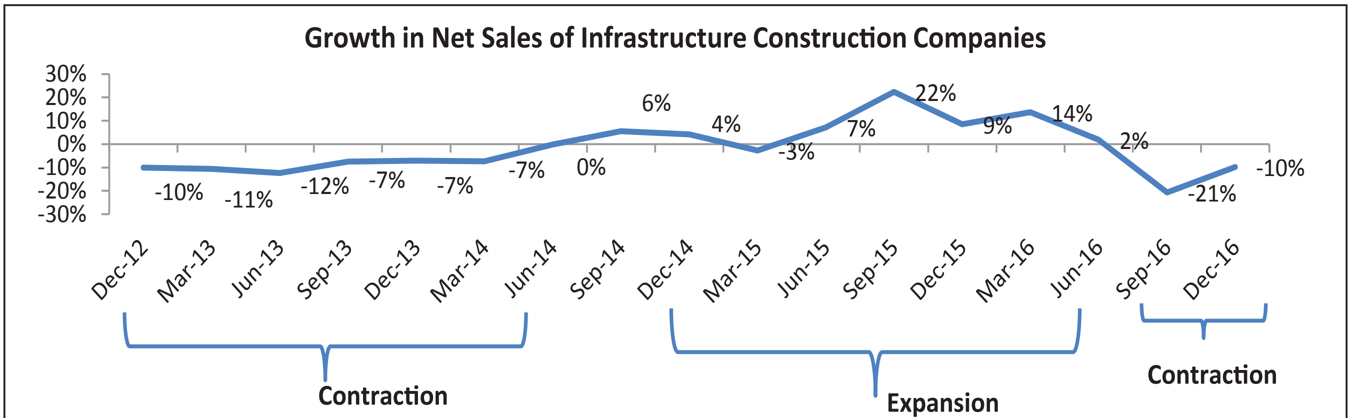
Moreover thermal power generation expects a bank funded investment of Rs6.12 trillion to produce 175 GW by 2022. Consumers moving to solar means gradual cannibalization of this investment. Hence solar power penetration has to be gradual and non intrusive unless India's economic growth and electricity supply penetration increases dramatically. Hence a policy framework having long vision having provisions for both needs to be put in place.

This innovation drive will boost manufacturing in India for India. Development is impossible without power reach and stability. India needs to perfect its statistics in context to the percentage of power reach and its stability to 60% rural electrification and this would serve a bench mark for power efficiency to its industrial and urban needs.

Infrastructure and Construction Sector

Delay in project implementation affects net sales of infrastructure companies in recent quarters

Growth in the net sales of more than 50 infrastructure companies has nosedived to the negative territory since the quarter starting June 2016. Till June 2016, infrastructure companies reported positive growth in net sales. However, in the quarter ending September 2016 and December 2016, net sales of these firms declined 21% and 10% respectively. Analysing trend in net sales of infrastructure companies over a four-year time horizon shows that these companies pass through cycles of expansion and contraction. Between December 2012 and September 2014, net sales of these companies witnessed contraction. This was followed by expansionary cycle from December 2014 to June 2016, when net sales of infrastructure companies were growing, except for a temporary contraction in March 2015. In September 2016, the cycle of expansion reversed and net sales started declining for infrastructure companies.



Source: CMIE Industrial Outlook

One of the reasons for the contraction in net sales since September 2016 could be delay in the execution of infrastructure projects. Ministry of Statistics and Programme Implementation monitors the implementation status of infrastructure projects worth Rs 150 crore and above across 17 sectors including roads and highways, ports and shipping, railways, urban development, steel, coal, telecommunication and so on. Data from the ministry shows that the number of projects reporting additional delays has increased in road, petroleum and urban development sectors between June 2016 and December 2016. However, in the railways and power sectors, the number of projects reporting additional delay has declined during this period.

Number of projects reporting additional delays		
Sector	**Dec-16**	**Jun-16**
Road Transport and Highways	37	30
Railways	5	9
Power	9	16
Petroleum	16	10
Urban Development	6	4

Source: Ministry of Statistics and Program Implementation

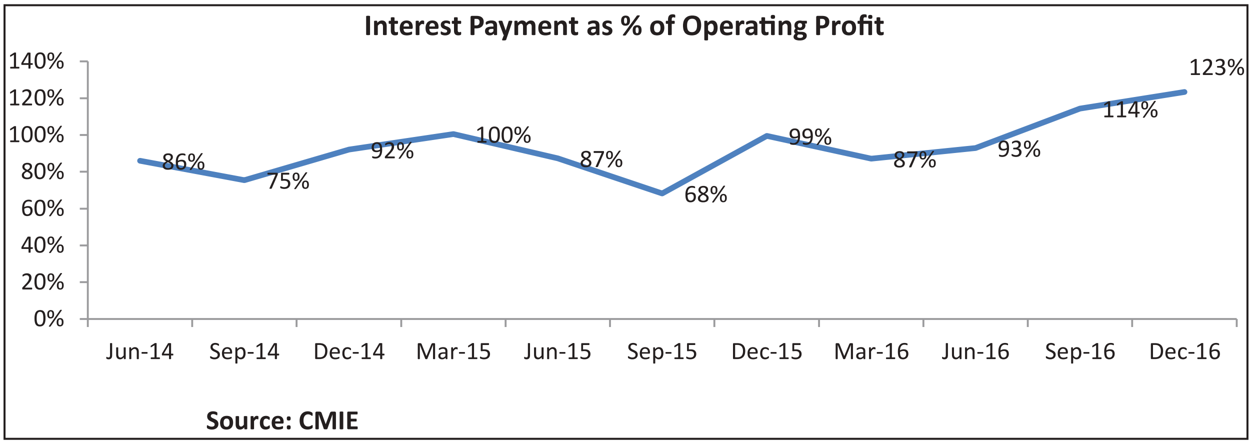
The following data shows the range of delay (in terms of months) in commissioning infrastructure projects. the data shows that out of 17 sectors, five sectors witnessed increase in the range of delay between June 2016 and December 2016. These sectors are atomic energy, steel, power, ports and shipping and urban infrastructure. For instance, in urban infrastructure, the maximum delay in project commissioning increased to 70 months in December 2016 from 65 months in June 2016. Similarly, in the power sector, maximum delay has risen to 134 months from 128 months during this period. However, in road transport sector, the maximum delay in commissioning has declined to 114 months from 138 months. However, this data is only indicative and it does not provide the complete picture of project implementation status as it considers only those projects facing maximum delay and minimum delay to compute the range.

Range of Delay (months) w.r.t. Original Date of Commissioning				
S No.	**Sector**	**No. of projects on monitor**	**Delay in Dec 2016**	**Delay in June 2016**
1	ATOMIC ENERGY	4	47-98	35-89
2	CIVIL AVIATION	4	0-80	0-80
3	COAL	85	0-132	(-48)-132
4	FERTILISERS	2	0-10	0-10
5	MINES	3	(-2)-31	0-31
6	STEEL	33	0-51	0-45
7	PETROCHEMICALS	1	0	44
8	PETROLEUM	78	(-8)-71	(-6)-74
9	POWER	122	(-10)-134	0-128
10	HEAVY INDUSTRY	1	75	75
11	HEALTH AND FAMILY WELFARE	13	0-35	0-35
12	RAILWAYS	349	(-2)-263	(-2)-263
13	ROAD TRANSPORT AND HIGHWAYS	449	(-1)-114	0-138
14	SHIPPING AND PORTS	8	0-129	0-124
15	TELECOMMUNICATIONS	2	0-30	0-30
16	URBAN DEVELOPMENT	30	(-1)-70	(-10)-65
17	DEFENCE PRODUCTION	2	0-0	
Total		1186		

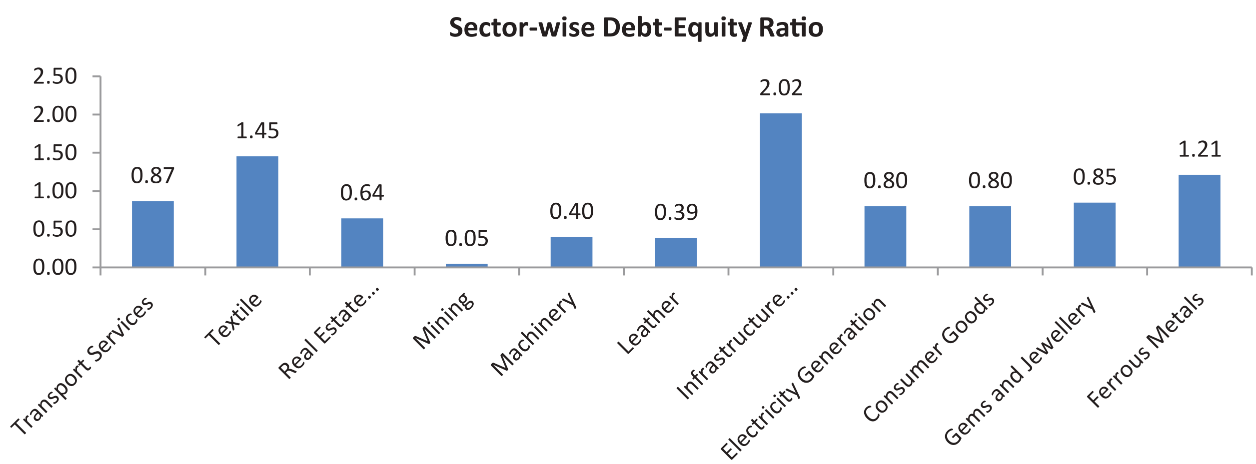
Source: Infrastructure and Project Monitoring Division, Ministry of Statistics and Programme Implementation, GoI
Figures in bracket indicate preponement of commissioning date

The falling net sales of infrastructure companies has affected their ability to service their debt. The decline in net sales has reduced the operating profit, so much so that the interest payment of 57 infrastructure companies is higher than their operating profit. As can be seen from the following graph, the interest expense of these infrastructure companies has exceeded 100% of their operating profit since the September quarter.

Operating profit is the excess operating revenue after meeting operating expenses such as salary to employees, cost of raw materials, electricity, transportation etc. The revenue left after meeting these operating expenses is also called earnings before interest tax depreciation and amortization. This leftover revenue is used to pay interest on loans, taxes to government and allocate funds for depreciation and amortization.



The huge interest payment burden is also because of the high debt levels in this sector. As can be seen from the following chart, the debt-equity ratio of infrastructure companies is the highest at 2.02 as of September 2016 among 11 sectors.



Source: CMIE

Companies in the infrastructure suffer from huge debt and consequently high interest payment burden. Reserve Bank of India allowed companies that are unable to repay their bank loans because of temporary liquidity problem to restructure their debt in co-ordination with the lending banks. Infrastructure sector tops the list of sectors where companies have applied for flexible repayment of loans under the Corporate Debt Restructuring (CDR) mechanism. As can be seen from the following table, Rs 40,349 crore worth of debt in the sector is being restructured under the CDR mechanism. Infrastructure is followed by iron and steel, engineering procurement and construction, engineering, construction and other sectors where companies are saddled with huge debt burden.

Industry-wise live cases in Corporate Debt Restructuring (CDR) as of December 2016			
Sectors	Number of Cases	Aggregate Debt (in Rs Crore)	Share (in %) in total cases
Infrastructure	16	40349	19.49
Iron & Steel	37	40269	19.46
EPC	5	23522	11.37
Engineering	8	22082	10.66
Construction	11	18644	9
Ship-Breaking/Ship Building	3	11449	5.53
Textiles	18	10558	5.1
Telecom	5	7040	3.4
Total (all sectors)	168	207060	
Source: Corporate Debt Restructuring Mechanism			

Policy Recommendation

Effective Resolution of Non Performing Assets – Infrastructure sector constitutes 35% of the total bank credit. Of the total bank loan to the infrastructure sector, 18.6% has been identified as stressed assets. The government has set up an oversight committee to resolve bad loans that are taken up under the under S4A (scheme for sustainable structuring of stressed assets) scheme.

The scope of the oversight committee must be expanded to resolve even those bad assets that do not fall under this scheme. Also, the decision taken by this committee should not be subject to investigation by Comptroller and Auditor General (CAG), Central Bureau of Investigation and Chief Vigilance Commissioner. In many instances, resolution of bad loans is delayed because public sector bankers hesitate to book losses on these loans for fear of being questioned by the above government agencies. Therefore, in order to expedite the resolution of bad assets, the decision of the oversight committee must be free from review of these agencies.

Guidelines for Renegotiation of Contracts – Timely resolution of bad loans in the infrastructure sector is a short-term solution. In the long run, the government must introduce effective mechanism for renegotiation of public private partnership contracts in infrastructure sector. In the past, private companies have bid aggressively to win contracts in infrastructure sector. In the course of time, some of these companies have realized that the projects are not viable under the existing terms and conditions of the contract. Therefore, these contracts need to be renegotiated by taking into consideration the new realities.

In the Union Budget 2017-18, the government said it would amend the Arbitration and Conciliation Act 1996 for resolution of disputes in Public Private Partnership Projects. Besides amending the act, the government must also introduce guidelines for renegotiation of contracts.

FINANCIAL SERVICES

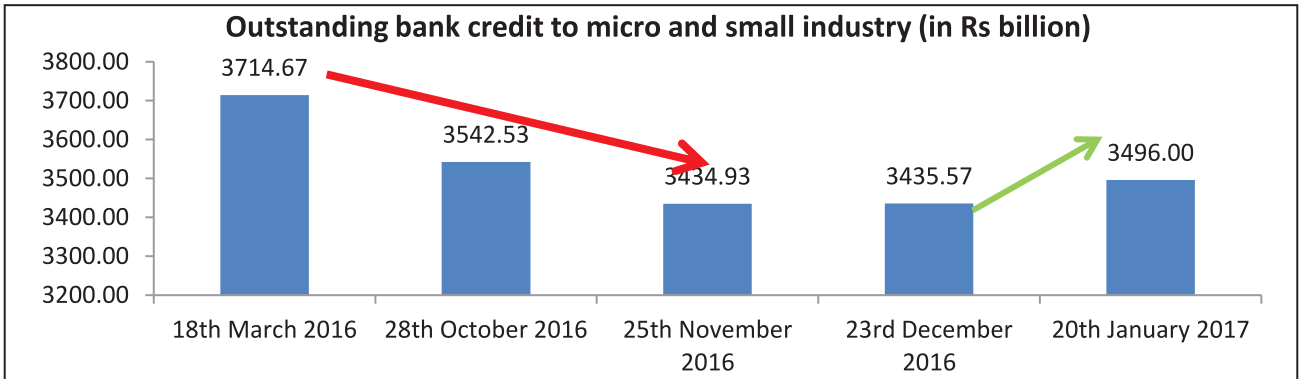
Bank Credit to MSMEs

Bank loan to micro and small enterprises recovers; But banks still prefer to park funds in government bonds

Government of India's move to enhance flow of credit from banks and Non Banking Finance Companies (NBFCs) seems to be bearing fruit as data from Reserve Bank of India shows remarkable recovery in bank credit to micro and small enterprises.

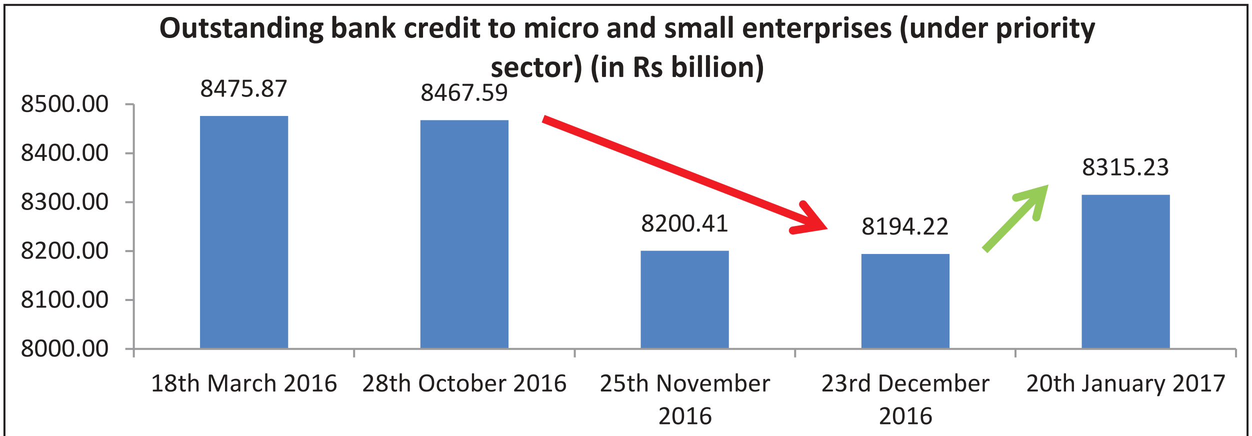
On December 31, 2016, Government of India enhanced the amount of bank loan to small businesses eligible for sovereign guarantee to Rs 2 crore from the earlier limit of Rs 1 crore. Further, the government extended this credit guarantee to even loans extended by Non Banking Finance Companies (NBFCs).

These measures seem to have enhanced flow of bank credit to the micro and small industry. As can be seen from the chart below, outstanding bank credit to micro and small industry declined from Rs 3714 billion to Rs 3435 billion between March 2016 and December 2016. However, this declining trend reversed during January 2017, with the outstanding bank credit growing to Rs 3496 billion as of January 20, 2017 (the latest period for which data is available).



Source: Sectoral Deployment of Bank Credit, RBI

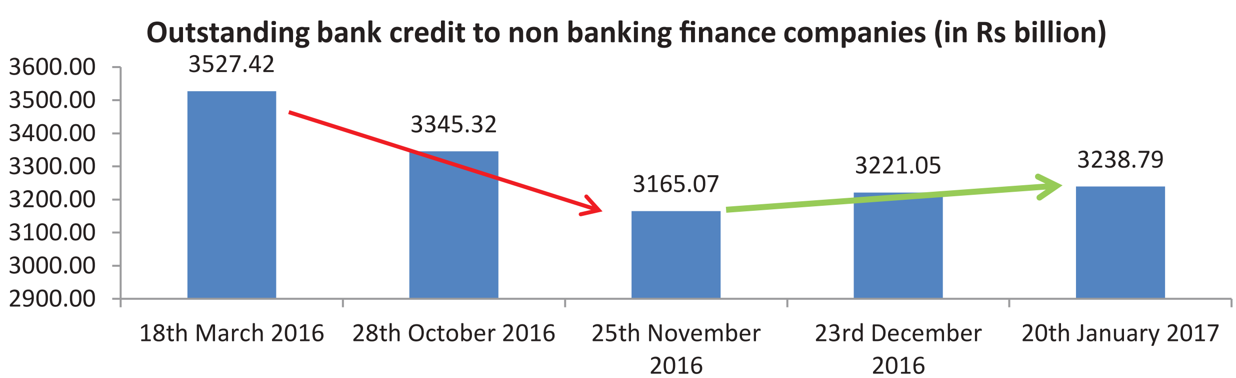
Similarly, bank credit to micro and small enterprises under the priority sector lending norms has recovered during January 2017. Banks are mandated to allocate 40% of their total advances to priority sectors such as agriculture, micro, small and medium enterprises, export credit, education, housing and so on. Under the priority sector lending category, banks had an outstanding loan book of Rs 8475 billion for the micro and small enterprises as of March 18, 2016. As of December 23, 2016, this declined to Rs 8194 billion. However, as of January 20, 2017, outstanding bank credit to the micro and small enterprises recovered to Rs 8315 billion (as can be seen from the chart below).



Source: Sectoral Deployment of Bank Credit, RBI

Weak Evidence on NBFC

While data on the performance of NBFCs is not readily available, we can use the data on scheduled commercial banks' exposure to NBFCs as proxy for NBFC lending to small and medium enterprise sector. NBFCs raise capital from scheduled commercial banks for on-lending to consumers and small and medium enterprises. As can be seen from the following chart, outstanding bank credit to the NBFC sector declined upto November 2016 and it recovered mildly after that. However, this data is not sufficient to derive any inference about the effect of government measures on NBFCs' credit deployment to micro and small enterprises.



Source: Sectoral deployment of bank credit, RBI

Aggregate Bank Credit

The above analysis pertains to bank credit to micro and small enterprises sector after December 2016.

The following table, on the other hand, provides the overall bank credit (including credit to medium and large companies) during the period November 11, 2016 to February 17, 2017. The table shows that overall bank credit during this period has risen a tepid 1.8%, while aggregate deposit has grown 3.7%. What is more worrying is that banks' investment has risen a whopping 15.2% during this period. This shows that banks have preferred to deploy a sizable share of their deposits in assets such as government bonds, equities, corporate bonds and other instruments, rather than disbursing credit.

Thus, government and RBI must ensure that banks do not pile up their investment portfolio at the cost of credit, especially to creditworthy borrowers.

Key Indicators in the Banking Sector				
Indicators	**Outstanding as on Nov. 11, 2016 (in billion Rs)**	**Outstanding as on Dec. 23, 2016 (in billion Rs)**	**Outstanding as on Feb. 17, 2017 (in billion Rs)**	**Growth (in %) between Nov. 11, 2016 and Feb. 17, 2017**
Aggregate Deposit	101148	105162.4	104867.2	3.7%
Cash in Hand and Balances with Reserve Bank	6604	5725	4860.1	-26.4%
Investments	28981.9	36092.5	33392.2	15.2%
Bank credit	73532.8	73480.6	74852.5	1.8%
Source: Weekly Statistical Supplement				

As can be seen from the following table, banks' investment in government securities has risen 15.23% between November 2016 and February 2017. However, bank credit to industry (as shown in the above table) has grown only 1.8%.

Key Indicators in the Banking Sector (Rs Billion)			
Indicator	**As on Nov. 11, 2016**	**As on Feb. 17, 2017**	**% Growth**
Banks' Total Investment	28,981.90	33,392.20	15.22%
Of which, Investment in Government Securities	28,961.70	33,373.80	15.23%
Source: Weekly Statistical Supplement			

Interest Dynamics and NPAs

Gross non-performing assets (NPA) grew to 4.8 per cent as of the quarter ended September, from 4.4 per cent in the previous three months, according to domestic rating agency ICRA. In the Indian context, it can be safely stated NPA is the effect of monetary policy on the manufacturing and infrastructure industry. ICICI chief Chanda Kochhar said rather than blaming banks for shoddy diligence, it is the predictable policies and "unshackling" of stuck projects are the key to tackle the problem of bad loans.

Kochhar said every time money is given to a company by a bank or when an investor puts it in, there are certain set of assumptions which are made. When the assumptions go awry, it leads to stress. Returns on Investment on capital in infrastructure projects by the relevant industry deviates variably with central as well as International monetary policy decisions along with other deficiency scenarios. The latter are still easy to tackle but the former not only difficult to tackle but are responsible for killing a booming industrial activity.

A fair example of this scenario are the national and international policies in the year 2010 which converged to distress the Indian manufacturing and infrastructure sector resulting in decline in not only exports but industrial activity itself. Projects were financed by banks believing the fast growing pace of the Indian economy being part of the BRIC super power group.

However, the assumptions based upon which advances made took an adverse downturn due to the ongoing national and international chaos. The envisaged investment in infrastructure and manufacturing projects fell into a process of getting eroded and finally turning into an NPA.

Non stability in framing monetary and corporate policies which change inadvertently influenced by international economic scenario also become a reason for downturn of investments turning into NPAs. Introduction of unconventional schemes such as the 5/25 or the SDR though sound, fails to match the needs of such an eroded non performing investment and play any important role to recover bank capital so as allow further capital to the entity.

In the kaleidoscope of changing economic policy, patterns thrusted upon an array of processes deemed for their revival does not guarantee the same for the mere reason of it being culturally apart from the actual needs. In today's economic scenario the rising number of NPAs is a challenge which is an outcome of absolutely wrong economic decisions.

Salvage instruments such as the SDR, 5/25 scheme etc will only work efficiently if they recreate the projected ROI growth and the sustained consistency of involved financial variables when the project was implemented. 90% of the Projects in today's economic scenario have gone waste due to the mere fact that the above 2 projected aspects have changed. If such is the case, the parlance of declaring a project a NPA, is highly blasphemous.

Declaration of the NPA status only because the project is not able to pay off the debt burden should not be criteria for such a declaration. Due to disturbances in the inflow of capital or clearance of licenses project timelines are deferred leading to deference in the payment of the liabilities. If such instance gets prolonged well beyond the projected timeline, leads to the over stressing of the payment liabilities resulting into a NPA, examples of such scenario are non clearance of environment license to start a chemical based industry on time with the infrastructure being in place well above half mast.

The fluidity in flow of decisions from the center to the concerned authorities in case of declared governmental waivers too is debatable as evidently the project head runs pillar to post transporting such decisions very much mundane to the state of art working of Government departments.

Indian economy has been grappling with the NPA issues since the inception and has been ineffective in immunizing the industry against internal and external influences. Not only has the country's economic capital in form of bank advances but also individually raised capital has been eroded leading to bankruptcy and deluge of the Indian manufacturing and infrastructure sector.

This has resulted in loss of alternate capital available for public investment in terms projected returns from the bank advances to the industrial or infrastructure projects. Leading to a spiraling vicious doldrum of state of the affairs which is seen in the Indian scenario viz a viz the International one. Public infrastructure such as roads, sanitation etc are in a peril even today. Location of projects envisaged as per projected public investment in connectivity in terms of roads, airports and ports for transport are staggering due to these reasons.

The NPA status can be subdued by subjecting the project to either a tax holiday or an initial investment waiver for a determined time say 5 years, allowance of operating profits to be deployed for working capital needs etc. Indian economy was at one point of time a major exporter of steel with nearly 70 % domestic consumption however industries depending on this inflow of raw material were subjected to shortage due to the non resolvance of the mining policy leading to a heavy damage on monetary returns due to the same.

This lead to major steel based industries turning into NPAs. Instant address to such a situation by the governmental agencies declaring subsidies or rebate on lending to such industries ideally would have saved them from the NPA tag. Inflow of subsidy on raw material from the government end was thus desirable at the same time maintaining the ongoing exports It may noted the infrastructure sector accounts for a bulk of the NPAs banks are saddled with, along with other sectors like steel and power, where projects are stuck for want of clearances.

In context to this fact, speaking at a conference Reserve Bank Governor Raghuram Rajan said, There is a component of poor project evaluation and poor project structuring and we need to adequate machinery to enhance evaluating capabilities.

Thus genuineness of such a favor can be determined by addressing the depression in projected variables responsible for the project's growth. All NPAs cannot be given same treatment and need to be treated diligently applying a multi-pronged strategy to help banks tide over asset quality issues along with the concerned NPA fostering a stronger economic growth and improvement in fiscal situation.

Intervention of asset reconstruction companies or ARCs are not viewed with positive horizon as an element of changing the NPA status of a project and a bank level intervention sensing probable risk of NPA being the better choice for elimination of NPA status of a particular project.

Efforts are being made from the Indian government in which the finance Minister Arun Jaitley has asked state-run banks to clean-up their balance sheets of nonperforming assets, saying the government was willing to take the necessary policy corrective measures to help them. He said the government has already initiated several measures to bring down NPAs or bad loans of these banks. Gross NPAs of state-run banks rose 25.19 per cent year-on-year to Rs 3.14 lakh crore in September 2015, constituting 5.64 per cent of total advances.

However, the country's credit risk remains high, with weak foreclosure laws accentuating challenges despite moderate private sector debt".

Power Sector Dynamics in NPA Easing

Strong and efficient power generation, transmission and distribution capacity is instrumental in the eliminating 40% economic chaos of a country. In the Indian context, however, the same has been center of all controversies. Incongruent decisions in the policy definitions in mining sector and the inefficient pricing policy coupled with power theft and power loss have strongly affected the power sector. Thus, for every 100 MW of electricity generated in India, as high as 45 MW is lost because of inefficient transmission and distribution (T&D). On one hand all central power generation companies like NTPC are highly profitable as bulk power prices are fixed by the regulator providing guaranteed return and on the other hand, most state run power distribution companies are loss making machines as raising consumer tariffs is politically sensitive.

India's power sector has been largely dependent on coal fired thermal plants. India has a total of 301.56 billion tons of coal reserves as estimated by GSI as on 1.4.2014 however, power plants generally use steam coal which is a grade between anthracite and bituminous having high sulphur content which forms a small margin of these reserves and as the coal needs to be treated before supplying to the power plants. Technologies other than usage of coal resources (the least expensive one) have been developed to run thermal plants producing power however they are still insufficient. In India CIL (Coal India Limited) can only produce nearly 430 Million Tons of coal on yearly basis and the production growth is only 3-4%. So for rest of the coal, power plants have to depend on costly imported coal.

Power is a utility which is generated mainly by thermal and hydroelectric plants in India and cannot be regulated for its generation to meet peak demand and energy efficiency. Hence conditions arise when there can be excess generation of power or deficient generation of power. As the demand for electricity does not follow disciplined criteria, generation needs to be as per peak needs all the time.

There arise issues such as voltage and frequency inefficiency due to such a feature. Irregular supply voltage is the bane of India and looks like even in the 21st century, things don't improve much thanks to an antiquated transmission and distribution system, the supply frequency in India is 50 Hz and very often along with erratic voltage, you get erratic frequency as well and this can seriously affect a/c motors (fans, blender and anything with a motor in it.

These conditions make this sector highly vulnerable especially because there is no adequate set up of technology such as Magnetic Storage Systems as spinning reserve to meet the storage requirement which is further marred by the issues such as environmental clearance. Hydroelectric stations are by and large placed in forest areas and require a huge volume of area at the cost of natural flora and fauna restricting the set up of the much required large storage capacities.

Many of the power generation capacities are not equipped with power storage technologies. Transmission and distribution losses are mainly due to these issues. Industrialized countries like Sweden have a T&D loss of less than 7 percent. A country like China, which is three times larger than India, has a loss of 13 percent. In other words, of the total 180,000 megawatts of electricity generated in India, 81,000 megawatts (45 percent) is lost, wasted. That is equivalent to shutting off power plants in the States of Maharashtra, Gujarat, Tamilnadu, Andhra Pradesh, and Karnataka. There is a serious need to decentralize our energy production and increase energy efficiency of electrical appliances is another way to save electricity and peak demand and energy efficiency promotions through awareness in accordance with national and socioeconomic and environmental priorities.

Years of populist tariff schemes, mounting AT&C losses and operational inefficiencies have adversely affected the financial health of State Discoms which are currently plagued with humongous out-standing debts. For long, SEBs have been tasked with the role of procurement of power from power generators, and its distribution to consumers. Being under the control of state governments, they have served as tools of populism year after year. While free power to farmers has been the one example often in the limelight, the beneficiaries of subsidized power are a far larger group distributed across interest groups. Power theft is another major factor adding to the huge losses incurred by SEBs.

These issues have not only been responsible for the bad financial health of the discoms but also affect the sincere customers who are subjected to power shortages due to such thefts. The discoms are resorting to load-shedding and is therefore the only practical way for discoms to stay operationally afloat. This has led to the privatization of discoms and there are entrants such as BSES Ltd, Torrent and Tatas in this area.

Populist strategies and theft of power have left balance sheets severely dented by debt as SEBs have borrowed heavily to compensate for the lack of revenues from consumers. The total debt burden of SEBs has continued to increase at a rapid pace over the years, with several studies pointing out that the debt burden could even pose a systemic threat to the banking sector.

For long, SEBs have been tasked with the role of procurement of power from power generators, and its distribution to consumers. Being under the control of state governments, they have served as tools of populism year after year. While free power to farmers has been the one example often in the limelight, the beneficiaries of subsidized power are a far larger group distributed across interest groups. Power theft is another major factor adding to the huge losses incurred by SEBs. The thermal power sector is operating at a decadic low of 59 per cent plant load factor because discoms do not have the money to pay for buying more power.

Privatization in the discom sector has seen some bright horizons as Govt. took the decision of Privatisation in 1999 in Orissa .After Orissa, Government offered Delhi to NDPL & BSES in 2002, Bhiwandi to Torrent Power in 2007, Agra, Kanpur to Torrent Power in 2012, Nagpur to Spanco, Aurangabad to GTL, Jalgaon to Crompton Greaves, M.P., Gwalior, Ujjain and Sagar, Muzaffarpur to SMART Wireless Ltd In 2011, Jharkhand to CESC, TATA Power In 2012.

Because of these private players the AT&D losses has come down remarkably. When NDPL (TATA Power Distribution Company Limited) took over the distribution of a part of Delhi, the loss figure was 53%, now it has come down to nearly 13%. For BSES BRPL reduced from 51.54% to 17.31%, BYPL reduced from 63.1% to 17.83%. From the aforesaid figure anybody can assume the impingement of privatisation in distribution sector. Along with it the scheme like RAPDRP, Smart Grid, and AMR are now being implemented slowly which will help to quash the loss further. Introduction of PPP (Public Private Partnership) which is a JV with Private Company for the transmission line have been introduced, TATA Transmission is one of them have shown some good results in debt reduction. This has made faster resolving of issues like Land acquisition, forest clearance to draw attention of private player's interest in this sector.

Last but not the least is our Distribution Sector. Up to FY 2008-09 out of total 72 govt. & private discom 24 discom had loss of more than 30% and 9 had 20-30% loss. Though there have been suggestions to build sustainable resources like renewable power the main issue lies between the difference in type of power generation and its adaptability to the same. Renewable origin power generators produce DC type electric power which is much desirable at the consumer level but when produced at mass scale and linked with the main grid the same needs to be first converted into AC type because transmission agents are suited for AC type of power supply. Individual solar implements are thus promoted for better price efficiency.

Steps such as network strengthening and rejuvenation, 'smart metering', depoliticising state regulators and associated tariff determination, all subsidies to be to the account of the state government, and not on the books of the discoms etc will help the revival of this important sector.

The development of power sector also ensures the development of the industrial sector which is today the main cause of concern for the same. Industrial sector development has on its agenda the main issue of subsidized and uninterrupted power supply.

Though certain industrial sectors have the subsidized power facilities, it has been observed that the power requirement is not met making it vulnerable to buying electricity at a far larger cost i.e through diesel and gas generators. Assurance of provision of uninterrupted electricity at a fair price will bring about a large addition to their revenue earnings. Strict measures in prohibiting electricity theft also will assure this sector an uninterrupted supply. Unavailability of interrupted power has left many areas especially the rural ones devoid of development and progress. Finally, a uniform and uninterrupted power reach to the farthest corners of the country should be the objective of the responsible authorities.

The unholy trinity of the conniving State Electricity Board (SEB) employee, the unethical and self-enriching domestic and industrial consumer and the politician patronizing theft, corruption, sloth and freebies has brought the power sector to its knees. The system needs to be cleaned instead of revisiting.

SDR Efficacy in Stressed Assets

The purpose of business is to find opportunities to make profit, the purpose of government is to ensure order and fairness in society and the purpose of civil society organizations is to take up causes not properly addressed by businesses and governments. The tension between these institutions creates the conditions societies need for innovations with sustainability to advance the human enterprise. If any one of these institutions becomes too weak or is misdirected either innovation or sustainability will suffer and the human enterprise will falter performance of nations.

The rate cut is good. The notion is that this will turn around the fortunes of India or all of the investments that are stuck in India. There is no promoter or investor who is going to make massive investment decisions because they got a half percent rate cut. The issues with India are on both the supply side and demand side- structurally, we need to get a lower level of real interest rates and the real interest rate in the economy is the function of underlying productivity in the economy. So issues around infrastructure and supply side management are crucial to India's competiveness. The government said it will put $11 billion of capital in next four years. Another 20 million on top is required to finance the growth of the Indian banking system. So, $40-70 billion capital is what the Indian banking system needs. If the banking system is not supplied with this capital the resultant will be high cost of capital and the problem on the supply side will persist. On the demand side there is an issue of confidence. This has two things the old Indian corporate sector that has got used to do business in certain way and the new Indian corporate that is more willing to invest.

The capital allotted to the bank is too less. There is a suggestion to decrease the local ownership of banks by 50% which will enable them to raise capital in the international market which will change the management construct of the entire banking system and allow efficiency address issues around talent compensation and competitiveness. There is a dire need to remove banks oversight of CBI and CVC. The financial sector tends to grow 1.5 times to 2 times nominal GDP. India requires $750billion for infrastructure over the next five years total debt requirement is $150 billion a year in terms of credit requirements. The Indian banking system with available capital of 120billion is hugely deficient in supplying to the huge gap. There is a massive gap that anyone can plug into.

The delays in key reforms legislation in India such as the land acquisition and goods and service tax bills and the economic downturn in recent years has reflected upon the delayed projects due to difficulty for the corporate borrowers to repay debt. As of June, total of 25 state owned banks have declared growth in gross NPAs to 27.24%, to Rs 2.89 trillion from Rs2.27 trillion a year earlier. The reforms need to be converted to reality on the ground level as there are expectations from these banks when foreign investments are concerned. Performance of banks gets affected particularly when NPA s is not managed well and the proposed turnaround package is not in place. The 5:25 structure proposed by the government also was a failure due to the resulting issue of asset liability mismatch. Inspite of all the banking infrastructure in urban areas, there is a huge demand from the unorganized sector and migrants for microfinance loans.

IMF has proposed that India should rely on growth friendly fiscal rebalancing, including tax reforms, given that it has increased space due to falling commodity prices. India's plan to roll out a goods and services tax has been delayed on account of a stalemate in the Rajya Sabha. In an emerging market and low income developing country like India it will be crucial to ensure adequate provisioning for bad loans, flexible insolvency procedures and avoiding market dysfunction. It should focus on addressing energy infrastructure, education, labor and product market reforms.

State bank for e.g. has passed on 0.7 percentage point from 1.25 percentage point which has been the effective cut. ICICI Bank has passed on 0.25 percentage somebody has passed on0.65 percentage point and the highest is 0.7 percentage point. The point is when 1.25 percent is the point cut why At least 1 percentage point could not have been cut by banks. The PPP projects unfortunately, the private sector that used to participate are not participating because they are in Financial strain. Almost 8 out of 10 companies are in this position and are going for restructuring the loan and taking the cut and so on and some of them do no longer exist and there are possibly 75 odd projects that have stopped half way which are mostly road projects.

Monetary policy transmission is very weak. Bank lending rates have fallen only by 30 basis points though RBI has slashed rates sharply. Borrowers had found respite in the falling interest rates in the bond market which too has shown no reaction with a further reduction in interest rates. While the SDR (strategic debt restructuring) rules have empowered lenders to convert loans to equity as one way of resolving stress the process is far from being easy. The slow judicial system comes back to haunt banks as they try and execute the decision to evoke these rules. There are some crucial questions we need to ask when discussing the SDR provision. If in the 18th interim period, the present management looses interest and banks refuse to give additional funding, asset erosion happens. It will be the new buyer and the banks who would be finally burdened with the losses.

The IMF has warned that emerging market economies are more vulnerable to external sector shocks compared to developed ones as over leveraged firms and rising bad debts in the banking system put these economies at risk. Though many emerging markets have increased their resilience to external shocks with increased exchange rate flexibility, higher foreign exchange reserves, increased reliance on FDI flows and domestic currency external financing and generally stronger policy frameworks. These firms have become more susceptible to financial stress, economic downturn, and capital outflows. Deteriorating corporate health runs the risk of deepening the sovereign corporate and corporate bank nexus in some key emerging markets which is a warning of possible pressure on sovereign ratings in the coming years.IMF suggested that regulators and governments in emerging markets should regularly monitor corporate foreign currency exposures, including derivatives positions and use micro and macro prudential tools to discourage the buildup of excessive leverage and foreign indebtedness.

Many infrastructure projects have been stalled over funding and delays in environmental clearances and land acquisition. The CMIE reckons the value of stalled projects in the quarter ended June was Rs 79300 crore down from Rs 200000 crore in the same period a year ago. Experts said RBI wants corporate with good credit to tap the market to reduce delinquency. The RBI does not want India Inc's reputation to be tarnished by a couple of high credit default swap players so that it blocks the route of others.

MSMEs





Global Value Chains and MSMEs

MSME is the pillar of Indian economy and has been instrumental in building its Brand India image, especially MSMEs in the services sector the IT and ITES have proved to engage this statement truly. The Indian MSME sector has been sincerely contributing to main economic health indicators such as the GDP about 8% contribution, job index i.e. 1,061.52 lakhs of total employed and exports about 40% of the total exports.

Western Maharashtra has a share of 20% in the total number of MSMEs of the entire state. There are about 18 MSME associations representing this sector from western Maharashtra alone. Western Maharashtra is very conducive to the development of this sector having presence of shipping and industrial infrastructure for last 3 decades.

There are about 13 special economic zones and the MIDC has set up subsidized infrastructure in about 7-12 places in western Maharashtra. The proposed New Delhi Mumbai freight corridor also will open up domestic logistics and supply chain.

MSMEs in this region consist of the manufacturing and the services sector. Large units like L & T Mahindra and Mahindra, Infosys, Accenture, HUL etc in the course of their evolvement of their businesses have always found value addition in procurement of certain inputs from the MSME.

The cost incurred upon labor and permanent infrastructure is 30% higher and is saved when procurement from MSME is in place, this makes the MSME sector an attractive destination for procurement and outsourcing for the large industrial, IT and ITES houses.

This decreases the maintenance liabilities on their balance sheet as well. Problems arising from procurement for manufacturing and IT and related service MSME sector are different from each other as one being plant and machinery intensive and the other human resource intensive. The MSME sector has always profited from this option only when the tie up is with the A group companies.

However, at the same time the manufacturing sector MSME needs to mandatorily comply with the product standards as desired by the company. Non compliance to standards has always led to rejection of the supplied product. At the same time, it is very important to note that companies like Varun Agro Ltd which supply tomato paste to HUL have been awarded several times for their compliances even after working from a remote village in western Maharashtra.

Group companies have strict audit measures in place hence are more preferred by MSME especially for their on-time payment measures. The MSME sector basically survives on small revenue earnings and in any mismatch in their balance sheets leaves a large margin for serious losses.

Assured market and returns is a back bone of this sector as the risk appetite of this sector is weak due to nearly nil or small reserves. It is difficult to maintain reserves in this sector as the entrepreneur is a starter and has nearly exhausted his reserves for setting up the infrastructure. Any mismatch thus results in losses and finally closure of the unit. Economic distresses are first borne by this sector and hence for this sector, it is very essential for the Government to insulate against potent economic distraught.

In absence of monetary reserves and most of the time collateral , this sector is constantly in search of funding to fill up accounting gaps resulting due to working capital requirements due to varied product requirements or for growth requirements or upscale of machine infrastructure etc.

This sector is known to fund itself @15% premium in event of no collateral and in times of distraught however losing its profitability in due course. 60% of the cases suggest there is no recovery leading to business losses leading to the MSME being treated as NPA.

In order to bring about stability and sustainability, the MSME sector needs skilled and cheap labor, ready market and funding. It is observed that the MSME owner plays a diverse role of man management, marketing, finance management and procurement management and while handling so many portfolios single handedly if he is subjected to torture of spending unnecessary time in resolving Government mandates on licenses which are prevalent in our system, he feels harassed and may lead to uncontrolled issues in handling the business.

Hence, the Government policies need to clear cumbersome procedures so as to allow the MSME owner to focus on International standardization of his business to ensure that he does not encounter the risk of rejection of his product.

INTERNATIONAL COMMERCE

E-commerce: Changing Dynamics of SME Growth and Profitability in Asia

The WTO Public Forum 2016 held at the WTO headquarters in Geneva from September 27-29, 2016 was themed 'Inclusive Trade'. The Forum addressed issues to promote inclusive trade through greater engagement with SMEs. The wide spectrum of trade needs to be harnessed effectively through technology and enhanced SME participation. The Forum laid special emphasis on the role and relevance of micro enterprises in promoting inclusive trade.

The Forum provided an opportunity for participants to discuss how a wider range of individuals and businesses can participate in the trading system and how WTO rules can help to ensure everyone benefits from trade. At a time when the business environment is changing and world growth is slowing, it is important to ensure that trade is truly inclusive, allowing small enterprises, women and innovative businesses to take an active role in the global trading system.

This edition of the Forum focused on the key issues: How the WTO can foster the participation of small and medium-sized enterprises (SMEs) in the global market, how the trading system can support innovation and how women can participate more fully in international trade. With an incredible one hundred plus sessions over three days covering a wide range of topics with participation from public and private sectors, the Forum was truly inclusive.

E-commerce: Changing Dynamics of SME Growth and Profitability in Asia

World Trade Centre (WTC) Mumbai had the privilege of organizing and hosting a working session on 'E- commerce: Changing Dynamics of SME Growth and Profitability in Asia' on September 29, 2016. The WTC Mumbai and All India Association of Industries (AIAI) delegation comprised Ms. Rupa Naik, Director- Projects, WTC Mumbai, Ms Debjani Chowdhury, Advisor, World Trade Centre Mumbai and Ms Queenie Nair, Director, All India Association of Industries (AIAI). A high-level panel addressed this session.

Highlights

E-commerce is the focal point of today's global business and is largely driven by technology-enabled SMEs. It is estimated that SMEs that sell on the e-bay platform are around five times more likely to export than those in the traditional economy.

The panel observed that small businesses and entrepreneurs in developing economies are already at the forefront of this emerging trend. Significantly, Asia is fast emerging as a major force of e-commerce movement with China and India leading the fray. In the current scenario, what role can WTO play to implement new trade disciplines, rules and assistance to boost SME e-commerce? According to the panel, WTO disciplines should be upgraded to further improve SME access to the internet and related services.

There is opportunity to build on WTO's landmark Trade Facilitation Agreement to further simplify and expedite the clearance of e-commerce shipments through targeted customs, tax and market-access measures. "WTO needs to establish a new package of digital trade rules for the 21st century to support online growth and build consumer trust in e-commerce", said Mr. John Danilovich, Secretary General of International Chamber of Commerce (ICC).

Looking at digital commerce in the context of Asia, Mr. Andrew Crosby, Managing Director, International Centre for Trade and Sustainable Development (ICTSD) noted that SME revolution is all about services and trade is going to be increasingly service–oriented with the backup of digital tools.

Skills and regulatory environment is assuming heightened importance and future jobs are gradually shifting towards e-commerce sector. This is also reflected in the pattern of movement of FDI in Asia where one can see an upward trend in services. Undoubtedly, there is lot of movement in services and other commercial services which is a growing environment. Both India and China are huge services-led economies and once they start digital trade, where will they go?

Dwelling on the reasons for the huge surge in e-commerce in China, Mr. Quan Zhao, Trade Policy Advisor in the Office of the Chief Economist, International Trade Centre (ITC) noted that by 2015 business to consumer retail in China was twice as big that of the US. This was mainly on account of the huge market size and rising middle class in China. China's e-commerce is propelled by efficient delivery system backed by e- payment and adoption of e-technologies.

Twenty-seven per cent of population in China has access to mobile payment. Chinese regulators kept an open mind about new technologies while maintaining a balance between benefits of new technologies and elimination of negative impacts. China's Taobao is a shining example of high-powered e-commerce driven by internet tools. Further, China heavily relies on social media as an important plank for entry into e-commerce.

Speaking on UNCTAD's new initiative 'eTrade for All', Mr. Torbjorn Fredriksson, Officer in Charge, Science, Technology and ICT Branch, Division on Technology and Logistics, United Nations Conference on Trade and Development (UNCTAD) informed that the programme aims to assist developing countries to enter e-commerce platform. Four billion people around the world do not have access to internet. Most developing countries are facing massive challenges in adopting e-commerce and need to prepare as to how to cope with the challenges. It need hardly be emphasized that it calls for targeted efforts through appropriate legal and regulatory framework to understand the efficacy and emerging opportunities in e-commerce.

Another key area of e-commerce is consumer trust. European eCommerce and Omni-channel Trade Association (EMOTA), representing more than 80% of European e-commerce, offers European Trustmark for e-commerce. According to Mr. Maurits Bruggink, Secretary General, EMOTA, the EMOTA European Trustmark for e-commerce establishes harmonized certification criteria for all national trustmarks throughout Europe. It will enhance consumer trust in online shopping across borders, increase online cross-border turnover for European web merchants and help overcome the language barriers of national trustmarks.

The use of trustmark is particularly important for SMEs, as their own brand is often not well known. The aim of European Trustmark is to assure consumers all over Europe that the e-shop bearing has been validated by an EMOTA accredited trustmark provider and found to be safe. There are still barriers to cross-border e-commerce that need to be overcome, both on the consumer side and on the side of e-retailers. These barriers can be of operational or legal nature, or simply result of a lack of trust. Together with the accredited national trustmark, the EMOTA trustmark will help get over consumer's trust–related resistance when it comes to online shopping.

Ms. Aileen Kwa, Coordinator, Trade and Development Programme, South Centre focused on policy issues and emphasized on strengthening the socio–economic structures in developing economies and least developed countries (LDCs). Different countries have different realities and different challenges and the problems need to be fixed. For e.g. across Africa there are huge infrastructure constraints, socio-political barriers which widen the digital divide.

According to Ms. Kwa, all policies and support systems must be in place at the national level to build an appropriate ecosystem for e- commerce. In this context, Ms. Kwa referred to the WTO initiatives and mentioned that WTO has established rules on e-commerce. However, these rules have to be in accordance with the development processes and parameters of regional e-commerce initiatives. Technology will spearhead trade in the new era of global business and e-commerce will continue to dominate the business landscape in the foreseeable future, the panel opined.

Ms. Rupa Naik, Director-Projects, World Trade Centre Mumbai, in her opening remarks stated that e-commerce opened new vistas for MSMEs to reach global markets. The challenges before the MSMEs are how technology can be used to gain greater access in different markets. Also, through the use of technology MSMEs can upgrade their products and services, enhance visibility and capture larger market shares.

In conclusion, Ms. Naik said India has great potential to penetrate in several spheres of businesses, skills, education, hospitality and many other services through e-commerce. Asia, the market of the future not only offers opportunities for the developed, developing and least developed countries but within Asia there lies a great potential to cooperate and collaborate with the trading blocs.

Engineering of the BRICS Engagement

Excerpt of the study:

High returns on investment acted as a motivation for money managers to search newer markets. The dollar earned an extra edge in the developing countries due to their sheer growth potential and existing higher interest rates than the federal rate. The per capita income in the developed countries was rising and needed to be invested to grow rapidly. The emerging markets provided the right opportunity to fit the gear. The economies of Brazil and China followed by India in the short run, provided the best respite to the investment thirsty bankers and entrepreneurs. Several types of investment products in form of bonds were designed to suit the investment opportunities. The emerging markets of China and Brazil in particular had large scope for development which would be yielding high returns on investment. In course of their search for high yield business avenues Brazil, Russia, India and China became the desired destinations. The emerging markets by forecasters were principally India, China, Russia and Brazil vouched for their economic development led to the coining of the word BRIC nations. The BRIC concept was thus born as investment destination by the developed counterparts leading to the engagement of BRICS. Thus the engagement was more objected towards economic development recognized more as an economic block rather than as a trade block. The BRICS engagement has gained as a multilateral engagement in force to enable economic development of this region. Each constituent country of this block is making huge steps towards development using the high-carbon economic model, China being the most dominant one in this context.

India and South Africa had a historic British colonial past, where as Russia a world war veteran was victim of country divide and Brazil had a Portuguese colonial past. At the same time China was a developing economy with high population and poverty dominated by communist influences. One of the huge regional disparities in human and economic development was the large gap between the rural and urban population. Income inequality level in India and Russia is comparable with a number of industrially developed countries, but the GDP per capita value is much lower. Significantly higher inequality rates are typical for South Africa and Brazil.

The economic performance of the BRICS countries has, however, varied widely China has maintained its position as the fastest growing economy worldwide. India has also grown significantly and regularly. Brazil has had an irregular performance, well below its potential, but showed an enhancement in the second half of the 2000s. Russia, after the severe 1990s crisis that resulted in a decline of 40 per cent in its real GDP, has recovered and South Africa has had a small improvement in its economic performance that remains below its potential. China surpassed the US as the main trade partner of Brazil and also emerged as the second main trade partner of India and Russia. In comparison to China these four economies don't match their respective rankings as none of them are top import suppliers nor export destinations for China. China exports to Brazil, India, Russia, and South Africa at a more intense pace than it imports from them. In addition, the latter are concentrated on a few primary goods intensive in natural resources while China's exports are much more diversified manufactured goods. Though the intra-BRICS trade has shown growth in recent years, the flows are still restricted and unbalanced in size of the BRICS bilateral commercial transactions. The BRICS economies have significantly increased their openness to international trade in the last decades. They have raised their exports and imports both in volume terms as a share of GDP, but the level of trade openness has varied quite a lot. Currently, China, South Africa, and Russia are the BRICS economies with the higher levels of openness. The Brazilian and Indian economy remains the most closed amongst the BRICS countries. China has acted as an important trade pole for the other four countries. Brazil has also emerged as the second main trade partner of India and Russia.

In this study, we try to understand how far this decade old engagement has achieved success as an association coming together for mutual development. Each BRICS country has been reviewed for strengths and weaknesses and probable opportunity to engage with each other under a common banner. At the same time, the BRICS engagement in terms of opportunities to India to engage in trade and FDI with the other BRICS countries has been studied upon in context to the present projects and scope for further engagement. Though the BRICS as an association has not developed any BRICS specific strategy for trade, there is enough engagement in terms of country to country trade. Even though trade among BRICS is not under the same brand the potential of this trade viz a viz other trade blocks has been analyzed. The contribution of the BRICS block with reference to Global Value Chains has been understood to a certain extent. The impact of this country to country trade under the BRICS banner may appear in the future to come when a common FTA fulfilling the trade requirement of the intra BRICS countries has been defined and developed. The sustainability linked climate change agenda has been studied. SMEs play an important role in the nation's development and the same has been studied in context to BRICS. The BRICS agenda for development in the developing countries has also been studied to a certain extent.

The study has tried to understand the most common pitches in the BRICS engagement which have been collectively supported by the BRICS banner. The study consists of two sections 1. Overview and 2. Other Dimensions. Both the sections consist of four chapters each. Following is the summary of the topics discussed in the study -

Section 1- Overview

1. **Institutional Mechanisms in BRICS**

   This chapter gives account of the institutional mechanisms set up as a part of the BRICS agenda. The BRICS as an association has established many initiatives such as the NDB, BRICS Contingent Reserve Arrangement, BRICS Cable Project, BRICS Parliamentary Forum, BRICS Academic Forum, BRICS Civil Forum, BRICS Arbitration Centre and BRICS Young Scientist Forum being the established ones. There are some proposed projects such as BRICS Network University, Sustainable Agricultural Development Projects, BRICS Economic Forum and BRICS Wellness Forum which are in pipeline under the BRICS engagement.

2. **Financial Integration and Investments: Context to India**

   This chapter describes the trading and investment patterns between India and the other BRICS countries. India is a major trading partner with China. However, India has weak trade with others. New frontiers have been opened in context to investments and Indian business men have been investing in these countries in a large way. Reverse process however is not witnessing any realms due to conservative Indian policies.

3. **BRICS and major country exchanges**

   This chapter discusses the role of development played by BRICS countries amongst the LICs. The role of BRICS in development of the LICs is also very prominent and included in this study to understand this aspect. The BRICS countries especially China, Russia and India have strengthened their development agenda for the LICs. However, it has been looked at as a land grabbing event by the world members. However, significant development has happened in the case of poverty alleviation. A further scope awaits in investing strengths such as skill development and initial processing or manufacturing leading to job enhancement. Earlier the arrangement between LICs and BRICS was more that of raw material import intensive by the BRICS.

4. **SME Scenario inter BRICS**

   This chapter discusses about the role of BRICS countries in developing the SME sector . Brazil has gone a long way in establishing a very congenial environment for its SME sector . It's a learning experience for Indian government to retrospect these best practices. Russia and South Africa are also in process of bringing in reforms in their respective SME sector.

Section 2- Other Dimensions

1. **Economic Potential and Scope for Expansion**

   This chapter discusses the SWOT analysis of the BRICS countries projected in terms of macro and micro view. This discussion is carried out on basis of detailed analysis of economic parameters.

2. **Trade Dynamics in BRICS Countries**

   This chapter makes an in depth analysis of trade existing between the BRICS countries. The volatility of this trade has been analyzed and the prospective and existing Global Value Chains find a mention in this chapter.

3. **Global Social Responsibility inter BRICS**

   Contribution to decrease the effect of climate change by individual BRICS countries has been analyzed. The scope of impact in terms of per capita and per sq km contribution to climate change has also been discretely analyzed.

4. **Finding Primary Facts**

   Current growth trajectory among BRICS portrays growing inequality, increasing environmental impacts, as well as regional and other imbalances. A harmonious growth aims at reducing the growing social and environmental imbalances. The contribution of BRICS is to building transnational solidarity aiming to defend the interests of people, environment and sovereignty with both BRICS and their associated partners.

5. **Conclusions and Recommendation**

   This chapter consists of a consolidated conclusion from the included chapters and recommendations for effective performance of the BRICS alliance.

Strengthening SAARC Co-operation

The South Asian Association for Regional Cooperation (SAARC) is a social, economic and cultural partnership of eight countries in South Asia. The association was formed in 1985 and the member countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. SAARC countries have 23.93% of the world population and they account for 8.62% of world economic output[1] , of which India accounts for 6.97%. However, the share of SAARC countries in world trade is only 2.64%[2] in 2015.

Dialogue on economic co-operation took a new turn in 2010 when leaders of the SAARC countries declared 2010-2020 as the 'Decade of Intra-Regional Connectivity at the 16th SAARC Summit held at Bhutan in 2010. At the 17th SAARC Summit held at Maldives in 2011, member countries committed to establish a South Asian Economic Union (SAEU) by 2020. The 18th SAARC Summit, which took place in Nepal in November 2014, also reaffirmed the resolve of the member countries to form economic union in phases as follows –

Phases to form SAARC Economic Union

Key Facts About SAARC
The 8-Country South Asian Association for Regional Cooperation (SAARC) was established in 1985
SAARC Preferential Trading Arrangement (SAPTA) was signed in April 1993
Agreement on South Asian Free Trade Area (SAFTA) was signed in 2004 and implemented in 2006
SAARC Agreement on Trade in Services was signed in 2010
SAARC Arbitration Council commenced operation in 2010
Agreement on South Asian Regional Standards Organisation (SARSO) entered into force on 25 August 2011
SAARC Seed Bank Agreement was signed at the 17th SAARC Summit in 2011
So far, 18 SAARC Summits have been held. These Summits are attended by Heads of State of every member country. The 19th SAARC Summit, which was scheduled to be held in 2016, has been postponed.
Source: The SAARC Secretariat

Recent initiatives

In recent years, the leaders of SAARC countries initiated several measures to promote economic, social and cultural co-operation within the member countries. SAARC countries are endowed with rich natural and human resources. Most of the countries share borders with each other. Almost all these countries face similar development challenges such as poverty, poor infrastructure, low rank in human development index and so on. Effective co-ordination among policymakers in these countries can help them address these challenges collectively.

Sustainable development is an area of focus for leaders in SAARC countries. More than 65% of people in SAARC countries reside in rural areas and almost half of the labour force is employed in the agriculture sector. More significantly, farmland constitutes 42% of landmass in South Asia. The SAARC Agricultural Centre (SAC) is exploring avenues for mutual co-operation in agriculture and allied sectors such as fisheries, animal husbandry and management of natural resources. Policymakers in member countries are also holding dialogues on collaboration in agricultural research, extension and farmers linkages.

In June 2016, member countries enforced the Agreement on establishing the SAARC Seed Bank to facilitate exchange of seeds. Food security is a matter of heightened policy priority for member countries. In order to meet the food requirement of member countries during crisis, SAARC countries set up the regional food bank and have eliminated some of the hindrances in operationalising it. In August 2016, the Finance Ministers of SAARC countries gathered in Islamabad to review the progress of the co-operation mechanisms that were agreed in the earlier meetings. During the meeting, it was agreed to expedite the adoption of the SAARC Agreement on Trade in Services by finalizing the schedules of specific commitments.

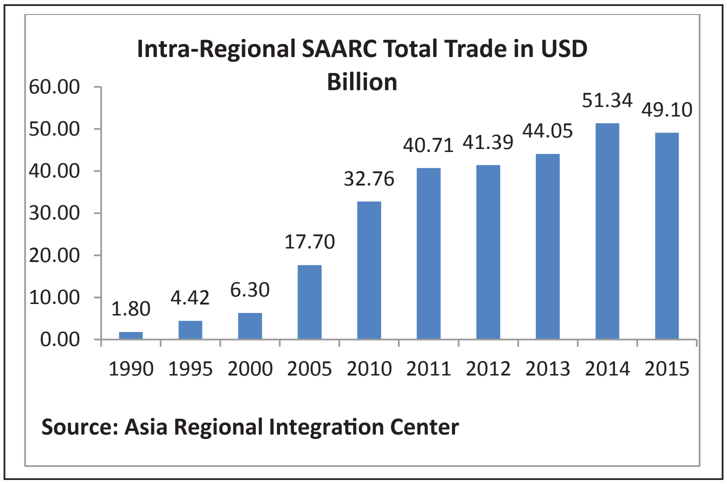
In November 2014, at the Eighteenth SAARC Summit, the Heads of State or Government agreed to promote regional cooperation in vocational education and training. Following this, the member countries are developing a Regional Strategy to upgrade the quality of education. In order to promote co-operation in arts and culture, SAARC leaders declared the year 2016 as the SAARC Year of Cultural Heritage and the member countries are working on action plan for effective collaboration in this area.

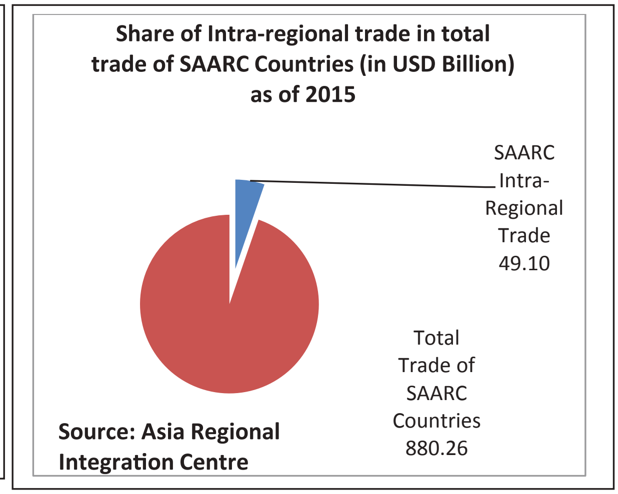
On May 4, 2017, the Indian Space Research Organisation (ISRO) launched the South Asia Geostationary Communication Satellite (GSAT-9) to strengthen communication among all SAARC countries, other than Pakistan. The satellite will enable greater co-operation among SAARC countries in areas such as telemedicine and education. Besides, SAARC countries can also benefit from better mapping of terrain, identification of natural resources and disaster prediction and management from this satellite.

In April 2016, the Small Industries Development Bank of India (SIDBI) signed an agreement with SAARC Development Fund (SDF) for mutual co-operation and collaboration to enhance funding for micro, small and medium enterprises. As part of this agreement, both the organizations will collaborate to develop suitable financial products for SME financing in SAARC countries, technology transfer and capacity development. In May 2016, SDF signed an agreement with Asian Development Bank (ADB) for co-financing of projects, regional connectivity and development of the SAARC region. SDF is an umbrella financial institution of SAARC projects and programs established in April 2010 to promote welfare of the people in member states.

SAARC Intra-Regional Trade

The annual intra-regional trade of SAARC countries has expanded from USD 1.8 billion in 1990 to USD 49.10 billion as of 2015, at a compounded annual growth rate of 14% (see the chart below). Although intra-regional trade among SAARC countries has expanded considerably, its share in the total trade of these countries has increased only to 5.58% in 2015 from 2.72% in 1990. This pales in comparison to the share of intra-regional trade in total trade of ASEAN and European Union. In ASEAN, the share of intra-regional trade in total trade has grown from 16% in 1990 to 23% in 2015. The corresponding figure for the European Union is 59% and 62%, in both the years respectively.





Experts feel that the eight South Asian countries are the least economically integrated despite having necessary bilateral agreements on economic co-operation. As can be seen from the following table, the share of SAARC region in total trade of member countries is very less, except for Afghanistan and Nepal. Afghanistan has improved the share of SAARC countries in its overall trade from 14.5% in 1990 to 49.6% in 2015. Similarly, for Nepal, the share of SAARC countries in overall trade increased from 11.9% to 61.5% between 1990 and 2015. However, other countries witnessed comparatively less growth in the share of SAARC countries in their overall trade during this period.

Country-wise share of SAARC Trade in Total Global Trade				
Countries	**1990**	**2000**	**2005**	**2015**
Afghanistan	14.5%	30.1%	43.4%	49.6%
Bangladesh	6.0%	7.9%	10.3%	9.8%
India	1.6%	2.5%	2.8%	3.1%
Maldives	12.7%	22.2%	17.4%	15.5%
Nepal	11.9%	39.1%	61.9%	61.5%
Pakistan	2.7%	3.5%	6.2%	6.7%
Sri Lanka	5.6%	7.4%	17.3%	20.9%
Source: Asia Regional Integration Centre, Asian Development Bank Data for Bhutan is not available				

One of the main impediments for growth in intra-SAARC trade is the considerable size of the sensitive list in the South Asian Free Trade Agreement (SAFTA). Negotiation for liberalizing trade among the SAARC countries started with the launch of the South Asian Preferential Trade Agreement (SAPTA) in 1995. Further liberalization of trade was achieved with the signing of SAFTA in 2004 and its subsequent implementation in 2006. However, the concessions granted by the countries under this agreement were not substantial enough to increase the overall trade of the region. Member countries, many of whom are less developed economies, retained large number of tradeable goods in the sensitive list in order to protect local industries.

India has removed almost 100% of its tariff lines (at 6 digit level) out of the sensitive list[4]. However, Sri Lanka and Pakistan still retain 16% and 18% respectively of their tariff lines under the sensitive list. Retention of goods under sensitive list impedes trade in such goods. Similarly, Afghanistan, Bangladesh and Nepal, being less developed countries, have retained at least 17% of tariff lines under the sensitive list. Many SAARC countries are hesitant to eliminate the sensitive list on concern that it would lead to cheap imports of these goods from member countries and threaten the livelihood of local enterprises.

One of the obstacles for strengthening trade ties between India and Pakistan is the negative list of 1200 items introduced by the latter. Consequently, India cannot export 1200 items that feature in the negative list introduced by Pakistan in 2012. Therefore, India's total trade with Pakistan stands at only USD 2.61 billion, compared to its trade volume of more than USD 6.0 billion, each with Bangladesh and Sri Lanka and more than USD 4.0 billion with Nepal.

Key Trade Partners

Among the SAARC countries, only Nepal, Bhutan and Afghanistan have fellow member countries as major trade partners. As the following table illustrates, 63% of the total merchandise exports of Nepal goes to India. Also, Nepal buys 60% of its total imports from India. Similarly, Bhutan ships 93% of its total exports to India, while it buys 78% of its total imports from India. Afghanistan, on the other hand, exports more than 72% of its total shipment to Pakistan and India. However, its major import partner is Iran, followed by Pakistan and China.

Countries	Top export partners for goods	Top Import Partners for goods
Bangladesh	EU 28 (53%), USA (21%), Canada (4.2%)	Thailand (22.8%), India (11.2%), China (8.8%)
India	EU28 (16.9%), USA (15.2%), UAE (11.3%)	China (15.8%), EU (11.2%), Saudi Arabia (5.5%)
Pakistan	EU 28 (30.1%), USA (16.6%), China (8.8%)	China (25%), UAE (13%), EU 28 (9.7%)
Nepal	India (63.5%), EU 28 (12.6%), USA (10.7%)	India (60.6%), China (13.9%), UAE (4%)
Sri Lanka	EU 28 (29.1%), USA (26.8%), India (6.8%)	India (22.5%), China (19.7%), EU 28 (9.5%)
Bhutan	India (93.7%), Bangladesh (4.1%), EU 28 (0.9%)	India (78.8%), EU 28 (4.7%), South Korea (3.1%)
Maldives	EU 28 (38.1%), Thailand (25.4%), Sri Lanka (12%)	UAE (21.4%), Singapore (14.7%), India (11%)
Afghanistan	Pakistan (39.7%), India (33.1%), Iran (5.1%)	Iran (23.4%), Pakistan (17.4%), China (13.5%)
Source: World Trade Organisation		

The major trade partners of other SAARC countries are economies in the developed world such as USA, European Union and Canada. This is because these SAARC countries avail preferential access to developed countries for various goods. SAARC countries such as Bangladesh, Pakistan and Sri Lanka have the privilege to export various goods duty-free to the European Union and USA under the Generalised System of Preference (GSP).

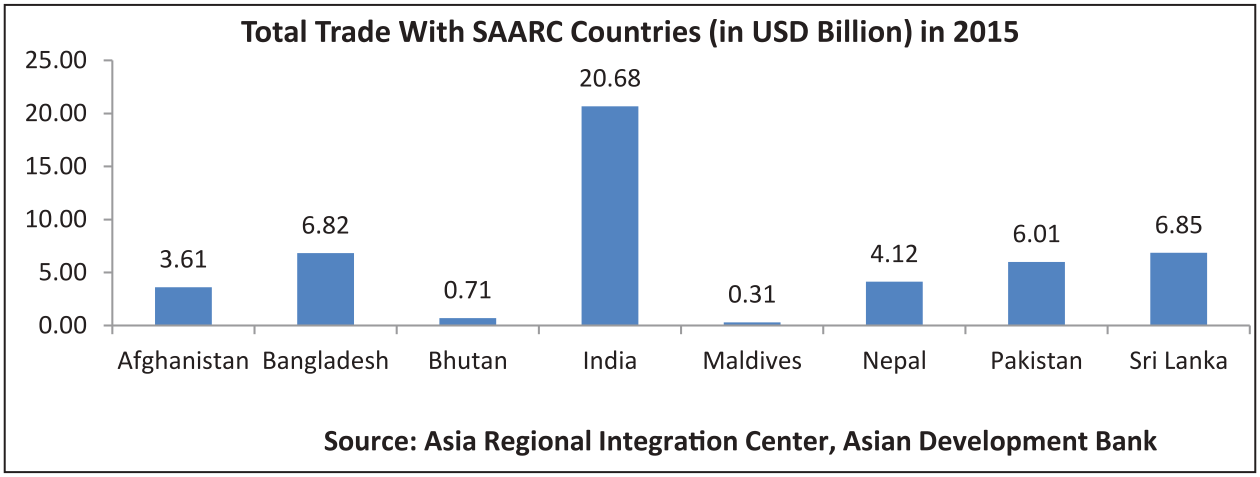
For example, Sri Lanka gets duty-free access to the European Union for its textile and food exports. Textiles and clothing account for 61.9% of Sri Lanka's exports to the EU, followed by food products with 12.3% in 2016[5]. Similarly, Pakistan is a beneficiary of the GSP+ scheme of the European Union under which the latter provides generous tariff preference for more than 66% of tariff lines including textiles and fisheries. Bangladesh is another beneficiary of the GSP offered by the EU. Therefore, Bangladesh is a major exporter of textile to the EU. Textile and clothing constitute around 93% of exports from Bangladesh to the EU.

Another reason for the lack of growth in intra-SAARC trade could be that the member countries are negotiating free trade agreements with countries outside the SAARC group. This could divert trade volume away from the SAARC countries. For example, India, which is the largest economy among the SAARC countries, has 28 FTAs, some of which are in force, while others are being negotiated. India has signed trade agreements with South Korea, Singapore, Japan, Malaysia and MERCOSUR countries. Similarly, Pakistan has signed trade agreements with Malaysia, Indonesia, Mauritius, MERCOSUR, China and many other countries. Sri Lanka has eight FTAs, some of which are in force, while others are being negotiated.

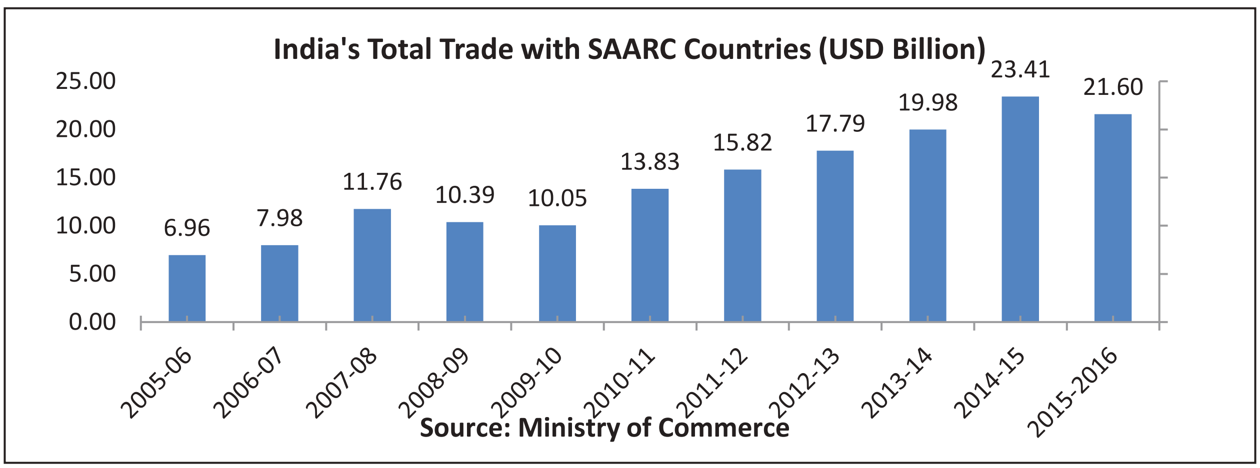
Countries	**Number of Free Trade Agreements signed or being negotiated**
India	28
Bangladesh	6
Pakistan	17
Nepal	3
Sri Lanka	8
Bhutan	3
Maldives	2
Afghanistan	2
Source: Asia Regional Integration Centre	

India and SAARC

India is the largest economy among the 8 SAARC countries and it is also the largest trade partner for member countries within the bloc. As can be seen from the following chart, India's total trade with the other SAARC countries stood at USD 20.68 billion in 2015, compared to USD 6.85 billion for Sri Lanka, USD 6.82 billion for Bangladesh, USD 6.01 billion for Pakistan and so on.



India's trade volume with SAARC countries almost tripled during the decadal period of 2006-2015. In 2015-16, India's total trade with SAARC countries fell marginally to USD 21.6 billion from USD 23.41 billion in the previous year, because of decline in exports of mineral fuels, vehicles, farm commodities and metals & metal products.



SAARC countries account for 3.35% of India's total goods trade volume as of 2015-16. This is slightly higher than 2.76% in 2005-06. Significantly, share of SAARC countries in India's overall goods exports rose to 7.10% by 2015-16 from 5.38% in 2005-06.

Seven categories of commodities constitute almost 70% of India's total goods exports to SAARC countries. Automobile and auto components are the major items, with a share of 19%, in India's overall exports to SAARC countries. Other major goods exported by India to this region are agriculture and processed food (14%), cotton (14%), mineral fuels or petroleum products (10%), iron and steel (5%) and so on. As can be seen from the following table, the share of mineral fuels and agriculture and processed foods in the overall export basket to SAARC countries has declined between 2005 and 2016. During 2005-06, mineral fuel was the dominant commodity in the export basket to SAARC countries, with a share of 21%. In 2015-16, its share in the overall export basket halved to 10%. On the other hand, the share of automobile and auto-components and cotton have risen considerably during this period.

Top six Commodities that have largest share in India's overall exports to SAARC Countries in 2015-16		
Items	**2015-16**	**2005-06**
Automobile and auto-components*	19%	9%
Agriculture, Processed Food and Live Animals^	14%	19%
Cotton	14%	8%
Mineral Fuels	10%	21%
Iron and Steel	5%	5%
Machinery and mechanical appliances (including their parts)	5%	3%
Pharmaceuticals	2%	3%
Total	**69%**	**68%**

Includes tobacco, vegetables, meat and other edible products
* Including components of spacecrafts, aircrafts, ships, boats and floating structures

Source: Ministry of Commerce, Government of India

SAARC region is the major destination for India's export of knitted or crocheted fabrics. The region accounts for 67% of India's total export of these goods. Among other goods, SAARC countries constitute at least 35% of India's total export of edible vegetables, cotton, aircraft and spacecraft.

Share of SAARC Countries in India's Export of different commodities (2015-16)	
Commodities	**Share (in %) of SAARC Countries**
Knitted or Crochetted Fabrics	67%
Edible vegetables, roots and tubers	37%
Cotton	37%
Aircraft and Spacecraft and its parts	35%
Residues and waste from food industries; Animal Fodder	27%
Railway/Tramway locomotives and its components	25%
Live Animals	23%
Man-made staple fibres	22%
Soaps, detergents, wax and related products	21%
Source: Ministry of Commerce, Government of India	

Agriculture exports

Bangladesh, Nepal, Pakistan, Maldives and Afghanistan are the major importers of agriculture and processed food products from India. Bangladesh is the largest importer (in the world) of India's fresh vegetables, fruits and vegetable seeds, and oil meals. Bangladesh is the 2nd largest importer of wheat and other cereals from India. Nepal is the largest importer (in the world) of India's wheat. Maldives is the 2nd largest importer (in the world) of India's poultry products. Afghanistan is the 2nd largest importer (in the world) of India's manufactured tobacco. Pakistan is the 2nd largest importer of India's fresh fruits and vegetable seeds.

In future, SAARC countries must upgrade their co-operation in agriculture sector from mere traders of farm commodities to creation of sustainable farm value chain. Special focus must be given to upgrade rural infrastructure, including irrigation, road connectivity, post-harvest processing units, state-of-the art storage facilities and so on. SAARC countries must also promote collaboration at the grassroot level, which includes connecting farmer producer co-operatives, women farmer organizations and food processing companies in the member countries to create viable value chains.

Future Collaboration – Some Recommendations

Focus Areas	Comments
Energy (Specifically Renewable Energy)	There is tremendous opportunity for collaboration among SAARC countries in the areas of renewable energy. All the South Asian countries fall in the tropical zone where solar energy can be harnessed for generation of power. In Nepal and Bhutan, there is tremendous potential to harness hydel energy. Presently, SAARC co-operation in energy sector is restricted to only a few countries such as India-Nepal and India-Bhutan. SAARC countries must learn from the ASEAN Plan of Action for Energy Co-operation. ASEAN countries have set up ASEAN Power Grid to ensure inter-country power transmission. ASEAN is also working towards various programmes in clean coal technologies, renewable energy and so on.
Make use of Duty Free Access to European Union by shifting manufacturing base to Afghanistan, Bangladesh, Bhutan and Nepal	The European Union has offered duty-free, quota-free access to all products (except arms and ammunition) exported by four countries viz. Afghanistan, Bangladesh, Bhutan and Nepal in the SAARC region. The European Union has offered this benefit to the above countries because of their status as least developed countries. For other countries in SAARC region such as India, Pakistan and Sri Lanka, the European Union has allowed duty-free access for only select commodities under the Generalised System of Preference Scheme. On the other hand, Maldives does not enjoy any of the above benefits from the European Union as it is classified as upper middle income country by the World bank. Therefore, exporters from India, Pakistan, Sri Lanka and Maldives, who are subject to import duty in European Union, can explore the possibility of setting up manufacturing operations in the other four countries of the SAARC region. By setting up manufacturing operation in these four countries, exporters can avail duty free access to the European markets.

Focus Areas	Comments
Promoting FDI among SAARC members	Cross-border investment among SAARC countries can enhance trade and promote economic integration among member countries. Government and industry bodies in the member countries must organize B2B meetings, trade shows, exchange of trade missions to promote intra-regional investment. Also, SAARC countries must soon adopt an investment treaty that will protect the rights of foreign investors. Such a treaty would inspire confidence among investors in member countries and promote intra-regional investment.
Trade Facilitation	Simplifying customs procedures by introducing paperless trade, avoiding unnecessary inspection at borders will reduce cost of intra-regional trade. High trading cost acts as a non-tariff barrier and impede trade among member countries. In this context, it is worth mentioning that Government of India will soon implement a pilot run of the Electronic Cargo Tracking System (ECTS) between India and Nepal. This system will eliminate physical inspection of goods tha move from the Major Port in Kolkata to Nepal through road. The system will use modern technologies such as satellite positioning systems, radio frequency (RF) identification and web-based software for tracking movement of cargoes. This system should be adopted to move cargoes across borders of other member countries in the SAARC region.

Conclusion

The 8 SAARC countries are more or less on similar stages of economic development. The competitive advantage of these countries lie in similar categories of goods such as garments, agriculture and food products. The limited complementarities among these countries pose challenge to enhance trading relationship within SAARC. The scope for cross-border investment among SAARC countries is also limited given that many are least developed countries and they depend on developed countries for inward investment.

In this context, promoting seamless transport connectivity among SAARC countries and simplifying customs procedures could address at least one of the challenges, which is huge cost and time involved in transportation of goods.

Physical Connectivity

As early as 2005, a study conducted by SAARC Secretariat recommended the removal of restriction for movement of people, goods and services across the borders of SAARC countries. According to a finding by the World Bank[3], trading within SAARC region costs more than trading outside the region. It is 20% cheaper for India to trade with Brazil than with its neighbour Pakistan. Strengthening transport connectivity among the SAARC countries can enhance intra-regional trade and investment.

The 18th SAARC Summit discussed the establishment of seamless transport connectivity among member countries by proposing the SAARC Motor Vehicles Agreement and SAARC Regional Railways Agreement. However, both these agreements were not signed because of opposition from Pakistan. Following this, Bangladesh, Bhutan, India and Nepal (BBIN countries) signed the Motor Vehicle Agreement to enable vehicles from member countries to pass each other's borders in 2015. However, even this initiative has not seen the light of the day as the Government of Bhutan has not ratified this agreement. The agreement was not ratified by the Parliament of Bhutan because some section of law makers raised concern that allowing trucks from other countries to enter Bhutan would increase air pollution and degrade environment. With the fate of Motor Vehicles Agreement and Railways Agreement hanging in balance, the vision of SAARC leaders to strengthen regional connectivity remains unfulfilled.

India shares borders with Bangladesh, Bhutan and Nepal. Therefore, it is necessary to ensure seamless movement of goods and people across these borders to promote greater economic integration. Some progress has been achieved in promoting free movement of cargo vehicles between India and Bangladesh. Trucks loaded with cargoes are allowed to enter into India from Bangladesh. These trucks are provided electronic seal at the customs station in the Indian side of the border and they are monitored using GPS system.

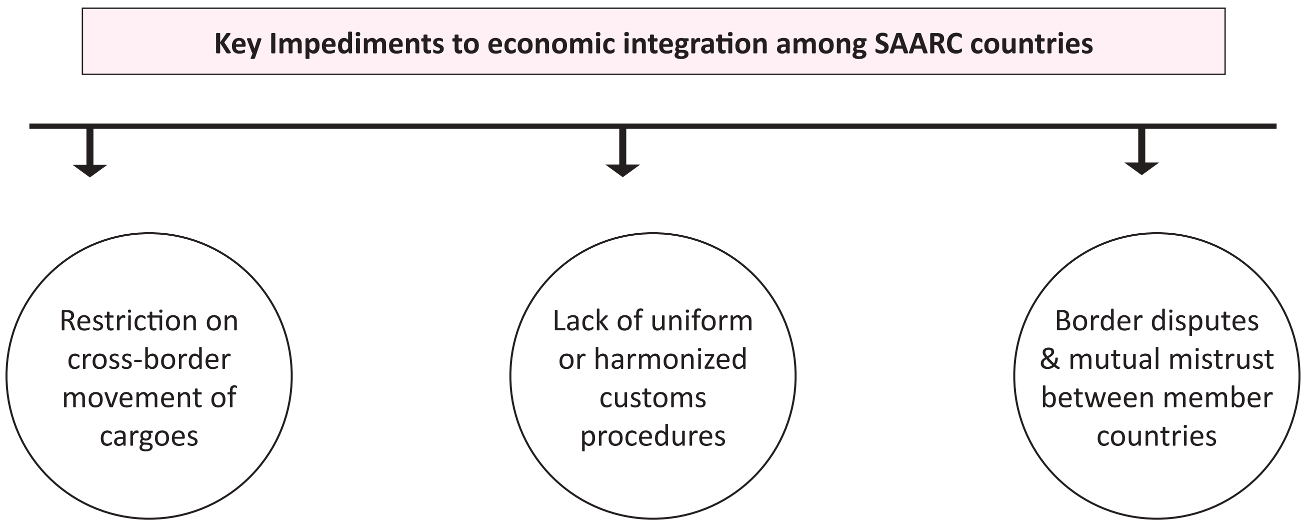
However, traders of goods between India and Bhutan have to change vehicles at the borders. If an exporter has to send cargo to Bhutan, he has to transport it by truck till the India-Bhutan border, unload goods from the truck and load it in another vehicle at the other side of the border and transport it to the end consumer in Bhutan. The requirement of changing vehicles at the border delays delivery of goods. Also, the customs procedure at the land customs stations in India and Bhutan are tedious and not harmonized. This adds to delay in transport of goods. Lack of seamless transport connectivity increases cost of trading for member countries.

SAARC countries must upgrade transport infrastructure, strengthen warehousing facilities along borders and equip land customs stations with cutting edge information technologies. Adoption of information and communication technologies at customs post and land customs stations would eliminate unnecessary paperwork involved in clearance of cargoes. Member countries must also develop the capacity of personnels posted in the border check posts by providing them adequate training on latest technologies and best practices to be followed in customs clearance.

In future, seamless connectivity among Afghanistan, Pakistan, India and Bangladesh would sow the seeds for developing regional value chain among other neighbouring countries in Asia. For example, India can transport cargoes to Central Asia by using land route through Pakistan and Afghanistan. Similarly, Pakistan and Afghanistan can send goods to Myanmar, Vietnam and Thailand by using land route passing India and Bangladesh. This would lead to regional integration of all neighbouring economies in Central Asia, South Asia and South East Asia.

However, mutual distrust and border issues between India and Pakistan, growing menace of terrorism, India's water sharing issue with Bangladesh are some of the challenges hindering progress in regional connectivity. Other concerns that may hinder progress on this front are illicit drug trafficking across borders of India and Pakistan, exchange of counterfeit currency notes across borders of India and Bangladesh, infiltration of illegal immigrants from neighbouring countries etc.

The aim of forming SAARC Common Economic and Monetary Union by 2020 is possible only if member countries set aside their political differences and mutual mistrust and develop a sense of common purpose. The role of business community in the member countries is to highlight the benefits of regional integration among the political class and advance the agenda of seamless transport connectivity.



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[1] Gross domestic product based on purchasing-power-parity (PPP) share of world total , World Economic Outlook Database April 2017, IMF

[2] Source: 2015 Data from Asia Regional Indicator Center

[3] **http://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia**

[4] **SAFTA - Country Presentation by India, UNESCAP, September 2015**

[5] **European Commission, Generalised Scheme of Preferences (GSP)**

India-Ecuador Economic Relation

India's pivotal role in BRICS alliance has enabled trade and investment opportunities trans Africa and South America. India has intensive trade with the North American block however, trade and investment lacked economies of scope in the South American Block.

Absence of a direct air link , tariff and non tariff issues like inadequate governance, licensing, visa issues (there is no visa required for tourists in Ecuador ,up to a stay of 90 days, but nationals of Ecuador require a visa to come to India), etc were some of the main issues blocking trade and investment cooperation . However, the recent visit of Indian Minister of State for Trade (Commerce and Industry), Mrs. D. Purandeswari to Ecuador, a memorandum of understanding was signed which will open new possibilities.

Another protocol for the establishment of the India-Ecuador Joint Economic and Trade Committee (JETCO) was signed during a meeting at Quito with the aim of further improving, deepening and strengthening the existing trade relationship between India and Ecuador. The objective of JETCO is to create a mechanism to discuss initiatives to improve economic relations between the two countries, including facilitation of trade and investments.

A proposal for an air transport agreement has also been submitted by the Government of Ecuador to India. India's entry into the Brazilian markets has accelerated opportunities in the South American Block. India had a single common embassy for three South American countries Colombia, Costa Rica and Ecuador however keeping pace with the need of the hour it has opened a new embassy in Ecuador absolutely for Indo-Ecuador bilateral relations.

Ecuador's domestic market is not too big as the population is just about 15 million, but the neighboring markets are open for trade offering many opportunities. Ecuador has an oil based economy. However, downward trend in oil prices has forced this economy to seek alternatives to maintain its economic balance. In spite of an oil-rich economy, Ecuador faces problems of unemployment and poor competitiveness of the manufacturing sector. These problems are partly the result of political illusions. Hence, these two are the main items on its development agenda.

As far as India is concerned, Ecuador is a land of opportunities. China has already invested in many of Ecuador's green energy projects by funding the construction of major dams in Ecuador. As per sources, the total foreign direct investment in Ecuador was around $8 billion out of which China accounted for 50 per cent and while from India it was almost negligible. Chinese companies are investing in a big way in oil, mining and infrastructure.

Ecuador has facilitated trade and investment opportunities to International entities by introducing platforms such as free trade zones, tax incentives, dollarization, provision of trained labor, bilaterally compatible treaties etc.

One can import raw materials and machinery duty free and then export finished or semi-processed goods without paying any taxes from Ecuador's free-trade zones. Businesses that occupy the free-trade zones have no restrictions on the repatriation of their profits, and they benefit from relaxed labor laws that allow them to hire workers on a temporary basis without supplying a year-long contract. Ecuador offers three types of tax incentives. For export trade units established in free trade zone there is 100 per cent exemption, with the possibility of extension of the same on import and export duties on all authorized goods and services, taxes on profits for 20 years, export taxes, local sales, as well as on repatriation profits for 20 years, municipal and capital taxes for 20 years, no restrictions on profits repatriation or foreign currency management and special customs regime, among other benefits.

Dollarization has lowered the inflation rate in Ecuador, increased economic growth, and given business a solid basis for future planning. Most importantly it has eliminated the risk of a country's investments devaluing due to currency fluctuations. There is a good labor pool available in Ecuador, with minimum compensation levels set by the Ministry of Labor according to the job and industry and can be adjusted by Congress.

The minimum compensation package is about $366 with special offers for people who have excelled in their fields. Under a program called 'Prometeo' jobs are offered to foreign experts who have retired, because the retirement age in Ecuador is 70 years for government officers.

Ecuador has conceptualized a project called 'yachai' under which it is making a 'city of knowledge' where companies can carry out research and production. Under this scheme Indian companies can benefit by using the research on agriculture and medicine. Ecuador is the first country to incorporate protection of Nature due to which there is a responsibility on the investment to comply with the norms like rights of Nature.

Bilateral relations between the two countries can be strengthened effectively through FDI and trade. India Ecuador has already opened innings in trade and investment in strategic economic sectors. Attracting FDI in different export-oriented sectors is one of the main objectives of the country. For foreign investment, Ecuador offers apart from the above incentives, strategic location, extended production diversity, great potential in agri-business, fishery, aquaculture, forestry, mining, tourism and favorable legislation towards foreign investment, preferential commercial access to different markets.

FDI is allowed in any sector of the economy, without requiring a previous authorization with equal rights and treatment for both FDI and national investment and right to repatriate profits. At the same time, complete liberty to negotiate investments registered in the country being among the others.

Private sector companies from India have evinced interest in many sectors including forestry and agriculture. Mahindra and Tata already have their presence in Ecuador. ONGC Videsh India's public sector company has shown interest in oil sector. Ecuador imports energy, but there are plans to develop 12 hydro-electric projects. SEFTECH, a private company from India, has shown interest in these hydro-electric projects.

The total trade between the two countries amounts to $250 million wherein Indian exports to Ecuador amount to $230 million and Ecuadorian exports to India are just $20 million. Main Export items from Ecuador are crude oil, wood (teak) and cocoa.

Main Import items from India are mineral oils, iron and steel, vehicles, machinery and equipment, motorcycles, pharmaceuticals products. Imports of Ecuadorian cocoa, in particular, saw an exponential growth in 2014, India imported Ecuadorian cocoa worth USD 12.39 million. Ministry of Defence of the Republic of Ecuador awarded Hindustan Aeronautics Limited (HAL), a contract for supply of seven Dhruv helicopters. A team of Indian technicians and pilots accompanied the Ecuadorian Air Force to assemble and test the machines. This contract for the helicopters, the first to be sold by India abroad, marks an important step in the bilateral relations and the confidence shown by the Ecuadorian government in India's industrial prowess.

Apart from this prevailing trade there is an immense scope for looking at trade with different dimensions from both sides. There is immense scope for expansion of trade and investment among the two countries apart from the already existing ones. India can import fishing and agricultural products from Ecuador such as canned tuna fish, prawns and sardines and broccoli and asparagus. Tourism can be explored by India in Ecuador by offering special incentives.

Ecuador is the second smallest country in Latin America, having the biggest bio-diversity. A tourist can enjoy three different regions in a day; one can visit the Capital Quito, go to the world famous Galapagos Islands and end up with the Amazon forest.

Forest is spread on one third of our country's total area. Indian companies can invest in mining sector as Ecuador has gold reserves of 225.000 tons, 12.500 tons of silver and produces about 350.000 barrels of oil per day. Sectors like pharmaceuticals, food and drink, wood and IT services hold a significant potential for trade and investment in Ecuador.

Other sectors of probable investment are plastics machinery, water resources equipment, orthopedic equipment and telecommunication equipment. Although Ecuador is the world's leading exporter of bananas and a world leader in rose production, significant opportunities exist in import markets among some other agricultural goods. The top identified include cotton, corn and soya.

The Ecuadorian textile industry has focused on developing export markets in recent years. However, cotton imports are rising somewhat as a result of decreased local cotton production which was hard hit by unfavorable weather conditions following the El Niño and La Niña phenomenon creating negative implications.

India can put up joint manufacturing activity in Ecuador, by importing cotton from India and supplying the shortage to these export units. Thus, the country caters to the already existing export textile market.

Ecuador Imports corn mainly for the domestic poultry industry as the same is growing at approximately 10% to 13% annually, and the shrimp industry at 3% during the last five years. The improved economic situation brought about by dollarization, along with the possibilities of taking advantage of the markets both in Colombia and Peru, may encourage corn and poultry exports to these markets.

Imports of soybean meal by Ecuador are expected to continue at relatively high levels as domestic soybean production remains at historically low levels due to climatic hazards. The recovery of local consumption and the increased demand of poultry and eggs from the country's northern and southern borders will encourage the use and importation of soybean meal from India.

India has a dynamic auto manufacturing industry and has been a major exporter of motorcycles, bicycles, auto parts, tyres and auto-lubricants. India's main export market is Africa and middle east.

Ecuador's strategic presence and comparative advantage in producing rubber and natural oils used in manufacturing of lubricants will provide an advantage to Indian manufactures and exporters. Ecuador has rich climate and soil fertility to ensure rich agricultural produce of rubber and natural oils like castor oil. Industrial output such as manufacture of tyres and lubricants is agricultural raw material intensive.

Though India has excellent manufacturing capacities in the chemical and automotive tyres sector there is a heavy shortage of agricultural produce of these commodities and has to import the raw material from south eastern countries which decreases price competitiveness. India's manufacturing capacity coupled with Ecuador supply prowess will help India gain self sufficiency at a competitive price and help enter the South American region for the trade in same.

In Ecuador one can also own small import/export concern and is a great way to start business in Ecuador. Done on a small scale, buying merchandise in markets and shops overseas for resale back home can easily pay for one's travel. Done on a larger scale, one can turn this kind of project into a steady income.

Ecuador is relatively open to foreign investment in most sectors; however, foreign direct investment (FDI) inflows are very low in comparison to other Latin American countries. The major reasons being economic, commercial, and investment policies are often contradictory and subject to frequent changes.

Standard & Poor›s credit rating for Ecuador stands at B with stable outlook. Moody›s credit rating for Ecuador was last set at B3 with stable outlook. Fitch›s credit rating for Ecuador was last reported at B with negative outlook. In general, a credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of Ecuador thus having a big impact on the country›s borrowing costs.

The legal uncertainty resulting from inconsistent application and interpretation of existing laws complicates enforcement of contracts and increases the risks and costs of doing business. Systemic weaknesses in the judicial system and its susceptibility to political or economic pressures are issues for companies investing in or trading with Ecuador.

Frequent changes in Ecuador's tax code make business planning difficult. In the past three years, Ecuador has not conducted an investment policy review with the Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), or United Nations Conference on Trade and Development. Ecuador is ranked 151 out of 189 in the category of Ease of Resolving Insolvency in the 2015 World Bank›s, Doing Business Report.

Any Treaty with Ecuador should provide guarantees for national treatment; unrestricted remittances and transfers; prompt, adequate, and effective compensation for expropriation; and the resolution of investment disputes through international arbitration.

The Government of Ecuador's (GOE) ongoing actions could lead to the termination of its BITs, placing uncertainty on the future of Ecuador's investment treaties. Foreign investors can remit 100 percent of net profits and capital, subject to a capital exit tax currently set at five percent. Ecuadorian law requires private companies to distribute 15 percent of pre-tax profits to employees each year.

There are instances of international companies operating in Ecuador, primarily in regulated sectors such as petroleum and electricity, having filed for international arbitration due to investment disputes. These issues need to be dealt with by India while maintain bilateral relations with Ecuador.

India-Ecuador established diplomatic relations in 1969

Agreements signed:

1. MoU between the two state-owned oil companies – ONGC Videsh Limited of India (OVL) and PetroEcuador in 2006. MoU between Confederation of Indian Industries (CII) and Export and Investment Promotion Council of Ecuador (CORPEI) in 2006.
2. MoU on Agriculture between India and Ecuador in 2008.
3. MoU to set up a Centre for Excellence in Information Technology in 2009.
4. Agreement on Defence Cooperation in 2011.
5. MoU on Economic Cooperation in 2013.
6. MoU on Foreign Office Consultations in 2000.
7. Agreement between Diplomatic Academies in 2006.
8. Agreement for gainful occupation of the family members of the officials of the respective diplomatic missions of the two countries in 2006.
9. Agreement on exemption of visas for diplomatic & official passport holders in 2007.
10. Education Agreement in 2006.
11. Cultural Agreement in 2006.
12. Cultural Exchange Programme 2009-11.
13. Defence Cooperation: A Memorandum of Understanding to establish a Center of Excellence in Information Technology (IAEN) was signed in August 2009 in Quito.

Apart from these bilateral ties, on the request of Ecuador, India donated medicines, worth US $ 200,000 to the Ministry of Health of Ecuador in 2008. Another donation of generic medicines from India worth US$ 800,000 was undertaken in August 2010.

The Centre of Excellence in Information Technology has started functioning at the Northern Technical University in Ibarra, Quito from May 2015 and has already trained more than 7,00 students. Three resident Indian professors have been conducting the courses in Ecuador.

Indian culture and philosophy are known in Ecuador. International Yoga Day was organized in Ecuador on 21st June, 2015, in Quito, Guayaquil and Ambato. In total, around 600 people participated in the celebrations.

The Embassy in cooperation with Ministry of tourism also organized a Food Festival in Guayaquil in July 2015. An ICCR sponsored troupe also performed in Guayaquil. Indian community in Ecuador is very small. There are around 350 Indian nationals living in Ecuador most of whom work in service sector and small business.

It can be concluded that with rising political cohesiveness in Ecuador India can rely on these bilateral relations and work towards strengthening them.

India-Italy Economic Relation

Italy is the 24th largest trading partner of India based on the annual bilateral trade volume (as of 2015-16) between the two countries. The bilateral trade volume between the countries stands at USD 8.29 billion with USD 4.21 billion of exports from India to Italy and USD 4.02 billion imports from Italy to India. Italy is one of the top five export destinations for Indian coffee.

Italy is part of the 27 country European Union (EU) and it is the fourth-largest trading partner of India in the Union. India has been negotiating with the EU to finalize a Bilateral Trade and Investment Agreement since June 2007. Once finalized the agreement would regulate India's trade in goods and services and investment with the EU. The agreement would also cover trade issues such as sanitary and phyto-sanitary measures, technical barriers to trade, trade facilitation and customs cooperation, competition, intellectual property rights, geographical indications and so on.

Italian companies have invested in sectors such as automobile transportation food processing metallurgical textiles electrical equipment. Around 140 large Italian companies are active in India. Some of them are:	
FIAT Auto	Fata Hunter Engineering
Heinz Italia	ENI
FIOlA	SAI India
Italcementi	Isagro (Asia) Agrochemicals
Necchi Compressori	Piaggio and Impreglio
Perfetti	SEA Deutzfahr Group
Lavazza	Finmeccanica SpA
Salini	Ferrero
Source: https://www.mea.gov.in/Portal/ForeignRelation/Italy_09-02_2016.pdf	

Sector-wise distribution of Italian companies in India
13 per cent of the Italian companies that operate in India belong to the textile and clothing sector
8 per cent automotive and professional services
7 per cent electronics or economic and institutional associations
6 per cent logistics or provision of services to corporate
More than half the Italian firms in India are concentrated in the South-West of the country:
35 per cent in Maharashtra state
19 per cent in New Delhi
14 per cent in Tamil Nadu and
11 per cent in Karnataka
Source: http://ficci.in/international/75128/Project_docs/FICCI-Italy.pdf

Indian companies have invested in sectors such as IT electronics pharmaceuticals automobile textile and engineering. The prominent Indian companies operating in Italy are -	
TCS	L&T
Wipro	Mahindra & Mahindra
Engineers India Limited	Ranbaxy
Raymonds	
Source: **http://www.ambnewdelhi.esteri.it/ambasciata_newdelhi/en/i_rapporti_bilaterali/cooperazione_economica**	

India-Italy Joint Commission on Economic Cooperation

Both the countries hold bilateral institutional dialogue on issues of economic interest in the framework of the India-Italy Joint Economic Commission co-chaired by the respective Ministers of Commerce and Industry. The 18th session was held at New Delhi on December 14 2009. It is a wide-range tool to address issues and develop modalities of bilateral cooperation in a vast array of subjects ranging from trade promotion to industrial cooperation in various sectors (tourism infrastructure civil aviation agriculture design textiles to name a few) protection of industrial property rights financial cooperation and business visas.

India-Italy Bilateral trade (USD Million)			
Year	**India's export to Italy (in USD Million)**	**India's import from Italy (in USD Million)**	**India's trade balance with Italy (in USD Million)**
2015-16	4217.72	4072.22	145.5
2014-15	5092.31	4231.81	860.5
2013-14	5272.75	4156.61	1116.14
2012-13	4372.51	4711.27	-338.76
2011-12	4883.09	5121.69	-238.6
Source: Ministry of Commerce, Government of India			

Export of key commodities from India to Italy (USD Million)		
Commodities	**2014-15**	**2015-16**
Vehicles and parts of vehicles	396.24	480.86
Iron and steel and articles of iron and steel	762.03	544.18
Nuclear reactors, machineries and other components	383.58	324.65
Organic Chemicals	299.28	315.57
Plastics and parts of plastics	155.54	221.88

Export of key commodities from India to Italy (USD Million)		
Commodities	**2014-15**	**2015-16**
Apparel and clothing accessories, knitted and crocheted	248.41	205.74
Coffee, tea, mates and spices	172.17	187.6
Apparel and clothing accessories, not knitted and crocheted	193.71	174.27
Export of key commodities from India to Italy (USD Million)		
Commodities	**2014-15**	**2015-16**
Articles of leather	165.03	149.65
Footwear, gaiters and the likes	181.06	142.26
Raw hides and skins and leather	169.98	129.3
Fish and crustaceans, molluscs and other aquatic invertabrates	138.39	123.28
Other made up textile articles	110.09	108.54
Cotton	115.98	103.01
Electrical machinery and parts	100.92	100.37
Source: Ministry of Commerce and Industry, GoI		

Import of key commodities from Italy to India (USD Million)		
Commodities	**2014-15**	**2015-16**
Marble and other construction materials	119.82	134.8
Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)	15.45	33.05
Pumps for liquids	64.78	58.39
Project goods	57.47	106.24
Edible fruit and nuts; peel or citrus fruit or melons.	14.82	19.48
Organic chemicals	224.17	238.86
Paper and paperboard; articles of paper pulp, of paper or of paperboard.	144.23	113.53
Articles of iron or steel	198.17	218.22
Toys, games and sports requisites; parts and accessories thereof.	5.56	12.85
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishing; lamps and lighting fittings not elsewhere specified or inc	58.67	64.94

Import of key commodities from Italy to India (USD Million)		
Commodities	**2014-15**	**2015-16**
Optical, photographic cinematographic measuring, checking precision, medical or surgical instruments and apparatus parts and accessories thereof;	135.39	133.85
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	155.68	122.94
Engines used for propulsion of vehicles	0.24	15.6
Other engines:	15.21	17.46
Mchinery for fillng,closng,sealng,capsulng or labelling bottles,cans,boxes,bags/othr containers;machinery for aerating bever	37.47	44.61
Other packing or wrapping machinery (including heat-shrink wrapping machinery)	29.85	23.54
Textile winding and reeling machines	29.83	30.56
Source: Ministry of Commerce and Industry, GoI		

Italy is the 16th largest investor country in India, on the basis of total foreign direct investment into India during the last three years ending 2015-16.

Country-wise Foreign Direct Investment into India (USD Million)				
Country	**2013-14**	**2014-15**	**2015-16**	**Total**
	Apr-Mar	**Apr-Mar**	**Apr-Mar**	
Singapore	5,985.10	6,742.28	13,463.68	26,191.06
Mauritius	4,858.73	9,030.15	7,855.46	21,744.34
Netherlands	2,270.47	3,435.55	2,461.93	8,167.95
U.S.A	806.35	1,823.60	3,968.59	6,598.54
Japan	1,717.75	2,084.23	1,791.44	5,593.42
United Kingdom	3,215.13	1,446.62	873.16	5,534.92
Germany	1,038.42	1,124.86	942.14	3,105.42
Cyprus	556.72	597.97	460.44	1,615.13
UAE	254.96	367.32	958.25	1,580.53
France	305.39	634.62	591.18	1,531.19
Luxembourg	542.61	229.5	755.57	1,527.68
China	123.99	494.75	449.85	1,068.60
Switzerland	340.76	336.78	239.67	917.2
HongKong	186.63	325.52	336.65	848.8
Spain	327.73	262.02	151.14	740.89
Italy	**196.05**	**219.92**	**277.44**	**693.42**
Source: Press Information Bureau, Government of India, Press Release dated April 25, 2016				

Key bilateral initiatives
On 19 October 2016, the Italian Ministry of Foreign Affairs, Rome hosted a meeting of the Indo-Italian Joint Committee. During the meeting, several initiatives in bilateral scientific R&D projects were approved. These initiatives aim to facilitate the mobility of researchers who will be jointly selected and co-financed within the framework of the 2017-2019 Indo-Italy Executive Programme of Scientific and Technological Cooperation.
Source: Press Information Bureau, Government of India

Key News Highlights

April 27, 2016 Italy offers a strong partnership for India for its smart cities. Italian companies can majorly contribute in terms of design and technology for the smart cities, said Francesco Pensabene, Italian Trade Commissioner and Director of its trade promotion office. Italy now is looking at partnering for the smart cities to boost its exports to India, that stood at $3.6 billion in calendar year 2015, growing by 10.4 percent when compared to 2014. **(Source: http://www.smartcitiesprojects.com/)**
September 27, 2013 Our bilateral strategic relationship goes a long way. However, we have not utilised the full potential of our relationship. The figure of Euros 8.5 billion for our trade is a very poor number. We can do much better," Daniele Mancini, ambassador of Italy to India said. **(Source: http://www.business-standard.com/article/economy-policy/italy-eyeing-investments-into-india-s-tier-ii-cities-113092700173_1.html)**
October 19, 2016 Bonfiglioli Transmissions, a subsidiary of Bonfiglioli Riduttori of Italy, will invest over 85 crore to expand its factories in India. The 750-crore company which makes gear boxes for wind energy generators, earthmoving equipment and machinery used in diverse industrial applications, will expand production capacity at its factories in Tamil Nadu and Maharashtra. **(Source: http://www.thehindubusinessline.com/companies/italy-firm-bonfiglioli-transmissions-to-invest-in-india-for-expansion/article9240489.ece)**

India-Mauritius Economic Relation

Commitment towards prosperity has been the base for India Mauritius bilateral relations. Both the countries are inter-related to each other not only due to their common colonial past but also because of the Indian origins of the most of the present population.

Mauritius has been the single largest source of FDI into India apart from it being the largest trading partner with a positive trade factor to India. These relations will catapult to new highs in context to the recently announced tax sops and schemes which will improve FDI surge from India to Mauritius further strengthening the bilateral relations. The quality of proposed benefits to International players in Mauritius will substantially add to revenues of the Indian investors in a big way.

The Mauritius route has been the main highway for FDI and FII travelling to India. Cumulative FDI equity inflows from Mauritius to India during the period April 2000-March 2015 amounted to US$ 87.55 billion (35 per cent of total FDI inflows over this period), largely due to the Double Taxation Avoidance Convention. Mauritius was the single largest source of FDI into India during the financial year 2014-15, with FDI equity inflows amounting to US$ 9.03 billion –about 29 per cent of total inflows in 2014-15.

The presence of many Mauritius based financial services holdings in India play a major role in this sector. The recent escalation in this bilateral relation has been the Double tax Avoidance Treaty. According to this treaty, India shall now tax capital gains arising from alienation of shares by a Mauritius investor acquired on or after April 1, 2017 in a company resident in India, whereas share investments before April 1, 2017 shall be grandfathered and shall not be subject to the amended regime.

Though the general sentiment amongst businessmen and economic observers, local and international was ,"Things could have been done differently " it was still welcomed by them as it would lead to corrections and embolden the financial markets both in India and Mauritius.

Also, the Protocol DTAA between India and Mauritius provides for a window between 2017 and 2019 for a concessional tax rate of 50 per cent of the applicable tax rate. Similar treatment does not apply for any benefit available under the Singapore DTAA.

Further, capital gains from transfer of movable property other than shares (and ships and aircrafts) by a resident of Mauritius would be taxable only in Mauritius, while such transfer by a resident of Singapore would be taxable in India too. The Limitation of Benefit clause in the DTAA with Mauritius is less stringent than the DTAA with Singapore.

The next step in strengthening the bilateral relationship is the Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with India, as well as a Preferential Trade Agreement. However, a caution has been advised on these negotiations in order to make sure the agreements encompass a variety of things and go beyond just a few select products such as textiles and rum.

As said earlier, India is Mauritius' largest trading partner and has been the largest exporter of goods and services to Mauritius since 2007. In FY 2014-2015, India exported goods worth US$ 1.9 billion to Mauritius and imported goods worth US$ 21.19 million from Mauritius.

India's exports to Mauritius comprise largely petroleum products. Besides petroleum products, main items of India's exports to Mauritius are pharmaceuticals, cereals, cotton, electrical machinery, apparel and clothing accessories. Main items of Mauritius' exports to India are iron and steel, pearls, precious/ semi-precious stones and optical, photographic and precision instruments.

Scope for Intensive cooperation between both the nations has recently intensified with the broadened scope for cooperation announced during the budget speech of 2016.Tax holidays for global corporations establishing themselves in Mauritius in the financial services, SME and film development were the main highlights.

Mauritius is very keen to develop its film industry and there is no better partner for it other than India. India has a sprawling film industry and as of data available until 2014. Bollywood's (not including Television) 250 Censor approved films generated a gross revenue of approximately 600 Million equivalent of USD, in revenue. The exports of these movies contributed to over 57% of that USD 600 Million.

Further, this industry (including Bollywood) is expected to grow 17% y-o-y in USD terms and Bollywood alone is expected to bring in close USD 2 Billion in revenue by end of this decade i.e. Year 2020. The Indian Film & Entertainment Industry contributes a meager 0.5% of India's total GDP. As per permanent or fixed employment data, Bollywood's three largest Production & Distribution Houses - Yah Raj, UTV and EROS - employ close to 68,000 personnel on full-time or on temporary basis.

Mauritius plans to further bring down the employment rate and rate of people living below poverty line. Cooperation with India will not only boost this nascent industry in Mauritius but also will help promote the tourism services sector further as films help promote regions in their content.

Mauritius plans to boost its SME sector as they are on verge of facing the challenges of Brexit, especially in the textile sector. It needs to improve this sector on basis of repositioning and its branding. A major Air Freight Rebate Scheme which will entail a 40 percent reduction from the national carrier of the air freight cost to Europe has been proposed.

The scheme will be underwritten by Government over a two-year period .This would result in significant reduction in cost and thus will be a major game changer to give a new impetus to this industry. Indian textile sector in collaboration with the Mauritian textile sector will improve economies of scope and scale by leveraging on the cotton produce from India and setting up of joint manufacturing units in India and Mauritius with the view of already existing import demand from Mauritius from the European sector.

The second sector which Mauritius envisages to develop is the gold business sector which India already has enough capabilities in terms of designs and workmanship. This will encompass a wide spectrum of high value-added activities, ranging from refinery of gold, producing gold bars, setting up top end jewellery processing units, vault facilities and to trading of gold and bullions on the new commodity exchange. The exchange is also supposed to facilitate trade in diamond and other precious metals.

In the automotive sector, an Indian Delegation has already visited Mauritius and has expressed an interest in setting up several manufacturing projects in Mauritius, one of which is the production of bicycles and motorcycles. This project aims mainly at exports to the African market and has the potential for creating a significant number of jobs.

Mauritius further plans to encourage the pharmaceutical sector in order to export to the African markets and for local consumption. India already is a leading pharmaceutical exporter working in collaboration on the African soil will help India to reduce cost of its exports to these markets and thus increase trade revenue. A Pharmaceutical Village has already been set up at Rose Belle to cater for this development.

The Mauritian government has already taken steps to embolden its SME and financial services sector through various tax sops and supportive schemes which are mentioned below.

1. The 8-year tax holiday in respect of business income is being extended to new enterprises set up by individuals or co-operative societies qualifying under the scheme and registered with SMEDA. Existing enterprises registered with SMEDA with a turnover of less than Rs 10 million and engaged in qualifying activities under the same scheme will be given a 4-year tax holiday in respect of their business income. The tax holiday will start from the year of assessment 2016/17.
2. To improve access to finance the SME Financing Scheme will be continued for another three years and extended to individual entrepreneurs as well. An interest rate cut under this scheme will be brought down from 7.4 to 6.0 percent.
3. The Leasing Equipment Modernization Scheme (LEMS) will be reintroduced to provide greater access to leasing finance.
4. The investment tax credit whereby a specified manufacturing company is able to offset against its tax liability 5 percent of the investment in new plants and machinery over 3 years, is being overhauled. The minimum eligibility requirement of Rs 100 million investments in a year is being removed to allow more businesses to benefit. Furthermore, the enhanced investment tax credit of 15 percent per annum over 3 years will also apply in respect of the investment made by a company in the share capital of a subsidiary company engaged primarily in the setting up and management of an accredited business incubator capped at Rs 20 million investment.
5. For manufacturers of textiles, wearing apparels, ships and boats, computers, pharmaceuticals and for film production the tax credit will be increased from 5 to 15 percent. This represents 45 percent of capital expenditure incurred on new plants and machinery over three years.
6. Rs 20 million is being provided for the setting up of an exclusive Bio-Farming/Organic zone with comprehensive modern infrastructural facilities at Britannia.
7. Foreign Ultra High Net Worth Individuals investing a minimum of USD 25 million in Mauritius will be provided with a 5-year tax holiday. These tax holidays will be subject to meeting conditions of employment creation and substance.
8. A new incentive scheme with a tax holiday of 8 years will be introduced to attract industrial fishing companies to operate from Mauritius and contribute to the development of Mauritian seafood hub.

Tax Sops for Global Business Companies

1. Corporate tax holiday of 8 years to a Global Headquarters Administration company licensed by the Financial Services Commission (FSC) and meeting conditions of minimum employment and substance.
2. Corporate tax holiday of 5 years to a company providing Treasury Management Centre services licensed by FSC and meeting conditions of minimum employment and substance.
3. Personal income tax holiday of 5 years to an Asset and Fund Manager licensed by the FSC and managing a minimum asset base of USD 100 million.
4. Personal and corporate tax holiday of 5 years to Foreign Ultra High Net Worth Individuals' investing a minimum of USD 25 million in Mauritius.

Tax Sops for Global Business Companies

5.	Corporate tax holiday of 5 years to law firms which set up their regional offices in Mauritius to provide legal advisory and international arbitration services to global business clients.
6.	Corporate tax holiday of 5 years for investment banks issued with an 'Investment Banking and Corporate Advisory Licence' and regulated by the FSC.
7.	Corporate tax holiday of 5 years to Overseas Family Corporations licensed by the FSC.

India already has a strong presence in Mauritius .Eight Indian Public Sector Enterprises are currently operating in Mauritius. The Bank of Baroda (BoB), Life Insurance Corporation (LIC), and New India Assurance Company (NIAC) were the first to establish operations, followed by other Private Sector Units (PSUs) including India Handloom House, Telecommunications Consultant India Ltd (TCIL), IndianOil (Mauritius) Limited (IOML), Mahanagar Telephone (Mauritius) Ltd and State Bank of India (Mauritius) Ltd. Besides their core activities, the PSUs have contributed to various activities in Mauritius under the Corporate Social Responsibility (CSR) schemes.

Some high-visibility Indian-assisted projects in Mauritius include the Mahatma Gandhi Institute, the Upadhyay Training Centre, the Jawaharlal Nehru Hospital, the Subramania Bharati Eye Centre, the Rajiv Gandhi Science Centre and the Rabindranath Tagore Institute. Prestigious symbols of recent Indian assistance include the Cyber Tower at Ebène and the Swami Vivekananda International Conference Centre (SVICC).

The offshore patrol vessel Barracuda, built by an Indian shipyard under a Government of India line of credit, was commissioned into the Mauritian National Coast Guard during the visit of Prime Minister Shri Narendra Modi, in March 2015. India also provides extensive capacity building and training inputs to the Mauritian armed forces, besides carrying out regular joint patrolling/surveillance exercises and in the Mauritian EEZ. India has also provided assistance in the setting up of Mauritius's National Hydrographic Unit.

Over the past forty years, India has extended several Lines of Credit to Mauritius to assist in the development of its infrastructure, human resource, skills development, capacity building, project appraisal, etc. In March 2015, a new line of credit of US$500 million for civilian infrastructure projects was announced by Prime Minister Shri Narendra Modi during his visit to Mauritius.

India and Mauritius have signed a wide range of bilateral agreements and MoUs. Apart from the Double Taxation Avoidance Convention (DTAC-1982), Bilateral Investment Promotion and Protection Agreement (BIPA-1998), MoU on Air Services (2005), Agreement on Cooperation in Information Technology (2000), MoU on Cooperation in Biotechnology (2002), Extradition Treaty (2003), MoU on Cooperation against Terrorism (2005), MoU on Cooperation in the field of Environment (2005), Mutual Legal Assistance Treaty in Criminal Matters (2005), Agreement on the Transfer of Sentenced Persons (2005), MoU for Cooperation in the field of Hydrography (2005), MoU for Cooperation on Consumer Protection and Legal Metrology (2005) ,MoU Concerning Cooperation in the Exchange of Finance Intelligence Related to Money Laundering & Financing of Terrorism(2008), Protocol on the Sale of Navigational Charts; Agreement on Cooperation for the establishment of telemetry, tracking and tele-command 3 station for satellites and launch vehicles and for cooperation in the fields of space research, science and applications; Supply Contract for the Coastal Radar Surveillance System (2009), Agreement on Early Warning of Coastal Hazards (2010), MoU on Science and Technology Cooperation (2012), MoU on

Sports and Youth Affairs (2012), Educational Exchange Programme (2012), MOU on Textiles (2012), MoU between RGSC Trust Fund and NCSM for setting up a hybrid planetarium (2012), MoU on Cooperation in Election Management and Administration (2013), MoU on cooperation in MSME Sector (2013), MoU on cooperation in Communication and Broadcasting between Mauritius Broadcasting Corporation and Prasar Bharti (2014), MoU on Cooperation in Ocean Economy (2015), and MoU in the field of Traditional Systems of Medicine (2015). In addition, Cultural Exchange Programmes have been regularly concluded since 1971.

India and Mauritius have also committed to mutually promote firm cultural Relations between themselves. The Indira Gandhi Centre for Indian Culture (IGCIC) at Phoenix is one of the largest centres of ICCR, which from March 2000, has emerged as an important venue for promotion of Indian cultural activities in Mauritius.

The IGCIC holds classes in disciplines of Hindustani music, Kathak, Tabla and Yoga for Mauritian students. A Cultural Exchange Programme(CEP) (2015-2018) was signed in March 2015.Festival of India in Mauritius 2015 is being organised from August 2015 onwards in collaboration with the local ministry of Arts and Culture.

The Festival was inaugurated by Hon’ble Minister of State for Culture Shri Mahesh Sharma on 21 August 2015. The Mahatma Gandhi Institute (MGI) was established in 1970 as a joint venture between the Government of India and the Government of Mauritius for the promotion of Indian culture and education. It also hosts the ICCR Chair in Sanskrit and Indian Philosophy.

The Rabindranath Tagore Institute was established with the assistance of the Government of India in 2000 as a Centre of Studies on Indian culture and traditions. Mauritius also hosts the World Hindi Secretariat. Yoga and traditional Indian systems of health (AYUSH) are extremely popular among the general public in Mauritius, the first International Day of Yoga will be commemorated in the country on a grand scale.

An active network of local socio-cultural organisations and language unions add further strength and vitality to the vibrant people-to-people contacts. Indian Technical and Economic Cooperation (ITEC) has been India’s flagship capacity building programme since its inception in 1964 and has acquired a strong brand name in India’s development partnership with Mauritius. Mauritius is one of the largest beneficiary countries of the Indian Technical and Economic Cooperation (ITEC) programme.

Mauritian nationals have taken advantage of large number of scholarships offered by India on civilian and defense related training courses at Indian institutions. The Pan African e-Network Project was inaugurated on February 26, 2009 in Mauritius, which connected it other African countries and India through a satellite and fiber-optic network.

It has benefited Mauritius with sharing of India’s expertise in education and health care. All three modes - VVIP, telemedicine and tele-education - are currently operational. Around 100 ICCR scholarships are extended annually to Mauritian students for higher education in India. Another about 200 Mauritian students enrolls themselves in Indian Universities every year on a self-financing basis. India ranks fourth in terms of Mauritian students studying in overseas tertiary education institutions.

The advancing times predict a large scope for trade and investment between Mauritius and India.

India – UK Economic Relation

India UK trade has always been on a high. Though there still is a large scope to build this trade at further levels, there lacks clarity from UK on the human resource policy. 40% of the investment from India in UK is in the SME sector. However, this sector runs on low investment grades stringent British policies on human resource and climate considerations increases this cost of investment. The Indian businesses made UK attractive due to access to neighboring markets. However, with the BREXIT happening, a pinch has been felt by Indian businesses.

Trade between India UK more specifically consisted of the services sector especially the IT and KPO and BPO services. Most of UK's domestic sector has been dominated by Chinese products with little or no scope for Indian businesses in this sector to flourish. All the domestic products such as textiles, kitchen and home appliances, e.g. furniture, vacuum cleaners, washing machines, etc are all most imported from China. One can fairly say that 80% of equipment and personal products are imported from China thus making UK one of China's strongest trade partner. Indian UK trade mostly being into the IT services sector which is a smaller trade component as compared to China. Thus Chinese businesses have competitive advantage while seeking better trade concessions than India.

Indian businesses in UK thrived due to the strong neighboring European market. If trade needs to flourish between the two countries one needs to consider the cultural climate between the two. UK is riddled with high standardization culture which has its inherent costs involved which need to be suitable for Indian businesses. The current objective of UK to have mutually benefitting agenda in the SME sector needs to bring in substantial relaxation in norms so that the Indian SME sector can collaborate with more technology transfer and create equal competitive advantage for both. There are, in addition, many Indian companies with turnover of less than £5 million, who have shown even more spectacular growth rates, particularly in the technology, telecoms and media sectors.

Some of the Indian businesses thriving in UK are , Bharat Forge International Ltd Automotive South , TVS Europe Distribution Ltd, Universal Components UK Ltd Automotive North, CG Automation Systems UK Ltd, CG Power Solutions UK Ltd Technology and telecoms North, Accord Healthcare Ltd, Astron Research Ltd Pharmaceuticals and chemicals South, Indigo (London) Holdings Ltd, Dion Global Solutions (UK) Ltd Technology and telecoms Midlands, Diligenta Ltd, Diligenta Ltd Technology and telecoms London, Mathers Foundry Ltd Engineering and manufacturing, India Infrastructure Finance Company (UK) Ltd Financial services , Prometheon Enterprise Ltd; Clearmine Ltd; Cox & Kings (UK) Ltd, Quoprro Global Ltd Hospitality, Rico Logistics Ltd, TVS Logistics Investment UK Ltd, TVS Supply Chain Solutions Ltd Transport and logistics, Tata Communications (UK) Ltd Technology and telecoms , Uni-tritech Ltd, Tritech Group Ltd, Tritech Precision Products (Barnstaple) Ltd, Tritech Precision Products Ltd Technology and telecoms, Glenmark Generics (Europe) Ltd Pharmaceuticals and chemicals, Punjab National Bank (International) Ltd Financial services, Firstsource Solutions UK Ltd Technology and telecoms , Secure Meters (UK) Ltd, Advanced Energy Monitoring Systems Ltd, Secure Controls (UK) Ltd Technology and telecoms, Acuma Solutions Ltd, Saksoft Investments PVT Ltd Technology and telecoms, Essar Energy PLC Energy, Enzen Global Ltd Technology and telecoms Midlands, Milpharm Ltd Pharmaceuticals and chemicals, ACG Europe Ltd Pharmaceuticals and chemicals, Lodestone Management Consultants Ltd Technology and telecoms, Vega Industries Ltd Engineering and Manufacturing, Simon Carves Engineering Ltd Engineering and manufacturing, The Jewellery Channel Ltd Wholesale and retail trade, United Phosphorus Ltd Pharmaceuticals and chemicals, Repower UK Ltd, Suzlon Wind Energy Ltd Energy, Zylog Systems (Europe) Ltd Technology and telecoms, Niit Ltd, Niit Insurance

Technologies Ltd, Niit Technologies Ltd Technology and telecoms, Tata Motors European Technical Centre PLC, Jaguar Land Rover Automotive PLC, Jaguar Land Rover Ltd, Incat International PLC Automotive, Greatship (UK) Ltd Transport and logistics , Marksans Pharma U.K. Ltd, Relonchem Ltd, Bell,Sons & Co.(Druggists) Ltd Pharmaceuticals and chemicals, Mastek (UK) Ltd Technology and telecoms, S.H.E. Maritime Services Ltd, Ecu-Line UK Ltd Transport and logistics, Britannia Brands Ltd, Associated Biscuits International Ltd, ABI Holdings Ltd Food and beverage, Piramal Healthcare UK Ltd Pharmaceuticals and chemicals, Dynamatic Ltd Engineering and manufacturing, Amtek Aluminium Castings (Witham) Ltd, King Automotive Systems Ltd, Amtek Investments (UK) Ltd Automotive, Radicon Transmission UK Ltd Automotive, C P Pharmaceuticals Ltd, Wockhardt UK Holdings Ltd, Wockhardt UK Ltd Pharmaceuticals and chemicals, Atul Europe Ltd, D.P.D. Ltd.

India is the third largest foreign investor in the UK, and the UK is the largest investor in India within the G20. There are many bilateral trade agreements between the two nations designed to strengthen ties. The growth of India›s multinational companies contributed greatly to UK›s business and economy. As of 2014, Indian companies in the UK generated over 19 billion pounds employing more than 100,000 people in the UK. Tata group alone employed over 55,000 people in the UK.

This kind of phenomena, where non-Western countries impact the West, has been commented on by sociologist Anthony Giddens as «reverse colonialism.» The British government has chosen India as one of its most influential trade partners because it is one of the «fastest growing economies in the world.» In 2013, Cameron formed the biggest trade delegation by accommodating more than 100 representatives that varied from multinational corporations, medium-to-small-sized corporations, and universities to India. Compared to the 2010 trade mission, the UK and India negotiated to double the trade volume by 2015.

Following the trade delegation, total UK goods and services exports to India increased by 14% from January to September 2013. The key topic of discussions for Theresa May›s plan was post-BREXIT relations with India in context to trade development. Discussion on a possible free-trade agreement is also in the agenda. According to a MEA (Ministry of External Affairs, India) spokesperson, there is "substantial scope for further strengthening bilateral cooperation across a range of sectors, including science & technology, finance, trade & investment, and defense & security."

India's economy grew at more than 7 per cent last year, and is forecast to grow at 8 per cent this year. UK is focused on improving its own economy hit by the recent BREXIT event and needs to balance its trade balance.

If it needs to access India's market especially in the heavy engineering sector than it needs to provide a fair share import opportunity to India especially in the textile and food processing sector. UK's strict standards hamper this opportunity to India. UK thus needs to provide technical expertise to Indian agro processing and textile businesses to come up to the UK standards in order to overcome this problem. UK has promoted its funding schemes in India.

However, they are accompanied by major constraints which hinder the interests of the deserving businesses in India. UK needs to tweak its policies to accommodate Indian businesses considering the Indian economic and cultural criteria. If this happens, sky is the limit for India UK trade.

Trade Facilitation: The Way Forward for India

India has taken a major step to strengthen and streamline its customs and border procedures with the ratification of the Trade Facilitation Agreement (TFA) of the World Trade Organization. The instrument of Acceptance of Trade Facilitation Agreement was handed over to WTO Director- General by India on April 22, 2016. The ratification of the WTO's Trade Facilitation Agreement will help in improving border procedures, and also help India to boost economic growth by reducing trade costs, improve trade flows and reap benefits from international trade. India joined the consensus in agreeing to the outcomes of Nairobi Ministerial Conference after ensuring that its interests were protected. The Trade Facilitation Agreement contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area. The Trade Facilitation Agreement will enter into force once two-thirds of the WTO membership has formally accepted the TFA. As on October 31, 2016 over 87 per cent of the ratifications needed for entry into force have been received by the WTO. The implementation of the Trade Facilitation Agreement has the potential to increase global merchandise exports by upto $ 1 trillion per annum. According to the WTO, developing countries will benefit significantly from the TFA, capturing more than half of the available gains. The TFA sets out the parameters for developing and least- developed countries in the way it will be implemented. It is understood that the requirement to implement the Agreement is directly linked to the capacity of the country to do so. In addition, the Agreement states that assistance and support should be provided to help them achieve that capacity. The Agreement contains unique special and differential treatment (SDT) measures that link the requirement to implement with the capacity of developing countries and least developed countries(LDCs) to do so. The Agreement also recognizes the need for donor Members to enhance assistance and support for capacity building.

The SDT provisions allow each developing country to determine when they will implement each of the individual provisions for which they will need technical assistance and support for capacity building in order to implement. To take advantage of these SDT facilities a Member must place each provision of the Agreement into one of the three categories A, B, or C as defined in the Agreement. Members must notify WTO members of these categorizations in accordance with specific timelines outlined in the Agreement. They must also provide indicative, and later definitive, dates for implementation for the provisions they have designated in categories B and C. India has submitted its category A notification to the WTO indicating which provisions of the TFA it intends to implement upon entry into force of the Agreement. A Trade Facilitation Agreement Facility (TFAF) was also created at the request of developing and least developed country members to help ensure that they receive the assistance needed to reap the full benefits of the TFA and to support the ultimate goal of full implementation of the new agreement by all members. In the light of the stringent TFA mandate and the commitments made by India, the country is faced with many challenges. India's trade continues to encounter severe constraints in respect of border transactions and procedural hurdles. Year after year, the Ease of Doing Business Reports point to the weaknesses in India's handling of the border procedures and trade transactions. To compound matters trade infrastructure is dismal rendering India's trade uncompetitive in international markets. With $322 billion exports in 2015, India's trade is languishing with a meager

1.7 per cent share in total global exports. It is believed that the TFA initiative will help India to further boost its trade growth through the reduction of trade costs while meeting India's ambition to reach USD 900 billion in export volume by 2020 , which is twice higher than today's export volume.

This no doubt is an ambitious target given India's present trade infrastructure and border facilitation. The most recent World Bank Report on ' Ease of Doing Business' stated that India has improved its ranking from 134 (revised) in 2015 to 130 in 2016. However, there is no room for complacency. The Government of India has set a time limit of December this year to roll out more investor- friendly measures and achieve a ranking in the top 50 within a period of two years. There is little doubt that unless bold reforms are initiated and sustained this target may remain out of reach. In the spirit of the TFA, a slew of reforms have been implemented to improve the customs clearance procedures. One of these actions is to reduce the number of documents required for export and import further demonstrating India's strong commitment by adding additional measures for ease of doing business. Additionally, India is subsequently phasing out the submission of manual documents enabling exporters, importers, shipping lines and airlines to file customs documents online with a digital signature. This has eliminated the need for hard copies of documents for processing and increased the speed of transaction. These changes and the reduction in the number of mandatory documents should lead to a corresponding reduction in transaction costs and time, a plus for companies in their supply chain. As part of the "Ease of Doing Business" initiatives, the Central Board of Excise and Customs launched Customs SWIFT (Single Window Interface for Facilitating Trade). SWIFT provides a single-point interface for Customs clearance transactions and is expected to reduce the amount of documentation and costs. It is expected to cover and benefit over 97% of India's imports. Importers will no longer be required to run around to get approvals from multiple government agencies for their consignments. The single window will connect over 50 offices of six government agencies with the Indian customs department, for example: Food Safety Standards Authority of India (FSSAI); Department of Plant Protection, Quarantine and Storage; Drug Controller; Animal Quarantine; Wild Life Crime Control Bureau and Textile Committee.

With the roll-out of SWIFT, the Central Board of Excise and Customs (CBEC) also introduced an Integrated Risk Management facility for Partner Government Agencies (PGAs), which will ensure that consignments are not selected by agencies routinely for examination and testing, but based on the principle of risk management. With this development, Indian Customs is poised to be amongst a few select countries that have functional Single Window clearances. The Single Window system is expected to be a crucial implementation of trade facilitation measures for goods cleared at the country's points of entry and exit. These measures and an added 24X7 customs clearance process that has been extended to 19 seaports and 17 airport complexes and defers duty payment in selected categories will enable the release of cargo quicker. These are but a few changes the Indian government is taking to implement efficiencies in the country's import and export procedures. The expectation is to save large sums of money for importers and exporters through the reduction of trade-related costs and delays and change the rankings of India in a positive way for "Ease of Doing Business". If these measures are implemented in letter and spirit, India can hope to achieve the benefits of Trade Facilitation in the near future and regain the confidence of its trading partners.

TRIPS Amendment - Access to affordable medicines

The amendment to the TRIPS Agreement is hailed as a path-breaking move to bring succour to many developing and least developed countries facing critical health problems. The TRIPS Amendment bringing legal certainty to provide developing and least developed countries access to a wide range of medicines under compulsory licensing will now ensure that low cost generic drugs produced under patent are available to a large number of countries who were so long deprived of affordable generic medicines.

Public health cannot be viewed in isolation of innovation and trade and the recent amendment will go a long way in mitigating the health crisis faced by a large number of disadvantaged countries with no capacity or limited capacity to produce such drugs. As outlined in Chapter IV, Section C.3(a)(iii), the Doha Declaration on the TRIPS Agreement and Public Health (paragraph 6) recognized that WTO members with insufficient or no manufacturing capacity in their pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement, as the agreement then stood. To overcome those difficulties, WTO members adopted the Paragraph 6 System. It addresses a particular scenario for access to medicines:

- A country needs to import a medicine from a foreign supplier because it lacks sufficient manufacturing capacity in its pharmaceutical sector.
- The medicine can be produced under a compulsory licence in another country.
- Export of the non-predominant part of the production in that country does not satisfy the needs of the importing country.
- Therefore, the importing country has to use the Paragraph 6 System in order to import medicines produced under a compulsory licence from another country.

The System provides WTO members with an additional flexibility, which is a special type of compulsory licence permitting production of medicines exclusively for export. The System links demand in importing countries with supply from exporting countries. In addition, it waives the obligation on importing countries to pay adequate remuneration to the right holder following the grant of a compulsory licence (Article 31(h) of the TRIPS Agreement), if such remuneration is provided for in the exporting country. While all WTO members are eligible to use the System as importers, developed countries have elected not to use the System for their imports, and some higher-income developing countries and territories have agreed that they would use the System as an importer only in situations of national emergency or other circumstances of extreme urgency. Nevertheless, the System itself is not restricted to emergency situations. Most WTO members have not indicated that they would limit its use to such situations. Some WTO members have implemented the System so as to enable exports to developing countries and LDCs that are not WTO members. While any WTO member may participate in the System as an exporter, they are not under any obligation to do so.

The essence of the System is the grant of a compulsory licence by the exporting country to meet the need(s) identified by the importing country. With a robust and matured pharmaceutical sector, India will effectively reach out to meet the critical health challenges faced by many underprivileged nations of the world. It is hoped that the global community will now come forward in a big way to provide affordable medicines to the less advantaged countries which take recourse to the advantage under the compulsory licensing.

POLICY


Policy
A policy described
government, private
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REGULATIONS
RULES

25 Years of Economic Reforms

Indian reforms story has been a fox's tale. Twenty-five years ago, India set out on a path of economic liberalization freeing it from decades of a misguided big statist model a process that remains incomplete even today. Decades of stifling government involvement and presence in every aspect of economy created the fertile ground for corruption and cronyism that exists even to this day. A few private conglomerates and the state controlling the economy was what this model created, till the economic reform process commenced. Indian economic reforms have had a very superficial application leading to a non linear growth if all sectors are combined. Reforms have not percolated to the last citizen of the country so much so that majority of the rural poor masses still do not have even food security in their kitty. Moreover these reforms had a biggest limitation; they were only in the sector of financial policy and brought about only a 20% relief to the economy. In context to some very good landmarks such as:

1. Downward adjustment of rupee value to the extent of 22 per cent and then making provision for partial convertibility of rupee initially and value of the exchange rate for the rupee was remarkably steady despite unification and lifting of trade controls. This has reduced the scale of hawala transactions. Foreign exchange is now flowing through legal channels in sample quantities instead of through hawala transactions as earlier.
2. The average import tariff had been reduced from 135 per cent to 35 per cent and the aim was to reduce it to 0 per cent by 2002. The increased flow of foreign investment, reaching the level of about $ 3 billion since 1991, was possible only due to changes in ownership legislation, relaxation of MRTP Act and full convertibility of rupee on trade account.

It is predicate to understand what actually needs to be instrumental to bring about a uniform and deep reforms process which the Indian economy lacks in. Some of the areas which need crucial attention in the form of reforms are agriculture, food security, judiciary, taxation, financial policy, labor, infrastructure and national growth statistics.

The Indian politics has failed to take cognizance that the sectors which emphatically required to be refurbished in India due to the very fact are the sectors of agricultural economy and law and order which form the backbone of any country. Agriculture reforms have been inadequate and our agriculture continues to be subject to the vagaries of monsoon. The most important change which needs to be brought about in case of agricultural sector is the subsidy issue. The Jan Dhan accounts undoubtedly made it possible for direct transfer of subsidy to a farmer's account however its regularization in all types of subsidies is a dream to be achieved. The processes need to be yet put in place with complete approach. Today we see that one subsidy is being transferred to the account where as some other not, leading to a disparity and lack of convenience in the process. In respect of cut on subsidies, whatever success was achieved in early years that could not gain its momentum in the later years. In respect of food subsidy also, the Government has failed to formulate a fresh policy for redirecting the food subsidy from the creamy layer and urban middle class of the society to the poorer sections. However, the fertilizer subsidy should be withdrawn altogether. On the issue of subsidies, the Government needs to act more in unison which has not actually happened.

In case of reforms in the Indian judiciary the impact will not only allow the law and order situation to be full proof but it will also entail smooth functioning of areas of other jurisdiction such taxation, human rights etc . Taxation is an important sector which will benefit from reforms in Judiciary, fast moving courts and enactment of procedures for the trial of money laundering cases will ensure to seal black money. However one needs to understand that taxation policy itself requires reforms which are supposed to be presented in the form of GST, however much is needed to be done in case of direct and indirect taxes. Due to inadequate restructuring of direct and indirect taxes, tax evasion has become legal feature with India losing millions in this sector's contribution to GDP. Moreover, the Government has had a freehand levying many incoherent taxes in name of Swatch Bharat tax, service tax and sales tax for hotel industry, in addition to customs duty, imports are subject to other taxes and charges such as Landing Charge, Countervailing Duty, CESS, and CEX, education cess and various other surcharges which have led to effective taxation amounting to 50% for an average Indian.

Taxation matters instead of being simplified are being made more complicated with the introduction of the most recent Swachh Bharat tax and the additional customs duty at a time when a general GST is being proposed at 18%. It is the Governments prime duty to check for organization and over population in cities and a distress in the same leads to dirtying of areas, a tumultuous application of such a tax leads to disappointment among the masses. Multiplicity of taxes is a big bottleneck for Make in India objective at the same time. Another sign of limited restructuring is that India's tax-to-GDP ratio has remained in the 15-17% range since 1991 despite the growth in per capita GDP. This ratio is significantly lower than the emerging market average of 21% and the Organization for Economic Co-operation and Development average of 34%.

While there are multiple reasons for our low tax-to-GDP ratio—falling tax rates, multiple exemptions and the limited tax net—the implication is a much reduced government budget, which in turn hampers the scale and effectiveness of restructuring efforts. 60% of the population is based on agricultural income however only 10% of the 40% population pay taxes regularly. Estonia became the first in the world to adopt the flat tax regime, with a uniform rate of 26% regardless of the income a person makes. Rejecting claims of unfairness in taxing the poor and the rich at the same percentage rate, Tallinn decided to take on this radical experiment and succeeded wildly, as the nation's economy boomed. Today, Estonia has the highest GDP per person, almost $13,000, of any country that used to be part of the USSR. Multiple former Soviet Republics have begun adopting Estonian policies. Even China is now seriously considering adopting a flat tax. As a result, all countries saw increased investment, domestic and foreign, as well as increased tax revenue due to a decrease in tax-evasion.

Ideally the reforms process should have been initiated from the judiciary reforms to financial policy reforms ending with the banking reforms, however this was not the case and devaluation of Indian currency only formed a 10% of makeshift in bargain, with the government expecting 100% shift in growth to happen. It is finical that the RBI guidelines still use the colonial era definitions though attempts were made to make the banking sector more effective, competitive and efficient through Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) report, however, the reforms did not reflect much effectiveness in the allied sectors connected to the banking sector.

Nevertheless this sector has been subject to discussion about the rising NPAs in the system due to no coordinated prescriptions and mishandling of the same. The Vijay Mallya example being the latest one. Not only is the Indian rupee overvalued but also high interest rates prevail in the Indian scenario , this has made the manufacturing process and trade very difficult to deal with. India needs to bring in vibrant pension sector reforms and make it very lucrative and hedged for a 100 year horizon to deal with Inflationary trends forecasted for that period. Indian trade policy is presently receiving a lot of attention and is undergoing reforms. For 22 years India was ridden with a feeble trade policy which produced poorly drafted FTAs and developed poor intra country relations leading to a large loss in trade and foreign currency.

Another point of criticism raised by the critics against the policy reforms is that the new economic reforms are a complete surrender to the World Bank-IMF precepts and the Government has surrendered its sovereignty in order to procure a huge amount of loan from such international agencies. Liberalization of trade policies through withdrawal of import duties is being done to facilitate imports from developed countries, particularly USA, facing a recession in their economics largely. This sort of criticism may not be totally baseless or politically motivated. Thus the Government should take proper care in maintaining the sovereignty or economic interest of the country so that it does not serve any policy under external pressure and also should not dilute its long-term strategy for attaining self-reliance. Unless the savings ratio goes up significantly and the real export growth accelerated, there are chances of the country's economy going the Latin American way with soaring inflation rates and growing social injustice.

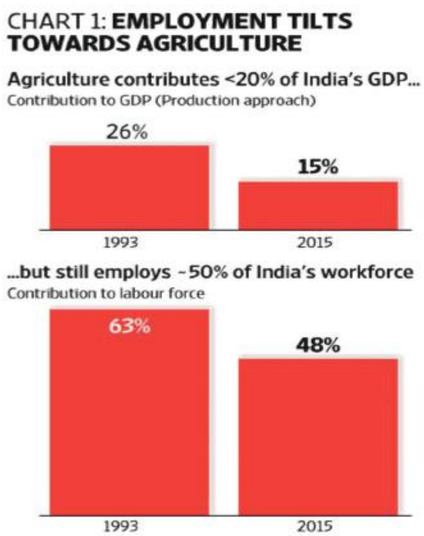
Labor reforms form the other constituent of the basket which is actually in shambles. In India wage fixation has no link with productivity. But rationality suggests that wages must be equal to marginal productivity of labor. Labor market in India is having dual character, representing organized laborers enjoying security and high wages and unorganized workers, on the other hand, which remained exploited, totally defenseless and poor. Thus in this context, economic reforms through its market mechanism will either improve productivity of workers or face closure or exit by the employer concerned. There is an urgent need to not only provide employment to the masses but the same needs to be a qualitative one with an integrated approach leading to the application of single labor law based for a pay extending up to Rs 5lakh pa with further slabs as a bench mark, having uniform applicable benefits and job security.

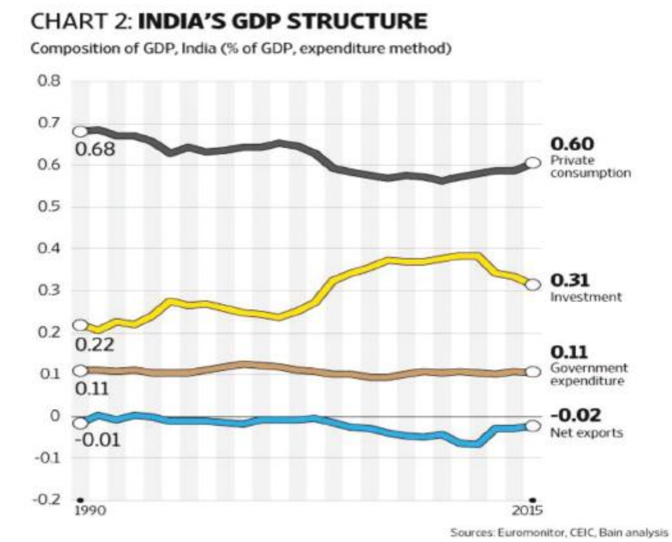
We observe today that a peon in the union cadre and an officer cadre at the same scale of pay drawing different benefits and job security thus leading to disparity. The term for employment needs to be unified and formalized so as to absolve complexities. Moreover agricultural labor is treated differently as compared to Urban labor and has tax austerity for the fact that India being a agricultural economy and it is considered to be a fact that rural income generation is more stressed than urban one but one needs to note there are enough examples of agricultural income holders who have displayed better luxuries against their contemporaries in the organized sector. Also this has considerably led to aberration in GDP reflections. First, the employment structure has remained more or less static and is increasingly out of sync with sectoral GDP split.

Agriculture today is less than 20% of India's GDP but still accounts for 50% of the labor force. Second, overall jobs have not grown much National Sample Survey Office data shows that only 1 million jobs were added per year between 2004-05 and 2009-10, during a period of more than 8% GDP growth. Third, women's share in the labor force has gone down from 27% in 1990 to 24% in 2014, a trend driven by women in poor rural households leaving the labor force as men migrated in search of better job prospects. The government has failed to take into confidence the organized workers at any stage of the implementation of economic reforms. In a country like India, there is no social security net, no unemployment benefit and till today there are no institutions for retraining of workers in newer skills. Necessarily the economic reforms have failed to garner supports from the organized workers, in general.

India is stuck in a low-wage, low-innovation equilibrium. The services sector is dominated by low-wage sectors such as construction and retail, which together employ more than a quarter of the workforce, up from around 12% in 1993. And formal employment has been stuck at around 7-8% over these 25 years. Innovation, leading to higher productivity and wages, suffers from limited financial and infrastructure support: India spends just 0.8% of GDP on research and development, compared with China's 1.9% and the US's 2.8%. Removal of complexity in the Indian labor law needs attention for reforms to take place. Another criticism raised against economic reforms is in terms of unemployment arising out of large scale retrenchment of workers.

Thus both the public sector, on the plea of overstaffing and redundancy, and the private sector, on the plea of modernization and technological up-gradation, workers are gradually being retrenched or forced to accept voluntary retirement scheme like 'Golden Handshake'. This sort of unemployment arising out of structural adjustment is a serious problem and must be considered seriously. The reform brought in this sector through the National Skill Development Agency needs to open its scope and implement a proper basic pay structure for the incumbents of this skill. If acquisition of a highly in demand skill does not pay the incumbent enough there may arise tendencies to acquire skills informally which may lead to distortion in the objective of such an agency and will lose preference in long run.





The other area in dire need for reform is the infrastructure sector. The slowest growth in this sector has resulted not only rural poverty to a large extent but also urban inflation due to frequent transport hikes. Major issue is road connectivity to the last mile of the country's village which chokes rural exposure to the external economic weather. The other infrastructural need is stable supply of energy resources like electricity, LPG for cooking requirement for the rural poor which has helped eradication of poverty in large. Absence of adequate national highways and ports has led to dampening of manufacturing sector which has to spend enormously on transport logistics.

The slow and unbalanced development of agricultural infrastructure comprising of irrigation systems, soil management advisory units per village etc and underdeveloped infrastructure are two weakest links which are holding up the economic reforms of the country. It is shameful, that after sixty years of independence and planned development, the country has failed to ensure uninterrupted power supply, continues flow or supply of safe drinking water to the people of our country. Moreover, the conditions of our roads, ports, harbor and airports are really poor. Thus the Government should pay due attention for handling these sectors i.e., workers, agriculture and infrastructure so as to reap optimum benefits from economic reforms.

India's GDP even today is consumer expenditure driven rather than investment and export revenue driven , absenting the stimulus from investment and exports, a reflection of the limited restructuring in our labor and land markets. Take the case of Estonia as part of the country's re-orientation towards the West, the government in Tallinn decided to embrace foreign trade, with Europe quickly replacing Russia as the main partner. Driven in part by Estonia's embrace of foreign trade and in part by large-scale privatization of government assets, investment poured into the country. The state's money became stable, with the government controlling supply and increasing dollar reserves. This allowed entrepreneurs to have greater confidence in long-term investments and by 1993, the economy fully recovered having a budget surplus of about 5% and within a few short years, wages were far above what they were under communism.

The investment share of Indian GDP has risen gradually from 22% in 1990 to 31% in 2015 while the comparable numbers for China are 33% and nearly 50%. This discussion on GDP proves that reforms process in India has neither been an integrated one nor restructured at required intervals. We see stable GDP growth levels hovering around 8% from 2003-2010 but 50% of the population is still living below the poverty line in the same years. Reforms process in India has been very secluded for each area of growth thus giving it a ripple effect instead of a wave effect for the country as a whole. Inadequate fiscal adjustment have remained the most intractable problem over the past decade with interest payments now constituting over 69 per cent of Centre's tax revenue, subsidies continuing to increase to unaffordable levels and do not necessarily reach the deserving beneficiaries, the pension liability of the Government is becoming onerous, public investment in infrastructure and social sectors being inadequate due to falling total public sector savings, private investment constrained due to high real interest rates and inadequate infrastructure.

Recommendations

The final recommendation for various policy reforms would be integrated restructuring through a rule based approach time tested by taking into account the beneficiaries of the same.

Integrated restructuring means laying out guidelines for a particular policy keeping in mind its implication on other policies or implication of other policies on that particular policy to lawfully happen for the betterment and progress of the society. Policies are made for the benefit of the citizens in order to govern them, however it is observed governance at times leads to oppression if the same is not tweaked for the betterment of the beneficiaries with changing times. Lack of rules creates governance based heavily on political and bureaucratic discretion. Government decisions based on discretion instead of rules in dealing with public resources, contracts and money is a fertile ground for corruption. This has been shown again and again. This kind of corruption in doling out favors has significant impact on a nation like India.

First, this impacts the type and nature of politics and democracy. The quid pro quo type of economic model creates a nexus of vested crony interests and political process, with money power increasingly driving the political process that, in turn, creates a vicious cycle of money and political success to those pandering to or backed by crony capitalists. Deal-based governance also fosters an economic model where political connections determine success for the economy. This phenomenon, also written about by Reserve Bank of India governor Raghuram Rajan before taking office, shuts out 'un-connected' entrepreneurs from opportunities and participating in the economy. This, in turn, has structural implications on issues such as innovation, competition and efficiency all important elements for a successful, sustainable economic model for a country like India.

In a remarkable example of how thoughtful, transparent policies can lift up countries, Estonia, which was economically crippled due to the Soviet annexation from the 1940s to 1991, lifted itself up to become a country with the highest number of start-ups per capita. This was done through a host of market reforms since the mid-1990s—including free trade and privatization—designed to remove red tape and simplify the process of starting a business and, most importantly, following well laid out processes. Rule-based governance creates transparency in its functioning and improves the trust between citizens/ investors and government. The impact of this transparency due to a move away from a deal based economy was that crony wealth reached 18% of GDP (gross domestic product), putting it on a par with Russia. Today it stands at 3%, a level similar to Australia."

Over the past 25 years, we have done the relatively easier bit of opening up our economy, but as we have seen, integrated rule based restructuring after a testing for its effectiveness amongst the beneficiaries will factor the markets which have been far less successful. This will require changes at multiple levels individual, firm and sector enabled by appropriate regulations and governance. A number of programmes launched over the past few years like skill development, Make in India, Start-up India and agriculture sector spends are all in the right direction. A concerted action across all these areas will drive us toward a middle-income country, one where land, labour and capital markets are structured for sustained growth and productivity. Moreover figures will reflect the ground realties.

Ease of Doing Business in Maharashtra

A state can improve the competitiveness of the industry by developing sound transport and logistics infrastructure, rationalizing tax regime, improving ease of doing business and other measures. In the last two years, Government of Maharashtra has taken following steps in the above areas.

Released Policies	
Policy Name	**Brief**
Maharashtra Tourism Policy 2016	The policy aims to attract Rs 30,000 crore investments and create 1 million additional jobs in the tourism sector by 2025
Maharashtra Port Policy	The policy seeks to develop more greenfield ports, jetties, coastal shipping, inland waterways, shipyard, Coastal Economic Zone and so on.
Proposed Policies	
Maharashtra Arbitration Policy	To promote institutional arbitration and to bring uniformity in arbitration clauses in government contracts
Revised Maharashtra Taxi Rules, 2016	The policy aims to regulate fares, licensing and other elements of traditional taxis and app-based taxi aggregators
Maharashtra Housing Policy	The policy aims to increase the supply of affordable homes in cities and incentivizes redevelopment of old buildings

Thrust Areas and Action Taken	
Thrust Areas	**Action Taken**
Urban Infrastructure	➢ In the last two years, Maharashtra government cleared 150 kilometres of Metro rail project. ➢ The state government has expedited clearance for urban projects such as the Mumbai Transharbour Link, the Navi Mumbai International Airport, and the Mumbai Coastal Road. **Urban Planning** ➢ Since December 2014, Maharashtra government cleared development plans or extended plans for 70 cities and towns.
Ease of Doing Business	➢ Maharashtra government reduced the number of approvals needed for industrial investment from 76 to 37. ➢ The state government introduced online approval for building permits in Mumbai, Thane and some other cities. ➢ MIDC has reduced the number of approvals required in pre-commissioning stage to 5 from 14 earlier ➢ The state energy department reduced the time taken for new electricity connection to 15 days from 67 days and number of procedure reduced from 7 to 3 ➢ Municipal Corporation of Greater Mumbai (MCGM) has integrated all its internal departments, Airport Authority of India, and National Monument Authority for single window clearance of construction permits.

Thrust Areas and Action Taken	
Thrust Areas	**Action Taken**
Taxation	➢ Local Bodies Tax has been made applicable to only those traders with annual turnover of at least Rs 50 crore. ➢ The state government closed 65 toll plazas.
Thrust Areas	**Action Taken**
Agriculture	➢ Launch of Farmer-to-Consumer Market ➢ Offering solar pumps to farmers and thereby reducing cost of energy used for running irrigation pumps.

We are happy to note that Maharashtra is among the top 10 states that have implemented Business Reforms Action Plan prescribed by the Department of Industrial Policy and Promotion in 2016. The state has an impressive implementation scorecard of 92.86% and some of the leading reform measures taken by your government are in the areas of single window system, environmental registration, construction permit and so on. However, many states in India are actively improving ease of doing business like never before and it is necessary for Maharashtra to continue on this path to retain its status as an attractive destination for foreign and domestic investors. In this regard, we have compiled a few recommendations to rationalize administrative process and facilitate the setting up and running of business operations:

Extension of online services to non-manufacturing companies: Maharashtra government has set up the MAITRI portal to enable online clearance of various approvals for establishing operations in various manufacturing sectors. Currently, the services are offered only to the establishments in the manufacturing sector and not to the services sector. It may be noted that service sector constitutes a large proportion of the economy and many of the small and large enterprises are in this sector. Therefore, it would be appropriate to extend the services of MAITRI to enterprises in the service sector as well.

Streamlining Inspection Process: Physical inspection of government officials is required for granting construction permits, ensuring compliance of labour laws, tax laws and so on. Government of Maharashtra has taken various steps to reduce the number of physical inspections and thereby reduce the workload on government officials and minimize the chances of bribery. One such measure is the adoption of a single, joint site inspection, instead of separate inspections, by various government authorities responsible for granting construction permits. Similarly, the digital labour management solution introduced by the state government reduces the number of visits by government inspectors to the factory premises. However, there is scope for further reduction in the visits of government inspectors to establishments. Many states such as Andhra Pradesh, Chhattisgarh, Telangana have started publishing comprehensive procedures and checklist for various inspections to make them more transparent. In order to increase efficiency and effectiveness of the procedure, they have also adopted online systems for allocation of inspectors. Government of Maharashtra can follow similar process to bring in transparency, efficiency and effectiveness of the inspection procedure. Further, in order to reduce physical visits of inspectors, the government must design risk profile of establishments based on various criteria, including their past performance track record through a computerized risk assessment framework. Based on this framework, physical inspection should be conducted only in high risk cases. Similarly, the government can introduce third party certification for compliance under labour laws, environment laws and other laws for medium risk industries.

Waiving of environment clearance for select green industries: Maharashtra Pollution Control Board has classified different industries as red, green and orange based on the damage they cause to the environment. Industries classified in the green category have minimal impact on environment and some of these industries are in the food processing, textile, ceramics and automotive components sectors. The state government must exempt the industries falling in the green category from statutory clearances of the pollution control board on a case by case basis.

Introducing self-certification for felling and replanting trees: Setting up of factories and other commercial buildings involve felling of trees. Maharashtra Felling of Trees (Regulation) Act 1964 requires the feller to replant specified number of trees at specific locations to compensate for the felling of existing trees. Presently, the feller of trees must secure permission from relevant authorities before cutting trees. In order to improve ease of doing business, the state government must replace this system with a self-certification scheme. Under this scheme, the government must conduct a survey of trees in different areas in the state and publish the information online. The government must also publish information on the replanting requirement for felling various quantities of trees. Consequently, companies must be allowed to avail self-certification for felling trees provided they can submit evidence for replantation of trees.

Introducing objective criteria and timeline for allotment of land: Government of Maharashtra must enhance transparency and efficiency in the process for allotment of land. States such as Telangana have introduced objective criteria to evaluate applications for allotment of land. Telangana State Industrial Infrastructure Corporation has published the objective eligibility criteria for evaluating applications for allotment of land in industrial parks and special economic zones. The corporation has also specified the timelines to be followed by zonal managers for scrutinizing and processing applications, releasing provisional allotment letter, registration of sale agreement and handing over of physical possession of allotted land. Maharashtra Industrial Development Corporation (MIDC) has already introduced online application for allotment of land in its industrial area. In the days to come, the corporation must set objective criteria and timeline for allotment of land.

Digitization of Building Plan Approval: For setting up industrial units in MIDC area, Maharashtra Industrial Development Corporation (MIDC) accepts online application for building approval through its investor facilitation centre (IFC) portal. Similarly, for non-MIDC areas in Mumbai, the Brihanmumbai Municipal Corporation (BMC) has introduced a single window online process by integrating 14 departments for the purpose of issuing building plan approval. On the other hand, the Mumbai Metropolitan Region Development Authority (MMRDA) announced plan to introduce an online process for issuing building plan approval in areas under its purview in 2014. However, no progress has been made in this regard so far. The government must ensure that MMRDA and other municipal bodies in the state follow the footsteps of BMC in this regard. Government of Maharashtra can draw some insights from the steps taken by Department of Urban Administration and Development of Chhattisgarh for streamlining building plan approval.

GST: Issues and Recommendations

The Government has announced its decision to implement with effect from April 1, 2017 Goods and Services Tax (GST), a unified ,destination based tax on consumption of goods and services which will be levied at all stages right from manufacture up to final consumption. The path-breaking reform meets the longstanding demand of trade and industry to simplify and streamline the tax regime in the country. Under the GST, credits of input taxes paid at each stage will be available in the subsequent stage of value addition.

This makes GST essentially a tax only on value addition at each stage in the value chain. The final consumer will thus bear only the GST charged by the last dealer in the supply chain with set-off benefits at the previous stages. Further, the state which has the jurisdiction over the place of consumption, also termed as the place of supply, would be the taxing authority.

A four – tier Goods and Services Tax (GST) rate structure with classified rates of 5%, 12%, 18% and 28% would be applicable across a wide range of goods and services. To safeguard the interest of the poor and to keep inflation under check, several essential items would be exempt from tax.

The following taxes would be subsumed under GST:

(i) Taxes currently levied and collected by the Centre:

a. Central Excise duty
b. Duties of Excise (Medicinal and Toilet Preparations)
c. Additional Duties of Excise (Goods of Special Importance)
d. Additional Duties of Excise (Textiles and Textile Products) 4 5
e. Additional Duties of Customs (commonly known as CVD)
f. Special Additional Duty of Customs (SAD)
g. Service Tax
h. Central Surcharges and Cesses so far as they relate to supply of goods and services

(ii) State taxes that would be subsumed under the GST are:

a. State VAT
b. Central Sales Tax
c. Luxury Tax
d. Entry Tax (all forms)
e. Entertainment and Amusement Tax (except when levied by the local bodies)
f. Taxes on advertisements
g. Purchase Tax
h. Taxes on lotteries, betting and gambling
i. State Surcharges and Cesses so far as they relate to supply of goods and services

Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State. The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise.

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another.

The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

While GST is a bold and pragmatic move to reform the tax structure and will benefit industry across sectors, there are also widespread concerns with regard to its structure and implementation. This paper seeks to highlights some of the lacunae in the GST system which should be addressed to allay the fears of trade and industry.

Recommendations for Goods and Services Tax

1. **Waive taxes on exempted entities:**

   Under the existing tax regime, the central and state governments exempt excise duty on establishments that manufacture goods from 11 states belonging to the North East and Hilly areas of the country. Similarly, the central government does not impose service tax on certain services specified in the negative list.

   Under the proposed Goods and Services Tax (GST) Regime, the above exempted establishments would be levied the relevant excise duty or service tax, as the case may be, and the same would be reimbursed from the annual budget. This method of exemption would lead to increase in the working capital requirement for the exempted entities. Also, there is a huge time lag between the payment of taxes and reimbursement of the same, leading to shortage of liquidity with the exempted entities.

   Suggestion: The government must either waive the GST on the exempted entities or ensure that the entities receive refunds either monthly or quarterly instead of annually.

2. **Introduce centralised registration:**

   The proposed GST regime requires assesses operating from more than one state to take separate registration in the respective states. The mandatory registration in different states would increase the compliance cost and time for all companies, and would adversely affect micro small and medium enterprises (MSMEs).

Suggestion: In the interest of ease of doing business, the government must introduce centralized registration or at least zonal-wise registration system instead of the proposed state-wise registration. Also, the government must allow assesses involved in vertical business to have single registration for the purpose of claiming input tax credit.

3. **Publish information materials in vernacular language:**

The government has prepared the Model GST Law in English. Further, all the acts, rules, regulations and FAQ regarding GST are available in English language. Entrepreneurs of many establishments in India may not have proficiency in English language to understand the Model GST Law and the rules associated with it.

Suggestion: The government must translate the existing GST rules and regulations in vernacular languages so that it can be better understood by all the assesses, especially in the MSME sector.

4. **Capacity building at tax departments:**

GST is being introduced for the first time in the tax history of India. Most officials in the tax department are not conversant with the GST Laws, GST Network and the method of assessment under the new regime. This constrains their ability to conduct proper assessment, audit and refund of taxes under the new regime.

Suggestion: The government must introduce a comprehensive training programme to familiarize all the assessing officers, right from the top to the bottom in the tax departments of both the central and all the state governments, with the concept of GST, the information technology infrastructure of GST, the assessment, audit and refund procedures under the new regime.

5. **Exempt registration of casual dealers:**

The proposed GST regime requires dealers who conduct transactions or business occasionally to be registered with the tax department even if they fall below the threshold limit. Further, the validity of the certificate of registration expires after 90 days from the date of registration. The proposed GST regime also requires casual dealers to pay in advance the estimated tax liability of such occasional transaction at the time of application for registration. This adds to paper work and compliance cost to casual dealers who operate on small margins. Moreover, the advance tax payment requirement would increase the working capital needs of such dealers.

Suggestion: The government may waive the registration requirement for such dealer and instead accept statement of purchases and supply of goods or services for the purpose of filing tax returns. Also, casual dealers should be allowed to pay tax after receiving payment from their customers (instead of the requirement of advance payment). The tax department may convert the registration status of casual dealers into dormant and waive them from filing any tax returns in case no transaction is recorded for more than 12 months. The registration status may be turned active upon submission of relevant documents.

6. **Ease cancellation procedure:**

The government has provided cumbersome procedure for cancellation of registration under GST. The procedure includes online submission of GST REG-14 Form, Form 19 and other relevant documents including the details of closing stock. Also, the tax authority does not allow a taxable person who has registered voluntarily to cancel his registration within one year. Thus, people, who registered voluntarily, have to file returns under GST because of the one-year lock-in period. All these procedures lead to undue compliance cost and time for MSMEs.

Suggestion: The government must simplify the cancellation procedure and remove the one-year lock-in period for cancellation.

7. **Simplify returns filing for MSME sector:**

The Model GST Law requires all assessees, who have not opted for composition scheme, to file around 37 tax returns every year. These include three returns every month – GSTR-1, GSTR-2 and GSTR-3 – and one annual return. If an MSME fails to comply with this filing requirement, it cannot claim input tax credit.

Suggestion: The government must exempt MSMEs from the above norms for filing returns at least in the initial few years. MSMEs must be allowed to file single return, instead of three separate returns, on a monthly basis at least for the first five years.

8. **Eliminate conditionality for tax credit:**

Under the proposed Goods and Services Tax regime, a business entity can claim input tax credit for the tax component paid to the supplier of the input. However, the entity may not receive input tax credit if the supplier of the input fails to deposit the input tax so paid by the entity to the government. This policy of denial of input tax credit to the buying entity for the fault of the supplier would force large firms to consolidate their vendors and weed out small suppliers. Therefore, the government must consider unconditional credit of input taxes irrespective of whether it is paid to the authority by the goods or services supplier.

In another instance of restrictive input tax credit, the model GST Law envisages some restriction on CENVAT credit for tax paid on certain works contract, if the contract involves purchase of goods and services. Similarly, the government may deny CENVAT credit for taxes paid on purchase of motor vehicles if the vehicles are purchased for purposes other than transportation of goods. Thus, business entities buying motor vehicles for the transportation of their executives may not be eligible for CENVAT credit under the proposed Goods and Services Tax.

Suggestion: The government must consider the withdrawal of these restrictions in administering CENVAT credit. The tax department should not punish genuine buyers for the failure of sellers to deposit tax. The department must devise mechanism to identify defaulting suppliers in these cases.

9. **Prepare MSMEs for GST:**

By all likelihood, government may introduce the proposed GST regime from April 2017.

GST is a completely new tax regime for Indian companies, especially the MSMEs as they have no knowledge of the concept, compliance procedure, including the use of IT infrastructure. Therefore, MSMEs need to incur cost for training themselves to adapt to the new tax regime.

Suggestion: The government must work with industry bodies to conduct training programmes for MSMEs at subsidized cost.

10. Reconsider threshold limit:

The GST Council has decided the threshold turnover limit of Rs 20 lakh for applicability of GST. In case of North Eastern States, the threshold limit is Rs 10 lakh. This is far lower than the present threshold limit of Rs 1.50 crore under the Central Excise Law. The far lower threshold limit would increase the tax burden of MSMEs and raise their working capital requirement. More importantly, the turnover, under the proposed GST regime, would be calculated by including all taxable and non-taxable supplies, exports of goods and or services and so on.

Suggestion: The government must reconsider this threshold limit to reduce the tax burden of MSMEs. Further, the government should not consider non-taxable services and export of goods and services while calculating aggregate turnover.

11. Exempt tax on supply of free sample goods:

Under the proposed GST regime, the sample goods distributed free of cost by companies would attract relevant tax. Similarly, services provided by assesses without any consideration would be taxed under the relevant GST rate. This is contrary to the present condition where free samples are not levied value added tax or central sales tax. Similarly, free services do not attract service tax under the existing regime. The proposed move to tax free goods and services may raise the marketing cost of companies and adversely impact the margins of MSMEs.

Suggestion: The government must exempt free goods and services from GST**.**

12. Eliminate waybills or transit forms:

Under the existing rules of Sales Tax, sales tax authorities dispense waybills to dealers either physically or online for the purpose of moving goods from one place to another. The continuation of this procedure under the proposed GST regime would add to the compliance burden of MSMEs.

Suggestion: The tax department need not continue this procedure under the GST regime as all movement of goods can be tracked on the GST website. The elimination of waybills or transit forms would reduce the compliance burden for MSMEs under the GST regime.

13. Minimize ambiguity in definition of inter-state and intra-state transactions:

Under the existing service tax regime, the central government imposes uniform service tax irrespective of whether the transaction is between two assesses in the same state or different states. However, under the GST regime, intra-state services attract Central GST and State GST, while inter-state services attract Integrated GST besides Central GST and State GST. There are instances where a service provider is actually registered in one state but offers his service from a different state to a client who is located in the same state. The tax department must clarify whether it would treat such services as inter-state or intra-state. Ambiguous definition on inter-state and intra-state services would attract confusion and dispute.

Suggestion: The government may classify such services as inter-state services where the service provider and his client have registered business units in two different states, but the service provider offers his services from the client location. Such transactions attract Integrated GST which is eligible for input tax credit.

14. **Introduce input tax credit for works contractor:**

    The main advantage of GST is the availability of input tax credit for taxes paid on raw materials and intermediate goods used in the process of manufacturing finished goods. However, the Model GST Law does not permit works contractors to claim input tax credit for goods and services (other than plant and machinery) used in constructing industrial or commercial property. Also, under the existing tax regime, the central government offers abatement of 70% for works contracts. However, the Model GST Law does not prescribe any such abatement rate in a works contract pertaining to under-construction properties.

    Suggestion: The government must offer input tax credit to works contractors and also specify abatement rate for constructing industrial or commercial property.

15. **Remove restriction on coverage of goods:**

    The Draft Registration Rules of GST allows assessees to trade in only five goods under single registration. Under this rule, MSMEs dealing in more than five goods need to take more than one registration, thereby increasing their compliance burden.

    Suggestion: The government must eliminate such restriction on the number of goods that are covered under single registration.

16. **Introducing efficient dispute resolution mechanism:**

    As in any other tax regime, GST may also lead to some disputes between the tax department and assessees. The Model GST Law does not prescribe any mechanism to settle such dispute. An efficient dispute resolution mechanism is required to settle disputes in a time-bound manner.

    Suggestion: The government may consider the formation of dispute resolution committees in all the states and union territories for hearing such disputes. These committees must be staffed with experts from legal and audit profession.

17. **Inclusion of all goods under GST:**

    The proposed GST regime excludes certain goods such as alcoholic liquor, petroleum products and electricity. These goods would continue to be taxed under the existing tax regime. The non-inclusion of these goods has rendered the aim of GST 'to create a unified market' an unfinished agenda.

    Suggestion: The government must bring these goods under the proposed GST regime.

18. **Remove subsidies from value of goods and services:**

    According to the Model GST Law, government subsidies provided under various schemes would be included while valuing goods and services for the purpose of determining tax liability. This would increase the effect of tax liability and defeat the very purpose of providing subsidies.

    Suggestion: The tax department should not add subsidy while calculating the value of goods and services.

19. **Exempt stock transfer from imposition of GST:**

    Under the existing tax regime, stock transfer of goods from one state to another does not attract value added tax or central state tax. However, the Model GST Law envisages imposition of Integrated

GST for inter-state stock transfer of goods. Even stock transfer within the same state would attract GST in case the assessee has more than one registration in the state.

Suggestion: The government must exempt GST on stock transfer, both inter-state and intra-state.

20. **Concession on interest, penalty and imprisonment for MSME sector:**

The Model GST law does not prescribe any concession on interest and penalty for defaulting assessees in the MSME sector. The existing service tax regime offers a concession of 3% on the interest to be paid by service providers whose taxable services is less than Rs 60 lakh per annum.

Suggestion: The government must introduce concession in interest and penalty payment for assessees in the MSME sector. Also, the provision for imprisonment should be less stringent in case of assessees in this sector.

21. **Provision of input tax credit for outsourced work:**

In some cases, manufacturers outsource a part of the production process to external job worker. The Model GST Law does not allow manufacturers to claim input tax credit for the taxes paid on the raw materials or any other inputs added by the job worker. This would discourage manufacturers from outsourcing their process to external job workers.

Suggestion: The government must allow manufacturers to claim input tax credit for taxes paid on the raw materials or any other inputs added by the job worker.

22. **Eliminating reverse charge mechanism for goods:**

Under the existing tax regime, reverse change mechanism is applicable to only services sector and not for transactions in goods. However, under the proposed Goods and Services Tax regime, the government intends to extend the reverse charge mechanism to some specified goods. This would constrain the working capital position of small and medium enterprises who buy goods for their operations. Typically, under a B2B transaction involving sale of goods by one company to the other company, the seller of the good provides credit line to the buyer of the good. The credit line is generally for a period of 30 days or 90 days within which the buyer can pay the value of the good as well as the applicable tax to the seller. However, under the reverse charge mechanism, the buyer of the good has to pay the applicable GST rate on the good immediately after the vendor sells the good and raises invoice, irrespective of whether the vendor provides credit line. This reduces the time available for the buyer to pay tax on the goods purchased even though the seller offers credit line. This would affect the liquidity of the buyers in the micro, small and medium enterprises.

Suggestion: The government must reconsider the extension of reverse charge mechanism for goods.

23. **Eliminating Advance Charge Mechanism:**

The proposed Goods and Service Tax regime would introduce advance charge mechanism for payment of taxes on all goods by the seller. There are some instances where the buyer of the goods pays the value of the goods to the seller in advance before even receiving the physical possession of the good. Under the existing tax regime, the seller of the goods can deposit the tax on the good with the tax authority after making physical delivery of the good to the buyer. However, under the proposed Goods and Service Tax regime, the seller will have to make the tax payment immediately after he receives the advance money from the buyer irrespective of when he delivers the goods to the seller. This requirement of advance tax payment would constrain the working capital position of the selling company and hence need to be reconsidered.

Suggestion: The government must reconsider the requirement of advance tax payment to ease the constraints faced by the seller.

24. Reconsider multiple registration of service tax providers:

Under the existing tax regime, service providers have to register with only one authority and have to file only two returns annually. The returns are filed half-yearly, once each for the April-September period and October-March period. However, under the proposed Goods and Services Tax regime, service providers need to register with as many states as they operate and they have to file monthly returns of the tax. This adds to the compliance burden, especially of small tax payers.

Suggestion: The government must reconsider the procedure of multiple registration and filing of monthly returns in the interest of ease of doing business.

25. Reconsider tax collection at source for E-commerce companies:

Under the current regime, e-commerce companies adopting the marketplace model are not responsible for the payment of tax by the entity that sells goods through its online platform. However, under the proposed Goods and Services Tax, e-commerce companies must deduct tax, on behalf of the seller, and deposit the same with the relevant tax authority. Therefore, they must register with the tax offices of all the states where they operate and file separate tax returns in all these offices. This would increase the compliance cost and hence the margin of e-commerce companies, especially the start-up companies who operate on thin margins.

Suggestion: The government must reconsider the tax collection compliance of E-commerce companies to ease the procedures.

26. Simplification and Rationalisation:

The ultimate objective of introducing Goods and Services Tax regime is to simplify and rationalize the highly distorting multiple tax structure that exist today.

However, the decision of the GST Council to introduce a four-tiered rate structure — 5 per cent, 12 per cent, 18 per cent and 28 per cent defeats the very objective of simplicity in tax system. Multiple tax structure leads to ambiguities and litigation, thereby increasing the cost of doing business in the country. Further, the GST council decided to introduce a cess on demerit goods such as tobacco, pan masala, and luxury items such as cars to compensate states for a possible revenue loss. In 2008, the Empowered Committee under the Chairmanship of former Finance Minister of West Bengal Dr Asim Dasgupta recommended a simple tax structure by subsuming all cesses into the central GST. The continuation of the practice of imposing cess under the GST regime is a retrograde move and must be reconsidered by the government.

Suggestion: The central government must devise alternative way for compensating state governments for the revenue loss.

GST: Its Relevance to the Masses

The Indian Government is very keen to come out with GST bill as approved by the Committee consisting of two views one Government is proposing 28% as maximum tax in lieu of 18%.The Indian economy stands apart from the world economies on the basis of its power of domestic consumption. It has withstood the ravages of depression thanks to the wide consumer base which absorbs much of the goods produced domestically. However, it is very important to note that the Indian population or the Indian consumer has a very weak wage income as compared to the International scenario. High inflation has already eroded his paying capacity and is very much evident from the low CPI recorded in the year 2014. The taxation in Asian countries is at an average of 8 ½ % whereas in the EU and other countries tax average is 16%.

The Indian consumer has been more positive towards buying Chinese made goods due to the low cost of the same as compared to the Indian goods though qualitatively better off. To square off this attitude of the Indian consumer and to promote purchase of the Indian made goods an attempt was made to lower manufacturing costs which had higher costs primararily due to repetitive taxation at various junctures of the value chain .Thus the cost of taxation is passed over to the consumer making it more costly than the Chinese goods though are imported.

It should be noted that if the Indian consumer was to consume only Indian made goods if the same available at a rate lower than the Chinese ones then a scenario would have been created wherein the there would been a shortage in supply of goods for the export of the same. Such strong is the Indian consumer base.

If the Indian Government proposes to implement a GST of 28% it needs to primararily keep in mind that the same should not offset the very objective for which it has been proposed i.e. strengthening the sale of Indian made goods and services. However, the taxation in Asian countries is at an average of 8 ½ % whereas in the EU and other countries tax average is 16%.

The Indian Government needs to bear in mind the capacity of an average Indian to absorb a indirect tax rate in addition to the personal tax being paid by him. The returns acquired by an average tax payer as far government facilities of healthcare , insurance , pension or public infrastructure are concerned are poorer than the ones available to the comparables. This would rather give rise to inflation as certain commodities which do not have competition would be very costly and beyond the reach of the consumer. Such situation would back fire on the industry which would develop a large inventory of goods subject to non performance in sale of the same.

The proposed indirect tax regime should consider the capacities of the consumer to absorb such a high tax rate rather than try to insulate itself in recovering the revenue income which it did during the past years and speculated to lose, in the name of promoting the Make in India Theme. Tax reforms these could make or break the Indian image in the international scenario and need to be tested well enough before making them mandatory.

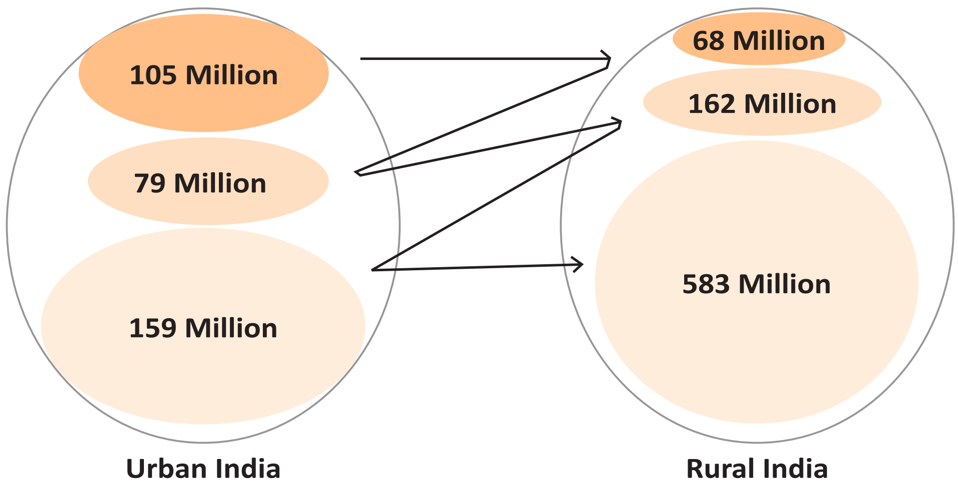
The Indian consumer landscape shows that the per Capita income of average Indian has been on the rise thanks to stellar performance of India's Economy. We are seeing people move from villages to towns and from towns to cities. In a short span of little over a decade, urban pie has grown by nearly 10 percent. Juxtconsult, India based research organization recently released a survey – Indian

Consumer Landscape 2010 – which gives some interesting insights on Consumers in India. Here are some of the findings…

Indian Consumer Landscape

India is currently 30 percent urbanised, while 70 percent of consumers are still in rural India.

As far as consumption goes, 404 Million are either consuming or are aspiring consumers, 742 Million though are still under privileged.



80% urban India is low/lower middle class in income terms – **below Rs. 12,500 p.m.**
Only 15% is middle class, 5% upper class (64 million)
Avg. monthly family income of urban Indians is Rs. **8,910 p.m.**
2/3rd urban Indians live in the tier 3 small towns (**only 20% urban Indians live in the metros**)
Metros account for only 25% of the uppermost socio-economic class
Only urban affluents **(5%) lead the popularly perceived modern lifestyle**

Household Asset Ownership:

Household Asset	% All Familles owning (Urban)	% All Familles owning All India
Mobile Phones	88%	61%
Color TV	69%	56%
VCD/DVD Player	42%	29%
Fridge	30%	17%
2-wheeler (Bikes/Scooter)	30%	20%
Computer	14%	5%
Cars	13%	5%
Portable MP3 Player, Walkman	10%	6%
Washing Machine	8%	3%
Digital Camera	4%	2%
Microwave	4%	1.4%
Air Conditioner	3%	1.3%

Indian Consumer Education & Skillsets:

Only 20% urban Indians have gone to college, only 3% have had their education completely in English. Only 1 in 3 'employed' in Metros works in the corporate world, an equally sizeable chunk are shop owners/traders/skilled workers

Less than 3% **urban Indians prefer to read in English**

Indian Consumers Employment:

'Gen Now' (roughly 30 to 45 yrs of age) is the biggest generation group in India (308 million individuals).

'Gen Next' (roughly 15 to 30 yrs of age) is a close second at 300 million individuals. Only 16% 'Gen Next' are gainfully employed (2/3rd are students)

'Gen Yest' (roughly 45 to 60 yrs) are the most employed (60%) and have the best individual incomes (avg. of Rs. 4,985 or USD 110). 'Gen Yest' also have the highest penetration of credit cards, life insurance, and takes leisure holidays somewhat more frequently.

There are only 40 million working women in India (9% of all women). 260 million are housewives. 2 out of 3 working women are also working moms.

Although, India is growing it is quite clear that we have a long way to go before we can even remotely become a developed nation. Close to 70 percent of our population is still under-privileged. Considering the extrapolations of the sample surveyed it is very clear that India has a large consumer base. Now any type of taxation whether indirect or direct the consumers have always taken its burden as it is off loaded by exactly those who were expected to bear it.

Any taxation thus proposed by the Government even in case of GST there is absolutely no doubt that the same would be of loaded to the consumer. The 90% of the Indian consumer is already burdened with inflation and is paying through his nose for it in addition to the marginal increases in tax rate that happened this year rising from 12.36% to 14%. There is a further rise expected @ 18% as declared by the finance minister in his budget speech from April 2016.

However , the proposal to enhance the same to 28% considering the RNR eventually means that the consumer is going to be hit after adding direct income tax to it. The average Indian salaries have not been enhanced with the employers giving reason's for poor economic conditions and the consumer has shown fortitude and forbearance in dealing with the situation and coping for the erosion in his income which has been sharply indicated in the degradation of savings of an individual Indian.

It is very clear that an Indian consumer having an average income below 100$ pm will be heavily subjected to be paying an high rate of taxation @28% for consumer products. A 28% of GST will also give rise to essential medicines making healthcare very difficult.

It is very clear that the government is trying to achieve 2 things 1. To simplify the taxation process and boost the manufacturing sector removing breaks at the various junctures and boosting competitiveness of the products and 2. It is trying to ensure itself against any kickbacks after launching the GST in terms of revenue addition to the national treasury.

This indicates that the homework made by the government entities while drafting the plan for implementation is not full proof in delivering the proposed objective of simplification perfectly, without affecting the Government treasury . The draft speculates a probable drop in revenue after implementation of the GST which will only be confirmed after a year of its implementation and thus we observe that the risk is being transferred to the consumer.

The government needs to bear in mind that the consumer is also the voter and a mal effect of Government policies will directly implicate on the voting pattern. In such a case like this when the already stressed consumer will be subjected further stresses giving rise to inflation.

Thus it is suggested that,

- Ceiling should not be above 18% and to start with it should be 15 or 16%. If we initiate the 28% tax ceiling, India will be known as one of the highest Taxation country which will result in unfair practices in view of the high rates, as a consequence of which there can also be revenue loss to exchequer. High taxation will also be one of the deterrents for FDIs into the country.
- Developing countries GST is not applicable on educational material for schools and colleges and on garments for children below 10 years, This should also be considered by the Government .
- We feel the Government should comprehensively review these issues before putting in force the 28% GST system.

Impact of Demonetisation

The Indian economy is growing at the rate of 7.5 per cent with a stable control in all its vital economic parameters. The inflation rate is stable at 5% since past one and half year and has projected good health in the economy. Historical data displays introduction of demonetization in highly distressed economies where in vital economic parameters had gone for a toss. Hence in case of the Indian economy it is very clear that demonetization is introduced not as a tool for dealing with economic distress as in case of economies which did so in the past on account of economic depression . It is true that India has 70% circulation and in this circulation there is a rampant presence of counterfeit notes which is eating up value creation.

Demonetization will surely curb this issue of counterfeit notes but only if India becomes more digital in its payments and the currency issued is of smaller denomination which is upto Rs. 500. Introduction of Rs2000 rupee note has put the economy in a perplexed state as demonetization in real sense means decreasing the value on paper currency in circulation. The Rs1000 note has been deleted from the circulation and a Rs2000 note has been introduced which has questions to the underlying principle of demonetization. However, the Indian government is being vocal about using this tool to cleanse black money from the system and is being supported by legends both in economic and business. It is very noteworthy to learn from statistical data that there are two very peculiar issues in India which are acting as stunning counterparts to each other and they are, India has a rich poor divide of 41% and India has 20% share of world's billionaires.

This observation indicates that if black money does exist in India it does not do so among the 60% of the population which comprises of the middle income group and the population residing in the rural India which is more or less living below the poverty line. It is very true that the present banking system is holding about 60% NPAs on its balance sheet and a sudden cash deposit drive such as this would prove instrumental in wiping out these NPAs to a certain extent. It is very much true that only 11% of the Indian Population contributes to tax revenue and remaining 30% still evades tax . However better strategies than demonetization would have worked wonders instead of putting to task already economically stressed population.

India desperately lacks digital infrastructure and has number of bottlenecks in promotion of use of cashless payments. A bank debit card does not come free on an account and there is a transaction tax on credit card amounting to 2% on master and visa credit cards. China UnionPay also known as UnionPay or by its abbreviation, CUP, is a Chinese financial services corporation headquartered in Shanghai, China. It provides bank card services and a major card scheme in mainland China. Founded on March 26, 2002, China UnionPay is an association for China›s banking card industry, operating under the approval of the People's Bank of China (PBOC, central bank of China). It is also the only interbank network in China that links all the ATMs of all banks throughout the country.

It is also an EFTPOS (Electronic Funds Transfer *at* Point of Sale) network. This service also has been instrumental in saving billion dollar revenue exit from China which happens in case of master and visa cards. India introduced the Rupay card on the lines of Union pay but it still has yet to take grip of the situation.

86% of money is held in cash in India in Rs 500 and Rs 1000 currency showing the dominance of cash in Indian economy. This 86% currency cannot be termed as black because nearly 90% transactions are cash based due to inadequate information and infrastructure for cashless transactions to happen. The rural banking connect is at present only 20% of the total bank branch network in urban and semi urban areas. Infact even today 60% of the MNREGA deliveries are made in cash due to inadequate rural banking infrastructure.

It has been observed that cash is distributed among electorate at time of elections by political parties which is nothing but black money as the source of income is unknown and untraceable , an exercise such as this coupled with the introduction of Rs 2000 currency note is nothing but a whip on the politicians rather than any economic distress signal which has been triggered to have this event in first place. The other reason given for having this event was the issue of counterfeit notes, however, one can ascertain the efficacy of this exercise only upon learning the exact amount of counterfeit notes recovered from this exercise.

Introduction of infrastructure such as provision of internet to the last penetrable rural division, enough supply of printed Rs500 notes, incentivisation on digital payments, withdrawal of charges on electronic cards, facilitation of AADHAR enabled pos and normal pos machines at a subsidized rate to retail traders would have curtailed the negative impact on the common man who was affected by this kind of surprise attack. Though these measures are seeping through their pace is too slow for aggressive consumption based economy. The Indian economy that had recovered to 7.5% from a 3 year lull of 5.55 with a larger rate of inflation after a lot of hard work was subjected to such a steep fall of 1-1.5% and in a place like India where recovery of economic parameters need long time.

Some of the effects of demonetization are:

1. North/East/central India were more impacted than South/South-western parts of the country post the demonetisation move – also, rural regions were more affected than urban areas. Similarly, the unorganised space was hit more than the organized segment and the discretionary sector suffered more than staples. Also, traders, retailers and wholesalers were affected more than the manufacturers. Nevertheless, despite hardships, we observed massive acceptance of the move from the 'bottom of the pyramid' population – Many felt that this move would help check corruption and black money. Moreover, we also observed wide acceptability/movement of transactions to formal banking channels – if properly directed, this may boost the Indian economy both structurally and on the fiscal front in the long term. While the sudden liquidity crunch did lead to disarray, the situation is expected to mend as currency gets replenished. However, undoubtedly, a few days into demonetisation, business activity has been hit significantly. Pre-dated sales (in the first week of Nov), acceptance of old currency notes by some traders and credit extension might initially offset the demonetisation impact somewhat, but it would be reflected Dec-16 onwards. Below are the key gleanings from our on-the-ground interactions.
2. The great regional divide: The regional divide was very clear – North India is witnessing the maximum impact on business activity, given that the region's economy is more cash based. On the other hand, the demonetisation impact was relatively lower in South.
3. Urban-rural divide: Urban areas have seen quicker demand recovery versus rural regions. This has been led by better cash availability, increased acceptance of plastic money and formal banking channels for transactions. Recovery has been slower in tier 2/3 cities versus metros/ tier 1 cities.

4. Essentials consumption – Recovering swiftly: We observed that essentials consumption has been the quickest category to pick up (down only 10-15% so far). Discretionary consumption (especially big-ticket items) is expected to take 3-6 months to recover. We believe the recovery order would be trade, manufacturing and construction in terms of economic activity. Consequently, sector-wise recovery order could be Essential Staples, Impulse Category Staples, Telecom, Petroleum Products, Consumer Durables, Autos, Cement, Home-improvement and Realty.

5. Organised players to gain market share: Given increased acceptability of plastic money, government's focus on digital cash and GST push, organised players should gain market share. This was visible post demonetisation as super markets and organised electrical product stores saw a mild rise in sales, while unorganised trade dried up.

6. Keenness to accept digital payments: We observed that acceptance of digital payment modes by traders was wide-spread. It varied from usage of Pay-TM by micro retailers, multi-fold increase in application for POS terminals by shops and increased activity on the UPI front.

Impact on key economic activities:

- Agriculture: Vegetable prices have been hit the most given the perishable nature of produce and a bumper crop due to the early onset of winter. Wholesale vegetable prices were down 70-80% across India, while retail prices were down only 20-30%. Grain prices have been stable so far. o APMC activity in the North has been hit more given the higher cash component in trading. Wider acceptance of cheques/RTGS has lent support to western/southern APMC markets.

  Rural areas are still facing cash crunch along with lower number of banks (at times one bank servicing five villages) – this has led to some productivity loss in farms.

- Construction: Retail construction activity has been halted, while institutional construction is going on, albeit at a slower pace. Construction activity also has been impacted by sand/ steel availability (majorly traded in cash; hence, a bottleneck).

- Trading: Dealers/stockists have seen an inventory build-up of 1.5-1.8x across sectors. A few companies have extended credit (HUL, GCPL etc.) and some have not (Asian Paints, ITC etc.). New orders have been muted. Wholesalers, especially in North India, have seen an impact on trade, given higher cash component of transactions. Cash retail sales have been impacted the most. Part of this demand has been postponed or destroyed and part has been fulfilled through the organised retail channel.

- Manufacturing: We visited various manufacturing hubs across India and observed a sharp decline in activity in the unorganised sector. The unorganised sector is dependent more on cash (daily wage payments and supply chain transaction are cash based).

Sectoral impact:

- Autos: Two-wheelers, tractors and CVs have seen the most pronounced impact (~40-50% dip) compared with passenger vehicles (20-30% decline). More delivery postponements have happened in rural/semi-urban areas given the high amount of cash used. We observed that Maruti's and Eicher's deliveries were the least impacted.

- Cement: While retail cement demand has completely dried up, institutional demand is keeping it going. Overall demand is down ~20-25%, with a pronounced regional effect.
- Consumption: Staples – Staples have seen a quick recovery, with sales down only 10-15% of the original level. Essentials demand has recovered completely, while impulse purchase category is still seeing the impact.
- Discretionary – Durables sales in smaller towns/rural areas have been hit significantly. In metros, wedding season and financing options have lent some support to durables demand.
- Home improvement: This segment has seen a sharp decline in sales ranging from 50-60% to 70-80% decline across categories (paints, tiles, window panes, sanitary-ware etc.).
- Realty: Price correction is expected widely, especially in regions with lower ready reckoner rates. We also observed a spike in pre-dated sales in Nov (which happened in old currency).
- Telecom: Usage of old currency notes has lent some support to pre-paid recharges, thus negating some of the lost sales in mid-Nov. New activations are down 15-20%. Pre-paid recharges in rural areas have suffered more given the cash crunch.
- Fleet traffic/Oil & Gas: Fleet movement has been impacted more in North/West/East/central India compared with the South given their cash dependence. Though acceptance of old notes helped boost sales in early-Nov, sales in petrol pumps are down in general and the impact would be clear only in Dec.
- Impact on GDP: Overall, we have reduced our GDP growth estimate for H2FY17 to 6.4% from 7.8% earlier. The maximum impact will be seen in Q3FY17. The sectors that are likely to be hit the most are Construction, Trade, Electricity and Manufacturing. GDP growth for FY17 is expected to be lower by 60bps at 7% (7.6% earlier) and for FY18 to be lower by 20bps at 7.6% (7.8% earlier).
- Transactions approach, an alternative way to assess the impact on economy: We have attempted to analyse the impact of cash transactions on overall transactions growth to arrive at an impact on the economy. As per the analysis, we expect that transactions growth (22% till Oct-16) might fall to 16.1-19.4% for FY17.

India Strategy

The impact of such an enormous demonetisation exercise is difficult to determine (specifically, determining the duration of the 'near' term impact is difficult). We had recently increased weights for B2B, utilities, Oil & Gas and sectors that have businesses outside India. We had reduced our weightage on Financials and sectors facing the retail consumer (Autos, Consumer discretionary etc.). Our 'on-the ground study' reiterates the sectoral recommendation shift. We would like to emphasise that over the next six months, we will have more of a 'bottom up' approach to stock selection as the impact of demonetisation could vary. Meanwhile, we maintain our sector calls – Our top picks are HDFC Bank, SBI, Tata Motors, HPCL, Adani Ports, Sun Pharma, Godrej Consumer, Aurobindo Pharma, Motherson Sumi, Infosys, Tech Mahindra, Power Grid, Adani Transmissions, UPL, EIL, Nava Bharat Ventures, TeamLease, PI Industries, Sintex, Kaveri Seeds and Suzlon. Our top sells are Nestle, Bajaj Auto, HMCL, Titan, BHEL, CCI, DLF and Gujarat Gas.

India's Experience in Industrialisation: Lessons for Africa

India and Africa have considerable similarities in terms of demographics and natural resource endowments. Africa is the second most populous continent on the earth with a population of 1.2 billion people, similar to that of India. Africa has a relatively young population with more than half of the population under 25 years of age in some states. Even in India, more than half of the population is under the age of 25 years. Africa has about 30% of the world's known reserves of minerals. Also, natural resources contribute more than 70% to total exports of the continent. On the other hand, India has the fifth-largest coal estimated reserves in the world and seventh-largest bauxite reserves. India ranks fourth globally in terms of iron ore production.

Both India and Africa have provided tremendous policy thrust on development of physical infrastructure in recent years. According to the Africa Infrastructure Country Diagnostic (AICD), annual infrastructure investment needs in Africa total approximately US$ 93 billion. Similarly, India needs around USD 90.8 billion investment annually on infrastructure development. India and Africa have huge potential for partnership in infrastructure and mining sector. Already, African Natural Resources Centre (ANRC), which is an arm of the African Development Bank, is seeking strategic partners for its regional initiatives in cross-boundary infrastructure projects.

India's industrialization Experience

India is the world's fastest growing economy with its growth projected at 7.17% and 7.68% in 2017 and 2018 respectively. The foundation for this rapid growth was laid in the mid 1980s and early 1990s when the Indian government adopted liberalization, privatization, globalisation and prepared the domestic industry to face international competition.

Since then, the Indian government has been continuing the economic reform process to enhance the competitiveness of the domestic industry. More notably, India announced the National Manufacturing Policy 2011, which is the first of its kind policy encompassing regulation, infrastructure, skill development, technology, availability of finance, and other factors affecting manufacturing sector. In 2014, Government of India introduced the ambitious Make in India initiative, under which action plan was prepared to attract investment in 25 manufacturing sectors. Through these measures, India's policy makers aim to enhance the share of manufacturing in Gross Domestic Product to 25% by 2022 from the present 18%.

Expansion of the manufacturing sector will lead to increase in the migration of people from rural areas to urban areas for employment. In order to strengthen the capacity of the towns and cities to absorb the ever rising population, Government of India is implementing ambitious urban infrastructure projects under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and the Smart Cities Mission. Embracing the cutting-edge information technology in all walks of life will enhance the growth potential of the economy. Realizing this, Government of India is implementing the Digital India programme to transform India into a digitally empowered society and knowledge economy.

As economy grows, demand for skilled labour also increases. In order to meet the ever rising demand for skilled labour, Government of India is implementing the National Skill Development Mission. The Mission seeks to provide the institutional capacity to train at least 300 million skilled people by the year 2022. Micro Small and Medium Enterprises (MSME) sector plays an important role in generating employment opportunities, enhancing exports and thereby promoting economic growth. Government of India has introduced the MUDRA Scheme and the Stand Up India scheme to enhance the flow of finance to MSMEs and new entrepreneurs from marginalized sections of society.

Infrastructure is the key enabler for sustainable economic development. Government of India has introduced various mega infrastructure projects such as the Golden Quadrilateral highway network, Delhi Mumbai Industrial Corridor, Eastern Dedicated Freight Corridor (EDFC) and many other regional industrial corridors to boost industrialization. In order to improve ease of doing business, Government of India is working with the state governments to simplify the procedures for starting a business, securing all mandatory clearances, easing labour regulations, enforcing commercial contracts and so on.

Besides the above ambitious policies, Government of India has adopted appropriate trade policy, fiscal policy, financial sector reforms and overall macroeconomic management to support industrialisation. For instance, Government of India announced the Foreign Trade Policy 2015-20, which aims to enhance India's annual exports to USD 900 billion by 2020 from the present level of around USD 450 billion.

Foreign Investment

Foreign investors have responded favourably to the above mentioned progressive policy regime. During the last three years from 2014-15 to 2016-17, foreign direct investment (FDI) equity inflow grew a whopping 40% to US$ 114.41 billion compared to the preceding three years. India has been consistently ranked the third preferred destination for foreign investment after the USA and China by UNCTAD in recent years.

India's 25 years of experience in economic reforms and industrialization has generated valuable lessons for its future development strategy and for the policymakers of other developing countries. Some of our policy initiatives have improved productivity and competitiveness of the domestic industry, while other policy steps have borne mixed outcomes. Following lessons can be learnt from India's policy experimentation with industrialization.

Lessons from Success

1. **Ability to take bold political decisions to respond to crisis:** The key lesson India holds for any developing country, whether in Africa or elsewhere, is that if you take bold economic reforms (even while facing stiff opposition from political parties) to respond to crisis, it would bear fruit in the long run. The Indian government took the bold decision to de-regulate the economy, reduce government spending, devalued Indian currency, relaxed norms on foreign investment. These measures were instrumental in transforming India into the fastest growing economy in the world today.

2. **Progressive Tax Reforms:** After 1991, India has gradually adopted progressive tax regime by taking the following measures. These measures have improved the competitiveness of Indian industry, improved tax compliance and enhanced government tax collection**.**

   a. **Rationalisation of direct tax –** In recent years, Government of India reduced corporate tax rate and rationalized personal income tax slabs. Reducing corporate tax rate not only improves the competitiveness of domestic companies, but also ensures greater compliance. Rationalisation of personal income tax slabs and increasing exemption limit for salary earners has improved domestic consumption. In order to incentivize investment in new plant and machinery, the government has offered additional tax exemption for depreciation of these fixed assets.

b. **Rationalisation of indirect tax** – The excise and customs duty were prohibitively high in India and this dented the competitiveness of Indian industry in the global market. Over the years, Government of India reduced the peak customs duty on imported goods. This enabled local industries to import capital goods at lower import duty. The government has also reduced the excise duty on various manufactured products to make them globally competitive.

c. **Tax Administration Reforms –** Government of India rationalized tax administration system to ensure easy collection of taxes, ensure timely refund of taxes, streamlining returns filing procedures, setting up tax dispute resolution mechanism. An effective dispute resolution mechanism is essential to inspire investor confidence in tax administration. Although India has taken steps such as setting up income tax appellate tribunals, improving dispute resolution mechanism in the indirect tax system and so on, the work is still incomplete. Tax departments are saddled with many litigations and the government is working on an efficient process to settle these disputes in a time-bound manner.

d. **Ushering new era with GST** – One of the biggest reforms in the history of India is in the implementation of the Goods and Services Taxes (GST). GST will help India becoming globally competitive with simplified tax structure and will promote 'ease of doing business'.

3. **Introduction of public private partnership (PPP) regime for infrastructure projects: Investment** in infrastructure is crucial to support economic development. Considering the limited government resource available for infrastructure investment, we need to rope in private sector in infrastructure building. Government of India developed model concession agreement for PPP projects in power, roads and highways, public health, ports and shipping and so on. The key lesson from India's experience in PPP projects are – 1. The risk in infrastructure projects should be equally shared between private and public sector. 2. Government must get all statutory clearance (such as land acquisition, environment clearance) for infrastructure projects before awarding them to private sector.

4. **Ease of Doing Business –** India has made considerable progress in improving ease of doing business. However, it continues to be ranked very low in World Bank's Ease of Doing Business. The lessons learnt are as follows –

a. **Poor enforcement of contracts: One of the parameters of ease of doing business** ranking of World Bank is enforcement of commercial contracts. Government of India has taken various measures since 1991 to fast-track insolvency resolution system. These include setting up of Debt Recovery Tribunals, passing SARFAESI ACT, promoting asset reconstruction industry and so on. However, despite these measures, banks and investors found it difficult to recover capital from insolvent companies. Therefore, now government of India passed the Insolvency And Bankruptcy Act, 2016 to provide robust mechanism for winding up of insolvent companies and protecting the interests of creditors and investors in bonds. It remains to be seen how far the new Act accomplishes this.

b. **Labour regulations:** India has more than 100 labour laws (of both the central and state governments). These regulations stipulate undue compliance and administrative burden on industries. The central government is in the process of combining its myriad of labour laws into 4 or 5 laws. Some state governments have also taken steps to simplify their labour laws. Other state governments must also follow suit.

5. **Strengthening manufacturing sector:** India is a major exporter of gems and jewellery, pharmaceutical products and leather goods. India's automobile and petrochemical industry are also fairly developed.

6. In order to improve domestic manufacturing sector, government has provided policy thrust to the following areas –

    a. **Skilling Youth**

    b. **Further liberalizing FDI norms in manufacturing**

    c. **Developing mega industrial corridors (DMIC, East West Corridor)**

Monetary and Fiscal Policy Dynamics in Indian Context

Deference in achievement of target of missions especially the Make in India has been a concern. Make in India not only contributes to the healthfulness of key economic indicators of growth but holistically achieves growth in many other essential sectors. The Indian economy was projected to grow @ 5.5% in 2014-15 and 7.4% in 2015-16. The growth target achieved with reference to the relevant target is 7.4% in both the years without any marked difference in the year 2015-16.

Indian economy has still not outgrown the sluggishness of growth. A primary survey conveys the main reason being slow bureaucratic reforms, inadequate infrastructure and many more. Falling crude oil prices definitely helped boost decrease in fiscal deficit however with the exports and growth in manufacturing sector not being factored in the same. There was practically a fall in the exports and the growth in manufacturing too was too small to have a negative impact on the fiscal deficit decreasing the same.

Falling Chinese economy, though small to reflect on the Indian economy , however would have resulted in large positive reflections if India was ready with the necessary fortifications to step in and make the most of it. India's staggering bureaucratic policy reforms have put India on the side track. India has a rich supply of English speaking human resource, good quality businesses and investment in plant and machinery and raw materials to produce finished product. India's domestic consumption is huge and in presence of policy reforms would allow smooth running of businesses and production facilities to produce at competitive prices. Thus there was no dearth of opportunity to attain secured economic status for India.

In continuation to our efforts to bring forth the causes behind this burning issue we suggest the following measures to be taken up by the Government.

1. Trade Deficit

India is showing trade deficit with almost all the countries it is trading with, major one being China. Owing to the large trade deficit with China the Indian government has been urging Chinese companies to invest and open its service and pharmaceutical sectors to Indian companies .Chinese billionaire Wang Jianlin led Dalian Wanda Group said that it will develop a $10billion industrial park in India. China's move to slash steel and coal manufacturing output will greatly benefit Indian steel makers who have been adversely affected as China's overcapacity finds a ready market in India. The domestic steel makers have been demanding the Indian government to impose anti dumping duty on the Chinese imports.

Though the government is sparing no time and effort to chip in foreign investments from countries like Japan and China for strategic infrastructure development in terms of transport, logistics and setting up of industrial parks, it should noted that it needs to include other measures to curb the towering trade deficit. These measures could be bringing about speedy reform and clearance of regulatory issues in the raw material export sector especially coal and steel, which contributed to about 40 % to India's export strength in the previous years and dwindled majorly due to bureaucratic mismanagement thus widening the trade deficit. Customs and tariff related issues need more digitization and transparency to avoid loss of revenue due to corruption. Legalized cluster formation of companies for import and export of produce needs to be formulated and can happen only through better reciprocity and digitization. This will also decrease shipment costs.

2. Interest Rates & Lending Issue

The Indian economy too is pegged to the dollar however the same is not strategized to make positive returns in the rising and falling side. Corruption and mismanagement led to widened fiscal deficit in current account balances. The high interest rates failed to attract FDI too on the large scale due to improper fundamentals of the sick industry.

Though the fiscal deficit has been curbed and businesses are set to revive there is no holistic integration of inputs which will make this change actually happen leading to sceptism, eg on one hand start ups are being encouraged and on the other hand out dated tax reforms and proposed increase in Government fee for patents are opposite reactions.

For economies like India with a large amount of debt, the prospect of deflation is scary . Deflation means price levels in the economy fall but the value of the loan remains the same, making it increasingly difficult for the borrower to honor its commitment. As China accounts for nearly a fourth of the world's manufacturing and assuming all the RMB's decline would push down prices globally by nearly 14 percentage points.

The finance ministry has put in a responsible whole time committee to manage the interest rate scenario collating information from all the contributing sectors of the economy and tune the same accordingly. However it has been noted there has been a constant demand for rate cuts but the rate cut advantage does get effectively transmitted to the beneficiaries leading to more harm to the other sectors for which it does not stand good bringing more bruises to the economy.

MUDRA and CGTMSE schemes are specially meant for the MSME sector but un viable limitations in these schemes have led to their non relevance to the sector. The CGTMSE scheme needs to revised in terms of upper ceiling and duration to make it viable for the sector for which it has been introduced. The six month processing period has made it defunct for good use.

3. Growth in NPA

NPA s in the banking sector has been a point of issue. Non integration of bank lending through out the sector reference to a single ID has been a cause of the same which has affected not only banks but genuine seekers of funds. There are large parties who have sought to seeking funds on basis of their names and duped the banking sector to a large extent, also the inefficiency of the banking sector to make adjustments to rules while securing itself have also led genuine seekers being turned down. Banks need to make an effort to put stress on the objective of the bank and the beneficiary while initiating the lending process rather than put emphasis on rules.

At the same time, RBI has been creating processes for banks to recover money and will be more firm in dealing with the borrowers and cleaning their balance sheets with idea that not to shut down firms but to put them back on track into earning mode so as to repay their loans.

Defaulting firms should also take care that they should have austerity measures until they recover their earning position. At the same time firms should not forget society while maximizing shareholder value.

The strategic debt restructuring scheme though respite in clearing NPAs has its own set of design problems. The 18 month window for lenders to find a new promoter is a short time period. The first 90 days involve invoking the SDR, valuing the company, conversion of debt to equity and so on, and banks need to prepare a restructuring plan, which has to be approved by all members of the lenders consortium. Simultaneously, the lenders have to work on identifying a new promoter who has to complete his due diligence, valuation and acquisition documentation of the company.

Thus 18 months being a very short period. If banks are unable to sell to a new promoter within 18 months then all regulatory relaxations cease to exist and lenders have to treat these assets as NPAs and make 100 percent provisioning for these assets in majority of the cases. This affects profitability in a big way. Another connected problem is that the SDR rules do not explicitly provide for partial stake sale and banks have to sell entire stake in the company to the new buyer, which becomes difficult.

4. Mismanagement of City Infrastructure, smart city concept not implemented in New Delhi itself

Delhi's odd even policy was a brave experiment and a clear departure from how policy makers have sought to tackle worsening pollution. However, it is reflected that the potential policy innovations need to be carefully designed, piloted and evaluated for impact as well as the costs imposed, until there's a sustained improvement in Delhi's air quality.

There is a need for more rigorous and carefully designed studies in addition to smart policy experiments and quality data, to uncover which policies work most effectively to contain congestion and pollution. This in turn requires policy makers to work in close collaboration with researchers at the early stages of policy design.

It was found that the odd even policy for traffic control contributed very little to curbing air pollution as the reason for air pollution was not only due to pollution due to plying cars but many more. Moreover the policy was forced on the population without taking dissenting voices into account.

5. Infrastructure development and sourcing delays

Tax holiday, patents, ease of closing companies, investment fund and a getaway for public procurement are multifaceted measures that will definitely make it easier for companies to do business. If start ups have to grow exponentially as envisioned by the Government of India, it needs to take drastic steps. World class start ups require world class infrastructure.

Start ups today face many problems such as that of taxation, funding and poor infrastructure. Regulation is to ensure fair play and cannot be a burden. No regulation should hurt or kill the genuine business activity. The entire banking industry requires a facelift in terms of human resource and lending fundamentals.

6. Non clearance of road blocks in mining sector

The Indian mining industry is passing through a critical phase witnessing even negative growth rate primarily due to closure of iron ore mines in the states of Karnataka, Goa and Odisha, high costs of borrowing and policy paralysis.

The mining and quarrying sector needs to grow at rate of 10 to 12% per annum in order to cater to the requirement of raw materials by the industries. As mining is interlinked with industrial development, the security of raw material is of prime importance and as such, the pro-active role of union and state governments is called for to ensure an era of mineral development. It is time we address the areas of concern coming in the way of mining or we will need to import both the raw materials and the finished products, which the country can ill afford.

7. Taxation Issues

India would be placed among the five most unequal economies in the world. The Indian tax data should be made public so as to estimate these income inequalities. There are hopes that the prudent implementation of the GDP will be a boost to the large taxation issues in the Indian scenario. The GDP should ensure that there is no flight of domestic capital abroad in the name of loopholes in the system.

8. Railway

The railway network in India is one of the world's largest railway networks comprising 115,000 km (71,000 mi) of track over a route of 65,808 km (40,891 mi) and 7,112 stations. It is one of the biggest consumers of MSME products, power and a large employment provider. However the sorry state of Indian Railway services and balance sheet is a cause of concern.

There are talks around to add to this transport infrastructure, high speed trains which are also attracting FDI. However, apart from balance sheet problems there are vast number of service related problems and loss of revenue due to digitisation problems. Though the railways boast of improvements, it is much said than done.

Turnaround of railways would mean the Indian Government earning nearly 20% of the revenue from the same. Mismanagement of assets and liabilities has been a cause for the railways to have taken a setback. Their case can be also treated as a failure of bureaucracy. The Railway debt needs to be structured into secured bonds and rapid steps need to be taken to improvise the Indian Railway system instead of further burdening the system with new ideas on a weaker foundation.

9. Rural India

Rural India has the potential to grow by 8-9% per year, however lack of road and digital connectivity has hampered this growth. India is blessed with rich soil and traditional and modern techniques which need to be integrated into boosting sustainable farming and making it popular in the rural scenario. Financial and operational literacy and organization of farmers in the areas of small farm holdings is the need of the hour. Connecting farmers with the Industry and exports is needed to be made as a mission so that farmers do not treat agriculture as a means of livelihood but as a business enterprise.

10. Power & Discom Sector

This sector like the railways is a diseased sector and survived at the mercy of its mere eminent position in the society. This sector needs to be privatized if it has to see the light of the day. Non existence of competitive tariffs, deficient administrative functioning and overall non integration of resources has been the reason for its inefficiency.

Reviewing India – Japan CEPA

(Comprehensive Economic Partnership Agreement)

India's Comprehensive Economic Partnership Agreement (CEPA) with Japan came into force on August 1, 2011. Government of India and Government of Japan expected bilateral trade between both the countries to grow to USD 25 billion by 2014 from USD 13.7 billion in 2010-11. However, bilateral trade between grew only to USD 16.29 billion by 2013-14. Since then, India's bilateral trade with Japan declined to USD 13.61 billion in 2016-17. The 4th Joint Committee Meeting will be held in this context of the declining bilateral trade volume. The Committee must discuss ways to boost bilateral trade in goods and services. Further, the committee must deliberate on ways to promote bilateral investment. Specific measures to promote cross border investment such as setting up investor facilitation cell, improving ease of doing business, strengthening investor-state dispute settlement mechanism must also be discussed. Following are some of the key concerns or issues that may be discussed to promote bilateral trade in goods and movement of natural persons:

Continuing trade deficit: India's trade deficit with Japan continues to remain above USD 5.5 billion since 2011-12, although it temporarily declined to USD 2.6 billion in 2013-14. Since 2011-12, India's exports to Japan declined 39% from USD 6.32 billion to USD 3.85 billion in 2016-17. On the other hand, India's imports from Japan fell only 18% to USD 9.76 billion in 2016-17 from USD 11.99 in 2011-12.

Diversification of trade basket: Since 2011-12, there has been visible signs of diversification in India's export basket to Japan. In 2011-12, mineral fuels accounted for 42% of India's exports to Japan. In 2016-17, the share of mineral fuel has declined considerably to 14.6%. This diversification is mainly because of growth in India's exports of organic chemicals, machinery and mechanical appliances, vehicles and vehicle parts, plastics and articles thereof, footwear, articles of leather, articles of apparel etc. The 4th Joint Committee Meeting must discuss ways to sustain this process of diversification in India's export basket.

Market Access for Food Commodities: India's export of certain commodities such as fish, meat, animal fodder has declined between 2011-12 and 2016-17. The 4th Joint Committee Meeting must discuss the reasons for the decline in these exports.

India's exports to Japan (in USD Million)			
HS Code	**Goods**	**2016-17**	**2011-12**
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODDER	86.58	472.45
3	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTABRATES	383.51	408.2
16	PREPARATIONS OF MEAT, OF FISH OR OF CRUSTACEANS, MOLLUSCS OR OTHER AQUATIC INVERTEBRATES	5.71	20.87
9	COFFEE, TEA, MATE AND SPICES	43.13	48.36
Source: Ministry of Commerce and Industry			

Under the Comprehensive Economic Partnership Agreement between India and Japan, exports of fish from India enjoy preferential treatment subject to the condition that the consignment complies with the rules of origin. Indian exporters of fish, however, complain that they are unable to avail preferential treatment for their goods because of alleged non-compliance with rules of origin. India's fish exports do not comply with the rules of origin simply because Indian exporters apply a negligible amount of an imported Cryo-protectant called TSPP for preserving fishes. The 4th Joint Committee Meeting must discuss this issue.

Market Access for India's Pharmaceutical Exports: Export of pharmaceutical products from India declined to USD 40 billion in 2016-17 from USD 47 billion in 2011-12. One of the competitive advantages of India is its pharmaceutical industry, especially the generic drug manufacturing sector. India's pharmaceutical industry is capable of meeting the demand for generic drugs in Japan at a globally competitive price. The 4th Joint Committee Meeting must discuss ways to promote export of generic drugs from India.

Market Access for Indian professionals: According to the terms of the CEPA, Japan will discuss the issue of providing access to Indian professionals such as nurses and careworkers within two years from the date of enforcement of the CEPA (i.e. August 2011). The 4th Joint Committee Meeting must discuss the progress on this front.

Mutual Recognition Arrangements: Trade between two countries may suffer if both the countries have different regulations on product quality and safety standards. Many a times, customs authorities reject goods because the goods do not comply with the safety and quality standards in the importing country. In order to eliminate this barrier to trade, the relevant authorities in both the countries must recognize the quality and safety standards of each other. This can be accomplished by establishing Mutual Recognition Arrangements on technical regulations, standards and conformity assessment procedures. India-Japan CEPA has called for establishing Mutual Recognition Arrangements in sectors such as electrical products, telecommunications terminal equipment and radio equipment and others as may be mutually agreed by the Parties. The 4th Joint Committee Meeting must discuss the progress on this front.

Recommendations to promote exports from Rajasthan

Rajasthan is the largest state (in terms of area) in India with a contribution of around 5% to the annual economic activity of the country. Major exports from the state include gems and jewellery, marbles and stones and handicrafts. The capital city of Jaipur is renowned for precious gemstones. However, the state still lags behind some other landlocked states in terms of export performance and export infrastructure. For instance, the number of exporting special economic zones in the state is only 4 compared to 11 in Uttar Pradesh and 7 in Haryana (as of December 2015)*. Similarly, the number of export oriented units in the state is 57, which is less than 65 in Haryana.

In recent years, the state government has taken several policy initiatives to boost exports. One such policy is the Policy for Promotion of Agro-processing and Agri-business 2010 to promote exports of processed food. In order to promote export in the services sector, the state government introduced Rajasthan Tourism Unit Policy 2015, Rajasthan E-Governance IT & ITES Policy 2015, Rajasthan Biotechnology Policy 2015 and so on. While the above measures lay the foundation for a favourable policy framework to encourage exports, we feel the following measures may also provide further boost to exports across different industries.

1. **Promote education on international trade:** The most important step to promote exports is to create awareness about the benefits of international trade and the procedures for international trade among micro, small and medium enterprises, cottage industries, young aspiring entrepreneurs and so on. Imparting appropriate knowledge on foreign trade empowers and inspires young entrepreneurs to explore international trade as viable career option. Therefore, the Government of Rajasthan must collaborate with industry bodies or reputed education institutes to set up a separate agency for offering courses on export-import management, providing support services for exporters and importers, skill development in logistics and trade documentation and so on. Similar initiative was taken by the Government of Gujarat recently. The industries department of the Government of Gujarat signed a Memorandum of Understanding with the Ahmedabad Management Association to set up the GoG-AMA Centre for International Trade. This centre was formed to design programme for trade promotion, offer trade support services, trade information, train manpower, create awareness on exports and imports etc. The centre would also disseminate knowledge on WTO, Intellectual Property Rights and promote research on foreign trade in products and services of interest to Gujarat.

2. **Promote Ease of Trading Across Borders:** Improving the ease of trading across border is another driver to promote exports from the state. The Government of Rajasthan may improve the ease of exports through the following measures:

    a. **Setting up a dedicated cell to promote exports:** The Government of Rajasthan has intimated the Central Government about the appointment of an Export Commissioner to co-ordinate all the export related activities of the state government. The state government must also set up a special cell, under the Commissioner, for supporting exporters. Such a cell must hear the grievances of exporters and take them to Directorate General of Foreign Trade (DGFT) or the concerned ministries in the central government or export promotion councils, as the case may be, for immediate resolution of the same. The special cell should also disseminate trade leads and information about potential importers of various products and services. In order to encourage excellence in exports, the cell must introduce awards, conduct seminars and workshops for creating awareness on international quality standards. The Government of Odisha has set up similar cell by renaming its State Purchasing Organization as Directorate of Export Promotion & Marketing, Orissa. The directorate is also responsible for creating export facilities and infrastructure such as Export Promotion Industrial Park.

b. **Speedy administrative procedures for compliant exporters:** Government of India offers speedy customs administration procedures for certain class of exporters who have satisfactory track record in terms of paying taxes, maintaining professional accounting practices, adopting sound internal controls and safety standards and so on. In order to supplement this initiative of the centre, state governments can simplify procedures, which fall under their purview, for exports. Government of Rajasthan can offer simplified export import procedures for such exporters who have clean business track record in the last three years of operation. For exporters with clean track record, the government may allow seamless movement of goods through trucks across check posts, single window facility for licensing, renewals, compliance and other paper work, exempting unnecessary site inspections and so on.

3. **Promote cluster industries:** Rajasthan has many small and medium industries clusters across gems and jewellery, leather, garments, wood products, marble products and so on. These clusters hold tremendous export potential. Government of India, under the Micro and Small Enterprises – Cluster Development Programme, offers support in terms of quality certification, technology upgradation, creating awareness on intellectual property rights and so on to these clusters. The Government of Rajasthan must supplement these measures by organizing buyer-seller meetings and providing them incentives to participate in global trade fairs. The state government must also empower these clusters with improved access to quality raw material, access to institutional credit at subsidized interest rate, offering relevant skills to laborers in these clusters based on market requirements and so on.

   Besides supporting the existing clusters, the state government must promote clusters in emerging sectors or industries where it has untapped potential. Recent studies conducted by some industry associations suggest that Rajasthan has huge untapped export potential in the organic farming, which uses minimal fertilizers and pesticides. The state produces crops such as cotton, turmeric, ginger and certain pulses through organic farming. The state government must promote world-class industrial clusters for processing, packaging and labeling of these organic products based on the globally accepted quality and certification standards. Each cluster must have common facilitation centre which can be used by all the individual units in the cluster.

4. **Setting up of Dry Ports:** Rajasthan, being a landlocked state, has to depend on the ports of neighbouring states such as Gujarat and Maharashtra for export and import of cargoes. Therefore, exporters and importers of Rajasthan have to complete their shipping formalities at ports in these neighbouring states. In order to enable them to fulfill the shipping formalities in their own state, the Government of Rajasthan must promote the setting up of dry ports or inland container depots (ICDs) at various districts of the state. ICDs, linked to railway lines, are already functioning in Jaipur and Jodhpur under Container Corporation Of India Ltd. The state government must promote more such ICDs, especially from private sectors. Setting up ICDs involves acquisition of vast land for storing containers, providing rail infrastructure and so on. The state government

must facilitate the acquisition of land for such projects and it must also work in co-ordination with the Indian Railways for using the latter's vacant land for this purpose. Setting up of ICDs across different parts of the state would enable small and medium enterprises (SMEs) in the neighbouring areas to access them and thereby reduce their logistics cost.

5. **Continuation of investment in export infrastructure despite delinking of funds under ASIDE:** Until 2014-15, the central government used to provide financial support to state governments for building export infrastructure under the Assistance to States for Infrastructure Development and Allied Activities (ASIDE). The central government has approved 31 projects under this scheme for Rajasthan and out of this, work on 25 schemes have been completed. Since 2015-16, the central government delinked its support under this scheme after it increased the share of tax devolution to states to 42% (from the earlier 32%). Even after the delinking of central support under ASIDE, the Government of Rajasthan must continue to invest in export promotion infrastructure by drawing appropriate amount from the enhanced tax devolution receipts.

6. **Setting up additional inspection facilities and upgradation of existing facilities:** Unlike domestic sales, export cargoes are subject to complex quality testing and certification process to satisfy the quality regulations of the importing countries. Exporters must fulfill procedures relating to Certificate of Origin, health certificate, phytosanitary certificate, pre-shipment inspection, laboratory testing and so on. Rajasthan has several private testing laboratories and inspection agencies, recognized by Export Inspection Council of India, for food commodities, live animals, engineering items, chemical products and so on. The Department of Industries of the Government of Rajasthan must assess the future export potential of different sectors in the state and based on this assessment incentivize private sector to set up export inspection facilities and laboratories in areas where export potential exist. The state government must also set aside funds to offer financial support for private agencies to upgrade their facilities to meet the growing complexity of international regulations.

   Besides the above measures, Government of Rajasthan must also conduct training programmes on sanitary and phytosanitary standards and other technical barriers to trade (TBT) among local industries in collaboration with the Export Inspection Council of India.

7. **Fiscal Incentives:** In order to promote new investment and job creation, your government introduced Rajasthan Investment Promotion Scheme 2014. The scheme offers investment subsidy, employment generation subsidy, capital subsidy and so on to certain enterprises across specified sectors. We suggest that the scheme must also offer fiscal incentives, in the form of subsidies, tax rebate and interest subvention to promote exports from these enterprises in the following ways –

   a. The central government offers interest subvention under which certain part of the interest paid by exporters towards institutional credit is reimbursed by the centre. The state government may offer interest subvention on the remaining amount of interest that is not covered by the central government's subvention scheme.

   b. In another instance, the state government may offer tax incentives for investment made by export-oriented enterprises on research and development. Investment in research and development is essential for product innovation and for improving product quality. Product innovation would enhance the competitiveness of the local enterprises in the international market. Therefore, the state government must offer tax incentives and subsidies for research and development in export-oriented enterprises.

c. The central government reimburses the cost of air fares and cost of setting up stalls for exporters participating in international trade fairs and exhibitions. However, exporters who are registered with the export promotion councils listed in Annexure I of Marketing Development Assistance Scheme (Revised Guidelines 2013) are eligible for such reimbursement. The state government of Rajasthan must offer similar reimbursement to exporters who are registered with local export promotion councils, that are not listed in the said annexure of the aforementioned MDA Scheme.

   The state government must allocate appropriate amount in its annual budget for the above incentives.

8. **Setting up risk capital funds:** Government of Rajasthan must set up a venture capital fund or risk capital fund to provide long term equity support to export-oriented start-up companies in emerging sectors such as biotechnology, mobile technologies, artificial intelligence, robotics and so on. Start-up industry is gaining strength in India in recent years. However, start-up companies are largely dependent on funds from overseas investors. Setting up a risk capital fund for start-up companies would encourage young entrepreneurs from across the country to invest in Rajasthan. However, the funding from such an arrangement must be provided only to those start-up companies who commit a certain portion of their production for exports. It may be recalled that the Government of Australia has set up the Venture Capital Limited Partnerships (VCLPs) and Pooled Development Funds (PDFs) to fund new enterprises involved in high-tech exports. Similarly, the Government of Thailand set up Market for Alternative Investment (MAI) to offer capital to export-oriented companies in the small scale sector.

9. **Outreach initiatives:** Government of Rajasthan must conduct outreach programmes to create awareness about potential export markets, benefits of exports, government schemes to promote exports and so on. Such outreach initiative must be taken besides the export education programme recommended above. As part of this outreach initiative, the state government, in association with World Trade Centre Jaipur must create an export import portal. This portal must contain information on potential foreign markets for various products and services offered by industries in Rajasthan. The portal must also include a window for investors to express their grievances and seek possible solutions for the same.

   One such example is the Global Exhibition Portal System (GEP) introduced by the Korean trade promotion agency KOTRA. GEP offers information on world-wide exhibition to promote the export industry and improve competitiveness of its domestic industry. KOTRA also operates the Trade Information Library which offers the latest information on each country's market and investment conditions.

   State government of Rajasthan, in association with World Trade Centre Jaipur, must also organize buyer-seller meet to connect exporters from the state with importers from across the world. Such a meet must be conducted once in a year so that industries in Rajasthan can gauge the demand for their products and services in overseas markets, expectation of foreign buyers on product quality, specification and standards and so on.

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*Annual Report 2015-16, Ministry of Commerce, Government of India

Sports: A Neglected Sector in India

Sports per say is a valued business. It not only involves talent but stringent discipline and best coaching. The world's best players and Olympic winners are a result of such maneuver.

The Indian governments in the last 68 years of democracy were ridden with the development agenda strictly concerned with economic development and sports has always been treated as a luxury in terms of financial budgets and allowance. It might seem strange that the only aspiration seeded among Indian sportsmen was to have a government job attached to being a sports personality rather than thinking beyond these boundaries. Sport training nevertheless was highly expenditure budget which had nonconformance to likely winning of medals in the international scenario.

Moreover, sports activity had never bestowed players with cash driven benefits as against a career in professional studies or cinema with the kind of hard work put in by the players. Even in today's time we hardly see any motivation among majority of the youth to take up sports as a career. Cut throat competition and favoritism politics is another demotivation which keeps potentially worthy sportspersons out of this profession.

Sports have always suffered a step child treatment when it came to allocation of budgets and has never been treated as an important agenda. If India has made a mark in the world scenario it is only because of the passion of players like PT Usha in the past and the present Olympic winners. There was no Governments push or support in realty. Individuals have taken to heart to fight it out at such international events on their own and with whatever little exposure they have managed from their associates.

This does not happen with the International athletes who have probability of success rate of 100% while the same being 50% in case of Indian players. Dedication , passion, urge to perform, hard work are all the parameters which are 100% match among both Indian and International players what differs is the coaching and the investment in these players from the business and government stakeholders. If there is support from the Indian government and businesses for sports participants then there is no doubt that India would produce at least 20-30 medals instead of barely 2-3.

India already has best of talent attributes in players and coaches , but what lacks is the international standards is the infrastructure and again the best part is the reach of this infrastructure to these players and coaches. When we talk about infrastructure we mean the physical and human resource framework and targets for such an infrastructure to produce medals.

It is a not a wary fact that our players are aged out, by the time they reach the first International event and the investment goes futile as they are not fit for the next international tournament and our loss becomes 100% certain. This happens because our sports training starts quite late as the identification of talent happens late and most of the future players' talent is wasted in being tried and tested until it becomes discoverable to the authorities. Loss of time in discovery of talent leads to the loss in economies of scope for the investment made in terms of finances in such a sportsperson.

Financial investment made on training a budding sports personality should have a minimum time frame to win medals for atleast 2-3 international games, as the initial cost for training is huge. Also, sports training from the early age of five is more beneficial to the player as his or her body is more flexible and alert and adapts to the training needs of the sport. It is very evident that players like Sachin Tendulkar who were trained from a small age of 3 have yielded super performances in their games.

Sports development and its conjunction with political interests has come to light recently and that too in cricket with the recent popularity of the game and attraction of financial returns in this game. Precisely 3 decades back it was possibly the only game played on Indian shores as fireless war between the warring countries of India and Pakistan. The art of playing this game was mostly lost and what mattered was falling of wicket by hook and crook.

As hockey or football was not a populist game amongst the countries and existed more in the western world it did not attract popularity that cricket did. So to say , even the other games in the sports field which could bring national honors also lacked populous interest. Even there were winners, the popularity did not result into much fanfare. In course of times cricket managed to come out of this shield of attention and established for itself an identity, with the BCCI becoming a prestigious body in the field of cricket. However, hockey or football who did receive some attention two decades back lost their position in terms of financial budgets to cricket eventually losing their shine.

India needs to take sports very seriously and needs to adopt a polyvalent approach towards its development. An active sports body in the form of commission needs to be emboldened which will have under its wings the most competitive sports divisions like wrestling, gymnastics, badminton ,tennis, rowing etc. The commission should have human resource of International standards for detecting talent at age 5 and training infrastructure, physical and digital. Special stipends for such sports talent is also an important criteria for building not only their motivation but their confidence. The time horizon for producing probable winners should be for atleast 2-3 international games with a time frame of 20 years from the inception of training.

India and Latin America & Caribbean Countries Partnership

India and the Latin America and Caribbean (LAC) States together account for 17% of the world land area and they contribute almost 10%[1] to the world GDP and more than 7%[2] to the world merchandise trade. Both the regions can realize enormous synergies through partnership in trade, investment and co-operation in tourism and creative industries.

LAC countries have abundant oil and gas reserves. India has one of the largest crude oil refining capacity in the world. LAC countries are blessed with considerable deposits of gold and diamond. India is the world's leading centre for processing gold and diamond. India, which is a leading pharmaceutical manufacturer in the world, can supply essential drugs to LAC countries. India being the second largest steel producer in the world, can meet the demand for steel in LAC countries, many of whom are investing heavily in infrastructure projects.

On the other hand, LAC countries can consider India as an alternative destination to diversify their export market. These countries can also consider India as a gateway to their entry into the South Asian market. This whitepaper outlines some of the areas of co-operation to strengthen trade and investment between India and LAC.

In order to understand how both the economies can collaborate in bilateral trade, we need to understand the existing trade flow in India and LAC countries.

LAC Trade[$] – Dominated by EU, USA and China

Exports

Currently, USA, European Union and China are the major export partners of LAC countries, accounting for more than 60% of exports. Around 43% of total export of LAC countries goes to USA, 10% to the European Union and 8.9% to China. Thus, USA is the major export partner of LAC countries. A country-wise analysis shows that 79% of exports from LAC countries to USA originate from Mexico. Mexico is a major exporter of machinery and other capital goods, plastic and other rubber products to USA. The North American Free Trade Agreement (NAFTA), which is said to be the largest trade agreement in the world, has enhanced bilateral trade between Mexico and USA. Other LAC countries are major exporters of minerals and other raw materials to USA.

For the 15 Caribbean countries, USA is the largest export partner (with a share of 34% in total exports). The 28-country European Union is the second major export destination for these 15 Caribbean countries, with a share of 13% in total exports. Exports from Caribbean countries have duty free access to European Union as both the regions have signed the Economic Partnership Agreement, which is similar to a free trade agreement.

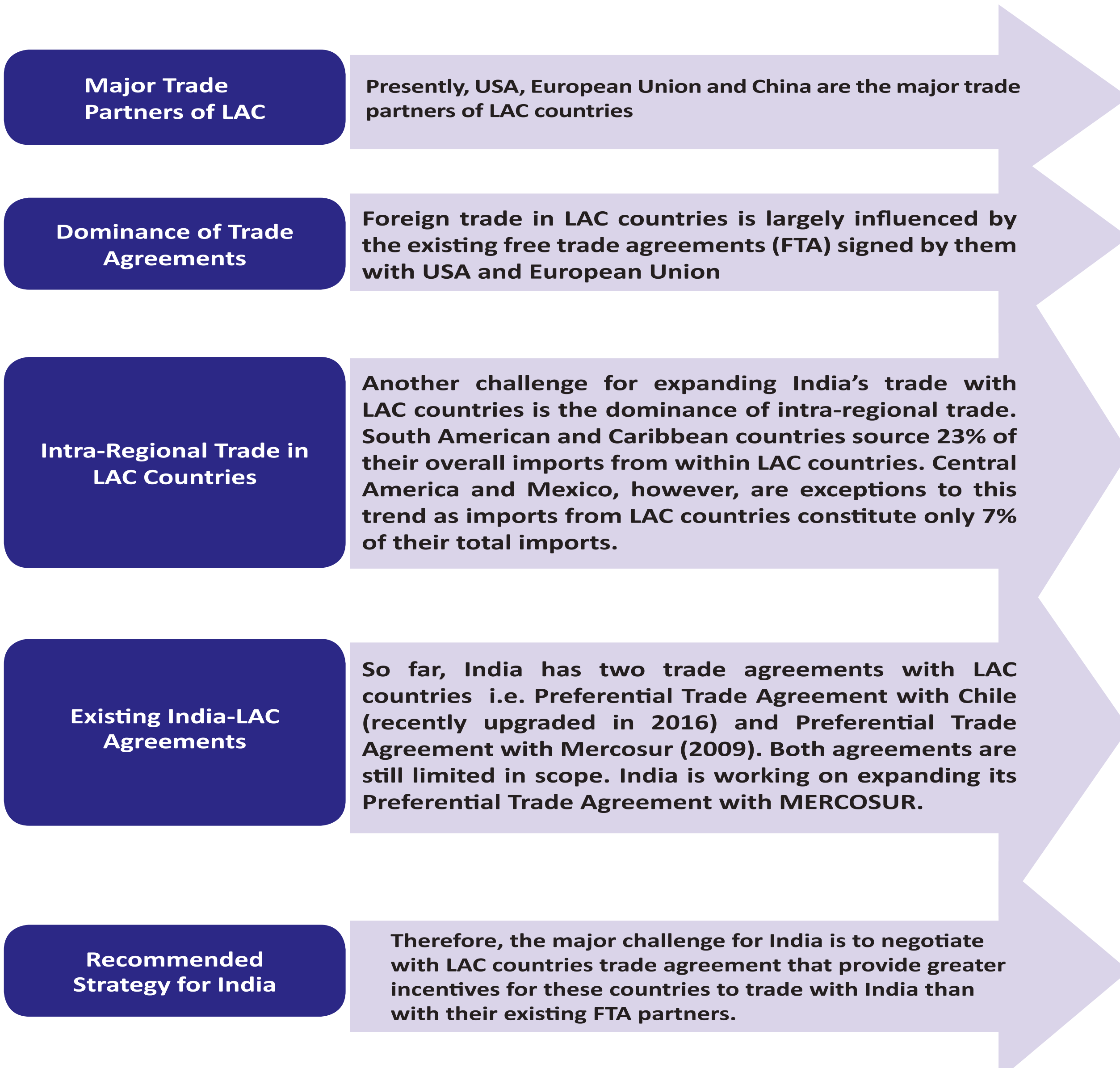
Similarly, USA is a major export partner (with a share of 32%) of Central American countries[@] such as Nicaragua, Costa Rica, and the Dominican Republic. This is because USA has signed a Free Trade Agreement with six Central American countries viz. Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Dominican Republic in 2004. The agreement is called as the Dominican Republic-Central America FTA (CAFTA-DR).

On the other hand, China is the major export partner of Brazil, which is the largest country in South America. China accounts for 19% of Brazil's export, while the 28-country European Union and USA account for 18% and 12% respectively.

Imports

USA, European Union and China are the major source f imports for the LAC countries. More than 40% of total imports in Central America and Caribbean countries originate from USA. China accounts for 16% of imports for Central America and Mexico. On the other hand, China contributes 19% to total imports of South American countries. USA and EU account for 18% and 16% respectively of total imports of South America.

Figure 1 Key Observations on Foreign Trade Pattern in LAC countries



India –LAC Trade

LAC countries account for 4.97% to India's total world trade in goods. On the other hand, India accounts for only 1.46% in the total world trade of LAC countries. Brazil and Mexico are the leading trade partners of India in LAC countries. India's annual bilateral trade with Brazil and Mexico stands at USD 6.5 billion and USD 6.4 billion respectively as of 2016-17. India's trade with LAC region is concentrated in a few sectors and there is a need to diversify the trade baskets. Around 85% of India's imports from LAC region comprise of mineral fuels, agriculture produce, minerals & industrial metals and precious metals. On the other hand, 50% of India's exports to LAC region comprise of automobile & auto components, pharmaceutical products, chemicals and machineries.

Correcting Trade Deficit

India's merchandise exports to LAC countries stood at USD 10.7 billion in 2016-17, while its merchandise imports was USD 20.23 billion, resulting in a trade deficit of almost USD 10 billion. More than 90% of India's trade deficit with LAC region is with three countries viz. Venezuela, Argentina and Brazil. India has a trade deficit of USD 5.4 billion with Venezuela, USD 1.9 billion with Argentina and USD 1.7 billion with Brazil. A key reason for the trade deficit is India's import of mineral fuels (crude oil) and vegetable oil from these countries. More than 90% of India's import from Venezuela is mineral fuels. Similarly, 34% of India's import from Brazil comprise of mineral fuels. On the other hand, 90% of India's imports from Argentina comprise of vegetable oil.

India must correct its trade deficit with Venezuela, Argentina and Brazil by identifying sectors in which it has comparative advantages over these countries and promoting exports in these sectors. Argentina and Brazil are part of the MERCOSUR bloc with which India has a preferential trade agreement. India must negotiate with MERCOSUR countries to expand the number of tariff lines covered under this agreement and thereby improve its market access in Argentina and Brazil. India must also improve its market access in Venezuela. Presently, Venezuela imports 22% of goods from USA, 14% from China and 10% from the 28-country European Union. India must explore sectors where it can compete with China and EU for the Venezuelan market.

Identifying New Markets

Currently, out of more than 40 countries in the LAC region, India's bilateral trade is largely concentrated with five countries. Brazil, Mexico, Venezuela, Argentina and Chile account for more than 70% of India's merchandise trade with LAC countries. It is understandable that India's trade volume with these countries is comparatively larger than its trade with other LAC countries because of the relative size of these economies and their population. However, there is scope for improving its trade relationship with other countries as well in the LAC region.

India must diversify its trade relationship in the region with other countries, while also strengthening its bilateral trade with these five countries. The following table illustrates how India can improve its economic relationship with some of the LAC countries.

Country-specific recommendations for improving economic partnership with LAC region	
Paraguay & Uruguay	India has a preferential trade agreement (PTA) with the MERCOSUR bloc, which includes Paraguay and Uruguay. India's total trade with Paraguay and Uruguay are USD 280 million and USD 202 million respectively. While the scope of bilateral trade may be limited by the small size of these economies, India can explore partnership in investment and services such as tourism, information communication technologies and creative industries. In future, India can convert this PTA into free trade agreement with provisions for co-operation in services sector.
Columbia	India's film industry can consider this country for shooting movies by taking advantage of the country's favourable policy framework. Columbia introduced the 'Law 1556 of 2012', under which the national government offers cash rebate of 40% – 20% for films partially or totally produced in the country. Indian companies can also consider Columbia as gateway to the European Union and USA, with whom Columbia has signed trade agreements.
Panama	Panama is strategically located between central America and South America. The country can act as a logistics and distribution hub for Indian companies entering LAC countries.
Trinidad & Tobago	Sugarcane plantation was a major sector in Trinidad & Tobago till 2007. Since then, farmers in this country abandoned this activity as European Union stopped subsidizing cane farmers in that country to comply with the rules of World Trade Organisation. Therefore, much of the land that was under sugarcane plantation is available for cultivation of other crops. Indian companies can lease some of this land for cultivating alternative crops and exporting them back to India. This will provide livelihood for farmers in Trinidad & Tobago, while also enhancing India's food security.
Bahamas	Bahamas is a major importer of food products. The country imports around 80% of its domestic food supply. India, which is one of the leading producers of rice, wheat, potatoes and onions, can explore export opportunities in Bahamas.
Bolivia	Bolivia has huge reserves of natural gas and lithium in Latin America. India's oil and gas exploration companies can partner with local companies in Bahamas for extraction of natural gas. This will contribute to the energy security of India.
Guyana	Guyana is planning to set up Sovereign Wealth Fund, which will mobilize the revenues generated from the country's huge natural resources such as oil and gas. The corpus of the fund will be invested judiciously on long term projects such as infrastructure, education and other human development projects. India's EXIM Bank can explore opportunities to offer Lines of Credit to these projects at attractive commercial terms.
Mexico and Brazil	The aerospace and defence industry of Mexico was the fourth largest in the Americas, after the US, Canada and Brazil*. At a time when Government of India wants to engage strategic partners in defence manufacturing for procuring defence equipments, we can invite Mexican companies in this sector for partnership with India's defence manufacturers. Mexico also has advanced electronic manufacturing sector. Mexico's electronic manufacturers may set up manufacturing base in India and make it a gateway for their foray into the South Asian market.

Government of India can also consider the following points while planning its strategy to strengthen economic partnership with the LAC countries.

1. **Strengthening Outreach activities:** In order to enhance economic co-operation, Government of India must step up outreach activities such as exchange of business delegations, organising India-LAC trade fairs and seminars. Government of India must also continue its ongoing efforts to open Embassies in LAC countries where it does not have diplomatic mission. India's trade diplomats in LAC countries must constantly engage with industry chambers in both the countries and facilitate their trade promotion activities.

   Government of India must also frequently organize high level visits (at the level of ministers and secretaries) accompanied by business delegation to LAC countries. According to Dr. Nivedita Ray, Director (Research), Indian Council of World Affairs (ICWA), New Delhi, "Leaving a few countries such as Brazil, Cuba and Chile, Latin American countries have not received much high-level attention (from India) so far as bilateral visits are concerned. There is a need to expand India's Latin America outreach. LAC countries would like India to consider opening more Indian Missions in the region."

2. **Facilitating Movement of People:** Governments from both India and LAC countries must take measures to promote cross-border movement of people. Visa facilitation for short term visits of business delegates and tourists is essential to support cross border movement of people. Presently, Suriname offers tourist cards on arrival to Indian tourists. Bolivia, Guyana and a few other countries in LAC region offer visa on arrival facilities to India's short term visitors. Indians do not require visa for short term visits to certain countries such as Ecuador, El Salvador, Haiti, Jamaica, Trinidad & Tobaga, to name a few. Other LAC countries must also introduce similar visa facilitation measures to promote cross border exchange of people.

   Another key step to improve cross border movement of people is strengthening air connectivity between India and LAC region. In recent years, air connectivity has improved with Air India having announced a direct flight to Madrid, Spain. Many airlines operate flight service between Madrid and LAC countries. Government of India must encourage local airline companies to enter into code sharing agreement with their counterparts in LAC countries. Government of India must also enter into bilateral air service agreement with LAC countries to improve air connectivity. Presently, India has bilateral air service agreement with Brazil alone, in the LAC region. However, no airline, from either country, has made use of this agreement. A bilateral air service agreement (ASA) or air transport agreement (ATA) is one whereby two nations allow their respective airlines to launch flights into each other's territory.

   Language is another barrier for people to people contact between both the countries. Diplomatic officials of India and LAC countries must start training programmes to promote each other's language among business community and students. Universities and other educational institutions from both the sides can also collaborate in launching language courses and exchange of tutors.

3. **Diversification of Trade Basket:** India's imports from most of the LAC countries are concentrated in a few commodities such as crude oil, minerals, gold and silver and vegetable oil. For example, 88% of India's import from Chile consists of copper ore. Similarly, vegetable oil contributes more than 90% to India's total import from Argentina. On the other hand, mineral fuel constitutes 90% of India's total import from Venezuela. Therefore, the India's bilateral trade (in terms of value) with LAC countries changes considerably every year based on swings in the global

commodity prices. For example, India's imports from LAC countries declined 34% from USD 26.9 billion in 2014-15 to USD 17.6 billion in the following year because of decline in global commodity prices. In order to have a sustained growth in the bilateral trade between India and LAC countries, both the sides must diversify their trade baskets. India's export to LAC countries is also concentrated in a few sectors. Currently, automobiles & auto-components and pharmaceutical products are the major export items of India. Governments of both the region must commission studies on the comparative advantages of India and LAC countries across various sectors. This will facilitate diversification of trade basket into other sectors where each country has comparative advantage.

4. **Investment Facilitation and Ease of Doing Business:** The diplomatic missions of LAC countries in India must facilitate India's investment in their respective countries by creating awareness on: 1. The state of the economy, government policies and fiscal incentives for foreign investors, potential sectors for investment, procedure for setting up business and so on. The diplomatic mission must support Indian investors in navigating through the mandatory procedure for setting up business in its country. Similarly, India's diplomatic mission in LAC countries must facilitate proposed investment of companies in those respective countries in India.

   A key element to promote bilateral investment is the extension of legal protection to foreign investors. Such legal protection is provided by Indian government to foreign investors under Bilateral Investment Protection Agreements (BIPA) with foreign governments. Government of India has signed BIPAs with Mexico, Columbia and Uruguay in LAC countries. In future, such agreements must be signed with governments of other countries as well to promote cross-border investment.

   Another factor that influences foreign investment is the ease of doing business in the country. Government of India must improve its ranking in World Bank's ease of doing business, especially by creating robust system for enforcing contracts and resolving insolvency. India can gain confidence of foreign investors by improving its legal framework for enforcement of contracts. The recent initiative of setting up Insolvency and Bankruptcy Board of India for speedy resolution of corporate insolvency is a welcome measure in this direction.

5. **Harmonisation of Standards –** Different countries adopt different standards to protect the health of plants, animals and environment. Exporters, who do not comply with the product standards in the importing country, may face the risk of their goods being rejected at the customs. In this sense, national standards are an obstacle to international trade. However, these standards are essential to protect the health of plants, animals and environment.

   In order to promote bilateral trade, policymakers in LAC countries and in India must work together to harmonize their standards. However, the challenge in this area is that there are more than 40 countries in LAC region and each country adopts standards that address peculiar environment concerns in that country. One way to overcome this issue is to develop common standards with different trading blocs in LAC countries. For example, India can develop common standards with Caribbean countries, Andean Community, Pacific Alliance and Mercosur countries. Government of India must set up sectoral technical committees to work with these blocs to evolve common standards across various sectors such as agriculture products, electronic goods, pharmaceuticals and so on.

6. **Maritime Connectivity:** India does not have direct shipping connectivity to LAC countries. Currently, sea cargo bound for LAC countries from India pass through either Durban (South Africa), Europe, Sri Lanka or Singapore. As a result, it takes more than one month to transport goods from India to LAC countries through sea. Shipping companies may not be willing to launch direct service between India and LAC countries unless they are assured of considerable volume of cargo to reduce per unit freight cost. Freight cost can be optimized by aggregating all the cargo originating from India and other south Asian region to different LAC countries. The entire cargo from India and other South Asian countries should be unloaded at one central logistics hub, say Panama, in Latin American region, from where the cargo should be transported to the respective countries. However, this calls for co-ordination among all the south Asian and Latin American countries.

   Another area related to this is the rationalization of customs procedure to prevent delay in transportation of goods. Customs authorities in LAC countries and in India must collaborate to adopt best practices in customs clearance. These include introduction of single window clearances (by integrating the services of all the departments of customs) to ensure speedy clearance of cargoes.

7. **Arbitration Centre:** International trade and cross border investment can lead to disputes if either of the parties violate certain terms of the commercial agreements. Such disputes must be resolved in a time bound manner through an efficient arbitration system. Arbitration provides a legal framework for fair, inexpensive and expeditious settlement of disputes. Policymakers in India and LAC countries must come together to set up an arbitration centre to resolve commercial disputes arising out of trade and investment between these countries. Similar arbitration centre has been set up by the BRICS group of countries (which include Brazil, Russia, India, China and South Africa) for timely resolution of commercial disputes.

8. **Public Procurement:** Companies from India and LAC countries must be encouraged to participate in the international tenders floated by their respective governments for procurement of goods and services. Procedures followed in the international tenders of government procurement are based on the principle of non-discrimination of World Trade Organisation (WTO). Therefore, Government of India cannot provide special treatment to companies from LAC countries participating in the tender. However, we can create awareness about public procurement opportunities in India among LAC countries to improve their participation.

9. **Collaboration in Development Policies:** Apart from the above avenues of collaborations, policy makers of both the economies can learn from each other’s experience in addressing common development challenges. A case in point is the success of the Latin American policy makers in reducing their poverty rates from more than 40% in the year 2000 to around 25% in 2014 because of growth in individual income and increase in labour force participation. During this period, the per capita income in LAC countries has grown an impressive 72% to USD 15,517 from USD 8,994. This excellent track record of LAC in reducing poverty and enhancing per capita income holds valuable lessons for policy makers in India.

10. **United Front in Global Fora:** Policymakers in India and LAC countries must work in co-ordination at various multilateral fora such as G20, World Trade Organisation, United Nations and so on. For example, the 11th Ministerial Conference of World Trade Organisation will be held in Argentina, from 11 to 14 December 2017. Ahead of this Conference, India and LAC countries must work

together to bring consensus on crucial issues hindering the progress of Doha Round of talks. At the same time, India and LAC countries must take a common stance while safeguarding the genuine interests of the developing countries on issues of trade and investment.

India and LAC countries must also co-ordinate on common challenges before the global economy such as climate change, terrorism, tax evasion by multinational companies, global macroeconomic stability and so on.

Sectoral Collaboration:

1. **Agriculture:** One area that holds tremendous scope for co-operation between India and LAC is the agriculture value chain. Currently, co-operation between both the economies in this area is restricted to only trade of a few farm commodities such as sugar, animal and vegetable fats, fruits and vegetables, cocoa products and so on. In the years to come, this trade relationship must evolve into cross-border investment in agriculture, exchange of technologies in farming and animal husbandry and co-operation in creating sustainable value chain in the agriculture sector. In fact, we need co-operation between both the economies at the grassroot level viz. at the level of agriculture universities, farmer producer organizations and agriculture marketing co-operatives.

   For example, in August 2016, the Federal University of Lavras in Brazil agreed to collaborate with Agricultural Development Trust in Baramati (Maharashtra, India) for combined research on technologies and exchange of knowhow. We need to promote similar co-operation between India and other LAC countries to develop a sustainable agriculture sector. In Argentina, the “Pampa Húmeda” region is a leading food producing zone in the world with well developed agricultural and cattle rearing industries, oilseed cluster and so on. Recently, Government of Argentina has eliminated export tariffs on food commodities. Therefore, India, which is not self-sufficient in oilseeds, can explore buying land in “Pampa Húmeda” region for cultivating oilseeds and exporting the same back to India. This would go a long way in ensuring food security in India.

   According to Dr. Aparaajita Pandey, a Research Scholar at Jawaharlal Nehru University, “Many LAC countries such as Brazil, Argentina, Suriname, Guyana, and Trinidad & Tobago face shortage of farm labourers. Consequently, the arable land in these countries lies fallow owing to the non-availability of farm labourers. India, on the other hand, has a surplus labour which is traditionally skilled in agricultural nuances. This could potentially be a great opportunity for cooperation between India and LAC.

2. **Services:** Mining, oil and gas and agriculture are the dominant sectors in LAC countries. Many countries want to diversify their economic activity to services sectors such as information and communication services, construction, tourism, financial services and so on. Already India’s information technology companies have considerable presence in the LAC region. In future, India’s construction companies can explore opportunities in low cost housing in LAC countries. India’s engineering procurement and construction companies in oil and gas, power transmission, roads and highways can also explore opportunities in these countries.

   Another area of collaboration in the service sector is financial services. India’s banks and other financial institutions can enter into mutually beneficial partnership with their counterparts in LAC countries. Collaboration in financial services can also promote bilateral trade. For example, India’s banks can tie up with banks in LAC countries for issuing letter of credit and other trade finance to support bilateral trade. India's EXIM Bank can collaborate with its counterparts in LAC countries to provide Lines of Credit at attractive commercial terms.

3. **Energy:** India depends on imports to meet almost 80% of its crude oil needs. India also imports considerable among of natural gas from Australia, Qatar and Indonesia. India can make LAC countries a strategic partner to meet its energy needs. Already, India's oil and gas companies have presence in Venezuela, Brazil, Colombia, Ecuador, Cuba, and Peru. We can expand this collaboration in non-conventional energy segments such as shale gas, biofuel and so on. Argentina has the second largest shale gas and 4th largest in shale oil reserves.

   According to Dr. Stuti Banerjee, a Research Fellow with a think tank in Delhi, " India can explore joint ventures with companies in Brazil for production and transfer of technology in biofuel sector. The considerable landmass available in Latin America for cultivation of sugarcane, jatropha and other sources of alternative fuels, offers exciting possibilities in the future."

4. **Defence and Aerospace:** LAC is a promising market for India's growing defence manufacturing industry. India's defence manufacturing companies, both in the private sector and public sector, must understand the kind of equipments and systems demanded by the defence forces in LAC. According to Ms. Huma Siddiqui, Senior Correspondent, The Financial Express, "Defence equipments such as body armour, plates, aircraft protection, naval protection, bullet proof jackets, helmets and night vision goggles are in high demand in LAC. These products can be exported to Brazil, Argentina, Chile, Ecuador, Colombia, Bolivia, Mexico, El Salvador and Guatemala. Further, equipments for rescue operations, surveillance and communication have great demand in LAC countries. Indian companies can also consider export of helicopters, logistics vehicles, and sensors, vehicles for weapon platforms and applications."

5. **Micro, Small and Medium Enterprises (MSMEs):** MSMEs are the backbone of any economy as they contribute significantly to employment creation and exports. MSMEs, both in India and LAC countries, face similar challenges such as lack of access to institutional credit, advanced technologies and skilled manpower. MSMEs also face challenge in meeting global quality standards for their products and services. India and LAC countries must conduct a study on challenges faced by the MSME sectors in their countries and develop a framework for co-operation to address these challenges. Industry bodies, financial institutions, quality standards bureau and skill development institutions from both India and LAC countries must work together to address the common challenges of MSMEs. Policymakers in either side must also create awareness among MSMEs about the export opportunities in India and LAC countries, the quality standards regulations and customs procedures. This will promote bilateral trade among MSMEs in India and LAC countries.

References

[1] **Source: International Monetary Fund**

[2] **Source: World Integrated Trade Solutions, World Bank**

[@] **http://www.worldbank.org/en/news/feature/2013/02/07/diversificacion-en-centroamerica**

** **Aerospace Industry in Mexico, by PwC**

[$] **Data on bilateral trade is taken from European Commission, US Trade Representative and World Integrated Trade Solutions**

Sustainable Tourism

The year 2017 is declared as the ‘International Year of Sustainable Tourism for Development’ by the United Nations General Assembly. The vibrant sector of tourism, if effectively developed, can promote the 17 Sustainable Development Goals (SDGs) set out by the United Nations.

According to the World Tourism Organisation of the United Nations, international tourism (travel and passenger transport) accounts for 30% of the global exports of services and 6% of overall exports of goods and services. Tourism is a major source of foreign exchange for many island nations and countries with cultural and historic significance. Apart from promoting international trade, tourism has the potential to support employment creation, poverty reduction, women’s empowerment, environment and biodiversity conservation and promotion of cultural heritage. World over, millions of people generate livelihood from the tourism industry, which includes accommodation, food and beverage industry, entertainment, leisure shopping, transport services, among others. Tourism generates one in eleven jobs and accounts for 10% of the global GDP. Some of the forms of this industry are adventure tourism, wellness tourism, agritourism, culinary or gastronomic tourism, among others. Tourism can also be an effective tool to promote international peace and harmony among countries by developing better understanding of each other’s culture and heritage.

Women in Tourism

Sustainable development of tourism can promote Gender Equality, which is one of the goals of the UN’s Sustainable Development Agenda. Women account for majority of the workers in the tourism industry and most of them are employed as receptionists in hotels, cooks, travel attendants, dancers and other artists in the entertainment industry, workers in personal care, beauty and wellness sector. Tourism also offers entrepreneurial opportunities for women, as in the case of owners of small guesthouses, handicraft and souvenir makers, shopkeepers, food vendors, catering service providers and so on. Skill development initiatives by government and industry bodies will enable these women workers and entrepreneurs to grow up the value chain and enhance their income.

Tourism and environment

Addressing climate change is another goal of the UN Sustainable Development Agenda. The tourism sector contributes 5%-14% to the global warming, depending on how we measure greenhouse gas emissions*. However, tourism is also the major source of livelihood for people in coastal areas and island nations. In order to promote an eco-friendly tourist sector, all the stakeholders must take effective steps towards climate change-related planning and management. Such steps include promoting water and energy efficient buildings in the hospitality industry, preserving biodiversity, promoting responsible tourism among tourists, among others. Responsible tourism involves promoting environment-sensitive behavior among tourists such as reducing food wastage, appropriate disposal of plastic wastes, causing no harm to animals, plants and the ecology of tourist places and so on.

Thus, a sustainable tourism sector is one which contributes to economic growth while also protecting the ecology and culture of the locality.

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* **http://www.responsibletravel.org/whatWeDo/The_Case_for_Responsible_Travel_2016_Final.pdf**

WOMEN IN BUSINESS

Women's Empowerment – With Reference to Labour Force Particpation

Women constitute 49.5% or nearly half of the world population[1]. We cannot attain the United Nation's Sustainable Development Goals, which is the most ambitious mission of mankind in the 21st century, without empowering the half of world population. According to a study by the McKinsey Global Institute[@], "if women participate in the economy identically to men, it would add up to $28 trillion, or 26%, to annual global economic output in 2025 compared with a business-as-usual scenario".

In order to highlight the significance of women's participation in the economy, World Trade Centre Mumbai and All India Association of Industries (AIAI) have jointly organized the sixth Global Economic Summit on Women's Empowerment: Entrepreneurship, Innovation & Capacity Building on March 27, 28, 29, 2017. The Summit would discuss the challenges faced by women in the 21st Century, the role of education in women's economic empowerment, women's leadership in business, government and institutional support for women, the significance of capacity building and the relevance of arts and culture to women's empowerment.

At the Fourth World Conference on Women, in September 1995, world leaders adopted the historic Beijing Declaration and Platform for Action to promote gender equality across all walks of life, including in the economy. Even after 22 years of the adoption of this declaration, women's role in the economy has not changed remarkably. Today, official data shows participation of women in labour force and in entrepreneurship is far less than that of men. Globally, women labour force participation rate stands at 49.6% compared to 76.1% for men as of 2015[2]. Surveys conducted by the World Bank Group across different countries since 2010 show that only 13.7% of companies have majority female ownership and only 18.6% of companies have female top manager[3].

One of the reasons identified by several studies for the unequal participation of women in the labour force is that the burden of family care falls disproportionately on women. According to survey conducted by the International Labour Organisation (ILO) in 2015, the burden of family responsibilities is the leading barrier for women's participation in workforce[4]. Other issues that affect women's participation and retention in workforce are harassment at work and gender discrimination in wages.

While the above reasons hinder women's participation in the labour force, there are some other factors which prevent women's participation in entrepreneurship. According to Global Entrepreneurship Monitor (2015-16), women are less likely than men to engage in entrepreneurship, but when they do, they are more likely to do so out of necessity. Thus, entrepreneurship is not a preferred career choice for women, especially among educated women in urban areas. Women consider entrepreneurship as the last choice for livelihood, if they could not find a job suitable to their qualification or ability. Poor participation of women in entrepreneurship could be due to their perception towards taking risk and fear of encountering financial losses. In rural areas or among marginalized sections of society, the key factors hindering women's entrepreneurial ventures are lack of access to finance, lack of training or guidance, poor awareness about procedures to start a business, ignorance about government schemes and so on.

In order to address the above hindering factors, we need a co-ordinated action among government, non government organizations, business chambers, multilateral development bodies and other stakeholders.

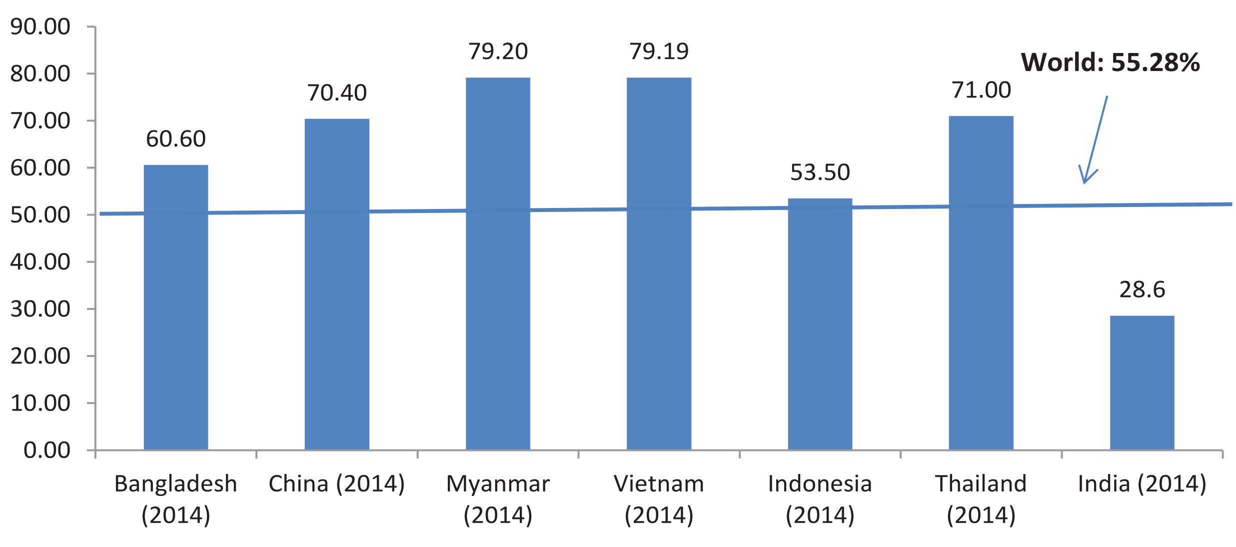
In this section, we have examined the labour force participation of female in the working age group of 15-64. With women representing almost half of the world population, it is essential to examine how far women are represented in the labour force. Lack of women's participation in the labour force means under-utilisation of available human resource and hence it would result in considerable loss of potential economic growth. Under the 2030 Agenda for Sustainable Development, the international community aims to achieve full and productive employment and decent work for all women and men and equal pay for work of equal value by 2030.

Considering the significance of women's labour force participation in attaining potential economic growth, we have examined cross-country trends in women in labour force. For the purpose of analysis, we have selected 31 countries across South Asia, Europe, South America, Africa and the Middle East Asia.

From the analysis of the above parameters, it is observed that female labour force participation varies considerably across different countries. The cross-country variation in female labour force participation could be attributed to various factors such as social norms, educational attainment, level of economic growth, incidence of poverty, availability of suitable employment opportunities and so on.

Countries in South Asia perform better than countries from other regions in terms of female labour force participation and female ownership of firms. In South Asia, we considered Bangladesh, China, Myanmar, Vietnam, Indonesia, Thailand and India for the study. It is observed that in all these countries (other than India and Indonesia), labour force participation rate of female (in the age group of 15-64) is far higher than that of the world average of 55.28%. In countries such as China, Myanmar, Vietnam and Thailand, female labour force participation rate is higher than 70%.

Labour Force Participation Rate, Female (ages 15-64, in %) (modeled ILO estimate), South Asia



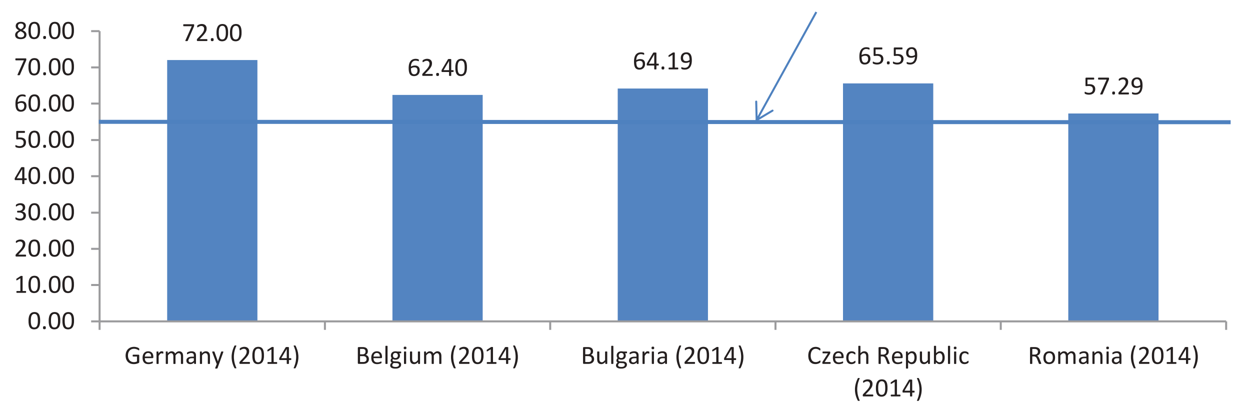
Source: World Bank

*** Figures in bracket denote year in which the survey was conducted**

Female labour force participation is very less, at 28.6%, in India. The low female labour force participation in India is attributed to various factors. One of the factors is the measurement error. Women, who work in family farms or who are engaged in the traditional livelihood activity of their family are not considered to be in the labour force. For instance, many women in India are engaged in traditional livelihood activities such as pottery, handicrafts, livestock and cattle rearing, catering services, domestic maids and so on. These women may not be included in the official labour force data, thereby leading to under-representation of women's participation in the workforce. Another reason cited for the low female labour force participation is that more and more women opt out of the labour force to pursue higher education[5]. Also, women are likely to quit jobs owing to reasons such as taking care of children or elders in the family, increase in income from other sources and so on.

Countries in Europe have also performed fairly well in female labour force participation rate. It is notable that in developing countries such as Bulgaria, Czech Republic and Romania, the female labour force participation is higher than the world average of 55.28%.

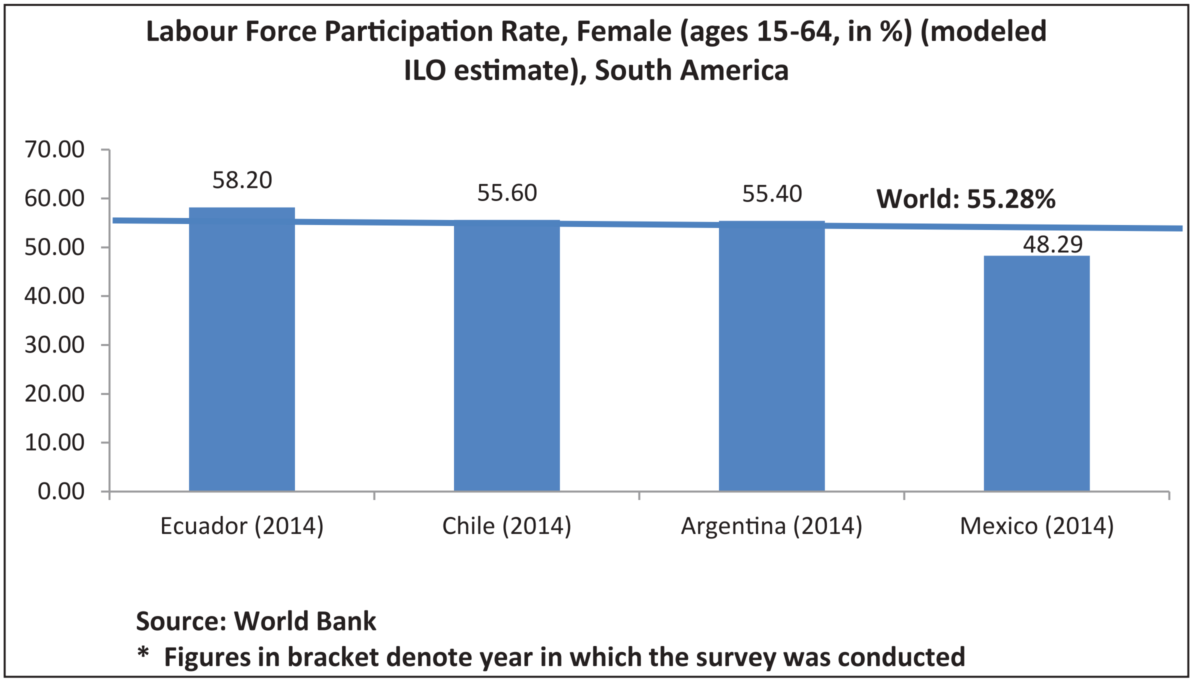
Labour Force Participation Rate, Female (ages 15-64, in %) (modeled ILO estimate), Europe



Source: World Bank

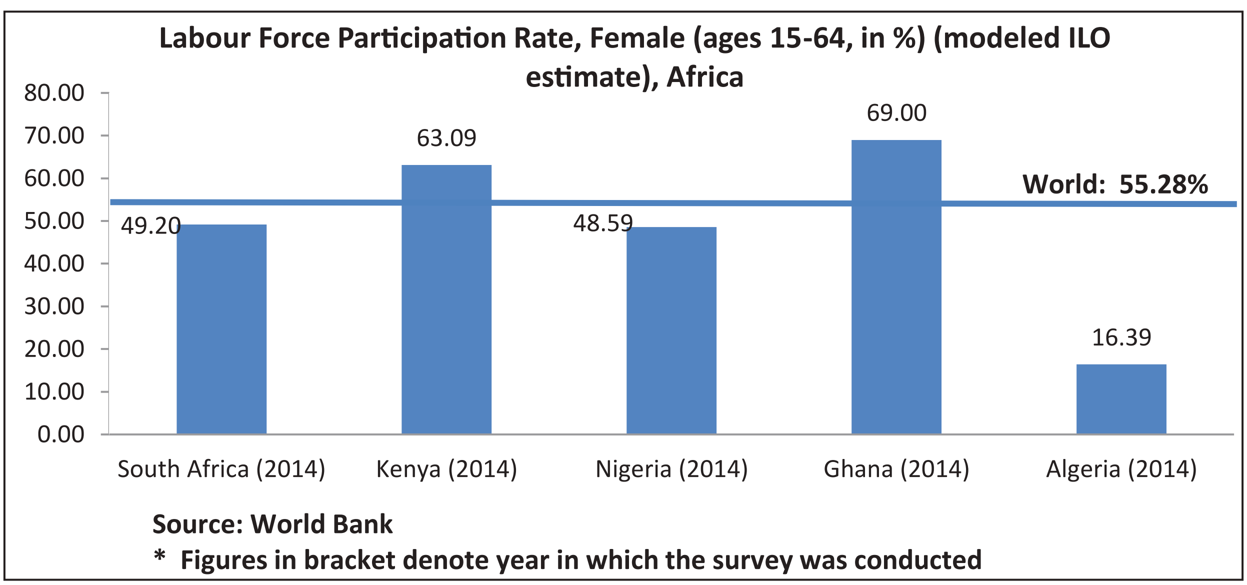
*** Figures in bracket denote year in which the survey was conducted**

In South America, female labour force participation rate is largely similar to the world average of 55.28%. According to International Labour Organisation (ILO)[6] , labour participation of women in Latin American rose above the 50% mark to 52.9%, for the first time in 2010, from 49.2% in 2000. As can be seen from the following graph, women's labour force participation in Ecuador is 58.2%, while it is around 55% in Chile and Argentina. Majority of women in Latin America, as in many other developing countries, are employed in the informal sector, where the condition of work is poor and there is no social security. According to an estimate by the ILO, women constitute 92% of domestic workers (people who offer services in private households) in Latin America[2]. There is no limit of working hours for domestic workers and at many instances, women domestic workers suffer from exploitation, sexual harassment and low wages.



The level of women's labour force participation in Africa varies widely across different countries. For instance, countries such as Ghana and Kenya have more than 60% female participation in labour force. However, the comparable figure is only 16% in Algeria and around 49% in Nigeria and South Africa.

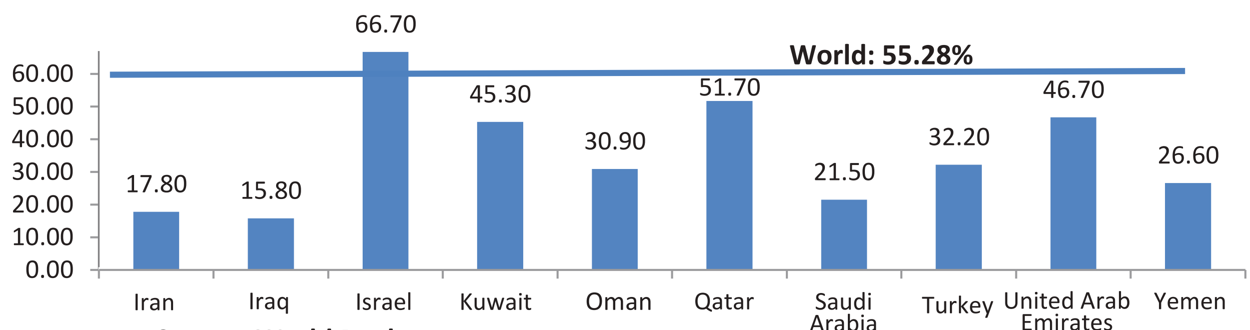
According to report by ILO[7], the female labour force participation rate in Algeria is held back by a multitude of complex, notably socio-cultural, factors. In Algeria, as in many other developing countries, women who perform unpaid family livelihood activities in agriculture, livestock, textile and clothing sectors are not counted in the labour force.



According to a report by the ILO[2], gender gap in labour force participation has declined in countries in the Middle East Asia and North Africa over the last two decades ending 2015. Gender gap in labour force participation is defined as the difference between male labour force participation and female labour force participation rates. While gender inequality in labour force participation has declined 4.6% in Middle East Asia, it has fallen 2.3% in North Africa in the last two decades ending 2015. However, ILO report also mentions that Middle East Asia or Arab States continue to have the largest gender gap in labour force participation among all regions.

As can be seen from the following chart, out of 10 countries in the Middle East Asia, only four countries have women labour force participation rate above 35%. In countries such as Iran and Iraq, the comparable figure is less than 18%. Among the countries in the Middle East Asia, only Israel managed to exceed the world average for women labour force participation rate of 55.28%.

Labour Force Participation Rate, Female (ages 15-64, in %) (modeled ILO estimate), Middle East



Source: World Bank

*** Figures in bracket denote year in which the survey was conducted**

Conclusions

Based on our analysis of cross-country experience and based on the studies conducted by ILO, we have identified the following areas which require policy attention to bridge gender gap in employment.

Unpaid Work : Majority of women in the working age (15-64), both in high and lower income countries, spend considerable amount of their time in unpaid household work. According to ILO, on average, women perform at least two and a half times more unpaid household and care work than men in countries where the relevant data are available.

Although the amount of time spent by women on unpaid work is declining in recent years, there is still tremendous scope to distribute unpaid work equally between men and women. Because women shoulder the responsibility of family care, they end up taking part time jobs or home-based jobs, which does not guarantee income commensurate to their qualification or talent.

Informal Sector : Among the women who are active in labour force, a considerable number of them work as casual labourers or daily wage labourers in agriculture, construction, handicrafts, food processing or catering services and so on. Informal sector is the leading source of employment for women, especially in South Asia (where 74.2% of women workers are in the informal sector) and Sub-Saharan Africa (63.2%). Women in informal sector lack social protection such as maternity leaves, pensions and generally the working condition is the least favourable.

Wage Discrimination : It is observed that, both in the formal and informal sector, there is prevalence of gender discrimination in payment of wages. According to a study by the ILO, women earn 77% of what men earn, across the globe.

Thus, the gender wage gap is estimated to be 23 per cent. Some of the reasons identified for the gender difference in wages are undervaluation of the work done by women, undervaluation of skills required in women-dominated sectors such as domestic works, nursing, tailoring and so on. Women who take break in their career after marriage or after child birth may have less bargaining power to negotiate wages when they re-apply for jobs.

This is another contributing factor for wage discrimination. Although some progress is visible in reducing wage gaps between men and women, an ILO study indicates that it would take more than 70 years before gender wage gaps are closed completely.

Recommendations

Gender gap in labour force participation cannot be completely bridged as it is the result of complex inter-play of societal norms, long-held stereotypes against women and women's commitment to family responsibilities. However, policy makers and non government organizations can play an important role in reducing gender difference, if not completely eliminating it, in the labour force.

In this section, we offer some solutions to reduce gender disparity in labour force, based on our analysis of the issue and based on the studies conducted by the ILO.

Balanced distribution of unpaid care work : One of the key factors that prevent many women from joining the workforce is their commitment to family care, which is an unpaid work. More and more women could join the labour force only if men take their due share of the family care, including taking care of infants, elders and so on.

For this to happen, communities across the world must change the traditional perception that family care is the exclusive responsibility of women. Although attempts have been made in some countries to change this perception, it has not spread on a global scale. In Zimbabwe, a non government organization popularized the "Africare's Male Empowerment Project", which encouraged the involvement of men in home-based care services for people affected by HIV/AIDS and thereby attempted a role-reversal for men and women.

The concept of maternal leave must be transformed into parental leave to change the view that child caring is the exclusive responsibility of women. In Sweden, for example, employers offer 480 days of parental leaves, which can be shared by mother and father. Some experts advocate the introduction of paternal leave for fathers so that men can take equal responsibility in child care.

In some instances, men are willing to share equal family responsibility. However, they are unable to do so because of long working hours or overtime. Therefore, some experts feel that government must introduce legislation to limit long working hours and overtime.

Ensuring balanced distribution of unpaid care work between men and women is an arduous task and it can be achieved only with the co-ordinated efforts of government, employers and non-government organizations.

Availability of Infrastructure Services : In rural areas and in certain urban areas, women spend considerable amount of time in fetching water from far-off places and cooking food, which leaves them with limited time to take up a full-time job.

The government must provide basic services such as water supply, electricity connections and cooking gas connections to all households, which can save women's time in fetching water and procuring firewood for cooking and lighting. Also, government must provide safe transport facilities for women in remote areas, who wish to apply for jobs in neighbouring towns.

Some experts suggest that municipal bodies or local governments, employers and non government organizations must set up common facility centres for childcare, care of disabled people or elderly people, so that women can take up full time jobs. These centres must offer good-quality childcare and other social care services at affordable cost.

Skill Development/Training Centres: Many a times, women tend to quit jobs on account of increase in family responsibility after they become mothers. Once their children attain maturity, these women plan to re-enter the workforce. However, prolonged break in career make them uncompetitive in the job market.

Therefore, government and non-government organizations must set up skill development and training centres to upgrade skills of these women who choose to re-enter the workforce. This would facilitate women to upgrade their skills, unlearn obsolete practices and learn new technologies in their job and thereby regain the lost ground because of long career gap.

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[@] The Power of Parity: How Advancing Women's Equality Can Add $12 Trillion To Global Growth, September 2015, By Mckinsey Global Institute (MGI)

[2] Women at Work Trends 2016, ILO

[3] World Bank Group Enterprise Surveys

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Role Transformation for Better Engagement

Traditionally, women are viewed as home maker, responsible for taking care of family and performing household chores. While handling household responsibilities, women have also, since ancient times, engaged in farming, livestock and cattle rearing, weaving and other family businesses without wages. On the other hand, many women have also been working as agriculture labourers, domestic help, nurses, construction workers and daily wage earners in unorganized sectors to support their family. These women, who work in family business or who work as daily wage earners in entities not owned by their family, have undergone transformation of their traditional role as homemakers. However, this transformation of role, by itself, does not mean empowerment. The true empowerment of women is achieved through access to education, skill development, access to finance and freedom to make financial decision in the family. A woman contributing to a family weaving business, without wages and without the freedom to make economic decision in the business is not truly empowered. On the other hand, a woman who chooses to develop her skills in textile designing and who offers her professional service to a textile firm, not owned by her family, for monetary consideration, is truly empowered. This woman is economically independent and she can take decision on how to spend her income.

Women farmers have always contributed to family income in an informal way. However, their role as a contributor to family income has never been recognized. Urbanization and poverty domination have forced many women to undergo role transformation. Women have stepped out of their roles of a home maker to join the general work force earning steady income and this has no bearing on their educational status per say.

In this chapter, we understand the role transformation of women from a homemaker to being a recognized contributor to family income. Recognition adds value to the earnings gained by the woman who enhances not only her position in the society but at the same time is endowed with equal opportunities and value for the work delivered. Role transformation has happened in different ways in rural and urban areas. Women in rural areas have largely transformed their role by working in agriculture, livestock and cattle rearing and marketing farm produce in the local market. Whereas, role transformation in urban area has happened with uneducated women working as cooks or domestic help in affluent families or women working as casual labourers in the unorganized sector. Educated women, in urban areas, have transformed their role by taking up jobs in the corporate sector or by setting up their own enterprises.

The following discussion highlights the issues and challenges faced by women while undergoing this role transformation in urban and rural areas. The discussion also includes possible solutions, wherever possible, to address these issues and challenges. The points discussed in the following section are borrowed from studies conducted by International Fund for Agricultural Development, International Labour Organisation, World Health Organisation and other organizations.

Challenges in Rural Areas: Agriculture is a seasonal occupation and it is also risky as crop production depends on the vagaries of climatic condition. Therefore, it is not advisable for rural households to depend only on agriculture as a source of livelihood. Consequently, families in rural areas devise strategies to cope with the unreliable nature of the agriculture sector. According to International Fund for Agricultural Development (IFAD)[1], the feminization of agricultural work results in part from the coping strategies adopted by rural families to increase and diversify incomes and livelihoods. These strategies are gendered: men usually work with lucrative crops, or migrate as seasonal or permanent workers; while women cultivate the family plot for household consumption, care for small livestock, and process and or sell part of their production in local markets.

Rural women engage in farm and off-farm economic activities to ensure their families' food security and diversify income sources. They contribute to agricultural and rural economies with their labour and valuable knowledge of crop varieties, biodiversity and agricultural practices. Their off-farm work is often low-skilled and low-paid, but is particularly important in facing the adverse shocks that affect agriculture, such as droughts or floods. Women's share in the agricultural labour force ranges from about 35 to 50 per cent in counties across Asia and the Pacific. Women's increasing role in family farming could be an opportunity for enhancing their economic and social empowerment as producers, traders, workers and entrepreneurs.

However, there are many challenges that women engaged in agriculture activities face. Quite often, women farmers suffer from poor access to extension services, technologies and institutional credit.

Although these challenges are common to both men and women farmers, the latter are more disadvantaged in this regard. This is because restrictive customary norms on women's role in households and public life limit their ability to make decisions and seize opportunities. Women farmers typically work 12 hours a week more than men because they have to manage household responsibilities simultaneously with farming. This situation leads to time poverty and lost opportunities for women to attend training, invest in other income-generating activities or participate in community-based organizations.

In order to empower women farmers, the role of government agencies, self-help groups and community-based organization is very important. Self-help groups and other organizations have a major role in building women's self confidence, providing access to financial opportunities and training, and engaging in collective processing and marketing of agricultural and other value-added products. They can contribute to improving the agricultural productivity of family farms, engage in processing and marketing activities, and increase the voice of women in household decisions.

Empowering women farmers would enhance their productivity and income. Enhancing the income of women farmers would be beneficial for the entire family as women usually spend money towards education, healthcare and clothing of their children.

Challenges in Urban Areas: While women undergoing role transformation in rural areas face above challenges, women in urban areas face different set of challenges. Urbanization has certainly increased women's labour force participation[4]. Employment opportunities are more diverse in urban areas than in rural areas. The benefits of paid employment for women are many – including increased household income, increased status in the family and community and possible positive impacts on gender relations. Much of the global growth of employment opportunities for women has been in the informal sector, especially in Africa and Asia. Informal sector employment is critical in enabling poor women to develop survival strategies and to lift their families out of poverty.

The key challenge for women working in informal sector is poor working condition. Jobs in informal sector have low pay, and at times even unsafe environments, exposing women to exploitation and abuse. Many women are exploited in cities as informal domestic workers, as trafficked workers for low-wage jobs or as trafficked prostitutes, and as women migrant workers. Women's independent migration for work has increased over the past decade. The employment – both formal and informal - of foreign-born women in cities covers an increasingly broad range of economic sectors, some illegal and illicit, e.g. prostitution, and some in highly regulated industries, e.g. nursing.

Role Transformation and Gender Equitable Relationship

So far, we have seen the challenges faced by rural and urban women while undergoing role transformation. In some instances, this role transformation and the consequent women's economic empowerment and greater financial independence is viewed as a threat to masculinity. This highlights the importance of better understanding men and masculinities, and of actively engaging men in gender equality. In this section, we understand the need for gender transformative programs to transform gender roles and promote more gender equitable relationships between men and women.

Researchers have underlined the importance of engaging men in gender equality, and of going beyond a gender-sensitive approach, that recognizes the specific needs and realities of men based on the social construction of gender roles, towards a gender-transformative one (Barker, 2007)[2].

Men can indeed benefit from greater gender equality, as for example the pressure of being the main breadwinner of the household is lifted and they build healthier relationships with their wives and children[3]. Moreover, they have a role to play in women's economic empowerment. In a world in which they often still benefit from what R. W. Connell called the "patriarchal dividend ", they can act as real gatekeepers towards the implementation of greater gender equality, by helping their female family members to access resources that are essential to their economic empowerment.

We conclude this section by noting that in this age of globalization, most women have transformed and some are in process of transformation to evolve as empowered women. Role transformation is the foundation of women's empowerment. Unless women come out of the traditional gender role of home maker, it is difficult for them to understand the life economics. Economic independence not only contributes to family income but at the same time changes outlook of women towards managing the same. Education enables them to be aware of the various channels for savings which is the cream of empowerment.

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[2] Engaging men and boys in changing gender-based inequity in health: Evidence from programme interventions, By Gary Barker, Christine Ricardo and Marcos Nascimento, World Health Organisation, 2007

[3] Engaging Men in Women's Economic Empowerment and Entrepreneurship Development Interventions, International Labour Organisation

[4] "Promoting gender equality and empowerment of women in cities": Keynote address by Carolyn Hannan, Director, Division for the Advancement of Women, United Nations Department of Economic and Social Affairs at the Conference entitled: Global City Strategies for Implementing Policies on Gender Equality on 28-29 August, 2007.

Sustainable Development Goals: A Path to Financial Independence in Women

Sustainable Development is defined as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[1]. There is an inextricable relationship between women's empowerment and the attainment of Sustainable Development.

In recognition of this relationship, the United Nations, as far back as 1992, included women's participation in sustainable development as one of the 27 principles of the Rio Declaration on Environment and Development. The 20th principle of this landmark declaration talks about women's role in sustainable development and it reads as follows -

"Women have a vital role in environmental management and development. Their full participation is therefore essential to achieve sustainable development."[2]

Since this declaration, the principles of women's participation in the development process and gender equality have gained prominence at the national and multilateral policy agenda. In 2015, the United Nations made 91 declarations to attain 'the 2030 Agenda for Sustainable Development'. The 20th declaration clearly explains the link between sustainable development and women's empowerment as follows[3] -

"Realizing gender equality and the empowerment of women and girls will make a crucial contribution to progress across all the Goals and targets. The achievement of full human potential and of sustainable development is not possible if one half of humanity continues to be denied its full human rights and opportunities.

Women and girls must enjoy equal access to quality education, economic resources and political participation as well as equal opportunities with men and boys for employment, leadership and decision-making at all levels. We will work for a significant increase in investments to close the gender gap and strengthen support for institutions in relation to gender equality and the empowerment of women at the global, regional and national levels.

All forms of discrimination and violence against women and girls will be eliminated, including through the engagement of men and boys. The systematic mainstreaming of a gender perspective in the implementation of the Agenda is crucial."

Six Reasons Why Women's Empowerment Matter for Sustainable Development	
Reason	**Explanation**
1. Eliminating Poverty	Poverty rates for male and female are similar for most countries where comparable data is available. However, working-age women are more likely to be poorer than men when they have dependent children and no partners to contribute to the household income.[6] The first goal of the Sustainable Development Agenda of the UN is to end poverty in all forms everywhere by 2030. This goal cannot be fully achieved if we do not address the prevalence of poverty among working-age women who do not have partners. Also, poverty-eradication strategies would be more effective if they empower women in the households. Experiments from Latin American countries have proved that government schemes involving conditional cash transfer in the hands of women in poor families have successfully lifted many out of poverty.

Six Reasons Why Women's Empowerment Matter for Sustainable Development	
Reason	**Explanation**
2. Safe Drinking Water and Sanitation	In 2015, 42% of the global population do not have piped water connection. In most parts of the world, women have a higher burden of water collection than men. This burden hinders women's enrollment in education and their active participation in the workforce. The 6th goal of the Sustainable Development Agenda of the UN is about ensuring availability and sustainable management of water and sanitation.
3. Education	Nearly two thirds of the world's 781 million illiterate adults are women, and almost all of them live in developing regions[6]. An educated woman contributes to the overall progress of her family and the society. Sustainable Development cannot be attained if we cannot ensure equal access to education for women and men.
4. Skill Development	Almost 40% of total labour force in the world comprise of women[5]. Although reliable data is not available, a large proportion of women in the labour force are engaged in the informal sector, which is characterized by low productivity and lack of formal skill training. Thus, women's empowerment would be incomplete if we do not skill women workers and improve their productivity. The fourth Goal of UN's Sustainable Development Agenda envisages equal access for women to vocational and technical education.
5. Sustainable Environment	Human beings across the globe bear the brunt of natural disasters induced by climate change. These disasters include floods, droughts, temperature extremes and storms. Men and women are affected by these disasters in different ways. The 13th goal of the Sustainable Development Agenda envisages urgent action to combat climate change and its impact. Women remain underrepresented in local and high-level decision-making on environmental issues. Promoting gender diversity among policy makers on environmental issues would improve policy outcomes.

The following section traces the relevance of women's empowerment to some of the Sustainable Development Goals of the United Nations.

Eradication of Poverty and Women's Empowerment

Of the 17 Sustainable Development Goals, the first goal deals with ending poverty. One of the targets under this goal is to reduce at least by half the proportion of men, women and children living in poverty. In many communities, men are the breadwinners of the family and women depend on their spouses for their financial needs. Even now, in many parts of the world, women could not earn income because they have to shoulder the household responsibility of taking care of children and sick members of the family. Therefore, in these cases, poverty eradication strategy must focus on how women's burden of unpaid family care work can be reduced. Some experts have proposed the role of government and community-based organisations in setting up community creches and day care centres for disabled and sick people. Community creches and day care centres can reduce the time spent by women on unpaid care work and hence facilitate them to take up jobs. These creches and day care centres must offer services at affordable rates so that even poor families can benefit from them.

Another gender-specific policy action needed to eradicate poverty is regulation of the informal sector. Many women, in rural and urban areas, work in the informal sector to pull their family out of poverty. Informal sector is characterized by poor working condition, lack of social benefits, maternity benefits and exploitation. Thus, there is a need to regulate the wages and working conditions of informal workers, although it is easier said than done. There are instances where workers in the informal sector have fought for their rights for better working condition. In Uganda, women flower workers have campaigned successfully, with the support of an international non-governmental organization, Women Working Worldwide, for higher overtime pay, better working hours and freedom of association, even if their real wages remained low as a result of high inflation rates in 2010-2011.

Environment Sustainability and Women's Empowerment

Reducing the emission of greenhouse gases and protecting the environment have emerged as the greatest policy challenge for world leaders in recent years. Women often bear the brunt of coping with climate-related shocks and stresses or the health effects of air pollution.

Experts have pointed to the synergies between gender equality, on the one hand, and economic, social and environmental sustainability, on the other. It is observed that women's full participation in policymaking on environment issues leads to better policy outcomes. For instance, women's decisive involvement in community forest management bodies yields positive outcomes for both forest sustainability and gender equality.

As early as 1977, efforts have begun to involve women in preservation of environment. One such example is Kenya's Green Belt Movement, founded by Wangari Maathai in 1977. The movement encouraged rural women to plant trees collectively for sustainable livelihoods and forest conservation.

The Convention on Biological Diversity recognizes that the integration of women's rights and gender equality in biodiversity conservation and sustainable use is not only intrinsically important, but can also improve the efficacy of interventions, programmes and resources[7].

As mentioned earlier, women constitute 43% of agriculture labourers, globally. Many small farmers in Africa and South Asia are women. Therefore, it is essential to include women farmers in the consultative process before implementing sustainable farming practices. Policy makers must consult smallholder farmers, particularly women, about their priorities and constraints while promoting low-chemical and environmentally sustainable agriculture. Stakeholder consultation, before implementation of the policy, is essential to ensure that the policy objectives are in sync with the priorities and constraints of farmers.

The Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCC) emphasizes adequate representation of women in the international negotiation process on climate change. Adequate representation of women in the negotiation process is essential because gender-responsive climate policy responds to the differing needs of men and women in national and local contexts.

Sustainable Development Goal 5

The 2030 Agenda for Sustainable Development, adopted by the member countries of the United Nations in September 2015 and which came into force in January 2016, has 17 Goals. Of these, it is pertinent to present the key highlights of Goal 5 – To achieve gender equality and empower all women and girls. Implementation of this goal matters because it has the potential to transform unequal power relations between women and men and address structural barriers impeding progress. Following are the nine targets under this Goal.

1. End all forms of discrimination against all women and girls everywhere. Laws and policies need to be urgently reviewed, amended or abolished as a first step towards achieving substantive gender equality, complemented by measures to change discriminatory social norms and practices.
2. Eliminate all forms of violence against all women and girls in public and private spheres, including trafficking and sexual and other types of exploitation. This is also central to realizing sustainable development, peace and security, and human rights.
3. Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilations. This can be achieved through legal reforms, policies and protection measures, community mobilization and engagement of religious and community leaders, as well as those affected.
4. Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies. Such work must be reduced and redistributed between households and the state (through provision of services and infrastructure) and between women and men.
5. Ensure women's effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life. For democratic accountability and legitimacy, women's full involvement is key in implementing the new development agenda.
6. Ensure universal access to sexual and reproductive health and reproductive rights. Women have the right to live free of discrimination and violence, and to control and decide freely on matters related to their sexuality, including sexual and reproductive health. For this, they need access to essential information, education and services.
7. Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources. This is essential for their economic security and status, for decent work, sustainable livelihoods and to ensure an adequate standard of living.
8. Enhance the use of enabling technologies, in particular information communication technologies (ICTs), to promote women's empowerment. Access to quality infrastructure and technology is key to improving women's formal employment and entrepreneurship opportunities and to reducing unpaid care work.
9. Adopt and strengthen policies and legislation for the promotion of gender equality and the empowerment of all women and girls at all levels. National legislation must guarantee equal rights, aligned with international standards.

In September 2015, the UN Women and the Chinese government co-hosted the "Global Leaders' Meeting on Gender Equality and Women's Empowerment: A Commitment to Action." The meeting was attended by around 80 leaders from various countries. These leaders announced concrete and measurable actions towards gender equality and women's empowerment. The following table traces the actions taken or being taken by 20 countries across Europe, Latin

America, Africa and Asia towards gender equality in the last five years. The information in this table is sourced from the commitment reports filed by these countries at UN Women.

Country	Action taken towards gender equality
Thailand	Included gender-responsive budgeting in 2016 Constitution and it will be implemented at the national level. Introduced gender equality in school curriculum Created National Plan on gender statistics
Norway	Preparing a comprehensive Equality and Anti-Discrimination Act. This act will replace the existing four different acts on gender equality and anti-discrimination Parliament has requested the Norwegian Government to prepare annual report on the status of efforts to promote equality and diversity in all sectors Prepares statistics on the gender equality situation and developments Developing indicators for all grounds of discrimination
Mexico	Implemented the National System for Equality between Women and Men Prepared Mexican Regulation on Labour Equality and Non-Discrimination Set up over 3000 Centers of Rural Assistance for awareness on sexual and reproductive rights
Luxembourg	Introduced system to monitor progress in women's representation in boards of companies Preparing legislation to ensure political parties nominate women candidates for elections.
Latvia	Signed the Istanbul Convention (on preventing and combating violence against women) Introduced state-funded social rehabilitation services for victims of violence Became a lead partner in the international project HESTIA "Preventing human trafficking and sham marriages: A multidisciplinary solution" Financially supporting women empowerment projects in Kirgizstan and Tajikistan
Jordan	Revising National Strategy for Women (2013-2017) to reflect Sustainable Development Goal (5) of Gender Equality Reforming education curriculum to include subjects on 'discrimination against women'

Country	Action taken towards gender equality
Japan	Introduced Act on Promotion of Women's Participation and Advancement in the Workplace Formulated "Development Strategy for Gender Equality and Women's Empowerment" Hosts World Assembly for Women (WAW!) every year
Italy	Set up Inter-Institutional Steering Committee on Sexual and Gender Based Violence Passed legislations on gender quotas in state-owned companies and on compulsory paternity leave.
Germany	Passed Act on Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector Introduced women quota in supervisory boards of listed companies Introduced legislations to address gender discriminations in payment of wages Introduced 'Development Policy Action Plan on Gender Equality 2016-2020'
Estonia	Amended Victim Support Act to support victims of gender violence
Denmark	Required all municipalities to provide child-care facilities so that women can participate in labour force
Cyprus	Appointed Commissioner for Gender Equality Prepared Strategic Plan on Equality between Women and Men 2014-2017
Costa Rica	Passed legislation to collect data on women's contribution to unpaid domestic work Established 5 public–private partnerships to promote gender equality at the workplace, to strengthen women's entrepreneurship and to impart career training Introduced quality seal to verify and certify gender equality in private sector companies and institutions
China	Established review mechanisms for regulations and policies on gender equality in 24 provinces, regions and municipalities. Launched Women Entrepreneurship and Innovation Action Conducted midterm review of the Programme for the Development of Chinese Women (2011–2020)
Chile	Mandated at least 40% of candidates to be women in Parliament election. By 2018, Chile aims to have 40% of public enterprises directed by women Intends to train 300,000 women for highly skilled jobs. Implemented national action plan on violence against women
Burundi	Increased the number of women in security and defense forces Set up fund for micro-credit for women owned start-up businesses

Country	Action taken towards gender equality
Bosnia & Herzegovina	Introduced web-based database on domestic violence Passed new Labor Laws prohibiting discrimination on the basis of gender Introduced Project "Social, Entrepreneurship and e-Inclusion of Women 40+"
Armenia	Developing a Strategy on Providing Equal Rights and Equal Opportunities for Women and Men for 2017-2021 Prescribed quota for women's representation in elective bodies Implemented Action Plan "On Promoting Gender Balance among Candidates for Judges"
Argentina	Introduced National Action Plan to Prevent and End Violence against Women 2017–2019 Plans to open a UN Women office in the country
Austria	Reformed child care allowance system to encourage fathers to take parental leave Organizes exchange programmes among government officials, legislators and NGOs on women's health and welfare issues
Source : UN WOMEN	

In future, the member countries of the United Nations must adopt a global strategy for women's empowerment and to ensure work life balance for women in labour force. This strategy should be mandatorily implemented by all member countries through an act of Parliament. Such a strategy must facilitate women to participate effectively in economy and political decision making.

The following action plans must be key elements of this strategy -

1. Ensure 50% representation of women in the elected bodies of the country
2. Separate labor laws for women in worker and management cadre. Such a law must emphasize appraisal by competent central authority so that women do not face exploitation when it comes to appraisals
3. Mandatory paternal leave of six months so as to bring males on par with women. Mandatory paternal leave would stop preferential treatment to male candidates in job selection and bring in a sense of responsible parenthood among both the sexes. Also, government legislation on maternal leave must include fifteen days of additional leave (over and above the standard leave) for women who have children below 8 years of age. Women should not be forced to work beyond 6 hours a day during one year post delivery of child.
4. Mandatory whistle blower policies for women especially reporting to a government administered agency for sexual harassment against women
5. Death sentence mandatory in case of rape with 30% reported evidence

6. Free education for girl child up to post graduation levels

7. Reservation of seats in education and government jobs for economically backward women or women living in a family having income below USD 7000 per annum

A global uniform policy such as this will ensure not only removal of gender inequality but also bring in the required confidence among women to deliver the best in their careers without compromising on their family responsibility.

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[2] REPORT OF THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT, (Rio de Janeiro, 3-14 June 1992), Annex I, RIO DECLARATION ON ENVIRONMENT AND DEVELOPMENT

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[4] The Role of Women in Agriculture, ESA Working Paper No. 11-02, March 2011, The Food and Agriculture Organization of the United Nations

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[7] Gender Equality and Sustainable Development 2014, UN WOMEN

Women's Economic Empowerment: Policy Recommendations

The first Prime Minister of Independent India Pandit Jawaharlal Nehru once said "You can tell the condition of a nation by looking at the status of its women." Economic empowerment of women is essential to attain overall progress in the society. This was the unanimous opinion of all the participants in the 6th Global Economic Summit. The Summit covered various dimensions of women's empowerment such as education and skill development, role of technology in empowering women entrepreneurs, need for capacity building, relevance of gender equality to sustainable development goals, and women's empowerment through arts and culture. World Trade Centre Mumbai and All India Association of Industries (AIAI) have jointly prepared this White Paper to present some of the key policy suggestions that were echoed by speakers during the Summit.

The White Paper aims to document the obstacles in women's economic empowerment and present useful recommendations to address them. Women's empowerment can be better achieved by increasing the capability of women to make effective life choices and ensuring that these choices lead to their overall progress. However, certain factors such as women's role as primary care giver in the family, gender stereotyping, gender discrimination at workplace, lack of property rights, lack of access to finance and so on do not allow women to take effective life choices. Therefore, the role of government civil society, academic institutions, corporate sector and other stakeholders is to create an enabling environment for women to make effective life choices.

Almost all the speakers at the 6th Global Economic Summit agreed that entrepreneurship is the preferred way for women's economic empowerment as it provides them flexibility to adjust their work timings based on family commitments. Entrepreneurship not only makes a woman financially independent but also enables them to provide jobs to other women as well. Advancement in information and communication technologies has opened various avenues for entrepreneurship. In this technologically advanced world, women can explore entrepreneurship in a wide gamut of segments ranging from mobile and internet service provision, desk top publishing, to development of mobile gaming apps. Also, women can set up start-up enterprises in online education, online financial services, e-commerce, quick service restaurants and so on.

However, studies conducted by various organizations have shown that the failure rate of start-up enterprises established by women is higher than those established by men. Some of the reasons why women are not able to sustain their entrepreneurial activities are – 1. Lack of institutional finance, 2. Lack of support from family, 3. Lack of entrepreneurial guidance, mentoring and incubation support.

Government and women business chambers must work together to enhance flow of funds to women-owned start-up enterprises. Also, government can collaborate with academic institutions to provide effective incubation services for women-owned start-up enterprises. Incubation centres play an important role in providing marketing assistance, management training and financing assistance for start-up companies.

Government of India is promoting incubation centre for start-up enterprises under Atal Innovation Mission (AIM). However, the initiative of the central government is not enough for a country of more than 30 states and union territories. The central government must encourage state governments to set up incubation centres for start-up enterprises. Government of Gujarat is encouraging the development of incubation centres through incentives such as financial grants, exemption of stamp duty and registration fee, concessional electricity tariffs and so on. States such as Andhra Pradesh and Karnataka have also introduced similar policies to support start-up enterprises. Government of India must encourage other states to adopt policies for start-up enterprises.

Providing non-financial services and training, along with access to financial products, will offer holistic growth opportunities to women entrepreneurs. Lending institutions rely heavily on collateral to give credit, which is a constraint for many women-owned services enterprises. The Government of India should also encourage ownership rights for women by offering incentives for registration of property. This could help women who own SMEs to get greater access to collateral and, in turn, access business finance.

While the advent of digital technologies has enabled women to make effective career choices, we feel even the government can also facilitate women's participation into entrepreneurship and workforce in the following ways -

1. **Identifying core competence of all districts and imparting relevant skills to women**

   Every town in the country has some or other core competence, based on the endowment of natural resources or traditional skills of the local people. For instance, the town of Pochampally in Telangana is famous for manufacture of sarees. Similarly, Bhadohi town in Uttar Pradesh is famous for hand-made carpets. In some places, the local population may have abandoned their traditional occupation in the course of time because of lack of demand or lack of marketing facilities for their products. The Office of the Development Commissioner of the Ministry of Micro, Small and Medium Enterprises must conduct a study to identify the core competence of every town in the country with the help of the local administration. Based on the outcome of this study, the ministry must upgrade the skills of the local women in the identified occupation or core competence. In places where the traditional occupation is dying, the ministry must take efforts to revive them through adoption of modern technologies, providing marketing infrastructure, upgrading skills of women workers and so on. More importantly, the Ministry of Micro, Small and Medium Enterprises (MSME) must work in co-ordination with the local administration in imparting entrepreneurial skills among women in the identified sectors. The Ministry of MSME must also work in close co-ordination with the National Skill Development Council (NSDC) in this initiative. This would not only provide livelihood support for women, but also revive the local economy of towns and villages.

2. **Supporting women enterprises in unorganized sectors**

   In the tribal areas of Chhattisgarh, women have been traditionally gathering forest products and make household articles such as brooms, baskets and mats. In the North Eastern state of Meghalaya, women farmers have been traditionally saving seeds of various crops and passing them on to their next generations. Similarly, women in Bhuj area of Gujarat are known for making embroidery in leather, garment, silver and other articles. These women are generally unorganized and are not registered with the Ministry of MSME. Therefore, they do not benefit from the various government schemes.

   The Ministry of MSME offers financial assistance for micro enterprises to participate in overseas exhibitions under the Market Development Assistance Scheme. However, this scheme is restricted only to registered units. Efforts must be made to identify these unorganized women enterprises and bring them under the formal system. Although micro finance institutions in the country are meeting the credit needs of the unorganized women-owned enterprises, not all districts and villages in the country benefit from their service. Therefore, the Ministry of MSME must provide incentives to the existing micro finance institutions to offer their services to all the unorganized women enterprises across the length and breadth of the country.

For the welfare of tribal women, the Ministry of Tribal Affairs has been administering the Adivasi Mahila Sashaktikaran Yojana. Efforts must be made to cover all the unregistered or unorganized tribal community under this scheme.

3. **Creating effective Monitoring and Evaluation (M&E) Programme for existing schemes**

In order to promote women entrepreneurship in the small and medium enterprises sector, Government of India has implemented five schemes. These schemes are 1. Trade Related Entrepreneurship Assistance and Development Scheme for Women (TREAD), 2. Micro & Small Enterprises Cluster Development Programme (MSECDP), 3. Credit Guarantee Fund Scheme For Micro and Small Enterprises 4. Support for Entrepreneurial and Managerial Development, 5. Exhibitions for Women under Promotional Package for Micro & Small Enterprises.

The Women Cell of the Ministry of Micro Small and Medium Enterprises must monitor and evaluate the effectiveness of these schemes by conducting impact assessment. The Cell must also identify changes required in these schemes to make them in sync with the evolving needs of women entrepreneurs.

According to the latest Economic Census, there are more than 80 lakh establishments owned by women entrepreneurs in India. Of these, about 65.12% are located in rural areas. Many of these women entrepreneurs may not be benefitting from the schemes of Government of India because of poor awareness. Therefore, government must create awareness through grassroot agencies such as women self help groups, village panchayats, women business associations, farmer producer organizations and other community based organizations.

Also, some experts feel that government must enlarge the scope of the existing schemes that benefit women enterprises. Particularly, schemes such as Trade Related Entrepreneurship Assistance and Development (TREAD), which offers finance and information related to trade for women-owned SMEs are commendable but can be broadened.

4. **Expanding activity of Rashtriya Mahila Kosh**

Rashtriya Mahila Kosh (RMK), under the Ministry of Women and Child Development, has been functioning since 1993. The organization offers small loans to self-help groups owned by women through non government organizations across all states in the country. Since inception, the organization has benefitted more than 7 lakh women, who are mostly from poor and marginalized section of the society.

Now, the time has come for RMK to re-invent itself and become a full-fledged non banking finance company. Presently, the organization depends on grants from the central and state governments and other organizations to meet its financial needs. In future, RMK can invite capital from venture capital funds, private equity funds and other new age funding institutions. This would not only diversify its source of funds, but also enhance its lendable resources and increase its ability to serve more women entrepreneurs. RMK can also increase the maximum loan amount from the present Rs 10 lakh to Rs 20 lakh. Increase in the loan size would enable women borrowers to expand the scale of their operation to the optimal level and thereby enhance operational efficiency.

5. **Improve Ease of Doing Business for Women and Create Awareness on Measures Taken**

Complexity in starting and running an enterprise is a key deterrent for aspiring women entrepreneurs and existing women-owned enterprises in the unorganized sector. According to the World Bank's Ease of Doing Business Report 2017, it takes 26 days and 14 procedures to start a business in India, compared to only 16 days and 8 procedures in other countries of South Asia.

Many women-owned enterprises in the unorganized sector do not wish to register their business with the Registrar of Companies and enter into the formal economy. This is because of the increase in compliance burden with respect to tax and labour laws (to name a few) once they become registered entities.

Complex compliance burden and high cost of doing business in the formal sector can drive women-owned enterprises into the informal sector or the shadow economy. Legal formalities required to register a business can also hinder unregistered business transition to formal economies. According to the World Bank's Women Business and Law Report 2016, in India, a fragmented legal framework re-enforces inequality of women, and about four legal gender differences impede their economic participation. In order for women- owned enterprises to register, public institutions need to devise inclusive policies and regulation.

There are 2.69 million unregistered women-owned MSMEs in India, according to the 4th MSME Survey Census 2006 and the latest Annual Report of the Ministry of MSME. By registering their business with the Registrar of Companies, these entities can benefit from the schemes of the Ministry of MSME and other ministries of the government.

Government, by itself cannot reach these millions of unregistered enterprises which are spread across the length and breadth of the country and help them in entering the formal system. Therefore, the government must take the support of industry chambers, particularly, the women's wings of these chambers, in helping these unorganized women-enterprises enter the formal system.

In fact, the government must partner with chambers of commerce in training and hand-holding women-owned enterprises in the unorganized sector on various kinds of compliance procedures to be fulfilled by a registered company.

Also, government must create awareness about its recent initiatives to improve ease of doing business. Government of India has taken several measures to reduce the compliance cost and procedures for doing business. For instance, government has created a portal for online registration of establishment with the Employee Provident Fund department. Similarly, government has introduced online process for filing all forms and documents while incorporating a company.

Many women-owned enterprises in the unorganized sector may not be aware of these initiatives. Government of India, with the help of these chambers of commerce, must create awareness about these measures among women-owned enterprises.

6. **Procurement from Women-owned Enterprises**

Government of India has introduced the Public Procurement Policy Order in 2012. Under this policy, all the departments of the central and state governments and public sector enterprises must buy a certain portion of their annual procurement of goods and services from micro, small and medium enterprises (MSMEs). Within MSMEs, the government has introduced sub-target for procurement from enterprises owned by scheduled caste and backward community.

However, no such target exists for procurement from women-owned enterprises. Under the Public Procurement Policy, the government must set an annual target for procurement from women owned enterprises. Many co-operatives or establishments owned by women produce various goods and services of credible quality. These organizations must be given an opportunity to participate in the government procurement. By participating in government procurement, women-owned enterprises can increase the scale of their operation, provide more employment opportunities and also secure credit from financial institutions. By participating in the government procurement, women entrepreneurs are forced to adopt national and international standards on product quality. This would also prepare women enterprises to join the global value chain.

7. **Empowering women in agriculture**

According to Census 2011, more than 80% of female workforce in rural areas is employed in agriculture. These women are either cultivators (who own land) or agriculture workers. Agriculture is a risky occupation as it depends on the vagaries of the climate patterns. Frequent occurrence of flood and famine threatens the livelihood of these women. In order to protect the interests of women in agriculture, the government must promote climate resilient practices among women workers in agriculture. There are around 665 Krishi Vigyan Kendras (KVKs) across the length and breadth of the country. The government must set an annual target for each KVK to train certain number of women agriculture workers and cultivators in their jurisdiction on climate resilient farming.

Another way of empowering women farmers is through promotion of digital and communication technologies. These KVKs can also play an important role in promoting latest digital technologies among women farmers to have real time information on weather patterns, latest price in the market for their crops and so on. Government can also form public private partnership with mobile service providers or community radio service providers to equip women farmers with latest communication technologies.

8. **Improving women's participation in workforce**

While entrepreneurship is an effective way to attain economic independence, not all women can become entrepreneurs. Therefore, we need to create employment opportunities for women through various measures. Participation of women in employment is far lower compared to men. According to Census 2011, the workforce participation rate for females is 25.51% against 53.26% for males. Women's participation in workforce can be enhanced through following ways -

   a. **Improving employability of women**

   One way to encourage female employment is to improve the employability of women candidates. While data from Census shows increasing number of women graduates in the country, the employability of these graduates is questionable. Most graduates from Indian colleges and universities lack skills and knowledge required by industry. Therefore, the central government and state governments must upgrade the skill deficit among women graduates to improve their chances of getting jobs. The state government of Kerala has established Women Resource Centres across various arts and science colleges in the state. These centres impart skills among graduating women students to facilitate their absorption in the industry.

Also, government must create skill development centres for women who have taken career breaks because of child care or other family responsibilities. Many a times, women tend to quit jobs on account of increase in family responsibility after they become mothers. Once their children attain maturity, these women plan to re-enter the workforce. Government must set up training centres or skill development centres to upgrade the skills to facilitate these women to re-enter the labour force. This would facilitate women to upgrade their skills, unlearn obsolete practices and learn new technologies in their job and thereby regain the lost ground because of long career gap.

b. Alternative to Maternity Leave

Government of India has recently introduced a legislation to increase the mandatory paid maternity leave to 26 weeks from the earlier 12 weeks. While this legislation will apparently benefit women employees, it may force employers to prefer men candidates instead of women. Also, increasing maternity leave for women employees will reinforce the stereotype that child care is the sole responsibility of women.

The concept of maternal leave must be transformed into parental leave to change the view that child caring is the exclusive responsibility of women. In Sweden, for example, employers offer 480 days of parental leaves, which can be shared by mother and father. Some experts advocate the introduction of paternal leave for fathers so that men can take equal responsibility in child care.

c. Availability of Infrastructure Services

In many instances, women are willing to take up full time jobs; however, they are unable to do so because they have to spend considerable amount of time in doing household work such as fetching water from far-off places and cooking food. Similarly, women staying in remote villages or outside the city limits are unable to take up jobs because of lack of transport facilities, safety issues and other considerations. It is the responsibility of the state governments and local bodies to offer drinking water connection to all households. This would save the time spent by women on fetching water from far-off areas. Similarly, government must provide transport facilities to connect satellite towns and villages to adjoining cities. This would encourage women living in these towns and villages to take up jobs in nearby cities. Also, buses and local trains connecting these areas must be manned by security guards to ensure safety of women passengers.

d. Common Facilities for Family Care

Women with infant children or disabled elders in the family are unable to take up full time jobs because of the need to attend to these dependents. In order to facilitate these women to take up jobs, we need to set up care centres in each and every locality of cities and towns. The municipal bodies or local governments, employers and non government organizations must set up common facility centres for childcare, care of disabled people or elderly people, so that women can take up full time jobs. These centres must offer good-quality childcare and other social care services at affordable cost.

e. Promoting gender equality in work place

One way to promote women's participation in employment is by encouraging business organizations to adopt best practices on gender equality. Government of India must partner with chambers of commerce to train business organizations on gender equality practices. Such practices include avoiding gender discrimination in payment of wages, in promotion of employees, preventing sexual harassment in workplace and so on. Government of India has introduced legislation to prevent sexual harassment in workplace and it has also offered legal remedies for women victims of sexual harassment.

However, much more needs to be done to ensure that business organizations adopt gender equality practices in workplace. Some European countries have set up equality advisors to advise business organizations on equality practices. For instance, the government of Italy has also established a network of Equality Advisors at the regional and provincial level. Women, who find themselves discriminated at the workplace, can seek legal remedies from these Equality Advisors.

Similarly, the Government of Czech Republic, has set up a software system to track the wages earned by men and women in different organizations. The data generated by this software system would enable employers to assess gender differences in the payment of wages and take corrective actions. Government of India, in association with the chambers of commerce, can explore the possibility of these measures in our country as well.

Lastly, the Ministry of Child and Women Development must partner with a research organization to conduct surveys and rank companies in the private sector based on best practices in gender equality. In USA, Working Mother Network, a division of Bonnier Corporation, identifies and honours companies (through periodic surveys) that adopt conducive environment for working mothers. Companies are rated based on parameters such as safety and security, work-life balance, employee benefits and so on. The Ministry of Child and Women Development in India must partner with such research organizations in India to identify and honour companies that adopt best practices in gender equality. Government must also offer fiscal incentives for companies that follow best practices in gender equality.

9. **Improving women's representation in legislature**

Government of India must ensure that there is adequate representation of women in Parliament, State Legislatures and local bodies. Countries that have considerable number of women legislators are found to be spending adequate resources on social welfare programmes and infrastructure facilities that benefit women. Countries with quotas for the number of female legislators spent more money on social services and welfare than countries which lacked such quotas[1]. Increasing the number of women legislators would facilitate the achievement of Sustainable Development Goals (SDGs) of the United Nations.

According to the Inter-Parliamentary Union (IPU), India is ranked 148th out of 193 countries in terms of percentage of women members in the Parliament. Only 11.8% of members in the Lok Sabha are women in India and this is lower than corresponding number in poor countries such as Sierra Leone (12.4%), Cambodia (20.3%), Sudan (30.5%), Nepal (29.6%), Ethiopia (38.8%) and so on.

Therefore, Government of India must promote participation of women in the election process. Political parties must be encouraged to field women candidates across all levels of election (be it for Parliament, State legislature or municipal councils).

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[1] **Women, Business and the Law 2016, By World Bank**

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