

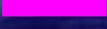
# Current ANALYST

## Cover Story: Goods & Services Tax



## “A GAME CHANGER”

### Special Issues:

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-  POLITY - 5
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# Objective

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*With the changing pattern of IAS and preparation methodology, now the aspirant is facing the issue of information overload. The proper articulation of information is important for penning down one's thoughts in the Mains answer.*

*Thus GSSCORE is coming up with "CURRENT ANALYST" – a magazine that provides material on contemporary issues with complete analysis.*

*The material has been designed in lucid and QnA format so that an aspirant can develop thinking process from Basic to Advance while reading the topic.*

*This will enhance the informative and analytical knowledge of aspirants.*

***All the best !!!***

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## COVER STORY

# Goods and Services Tax

## “A GAME CHANGER”

## Context

President has given his assent to the government's flagship Goods and Services Tax Bill, which will introduce one tax regime for the entire country.

## INTRODUCTION

Tax policies play an important role in the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development.

Globally, the concept of Goods and Services Tax (GST) was invented by a French tax official in the 1950s. In some countries it is known as VAT, or Value-Added Tax. Today, more than 160 nations, including the European Union and Asian countries such as Sri Lanka, Singapore and China practice this form of taxation. Roughly 90 percent of the world's population lives in countries with VAT or GST.

**What is GST?**

GST is one indirect tax for the whole nation, which will make India one unified common market. The GST intends to subsume most indirect taxes under a single taxation regime. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes.

**Why GST has been proposed?**

Our Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or Value Added Tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, Central Sales Tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas.

This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry.

In order to simplify and rationalize indirect tax structures, Government of India attempted various tax policy reforms at different points of time. A system of VAT on services at the central government level was introduced in 2002. The states collect taxes through state sales tax VAT, introduced in 2005, levied on intrastate trade and the CST on interstate trade. Despite all the various changes the overall taxation system continues to be complex and has various exemptions.

This led to the idea of One nation One Tax and introduction of GST in Indian financial system. This is simply very similar to VAT which is at present applicable in most of the states and can be termed as National level VAT on Goods and Services with

only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same.

### **What are the major chronological events that have led to the introduction of GST?**

- ▶ GST is being introduced in the country after a 13 year long journey since it was first discussed in the report of the Kelkar Task Force on indirect taxes. A brief chronology outlining the major milestones on the proposal for introduction of GST in India is as follows:
  - ▶ In 2003, the Kelkar Task Force on indirect tax had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
  - ▶ A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07.
  - ▶ Since the proposal involved reform/ restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC).
  - ▶ Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
  - ▶ In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009.
  - ▶ In order to amend the Constitution to enable introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
  - ▶ Meanwhile, in pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
  - ▶ This Committee did a detailed discussion on GST design including the Constitution (115th Amendment) Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013.
    - ▶ The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:
      - a) Committee on Place of Supply Rules and Revenue Neutral Rates;
      - b) Committee on dual control, threshold and exemptions;
      - c) Committee on IGST and GST on imports.
    - ▶ The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised.
    - ▶ The final draft Constitutional Amendment Bill incorporating the above stated changes was sent to the Empowered Committee for consideration in September 2013.
    - ▶ The EC once again made certain recommendations on the Bill after its meeting in Shillong in November 2013. Certain recommendations of the Empowered Committee were incorporated in the draft Constitution (115th Amendment) Bill. The revised draft was sent for consideration of the Empowered Committee in March, 2014.
    - ▶ The 115th Constitutional (Amendment) Bill, 2011, for the introduction of GST introduced in the Lok Sabha in March 2011 lapsed with the dissolution of the 15th Lok Sabha.
    - ▶ In June 2014, the draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government.
    - ▶ Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country. The Bill was introduced in the Lok Sabha on 19.12.2014, and was passed by the Lok Sabha on 06.05.2015. It was then referred to the Select Committee of Rajya Sabha, which submitted its report on 22.07.2015.
    - ▶ Lok Sabha and Rajya Sabha has unanimously passed the 122nd Constitutional Amendment Bill in August, 2016 which later got the assent of the President.

# GST Journey in India

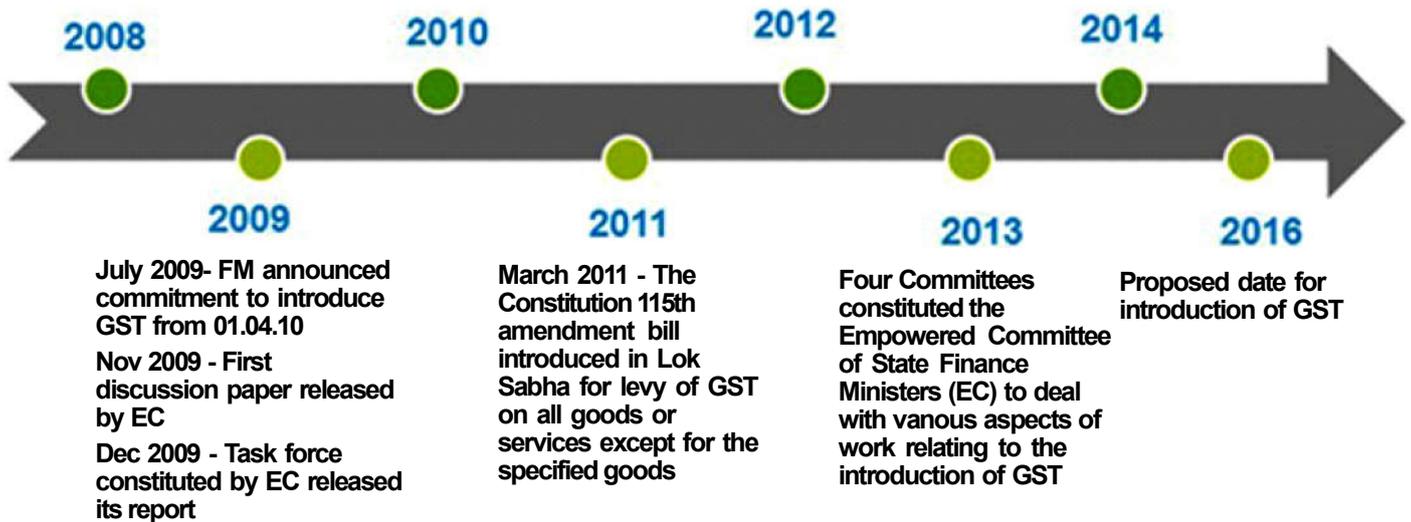
Feb 2008 - Hon'ble Finance Minister (\*FM\*) announced introduction of GST from 01.04.10

April 2008 - Empowered committee finalized views over GST and submitted report titled \*A model and roadmap for Goods and Services Tax (GST) in India

Feb 2010 - Mentioned in the speech of then FM - GST to be introduced in April 2011

March 2012 - drafting of model legislation for Centre and State GST in concert with States under progress

Dec 2014 - The Constitution 122th amendment bill tabled in Lok Sabha for levy of GST which should enable the introduction of GST probably by April 2016



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Fig. 1

## OPERATIONAL FRAMEWORK – GST MODEL

### What is the model of GST?

The GST shall have two components:

- ▶ One levied by the Centre (hereinafter referred to as Central GST)
- ▶ The other levied by the States (hereinafter referred to as State GST).

The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits.

The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured that account-heads for all services and goods would have indication whether it relates to Central GST or State GST (with identification of the State to whom the tax is to be credited).

Since the Central GST and State GST are to be treated separately, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only

against the payment of Central GST. The same principle will be applicable for the State GST. A taxpayer or exporter would have to maintain separate details in books of account for utilization or refund of credit. Further, the rules for taking and utilization of credit for the Central GST and the State GST would be aligned.

### Taxes Going to Subsumed Under GST

At the Central level, the following taxes are being subsumed:

- ▶ Central Excise Duty
- ▶ Additional Excise Duty
- ▶ Service Tax,
- ▶ Additional Customs Duty commonly known as Countervailing Duty, and
- ▶ Special Additional Duty of Customs.

At the State level, the following taxes are being subsumed:

- ▶ Subsuming of State Value Added Tax/ Sales Tax

- ▶ Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
- ▶ Octroi and Entry tax,
- ▶ Purchase Tax,
- ▶ Luxury tax, and
- ▶ Taxes on lottery, betting and gambling.

**Applicability of GST**

- ▶ GST is applicable on the supply of goods and services.
  - ▶ GST is not levied (initially) on
    - a) Petroleum crude
    - b) High speed diesel
    - c) Motor spirit(petrol)
    - d) Natural gas
    - e) Aviation Turbine fuel
- GST council will decide when GST will be levied on the above 5.
- ▶ Alcoholic liquor for human consumption is exempted from GST.
  - ▶ Tobacco and tobacco products will be subjected to GST. The centre may apply excise duty on tobacco.



Fig. 2

**Examples - GST at work**

Let us suppose that GST rate is 10%, with the manufacturer making value addition of Rs. 30 on his purchases worth Rs. 100 of input of goods and services used in the manufacturing process. The manufacturer will then pay net GST of Rs. 3 after setting-off Rs. 10 as GST paid on his inputs (i.e. Input Tax Credit) from gross GST of Rs. 13. The manufacturer sells the goods to the whole-seller. When the whole-seller sells the same goods after making value addition of (say), Rs. 20, he pays net

GST of only Rs. 2, after setting-off of Input Tax Credit of Rs. 13 from the gross GST of Rs. 15 to the manufacturer. Similarly, when a retailer sells the same goods after a value addition of (say) Rs. 10, he pays net GST of only Re. 1, after setting-off Rs. 15 from his gross GST of Rs. 16 paid to whole-seller. Thus, the manufacturer, whole-seller and retailer have to pay only Rs. 6 (= Rs. 3 + Rs. 2 + Re. 1) as GST on the value addition along the entire value chain from the producer to the retailer, after setting-off GST paid at the earlier stages. The overall burden of GST on the goods is thus much less.

**How will be Inter-State Transactions of Goods and Services be taxed under GST in terms of IGST method?**

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.

A diagrammatic representation of the working of the IGST model for inter-State transactions is shown in Figure below.

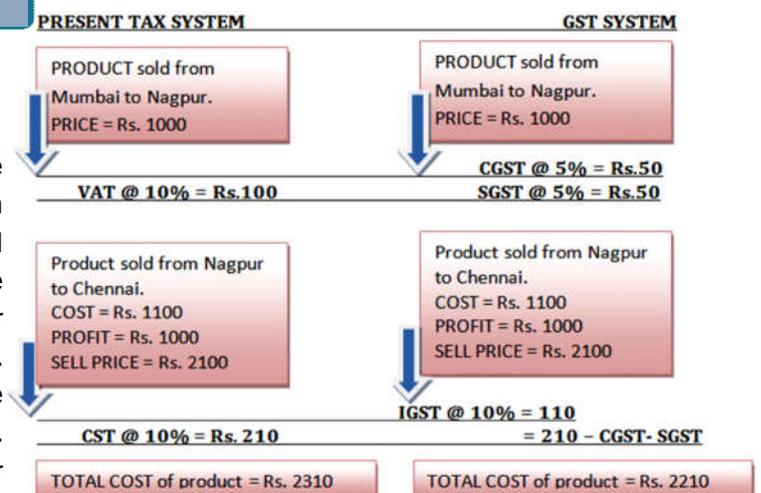


Fig. 3

## CONSTITUTIONAL DIMENSION

### Why does introduction of GST require a Constitutional Amendment?

The Constitution provides for delineation of power to tax between the Centre and States. While the Centre is empowered to tax services and goods upto the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Thus, the Constitution does not vest express power either in the Central or State Government to levy a tax on the 'supply of goods and services'. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issues.

As part of the exercise on Constitutional Amendment, there would be a special attention to the formulation of a mechanism for upholding the need for a harmonious structure for GST along with the concern for the powers of the Centre and the States in a federal structure.

### Major Features of 122 Amendment Bill

The salient features of the Bill are as follows:

- ▶ Conferring simultaneous power upon Parliament and the State Legislatures to make laws governing goods and services tax.

- ▶ Subsuming of various Central indirect taxes and levies such as Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs.
- ▶ Subsuming of State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling.
- ▶ Dispensing with the concept of 'declared goods of special importance' under the Constitution.
- ▶ Levy of Integrated Goods and Services Tax on inter-State transactions of goods and services.
- ▶ GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum and petroleum products shall be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council.
- ▶ Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years.
- ▶ Creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cesses and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc. The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as Members.

## INTITUTIONAL FRAMEWORK

### How would GST be administered in India?

GST Council will be tasked with optimizing tax collection for goods and services by the State and Centre. The Council will consist of the Union Finance Minister (as Chairman), the Union Minister of State in charge of revenue or Finance, and the Minister in charge of Finance or Taxation or any other, nominated by each State government.

The GST Council will be the body that decides which taxes levied by the Centre, States and local bodies will go into the GST; which goods and services will be subjected to GST; and the basis and the rates at which GST will be applied

### Composition of GST Council

GST council consists of

- ▶ The Union Finance Minister (as Chairman)

- ▶ The Union Minister of State in charge of Revenue or Finance,
- ▶ The Minister in charge of Finance or Taxation or any other Minister, nominated by each state government.

All decisions of the GST Council will be made by three-fourth majority of the votes cast; the centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast.

### The GST Council will make recommendations on:

- ▶ Taxes, cesses, and surcharges to be subsumed under the GST,
- ▶ Goods and services which may be subject to, or exempt from GST,
- ▶ The threshold limit of turnover for application of GST,

- ▶ Rates of GST,
- ▶ Model GST laws, principles of levy, apportionment of IGST and principles related to place of supply,
- ▶ Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand,
- ▶ And related matters.

**Levy of GST:**

The central government has the exclusive power to levy and collect GST in the course of inter-state

trade or commerce, or imports. This will be known as IGST (Integrated GST).

A central law will prescribe the manner in which the IGST will be shared between the centre and states, based on the recommendations of the GST Council.

Both, Parliament and state legislatures will have the power to make laws on the taxation of goods and services. A law made by Parliament in relation to GST will not override a state law on GST.

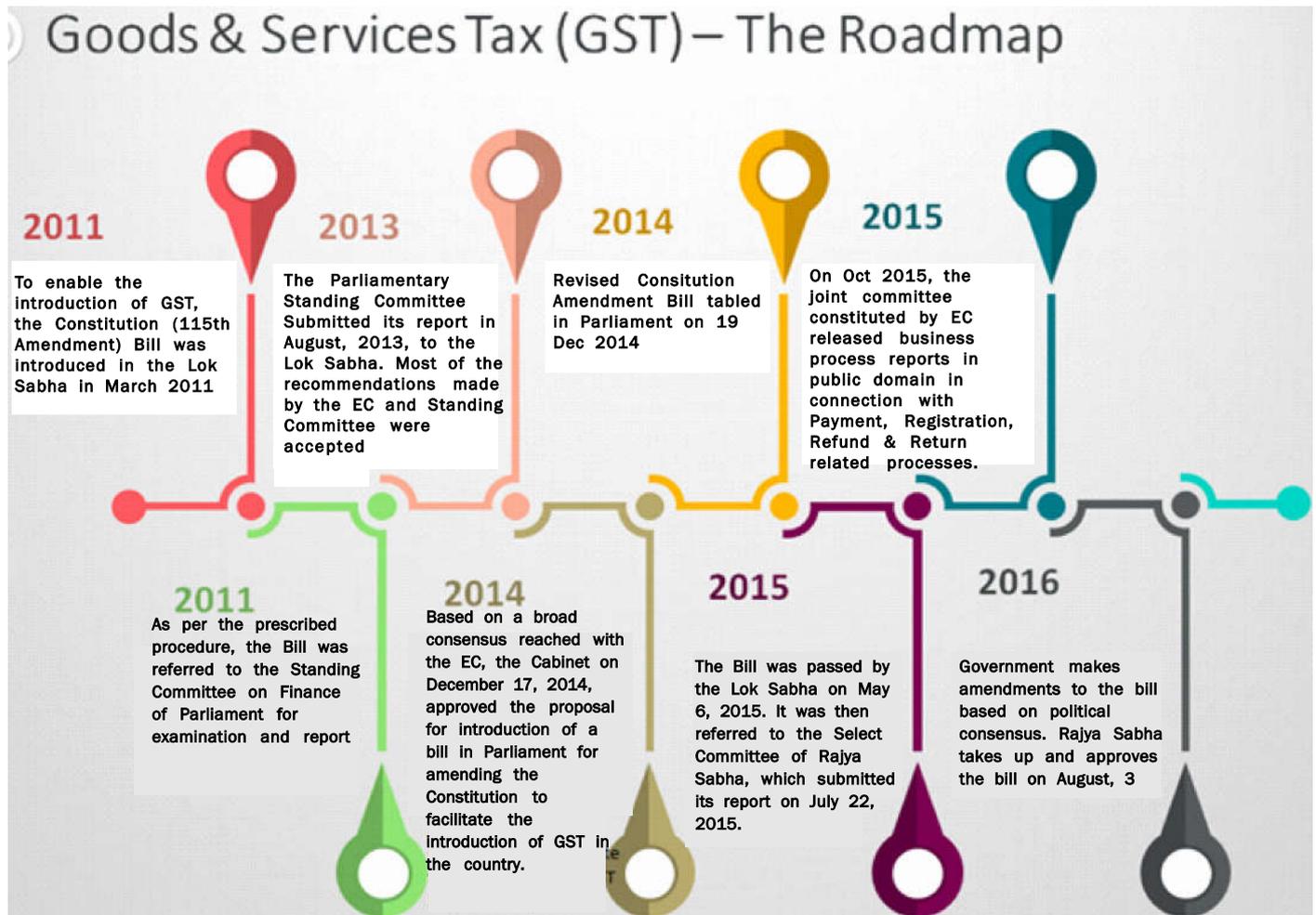


Fig. 4

**“IT” IN THE IMPLEMENTATION OF GST**

**How will IT be used for the implementation of GST?**

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working

on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. There would be no manual filing of returns. All taxes can also be paid online. All mismatched returns would be autogenerated, and there would be no need for manual interventions. Most returns would be self-assessed.

## IMPACT OF GST

### What Are The Proposed Benefits of GST?

- ▶ The GST will usher in a nationwide common market and subsume a multiplicity of Central and State taxes.
- ▶ The GST will increase the resources available for poverty alleviation and development.
- ▶ The GST will facilitate 'Make in India' by making one India. The current tax structure unmakes India, by fragmenting Indian markets along State lines. These distortions are caused by three features of the current system: the Central Sales Tax (CST) on inter-State sales of goods; numerous intra-State taxes; and the extensive nature of countervailing duty exemptions that favours imports over domestic production. In one fell swoop, the GST would rectify all these distortions: the CST would be eliminated; most of the other taxes would be subsumed into the GST; and because the GST would be applied on imports, the negative protection favouring imports and disfavouring domestic manufacturing would be eliminated.
- ▶ The GST would improve tax governance.

The Indian GST will be a leap forward in creating a much cleaner dual VAT which would minimise the disadvantages of completely independent and completely centralised systems. A common base and common rates (across goods and services) and very similar rates (across States and between Centre and States) will facilitate administration and improve compliance while also rendering manageable collection of taxes on inter-State sales. At the same time, the exceptions – in the form of permissible additional excise taxes on special goods (petroleum and tobacco for the Centre, petroleum and alcohol for the States) – will provide the requisite fiscal autonomy to the States. Indeed, even if they are brought within the scope of the GST, the States will retain autonomy in being able to levy top-up taxes on these goods.

### GST benefits (Sector-wise):

#### ▶ On Taxation system

Both the CENVAT and the State VAT have certain incompleteness. The incompleteness in CENVAT is that it has yet not been extended to include chain of value addition in the distributive trade below the stage of production. It has also not included several Central taxes, such as Additional Excise Duties, Additional Customs Duty, Surcharges etc. in the overall framework of CENVAT, and thus kept the benefits of comprehensive input tax and service tax set-off out of the reach of manufacturers/dealers. The introduction of GST will not only include

comprehensively more indirect Central taxes and integrate goods and services taxes for set-off relief, but also capture certain value addition in the distributive trade.

Similarly, in the present State-level VAT scheme, CENVAT load on the goods has not yet been removed and the cascading effect of that part of tax burden has remained unrelieved. Moreover, there are several taxes in the States, such as, Luxury Tax, Entertainment Tax, etc. which have still not been subsumed in the VAT. Further, there has also not been any integration of VAT on goods with tax on services at the State level with removal of cascading effect of service tax. In addition, although the burden of Central Sales Tax (CST) on inter-State movement of goods has been lessened with reduction of CST rate from 4% to 2%, this burden has also not been fully phased out. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed, and a continuous chain of set-off from the original producer's point and service provider's point upto the retailer's level would be established which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax. This is the essence of GST. Also, major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes, and thus bring down the compliance cost. With GST, the burden of CST will also be phased out.

#### ▶ On Industry, Trade and Agriculture:

The GST will give more relief to industry, trade and agriculture through a more comprehensive and wider coverage of input tax set-off and service tax set-off, subsuming of several Central and State taxes in the GST and phasing out of CST. The transparent and complete chain of set-offs which will result in widening of tax base and better tax compliance may also lead to lowering of tax burden on an average dealer in industry, trade and agriculture.

#### ▶ On Exporters:

The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

► **On Small Entrepreneurs and Small Traders:**

The present threshold prescribed in different State VAT Acts below which VAT is not applicable varies from State to State. The existing threshold of goods under State VAT is Rs. 5 lakhs for a majority of bigger States and a lower threshold for North Eastern States and Special Category States. A uniform State GST threshold across States is desirable and, therefore, the Empowered Committee has recommended that a threshold of gross annual turnover of Rs. 10 lakhs. Both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime. Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States considered that the threshold for Central GST for goods may be kept at Rs. 1.5 crore and the threshold for services should also be appropriately high. This raising of threshold will protect the interest of small traders. A Composition scheme for small traders and businesses has also been envisaged under GST. Both these features of GST will adequately protect the interests of small traders and small scale industries.

► **On Common Consumers:**

With the introduction of GST, all the cascading effects of CENVAT and service tax will be more comprehensively removed with a continuous chain of set-off from the producer's point to the retailer's point than what was possible under the prevailing CENVAT and VAT regime. Certain major Central and State taxes will also be subsumed in GST and CST will be phased out. Other things remaining the same, the burden of tax on goods would, in general, fall under GST and that would benefit the consumers.

► **On the Centre and State:**

Approximately \$ 15 billion a year of profits are predicted by the government with the implementation of GST as it is speculated to bring about raise in employment, promotion of exports and consequently a significant boost in overall economic growth. "The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports.

Another positive aspect of this proposal is that it aims for an equitable division of tax burden between the manufacturing and services. "GST will be the biggest reform after 1991 and its implementation alone would add 1.5-2 percentage point to India's GDP growth. It will provide a tremendous stimulus and can solve several issues like inflation and fiscal deficit".

► **To the Individuals and Companies:**

With the collection of both the central and state taxes proposed to be made at the point of sale,

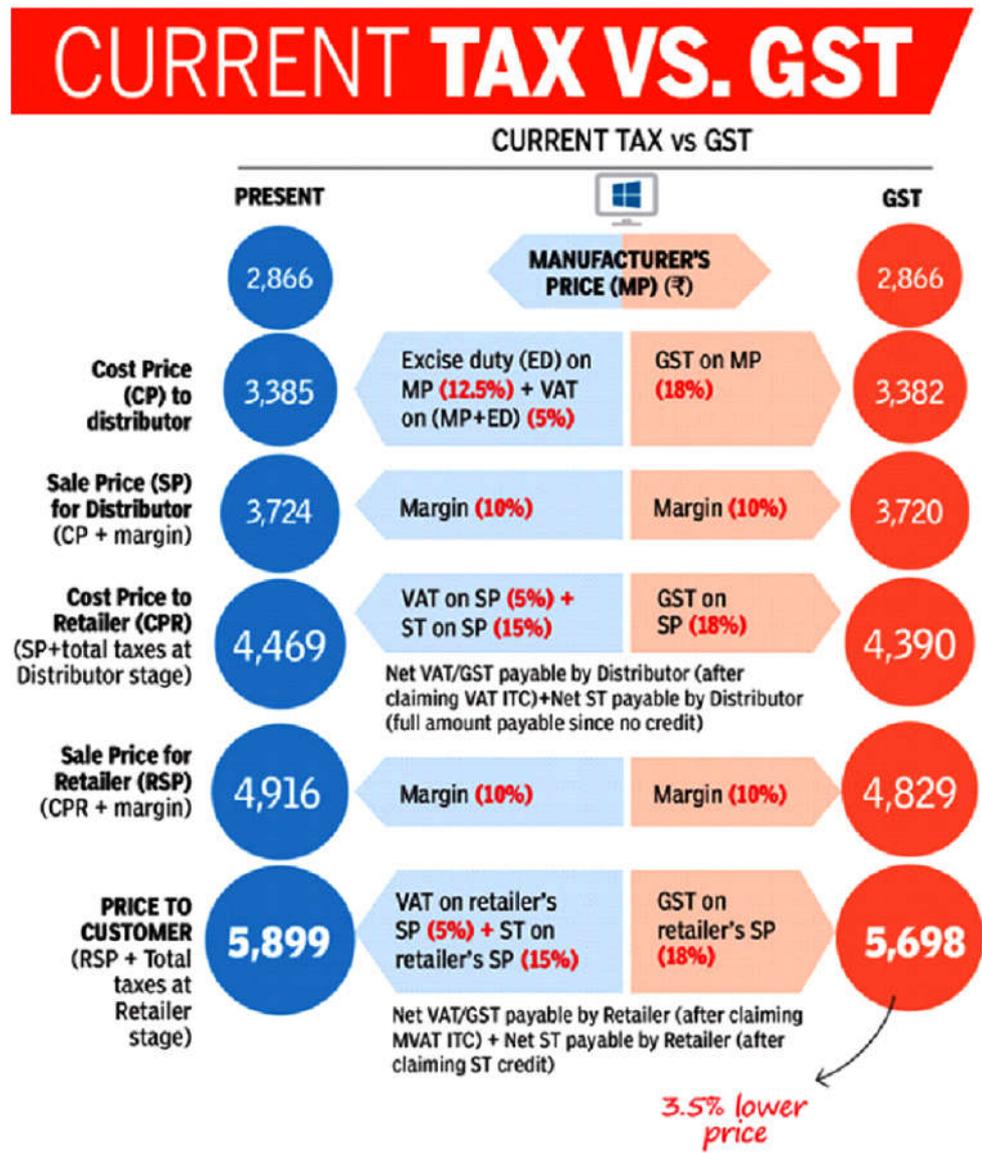


Fig. 5

source: Times of India

both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

► **Logistic improvement:**

The GST is expected to enable a reduction in logistics cost by as much as 20 per cent to 30 per cent, as firms reconfigure their supply chains on four counts. First, as India becomes one big

market, there will be larger but fewer warehouses. Second, it will lead to a larger number of bigger trucks on roads as there is greater adoption of the hub-and-spoke model. Third, these changes will lead to greater economies of scale for transport operators and lead to more companies outsourcing their logistics operations. Four, reduction in waiting and idling time at inter-state barriers and checkpoints is expected to provide a huge relief.

## ISSUES RELATED TO GST

### Issues related to GST Council

- The governance structure of the GST calls for the setting up of a GST Council. In the council, the Centre will have 1/3rd share of votes; the balance 2/3rd distributed amongst states. The council is to make recommendations on all major issues such as rates (including rate bands), exemptions, threshold limits, model GST law, principles of levy, apportionment of IGST, principles that govern place of supply, etc. While it is a good idea to have the GST Council, in the context of the overriding revenue considerations of the states that seem to have guided the design of the GST so far, it could prove to be a stumbling block in introducing genuine reforms in the indirect tax framework. Remember that each state can and will have their own state GST law, and while the recommendations of the GST Council will be in the framework of a “harmonised structure” they are not binding on the states.

### Challenges with respect to Tax Threshold

- The threshold limit for turnover above which GST would be levied will be one area which would have to be closely looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The low threshold limit also encourages the small scale traders and service providers to avoid payment of tax and bribe government officials. Therefore, low threshold limit will not augur well in modern tax reforms.

- Similarly, setting higher tax threshold will be another challenge for the governments.

### Challenges with respect to Rates of taxation

- This is one of the most prominent bones of contention among the States and Center before the enactment of GST in India. Effective service tax is presently 15%, which would increase to 18-20% once GST is passed. Hence, although prices of goods and products can come down, service industry will bear the brunt of higher taxes.

#### Negative impact on different sectors

- IT companies can have several delivery centres and offices working together to service a single contract. With GST, companies might require each centre to generate a separate invoice to every contracting party. Duty on manufactured goods is going to go up from existing 14-15% to 18%, which means the cost of electronics from mobile phones to laptops will rise.
- In E-commerce, the tax collection at source (TCS) guidelines in the GST regime will increase administration, documentation workload for e-commerce firms and push up costs.
- Insurance policies: Life, health and motor will begin to cost more from April 2017 as taxes will go up by up to 300 basis points.

## WAY FORWARD

This Act has the potential to usher in monumental changes in the indirect tax regime in India. At this stage, the current Bill is an improved and more implementable version of the one introduced in 2011, mainly due to the focus on the

egalitarian approach to endow the representation by States in the GST Council with wider powers and various provisions for safeguards against revenue losses. However, some issues with this Bill need to be addressed.

- ▶ The key taxing provision of Article 366(29A) which defines the various transactions of sale, lease, hire purchase, works contract, etc. has been left unaltered. Since GST would be imposed on the supply of goods or services (or both), it appears that this provision could become superfluous.
- ▶ It is also unclear whether the State of Jammu and Kashmir (J&K) would be brought within GST. Service tax does not currently apply to J&K, and it enjoys differential powers to tax transactions within it.
- ▶ While this Bill is aimed at achieving constitutional empowerment for GST, clarity is urgently needed on expected rate regime for industry to prepare for the ultimate impact.
- ▶ Separately, the herculean tasks of setting up the requisite information technology infrastructure for administering GST on a pan-India basis as well as gearing up and training the revenue authorities at the Centre and State needs to be addressed.

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**SPECIAL ISSUES**

# KUDANKULAM NUCLEAR POWER PLANT DEDICATED TO NATION

**Context**

Prime Minister Narendra Modi, Russian President Vladimir Putin and Tamil Nadu Chief Minister J Jayalalithaa jointly dedicated Unit 1 of the Kudankulam Nuclear Power Plant to the nations.

**Importance of Nuclear Energy**

Nuclear energy is the energy stored in the nucleus of an atom. It can be used to produce electricity. But, before it can be used, it must be released. The enormous energy that is stored in the bonds that hold atoms together can be released by two processes: Nuclear Fission or Nuclear Fusion. In nuclear fission, atoms are split to form smaller atoms, releasing energy whereas in nuclear fusion atoms are combined or fused to form a larger atom. This is how the sun produces energy.

Energy is the most fundamental requirement of every society or nation as it progresses through the ladder of development. Today, India is going through a phase of rapid economic development and industries are evolving at a significantly higher rate. To support and sustain this economic growth there is need of massive energy. Currently, the country has a deficit of 15% during peak hours. It is predicted that the total electricity demand will grow five times from the current 150,000 MW by the year 2030.

The Government of India intends to draw twenty-five per cent of its energy from nuclear power by 2050. This plan includes 20,000 MW of installed

capacity from nuclear energy by 2020, and 63,000 MW by 2032. India's nuclear power capacity is over 5,780 MW.

To meet this demand India has signed many nuclear agreements both for the import of Uranium and for establishment of nuclear plants. Kudankulam Nuclear Power Plant has been established with the cooperation of Russia.

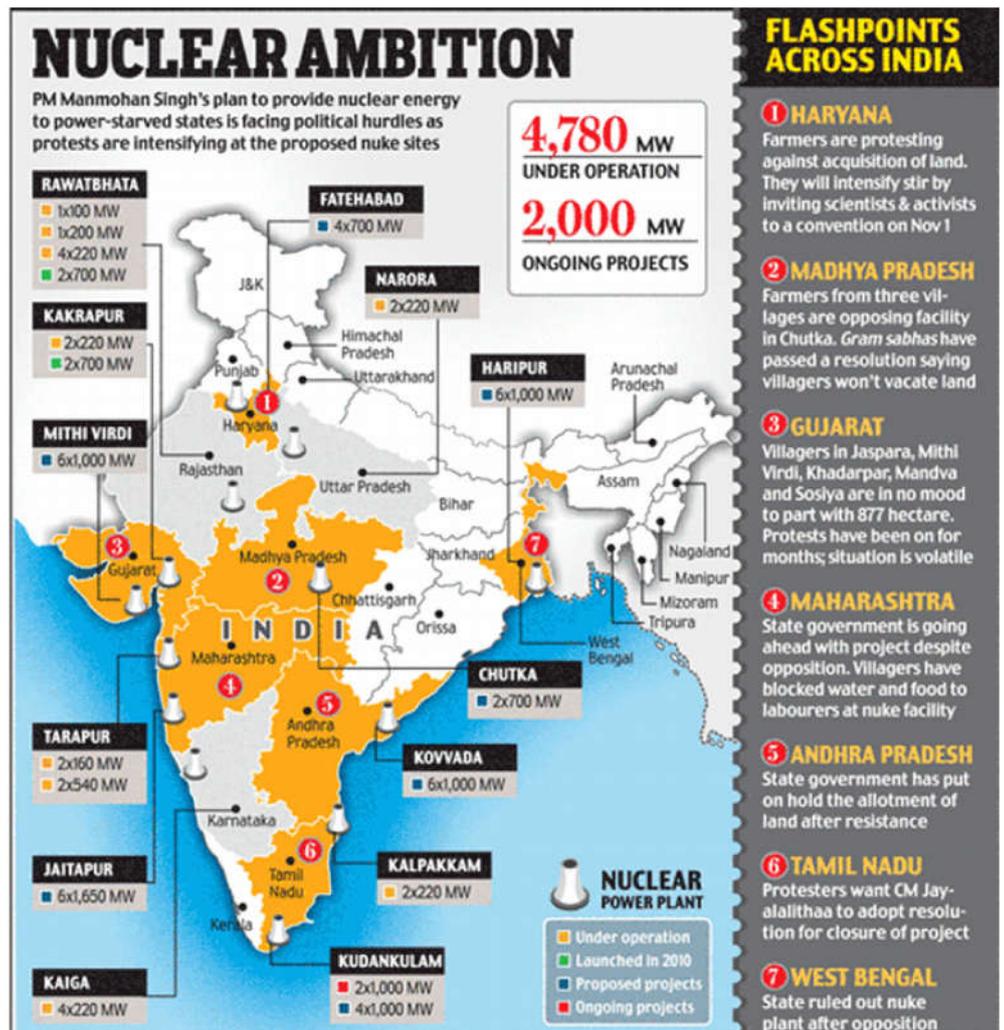


Fig. 6

**About Kudankulam Nuclear Power Plant**

It is a nuclear power station in Kudankulam in the Tirunelveli district of the southern Indian state of Tamil Nadu. Construction on the plant began on 31 March 2002, but finally it gets commissioned in August, 2016.

**First unit of KKNPP**

- ▶ The Kudankulam 1 has been jointly built by the Nuclear Power Corporation of India and Russia's nuclear agency ROSATOM.
- ▶ Recently, the first unit of KKNPP was dedicated to the nation by PM Narendra Modi and Russian President Vladimir Putin.
- ▶ Five more units of 1000MW are proposed to be set up at Kudankulam.
- ▶ Unit 1 attained criticality in July 2013 but began power generation this year. At present 1000 Mega watt of electricity is being generated from the first unit.
- ▶ The first unit supplies power to Tamil Nadu (562.5 MW), Puducherry (33.5 MW), Kerala (133 MW), Karnataka (221 MW) and Andhra Pradesh (50 MW).



Fig. 7

**What is the history of KKNPP?**

- ▶ In 1988, the agreement to set up nuclear power plant with 1000MW capacity was signed between former Prime Minister Rajiv Gandhi and Soviet Union President Mikhail Gorbachev in 1988. Since then the unit has been in the making to produce power and finally after so many years, the plant load factor has touched 90%, the highest since its commissioning in December 2014.

**What are the technical specifications of the plant?**

- ▶ The plant's first reactor is the first Pressurised Water Reactor (PWR) belonging to the Light Water Reactor (LWR) category in India, and the 21st nuclear power reactor in the country. The Russian-built Kudankulam plant is the country's largest nuclear power project and is designed to help meet a surging demand for electricity.

- ▶ PWRs use ordinary water as both coolant and moderator. The design is distinguished by having a primary cooling circuit which flows through the core of the reactor under very high pressure, and a secondary circuit in which steam is generated to drive the turbine.
- ▶ In a typical design concept of a commercial PWR, the following process occurs:
  - a) The core inside the reactor vessel creates heat.
  - b) Pressurized water in the primary coolant loop carries the heat to the steam generator.
  - c) Inside the steam generator, heat from the primary coolant loop vaporizes the water in a secondary loop, producing steam.
  - d) The steamline directs the steam to the main turbine, causing it to turn the turbine generator, which produces electricity.
- ▶ The unused steam is exhausted to the condenser, where it is condensed into water. The resulting water is pumped out of the condenser with a series of pumps, reheated, and pumped back to the steam generator. The reactor's core contains fuel assemblies that are cooled by water circulated using electrically powered pumps. These pumps and other operating systems in the plant receive their power from the electrical grid. If offsite power is lost, emergency cooling water is supplied by other pumps, which can be powered by onsite diesel generators. Other safety systems, such as the containment cooling system, also need electric power. PWRs contain between 150-200 fuel assemblies.

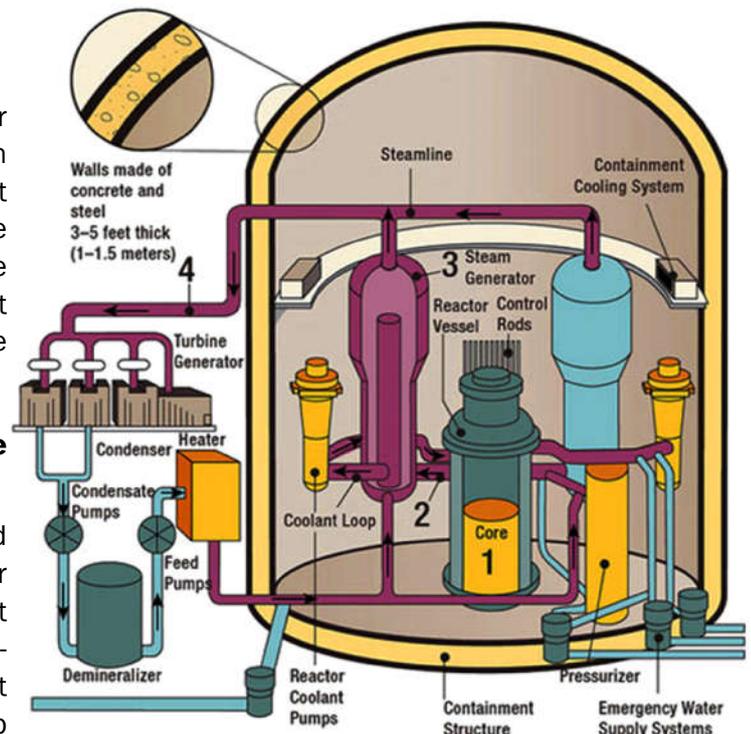


Fig. 8

### Why the project gets delayed?

- ▶ The project was protested by many local groups and fishermen.
- ▶ A Green Party was launched by Udayakumar in the early 2000s had eventually embraced the cause of Kudankulam villagers and their movements against KKNP. It was supported by hundreds of villagers, mostly fishermen, further church with its overwhelming Christian population also protested.
- ▶ The land to construct the nuclear project at Kudankulam was seized from farmers at pretty low compensations.
- ▶ In the wake of the Fukushima Nuclear disaster, new and stronger questions have been put forth by the Nuclear Suppliers Group (NSG) on whether India is prepared to face such accidents.

### What are the new safety measures proposed in the plant?

- ▶ There are a number of advanced active and passive safety systems which ensure unprecedented design level nuclear and ecological safety of the plant. Safety features incorporated are:
  - a) Double localizing and protective containment;
  - b) Passive heat removal system from reactor plant;
  - c) Core catcher; and
  - d) Closed industrial water intake.
- ▶ The reactor is protected from the impact of any earthquake, tsunami, tornado and hurricane.
- ▶ Kudankulam Nuclear Power Station is Located about 1500 kilometers far away from the tsunamigenic fault in the region and the most severe Tsunami in 2004 has caused only 2.2 meter rise in sea level in the vicinity of KKNPS. And all the installations in KKNPS are well above this maximum possible rise in sea water.
- ▶ The enriched uranium fuel is contained in Zirconium-Niobium tubes. It can retain the radioactivity generated during the operation of the reactor. The fuel tubes are located in the 22 cm thick Reactor Pressure Vessel (RPV) which weighs 350 tonnes. RPV is kept inside a one metre thick concrete vault.
- ▶ The reactor has double containment, inner 1.2 metre-thick concrete wall lined on the inside with a 6 mm layer of steel and an outer 60 cm thick concrete wall. The annulus between the walls is kept at negative pressure so that if any radioactivity is released it cannot go out. Air carrying such activity will have to pass through filters before getting released through the stack. Multiple barriers and systems ensure that radioactivity is not released into the environment.

- ▶ Its Passive Heat Removal System (PHRS) is capable of removing decay heat of reactor core to the outside atmosphere, during Station Black Out (SBO) condition lasting up to 24 hours. It can maintain hot shutdown condition of the reactor, thus, delaying the need for boron injection.
- ▶ It works without any external or diesel power or manual intervention.
- ▶ The reactors are equipped with passive hydrogen recombiners to avoid formation of explosive mixtures. The reactors have a reliable Emergency Core Cooling System (ECCS).

### What is done to preserve biodiversity of affected area?

- ▶ Given that a large amount of seawater is drawn in to cool the reactors, measures have been taken to preserve the biological diversity of the Mannar Bay adjacent to Kudankulam.
- ▶ Seawater is supplied from the so-called "bucket" constructed in the sea into the special facilities and systems which ensure that fish and plankton return to sea.

### What is the status of second unit of KKNPP?

- ▶ The second unit of KKNPP will be synchronized with southern power grid by the end of August 2016.
- ▶ The unit is presently operating at 245 MW. The Unit had attained first criticality (controlled self-sustaining nuclear fission chain reaction in the reactor for the first time) on July 10, 2016. The reactor power will be increased in steps to full power of 1000 MW as per laid down procedures and in line with stage-wise regulatory clearances accorded by the Atomic Energy Regulatory Board (AERB).
- ▶ KKNPP-2 will add 1000 MW capacity to the southern grid and raise the contribution of nuclear power in the country from the current installed capacity of 5780 MW to 6780 MW. The electricity generated by the unit will be allocated to the beneficiaries in the southern region, with firm shares to the states of Tamil Nadu, Karnataka, Kerala and the Union Territory of Puducherry.
- ▶ Kudankulam site had been accorded in principle approval for locating six units each of 1000 MW in technical cooperation with Russian Federation. The excavation work on the second phase comprising of Units 3&4 (KKNPP 3&4 – 2X1000 MW), which have already been sanctioned by the government, is in progress.
- ▶ Beyond power generation, the project is also seen as a symbol of maintaining cordial relations between India and Russia. The commissioning of the Unit-I of the Kudankulam Nuclear Power Plant (KKNPP) has once again touched a new high in the decade-old India-Russian relationship.

# RETURN OF RETRENCHED WORKERS FROM SAUDI ARABIA

## Context

Many Indians workers in the Saudi Arabia have been retrenched by the Saudi companies.

India has the second largest Diaspora in the world. The overseas Indian community estimated at over 25 million is spread across every major region of the world.

The overseas Indian community is the result of different waves of migration over hundreds of years driven by a variety of reasons-mercantilism, colonialism and globalisation. Its early experiences make up a saga of trials, tribulations and the eventual triumph of determination and hard work. In the last three decades of the 20th century the character of migration began to change and a 'new Diaspora' led by high skilled professionals moving to the western world and semi-skilled contract workers moving to the Gulf, West and South East Asia emerged.

### Indian Diaspora in the Gulf

- ▶ Indians are among the most preferred community in the Gulf region not only due to their expertise, but also because of their sense of discipline, and their law abiding and peace loving nature. They are quiet performers and generally do not involve in local politics. Percentage-wise, offences committed by Indians are the lowest.
- ▶ There has also been a significant shift in the category of Indian workers migrating to Gulf region. Many Gulf countries have completed the first phase of infrastructure development which needed a lot of manual labour. Now, they are also focusing on knowledge based industries. This increases the job prospects of white-collar workers in the Gulf region. Another change in the pattern of Indian workers migrating to Gulf countries is the geographical spread.
- ▶ India is the largest recipient of remittances globally, notably from the Gulf. According to the World Bank, an officially-recorded remittance to India in 2011 was \$58 billion, followed by China with \$57 billion. With nearly six-million population, the Indian diaspora in the Gulf are now the biggest source of remittances to India. In 2008, Gulf replaced North America as the top source of remittances to India. Indian communities working in the six

GCC countries now contribute almost one of third of the total remittances to India. According to the Reserve Bank of India (RBI) estimates, the Gulf region accounted for an average 27 percent of the total remittance inflows to India between 2006-07 to 2009-10.

### What are the issues faced by the Indian Diaspora?

Indian Missions in Gulf countries receive various types of complaints from Indian workers including:

- ▶ **Vulnerability of Domestic Workers:** This is the most vulnerable section of the Indian community as this section is not provided security under the labour laws of the Ministry of Social Affairs and Labour. Many of the domestic workers and housemaids approached the Indian Embassy with their problems, which are mostly related to the adverse working conditions, non-payment of salaries, confiscation of their passports, etc. Women domestic workers are especially vulnerable to physical, sexual and psychological abuse. Without rights in a foreign land and generally with no or poor Arab language skills, maids are often forced to work 16 hours a day or more and without even one day off per week.
- ▶ **Labour Issues:** Labour disputes such as:
  - a) Non-payment of salary
  - b) Absence of proper basic amenities
  - c) Non-renewal of labour card and visa
  - d) Non-payment of gratuity on termination of job
  - e) Employer refusing to give permission to travel to India
  - f) Discouraging return of labour if find job unsuitable
  - g) Mislead by recruiting agents in India
- ▶ **Education Related issues:** A major issue faced by the Indian schools is related to the procurement of books published by the NCERT. They want their children to be given quota at the local colleges in India.

- ▶ **Illegal Migration:** The problem of illegal migration persists. Out of the 58,000 employment documents attested in 2005, only 1,194 were housemaids and domestic servants. It would mean that many of the domestic servants and housemaids are coming through the informal channels.
- ▶ **Criminations issue:** The death of Indian nationals at Saudi Arabia due to natural / unnatural reasons like traffic accident, work related accident, suicide, murder, etc, is to be intimated to: (i) the nearest Police authorities, (ii) next of kin in India, and (iii) the nearest Indian Mission. The mortal remains can either be buried at Saudi Arabia or transported to India. If the dead body needs to be cremated, it has to be transported to India. There were complains about the delay in the procedure for repatriation of human remains.
- ▶ **Marital problems:** Most of the cases are dowry-related. Since the groom's main qualification of being an NRI seems to supersede all other academic qualifications, the parents prefer to spend on NRI bride-grooms as the parents wish to see their daughters go abroad. When she lands her she finds him far away from her ideals. The one who could have been a match to her is often, in terms of dowry, out of the capacity of her parents. There are many cases where the bride-grooms provided incorrect information about their job, earning, qualifications etc. before the marriage. As a result, the innocent girls found an entirely different standard of life upon arrival, far below their expectations. The educated girls who had been at jobs in India find very difficult to adjust here as the women are not allowed to work except in the profession of teaching or nursing.

### **Profile of Indian Diaspora in Saudi Arabia**

- ▶ There are 2.96 million of Indians living and working in the Kingdom.
- ▶ Most of the Indians are in the semi-skilled and unskilled jobs, but rank third in remittances to the home country.
- ▶ Majority of them belong to Kerala, Andhra Pradesh, Karnataka and Tamil Nadu.

### **What is the issue of retrenchment in Saudi Arabia?**

- ▶ Retrenchment is forced lay-off of employees by a firm, usually to cut down its payroll.
- ▶ The economies of Gulf countries are facing an economic downturn due to fall in crude oil prices.

In particular, those employed in oil & gas and construction sectors are among the most vulnerable where downsizing and lay-offs have been reported.

- ▶ Government sources said about 10,000 Indian workers have been affected by the economic slowdown in the Gulf.
- ▶ The government is preparing to evacuate a large number of Indian workers facing an uncertain future in Saudi Arabia following widespread layoffs.

### **What are the obstacles in movement of workers?**

- ▶ There were twin issues with the evacuation of workers.
- ▶ The law there does not permit an emergency exit visa without no objection certificate from the employers. But there are no employers as the companies have shut down and left the country. Indian government have asked the (Saudi) foreign office to authorize it to evacuate people.
- ▶ The other issue is non-payment of dues to the workers. Indian government have asked Saudi's labour office that all the workers will sign a contract before leaving that Saudi government will first settle the payments of the workers when it deal with the dues of the companies lying with it.
- ▶ The validity of the exit visa and Iqama (residency visa) of some of these workers has also lapsed and the Indian mission was working to sort out these issues with local authorities.

### **What are the steps taken by the government?**

- ▶ The Indian Community Welfare Fund has been extended to all Indian Missions and Posts abroad to meet contingency expenditure for welfare activities for overseas Indian citizens who are in distress on a means tested basis.
- ▶ Multilingual helplines have been set up in India and in Gulf countries. Indian Worker Resource Centre (IWRC) has also been set up in Dubai, UAE that provides toll-free helpline and walk-in counselling facilities.
- ▶ Indian consulate in Jeddah, through the assistance of the Indian community has been providing rations for the 2,450 Indian workers.
- ▶ The process of lodging claims and making arrangements for those Indian workers wishing to come back to India or relocate to another company has started.

- ▶ Minister of State for External Affairs Gen (Retired) V.K. Singh made a ground assessment and work out the logistics of a possible repatriation of the workers who want to return.

**What steps have been taken by the Saudi government?**

- ▶ Saudi Arabia's has also taken action to provide relief to distressed Indian workers in the Gulf kingdom.
- ▶ Saudi King Salman issued a series of directives to address their problems, and earmarking 100 million Saudi Riyals (\$26 million) to address the concerns of the workers and end their suffering.
- ▶ King Salman also directed the Saudi passport department to facilitate exit visas and other procedures for the distressed workers.

**Conclusion**

- ▶ The responsibility of resettlement of the returnees primarily rests with the State governments. Thus for a long term settlement both the central and state governments must plan out strong rehabilitation packages for the unemployed Saudi returnees. Assistance should be offered for safe return like sponsoring the air fares, rehabilitation measures etc. The government should also undertake massive investments in infrastructure and industrial development to boost up employment opportunities, by facilitating the path for investors leaving its communist mind-set behind.

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# AGARTALA RAIL LINK AND ACT EAST POLICY

## Context

Tripura Sundari launched to link Agartala with the railway map of India and foundation stone laid for Akhaura-Agartala rail link connecting Tripura and Bangladesh

## Introduction

Tripura entered the broad gauge railway map of the country with flagging off the Agartala-New Delhi 'Tripura Sundari Express'. On the same occasion the foundation stone was laid for the much awaited railway track to link Agartala to Akhaura in Bangladesh. This event is historic in dual sense i.e. New Delhi-Agartala train service establish a direct link between New Delhi and the north-east and it also made Bangladesh direct partner in India's Act East policy.

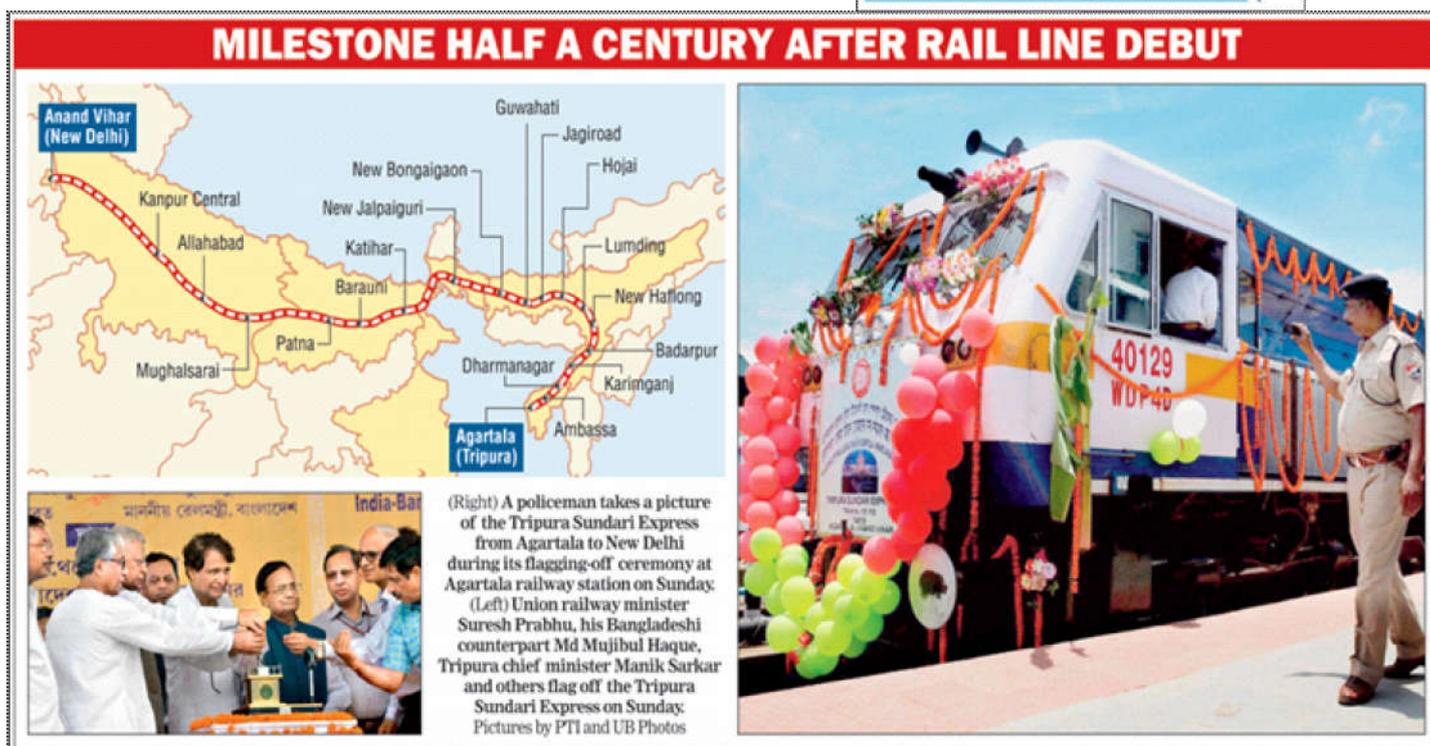


Fig. 9

## What is the present infrastructure scenario of the North-east India?

- ▶ The North East Region (NER) includes “seven sisters” comprising of the States of Assam, Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Mizoram and Tripura and also the state of Sikkim. The region is known for its unique culture, handicrafts, martial arts, and scenic beauty.
- ▶ The region is ethnically distinct from the rest of India and has strong ethnic and cultural ties with South-east Asia. Linguistically the region is distinguished by a preponderance of Tibeto-Burman languages. The most marked characteristics feature of this region is the low density of population in all areas other than Assam and Tripura. The very low densities in many parts of the region are attributable to the nature of the terrain.



*Fig. 10*

- ▶ Infrastructure development is a fundamental prerequisite for realizing the vision of progress towards peace and prosperity and for creating an investment climate and market development in the North East.
- ▶ In fact, this is a basic prerequisite for development and has strong complementarities with measures to improve health and education as well as transport, industry and services. These elements of the infrastructure are also crucial for establishing a stable and peaceful society and hence for progress and prosperity of the region as well as India.
- ▶ Transport is of great importance in the region to strengthen its integration within itself, with the rest of the country and its neighbours. It is a vital input for the proposed shift from subsistence agriculture to cash crop based farming, as well as the planned development of industry and service sector.
- ▶ But the state of infrastructure is poor in the region due to following reasons:
  - a) The entire boundary of North Eastern Region (NER) (96 per cent) is an international border shared with China and Bhutan in the north, Myanmar in the east, Bangladesh in the south and west, and Nepal to the west of Sikkim. The geopolitical distancing of the region from its main markets and trade gateways led to economic insulation and caused immense structural damage to the NER economy.
  - b) Progress in the Special Accelerated Road Development Programme for the North Eastern Region (SARDP-NE) which aimed at developing road connectivity between remote areas in the North-eastern region with state capitals and district headquarters is poor.

- c) The slow pace of work on East West Corridor project in Assam has been due to problems in land acquisition, utility shifting by local bodies, tree cutting, frequent bandhs, poor law and order condition, ROB clearance, inadequate deployment of manpower and machinery by contractor in certain cases, forest clearance, frequent restrictions imposed by local administration for collection of construction materials etc.
- d) Rail connectivity in such a terrain is time consuming and also needs huge investments. It is road connectivity which plays a dominant role in fulfilling the transportation needs of the public. Air connectivity also plays a role for connecting a limited segment of people and goods.

**What is the present status of railway network in North East?**

**Assam, Arunachal Pradesh and Sikkim**

- ▶ To provide rail connectivity to all States in the North Eastern Region was set as a national priority in this decade. The railroad network is limited to 2500 Kms and lies almost entirely within the State of Assam (2466 Kms), with short stretches in Tripura (45 Kms) and Arunachal Pradesh (1 Kms). Only 960 Kms of this network consists of standard gauge track suitable for haulage of bulk goods and the majority of the network is made up of narrow gauge track suitable for small trains and transportation of passenger and transportation of smaller cargo.
- ▶ Similarly, there is an urgent need for a rail link into Sikkim. Some useful rail links are already under planning and a few of them have almost been completed and are likely to be broad gauged. These are Jiribum to (near) Imphal and Dimapur to (near) Kohima. Another line from Azara (near) Guwahati airport to Byrnihat in Meghalaya is in progress.

**Meghalaya Joins Indian Railway Network**

- ▶ The north eastern state of Meghalaya has been added to the country’s railway map as the first passenger train between Meghalaya’s Mendipathar and Guwahati covering a distance of 131 km was inaugurated. With this, Meghalaya, that was the only state among the seven sisters of the Northeast not having any railway line, has been brought into the railway map.

**Connecting Capitals with Rail Network**

- ▶ With an aim to bring down the poverty and the price of essential commodities in the north-east, the government is planning to connect the capitals

of all the states in the region by broad gauge rail network by 2020.

### Agartala-Delhi Rail Link

- ▶ Recently, the Government of India achieved the launch of Tripura Sundari Express train.

### Agartala-Akhaura-Kolkata Rail Link

- ▶ Introducing Agartala-Kolkata direct train service within 2016. The ambitious India-Bangladesh rail project was mooted in 2012 and both countries signed a MoU in February 2013 to create 15.06 km line of which 10 km falls in Bangladesh.

### Proposed Plan:

- ▶ **Belonia-Feni:** There are proposed plans to reopen the British era rail link between Belonia in south Tripura and Feni in south-east Bangladesh.

### Why the Agartala-Delhi train 'Tripura Sundari Express' is historic?

It forms a major step towards the increased connectivity for North-eastern India and holds strategic significance too. Some of the benefits are-

### Cultural Connectivity

- ▶ Historically, the colonial railway was a “key link” between production centres but it had its “positive role” in fostering national integration and promoting national mobility. The inaugural run of train is not a “routine affair” of our time because it took almost 52 years after the first railway line was laid in the state of Tripura.

### Way to Globalisation

- ▶ In the age of information and communication technology (ICT), physical connectivity too stands as one of the most important dimensions of contemporary life. It forms a key component of the “globalisation debate” and holds significance in terms of compressing space and time.

### Inclusive Growth

- ▶ Poor connectivity has been one of the chief reasons for the region's backwardness. It offers an opportunity for eastern India to be part of mainstream development process and agenda.

### Economic Integration

- ▶ With the inaugural run of the New Delhi-Agartala train, expectations are soaring for better movement of trade, people and produce from North-east India.

### Employment to Youths

- ▶ Development of the North-eastern states mean ensuring jobs for the youth which prevents them

from taking up arms and joining militant groups. The situation in the region is improving with India opening trade points with Bangladesh and Myanmar as well as various connectivity projects linking the North-east to Delhi, within the region itself as well as neighbouring countries.

### What's the significance of Agartala-Akhaura-Kolkata line?

The new railway link allows for another set of breakthrough for the bilateral relations between India and Bangladesh such as -

### Diplomatic links

- ▶ Once the completion of the 15 km-long railway line between Agartala to Akhaura is done by 2017, it will boost New Delhi-Dhaka diplomatic links, which are in the “upswing mode” since the long-awaited swapping of enclaves between the two was accomplished.

### Link to Chittagong Port

- ▶ Akhaura in South-eastern Bangladesh is an important railway junction, which connects Chittagong port, resource-rich Sylhet and Dhaka. Chittagong is the best port in Asia with which India wants to get connected for long.
- ▶ Once fully operational, the Delhi-Tripura-Sabroom-Akhaura link is expected to facilitate transit from Chittagong and Mongla ports to India.

### Anti-Insurgency Measures

- ▶ Linking development of India's North-east with that of Bangladesh has been something that has been on the Indian agenda for years. This is primarily because many of the insurgent groups active in the North-east have been using Bangladesh as a base.

### South East Asia Integration

- ▶ The better infrastructure facilities in its North-east hold key to India's “Act East” strategy.
- ▶ The new railway line is an important pillar for India's search for “greater connectivity” between North-east India and neighbouring countries. This is because India plans to open links between the states in the North-east and South East Asia. India is already looking at plans to complete a road link from its North-east through Myanmar to Thailand.

### What is the role of development of North-East in Act East policy?

- ▶ North East India acts as the gateway to and for South East Asia. It is the most prosperous region

of India and plays a crucial role in the strategic and economic partnership.

- ▶ There is a wide recognition that the main stumbling block for economic development of the North-eastern region is the disadvantageous geographical location. The coming of globalisation propagates a borderless world which is often associated with economic integration.
- ▶ The 98 percent of its borders shared with China, Myanmar, Bhutan, Bangladesh and Nepal, the North-east India has better scope for development in the era of globalisation.
- ▶ As a result, there is a consensus that the North-eastern region must be developed with its political integration with the rest of India and economic integration with the rest of Asia, with East and South-east Asia in particular. With the development of this new policy the Government of India directed its Look East policy towards developing the North-eastern region. India is now looking towards a partnership with the ASEAN countries, both within BIMSTEC and the India-ASEAN Summit dialogue as integrally linked to economic and security interests, particularly for India's East and North East region.

### **Conclusion - A win-win situation**

In a "tactical shift" from the "Look East" policy to now the "Act East" strategy, Government of India has set its goal of "linking east first" as its policy priority. If all goes well, India's "neighbourhood cooperation" will have both economic as well as strategic benefits.

The Agartala Akhaura [Bangladesh] link will give full rail connectivity from east to west of Bangladesh and will greatly facilitate India-Bangladesh trade and people to people ties. India already has bus links connecting Dhaka and Kolkata as well as Agartala and Dhaka. There is also a train link between Dhaka and Kolkata.

In conclusion, the new rail link offers a "win-win" situation both for India's North-east region and the neighbouring countries, facilitating increased trade and people-to-people contact in a road towards collective prosperity. More trade means greater the prosperity and lesser the chance of youth getting involved in militant activities.

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# DECREASING REMITTANCES FROM WEST-ASIA AND ITS IMPACT ON INDIA

## Context

The remittances from West Asian Nations are decreasing due to slowing global economy and plunging oil prices, affected jobs and income of workers there.

### What is 'Remittance'?

A remittance is a transfer of money by a foreign worker to an individual in his or her home country. A remittance is the funds an expatriate sends to their country of origin through wire, mail, or online transfer.

### What is the status of Indian Diaspora in West Asia?

West Asia, popularly referred to as the Gulf, is currently home to 8.2 million Indians, about 52% of the Indian Diaspora.

Currently, 43% of all Indians in West Asia live in the UAE. Saudi Arabia has the second highest concentration with over 1.9 million Indians and Kuwait (1.1 million), Oman (0.8 million), Qatar (0.6 million) and Bahrain (0.3 million).

The Indian Diaspora may be divided into three broad categories.

#### They are -

- ▶ Professionals like doctors, engineers, chartered accountants, scientists, technocrats, and managers who are employed both with the government and the private sectors on the basis of specific time-bound contracts, constituting around 10 percent of the Indian community.
- ▶ Non-professional group of 10 percent of the community, employed in white collar jobs such as clerks, secretaries, accountants, storekeepers, etc.
- ▶ The majority, i.e., 80 percent consisting of organised labour and technicians working on project sites and industrial establishments, as well as on operations and maintenance jobs. Besides, this group also includes a large number of unorganized labour, working as shepherds, agricultural farm labourers, housemaids, house-drivers etc.

- ▶ Apart from the above, there are also some illegal Indian migrants. However, periodically the Saudi Government deports such illegal residents.

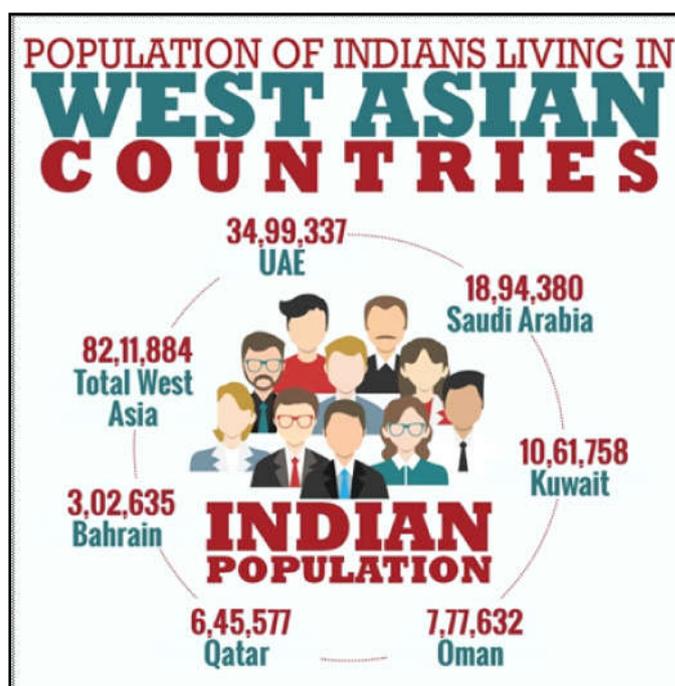


Fig. 11

### Why West Asia is important region for remittances?

About 50% of \$72 billion remitted to India comes from the West Asian economies, with a bulk of it coming from the United Arab Emirates and Saudi Arabia.

Equally significant is that over half of India's total Diaspora lives and works in the West Asian nations.

A vast majority of these people are engaged in activities that require little or no skills, mostly in the construction sector. Many of these workers face the prospect of losing their jobs as the projects are stalled.

Many others with better qualifications and with better jobs face the prospect of their earnings shrinking as the terms of engagement are renegotiated amid slowing economic activity.

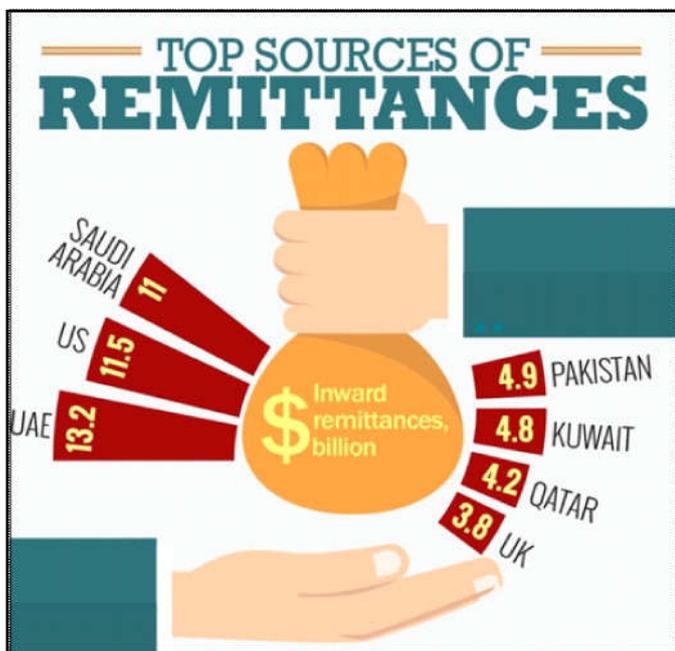


Fig. 12

**Why there is drop in Remittances?**

The collapse of oil prices and the consequent measures being taken by the West Asian nations to prevent a fiscal crisis are set to hurt both the Diaspora as well as remittances.

As governments of the Gulf nations impose taxes such as sales tax and reduce subsidies for electricity and petroleum to balance their budgets, the cost of living will rise. This will mean Indian workers will have less surplus to send back to their families or to invest in assets in India. The combined effect of all this would mean a drop in remittances received by India.

India would also be impacted by the gradually deteriorating economic conditions and the austerity measures being introduced in West Asia.

Many organizations have already begun rationalizing costs by letting people go or by renegotiating the terms of engagement. In some cases, the cut in compensation packages is forcing many Indians to either return home or at least send back their families.

**How important are Remittances flows for India?**

India has the largest diaspora in the world and is also the largest recipient of remittances.

India was the largest remittance receiving country, with an estimated \$72 billion in 2015, followed by China (\$64 billion), and the Philippines (\$30 billion), according to World Bank report. Remittances to India from West Asia are the highest, forming nearly half of the total flows, added the report.

Remittances are a steady source of inflows for India. The slowdown is a concern especially when other sources of dollar inflows such as portfolio flows are also volatile.

**What is the impact of declining remittances on states?**

**Kerala**

Some 60 lakh Indians work in West Asia, about a third of them from Kerala. There have been layoffs since the second half of 2015 when the crude price dipped lower and lower.

No other Indian state is as devastated by the Gulf crisis as Kerala: Around 50 lakh families in the state depend on the money that the migrants send home. Gulf remittances beside tourism, sale of liquor and cash crops like rubber and spices drives the state's economy.

Job losses in West Asia will mean reduced remittances to Kerala, which grew to approximately Rs. 1 lakh Crore last year, amounting to about a third of the state's GDP. Reduced cash inflows can dampen the real estate and consumer durables market and so on.

**Other States**

Along with Kerala, Tamil Nadu, Uttar Pradesh, and combined Andhra Pradesh were the major remitting states, contributing 50 per cent of total remittances. Now, with Kerala reaching a saturation point, the scenario is changing with states like Rajasthan, Bihar and Madhya Pradesh sending their natives abroad to fetch 'more money'.

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# SC LIFTS BAN ON SALE OF DIESEL CARS IN NCR

## Context

Supreme Court has allowed the fresh registration of high-end diesel cars and SUVs in Delhi and the National Capital Region, provided they pay the green charge of one per cent of the vehicle's ex-showroom price.

## About diesel cars

The Diesel engine is an internal combustion engine in which ignition of the fuel that has been injected into the combustion chamber is caused by the high temperature which a gas achieves when greatly compressed (adiabatic compression).

The diesel engine has the highest thermal efficiency (engine efficiency) of any practical internal or external combustion engine due to its very high expansion ratio and inherent lean burn which enables heat dissipation by the excess air.

Diesel fuel contains more energy per litre than petrol and coupled with the fact that diesel engines are more efficient than petrol engines, diesel cars are more efficient to run. Diesel fuel contains no lead and emissions of the regulated pollutants (carbon monoxide, hydrocarbons and nitrogen oxides) are lower than those from petrol cars without a catalyst. However, when compared to petrol cars with a catalyst, diesels have higher emissions of NOx and much higher emissions of particulate matter.

## Why diesel engines and diesel as fuel is more polluting vis a vis petrol?

- ▶ Diesel has higher Sulphur content while Petrol is more 'refined' than diesel.
- ▶ The relatively high Nitrogen and Sulphur content in diesel results in the formation of higher amounts of Nitrogen oxides (NOx), and particulate matter containing mainly Sulphurous compounds.
- ▶ The quality of diesel in India is an issue. The Sulphur in emissions from diesels is about 10 parts per million in Europe, while it is 50 ppm in India.
- ▶ Particulate matter or soot is created during the incomplete combustion of diesel fuel. Its composition often includes hundreds of chemical elements, including sulfates, ammonium, nitrates, elemental carbon, condensed organic compounds, and even carcinogenic compounds and heavy metals such as arsenic, selenium, cadmium and zinc.

- ▶ Ultrafine particulates, which are small enough to penetrate the cells of the lungs, make up 80-95% of diesel soot pollution.
- ▶ Particulate matter irritates the eyes, nose, throat, and lungs, contributing to respiratory and cardiovascular illnesses and even premature death.

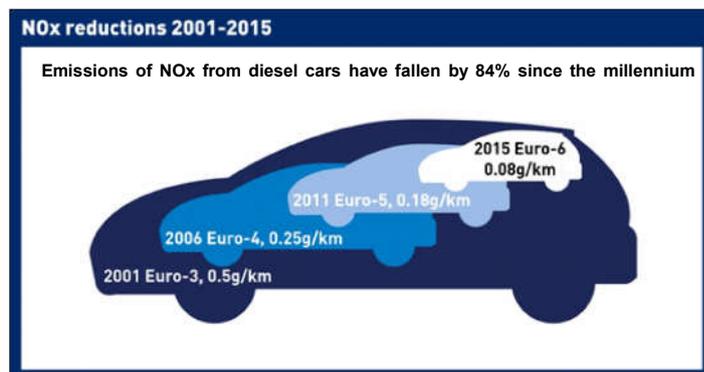
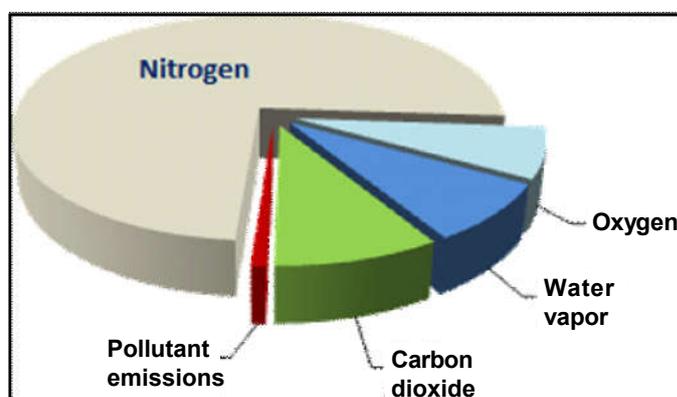


Fig. 13

## What did Supreme Court say?

Supreme Court says that automobile makers would have to pay a levy equal to 1% of the ex-showroom price of diesel vehicles with engine capacity above 2000cc.

The SC lifted eight-months-old ban on the registration of large vehicles fuelled by diesel in the national capital region (NCR) centered on Delhi. It makes conditional for manufacturers to pay a levy for polluting the air.



*Fig. 14*

**What was the previous Supreme Court Ban?**

The Supreme Court, on 16 December 2015, banned the registration of luxury automobiles and sport utility vehicles with an engine capacity in excess of 2000cc in NCR. It was in response to concerns over increasing air pollution in the national capital by emissions of diesel vehicles.

Delhi was ranked the world’s most polluted city in 2014 by the World Health Organization (WHO). But this year, Delhi’s air is ranked the 11th most polluted.

**How the cess will be collected?**

The cess, charged as environment protection charge, has to be paid by the vehicle manufacturer to the Central Pollution Control Board (CPCB) which will open a separate account with a scheduled public sector bank.

**What was the necessity of the ban?**

In December 2015 order, Supreme Court has given the following justifications -

- ▶ The SC had issued certain directions, aimed at mitigating the hardship of the people living in Delhi, regarding the high pollution in the city that has earned it the dubious reputation of being the most polluted city in the world.
- ▶ The vehicles that were bound for Delhi alone were allowed to enter Delhi but the vehicles bound for other destinations/cities were supposed to bypass Delhi through alternative routes.
- ▶ It appears that vehicles which transit through Delhi do not adhere to the vehicular standards which are applicable in Delhi, namely, they are not Euro-II compliant nor are they using low Sulphur and

low benzene fuel. There is no reason why very large number of goods vehicles should transit through Delhi thereby adding to the pollution level and the traffic on the road.

It was contended that since diesel vehicles are the most polluting vehicles contributing to the current state of air pollution in Delhi, **it is time to issue directions banning registration of any new private and commercial light duty diesel vehicles in the NCR.**

**How has the automobile industry responded to the verdict?**

The automobile industry and analysts have welcomed Supreme Court’s (SC) verdict to allow the sale of high powered diesel vehicles in the NCR (the biggest market for such vehicles)

It said that 1% green cess imposed by the apex court on such vehicles will not be a dampener for the industry.

This decision will put behind all the controversy surrounding diesel fuel and the automobile industry will be able to focus on the more important task of making vehicles compliant with BS 6 norms by April 2020.

**Is it violation of Separation of Powers?**

The government has argued that the court does not have the authority to impose an environment compensation charge and that this is a legislative mandate. The right to levy a tax is a legislative one and can’t be done by the courts.

Attorney General argued for the plea by the Ministry of Heavy Industries and Public Enterprises to vacate the ban, contending the central government

was ready to conduct a “multi-pronged study” on effect of diesel on the environment and possibility of imposing a green cess on diesel vehicles.

The law officer further submitted that it would “not be appropriate” for the court to impose a tax on diesel vehicles and related issues, and that direction could be issued to the government after the report is adduced in the court.

### **CONCLUDING OBSERVATIONS**

The Supreme Court is held in the highest esteem by every citizen. Time and again the apex court upheld the principles of the Constitution, and has given directions to the executive. The issue is of proportionality, logic, reasoning and rationale of the order. This order can go a long way to further the rights of citizens under Article 21.

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# MENTAL HEALTH CARE BILL

## Context

The Mental Healthcare Bill, 2013 was passed by Rajya Sabha in August and is expected to be discussed in Lok Sabha during next session. The Bill repeals the existing Mental Health Act, 1987, which is vastly different in letter and spirit.

### What is Mental Illness?

Mental illness refers to a wide range of mental health conditions – disorders that affect mood, thinking and behavior. Examples of mental illness include depression, anxiety disorders, schizophrenia, eating disorders and addictive behaviors.

### What is the status of Mental Illness in India?

There are no official estimates currently but it was estimated that **6-7% of the population suffered from mental disorders**, and about 1-2% suffered from severe mental disorders such as schizophrenia and bipolar disorder. Nearly 5% of the population suffered from common mental disorders such as depression and anxiety.

However, real numbers could be higher, as mental illness often goes underreported due to the associated stigma.

Mental disorders afflict 5 crore of the Indian population (5%) and need special care. 80% of our districts do not have even one psychiatrist in public service.

WHO estimates of 2001 indicate a prevalence level of about 22% of individuals developing one or more mental or behavioral disorders in their lifetime in India.

According to WHO countries like India devote less than 1% of their health budget to mental health compared to 10% - 18% in other countries.

There are just 3,500 psychiatrists in India. Three psychiatrists per one million people in India, compared to 100 in Australia or 150 in developed countries.

Over 90% of people with mental illness are cared for within their communities by their families and may never even receive a diagnosis.

### What are the issues faced by Mentally ill people?

Persons with mental and psychosocial disabilities often face stigma and discrimination due to widely held misconceptions about the causes and

nature of mental health conditions. Persons with mental and psychosocial disabilities also experience high levels of physical abuse. They encounter restrictions in their exercise of socio-politico-economic rights in the majority of countries, largely due to the false assumption that they are not able to carry out their responsibilities, manage their own affairs and make decisions about their lives.

Though mental health conditions are one of the leading causes of disability, persons with mental and psychosocial disabilities often lack resources to maintain basic living standards. Furthermore, they are one of the most neglected and discriminated groups in development of policies and programmes. Integration of mental health into development efforts is a cost effective pro-poor strategy. There are cost effective treatments available for most mental illnesses, and effective treatment is associated with reductions in overall health-care costs. Child development, education, health, social welfare policies and programmes must integrate mental and psychosocial aspects.

### Why do we need a new Mental Health Bill?

In 2007, India ratified the United Nations Convention on the Rights of Persons with Disabilities, which requires signatory countries to change their laws to give effect to the rights of persons with mental illness. It was believed that the 1987 Act did not adequately protect these rights, and a need was felt to provide them with better treatment and improve their access to health services.

The flaws were:

- ▶ There was no provisions for punishing the relatives and officers requesting unnecessary detention of a person to such hospitals.
- ▶ Once a person is admitted to mental hospital he is termed insane or mad by the society. There were no provisions in the Act to educate the society against these misconceptions.
- ▶ Much stress had been laid on hospital admission and treatment. This again increases the cost of health care. No provisions were made for home treatment.

- ▶ Although the Act provides for a simpler discharge procedure but no provisions were made for after discharge care and rehabilitation, of patients.

### What is the Bill about?

The Mental Health Care Bill 2013, which provides for protection and promotion of rights of persons with mental illness during the delivery of health care in institutions and in the community.

### What kind of Mental Health problems are covered under the Bill?

The definition of mental illness is no more “any mental disorder other than mental retardation.” It is broader and more inclusive.

Mental illness is defined as “a substantial disorder of thinking, mood, perception, orientation or memory that grossly impairs judgment, behaviour, capacity to recognise reality or ability to meet the ordinary demands of life, mental conditions associated with the abuse of alcohol and drugs, **but does not include mental retardation** which is a condition of arrested or incomplete development of mind of a person, specially characterized by sub normality of intelligence.

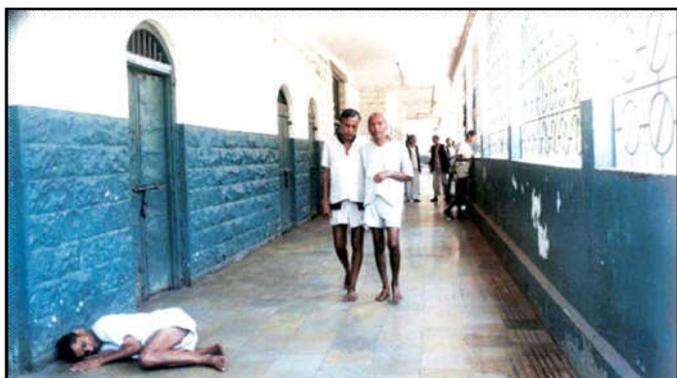


Fig. 15

### What are key rights being guaranteed under the Bill?

The new Bill adopts a rights-based approach, which is a first in the mental health law of India.

There is a remarkable difference from the Act of 1987. Whereas the Act of 1987 provided only general protections against cruel treatment, current Bill operates as a charter of rights for persons with mental illness consolidating and safeguarding the basic human rights of these individuals.

The Bill guarantees every person the right to access mental health care and treatment from mental health services run or funded by government. This right is meant to ensure mental health services of affordable cost, of good quality, of sufficient

quantity, are geographically accessible and are provided without discrimination.

#### Manner of treatment:

- ▶ The most remarkable feature of this Bill is the **introduction of advance directives** – this gives people suffering from a mental illness the right to choose their mode of treatment, and by nominating representatives who will ensure that their choices are carried out.
- ▶ An individual will also specify who will be the person responsible for taking decisions with regard to the treatment, his admission into a hospital, etc.
- ▶ **The Bill does not allow psychosurgery** unless it is approved by the district medical board. The Bill also **bans the use of shock therapy for treating children** with mental illness. It is still permissible for adults provided they're given anesthesia and necessary muscle relaxants.

#### Access to public health care:

- ▶ The Bill guarantees every person the right to access mental health care and treatment from the government. This right includes affordable, good quality, easy access to services such as minimum mental health services in every district. Persons with mental illness also have the **right to equality of treatment and protection** from inhuman and degrading treatment.

#### Suicide decriminalized:

- ▶ Currently, attempting suicide is punishable with imprisonment for up to a year and/or a fine. **The Bill decriminalizes suicide.** It states that whoever attempts suicide will be presumed to be under severe stress, and shall not be punished for it.
- ▶ This **repeals Section 309 of the Indian Penal Code** which provided for a year-long imprisonment for a failed suicide bid. The new law actually recognizes suicide as a cry for help, and stresses on the immediate need to reach out and help the person overcome their issues. It does not treat the person as a criminal.
- ▶ The Bill also seeks to impose on the government a duty to rehabilitate such person to ensure that there is no recurrence of attempt to suicide.

#### Restricted Use of ECT:

- ▶ The Bill allows only restricted use of Electroconvulsive therapy. The Bill completely prohibits Electro-compulsive therapy (“ECT”) as a measure of emergency treatment. It also prohibits ECT without muscle relaxants and anaesthesia. ECT is completely prohibited for minors except with informed consent of the guardian and prior permission of the concerned Board.

**Insurance:**

- ▶ The Bill requires that every insurance company shall provide medical insurance for mentally ill persons on the same basis as is available for physical illnesses.

**What are the possible implementation challenges?**

The Bill mandates the central and state governments to ensure access to mental health services in every district. These will include outpatient and inpatient services, hospitals, and community-based rehabilitation establishments. However, the financial memorandum of the Bill does not estimate the expenditure required to meet the obligations under the Bill nor does it provide details of the sharing of expenses between the central and state governments.

Without the allocation of adequate funds, the implementation of the Bill could be affected. The Standing Committee examining the Bill had noted that **public health is a state subject**. Since several states face financial constraints, the central government might have to step in to ensure funds for the implementation of the law.

The Bill only recognizes the role of psychiatrists in the treatment of a mental illness. It **still does not acknowledge the roles of counsellors and psychologists** who also work with patients suffering from mental and emotional distress.

While the Bill mandates insurance companies to provide medical insurance or the mentally ill on the same grounds that they would issue insurance for physical illnesses, **counselling services would**

probably not be covered even in the new insurance schemes.

There is a **shortage of mental health professionals** in our country. For every four lakh Indians, there is only one psychiatrist as per Experts.

**What about Guardianship provisions for Mentally ill persons?**

The Bill as passed by Rajya Sabha **does not address issues related to guardianship of mentally ill persons**. The 1987 Act has detailed provisions related to appointment and removal of a guardian, and his powers and duties. **The provisions related to guardianship of mentally ill persons are in the Rights of Persons with Disabilities (RPD) Bill, 2014, which is pending in Parliament**. If the Bill is passed by Parliament in its current form, there will be a legal vacuum with regard to provisions of guardianship of mentally ill persons.

**What happens when the provisions of the planned law are violated?**

The Bill **does not prescribe specific penalties for non-compliance** with several of its provisions. A general punishment of imprisonment up to 6 months or a penalty of up to Rs 10,000, or both, is provided. The absence of specific penal provisions might create ambiguities with regard to the implementation of the Bill.

The success of this more progressive law brought in to replace the Mental Health Act, 1987, will depend ultimately on the community keeping up the pressure on the designated Central and State authorities to implement it in letter and spirit.

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# WORKING OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

## Context

CAG has recently presented the report on Pradhan Mantri Gram Sadak Yojana. This article analyse the working of CAG with respect to the different reports presented by it to improve good governance in India.

### What is Indian Audit and Accounts Department?

- ▶ In the Indian polity, the Indian Audit and Accounts Department (IAAD also known as the Supreme Audit Institution) is an instrument for ensuring accountability. The Constitution of India has mandated IAAD as the auditors to the nation. In a democracy, those holding positions of responsibility must be answerable for their action. The democratic state has a "Social Contract" with the citizens and functions on behalf of the people. To ensure that this contract is respected, a democracy provides for several institutional mechanisms like the Judiciary, Vigilance bodies and an independent Supreme Audit Institution (SAI). The Comptroller and Auditor General of India (CAG) and the Indian Audit and Accounts Department (IAAD) functioning under him, constitute the Supreme Audit Institution of India. Senior functionaries of the SAI representing the CAG in the states are called Accountants General.
- ▶ The CAG is the institution through which the accountability of the government and other public authorities to Parliament and State Legislatures and through them to the people is ensured. Accountability is not the same thing as accounting, though the latter may be a part of the former. The word 'accountability' really means answerability, including financial answerability. The Executive is answerable to Parliament and to the people for all its decisions, but that answerability is enforced through the CAG where it involves finance and accounts.

### What is the constitutional position of CAG?

The constitution through articles 148 to 151 in Part V makes provisions for a Comptroller and Auditor General of India for checking the accounts and assessing the soundness of the financial transactions of the executive. The fundamental basis of the parliamentary system of the Government is the

responsibility of the executive to the legislature for all its actions. The legislature is able to enforce this responsibility only if it is competent to scrutinize the activities of the executive.

### Constitutional Provisions regarding CAG -

- ▶ Article 148
- ▶ Article 149:
- ▶ Article 150
- ▶ Article 151:
- ▶ CAG's (DPC) Act
- ▶ 1971 Audit Reports by CAG
- ▶ Current procedure of Appointment of CAG

#### Article 148:

- ▶ There shall be a CAG of India who would be appointed by President and who can be removed from office in a manner and on grounds like Judge of a Supreme Court.
- ▶ Third schedule has the oath of affirmation for CAG Salary and other conditions of work to be defined by a Law enacted by the Parliament.
- ▶ Salary is specified in second schedule. Expenses and salary drawn upon Consolidated Fund of India.
- ▶ Once left office, CAG is not eligible for a Government of India or Government of State jobs.
- ▶ Conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor-General are prescribed by President after consultation with CAG, subject to any law by parliament.

#### Article 149:

- ▶ Duties and Powers of CAG include checking accounts of Union and States and/or other body prescribed in the Law enacted by the Parliament.

#### Article 150:

- ▶ The accounts of Union and States will be kept in such a way that is prescribed by the President on advice of the CAG.

**Article 151:**

- ▶ Report of CAG of Union Accounts is to be submitted to President who shall cause them to be tabled before each house of the parliament.
- ▶ Report of CAG of State Accounts is to be submitted to Governor who causes them to be laid before state legislature.

**CAG's (DPC) Act, 1971**

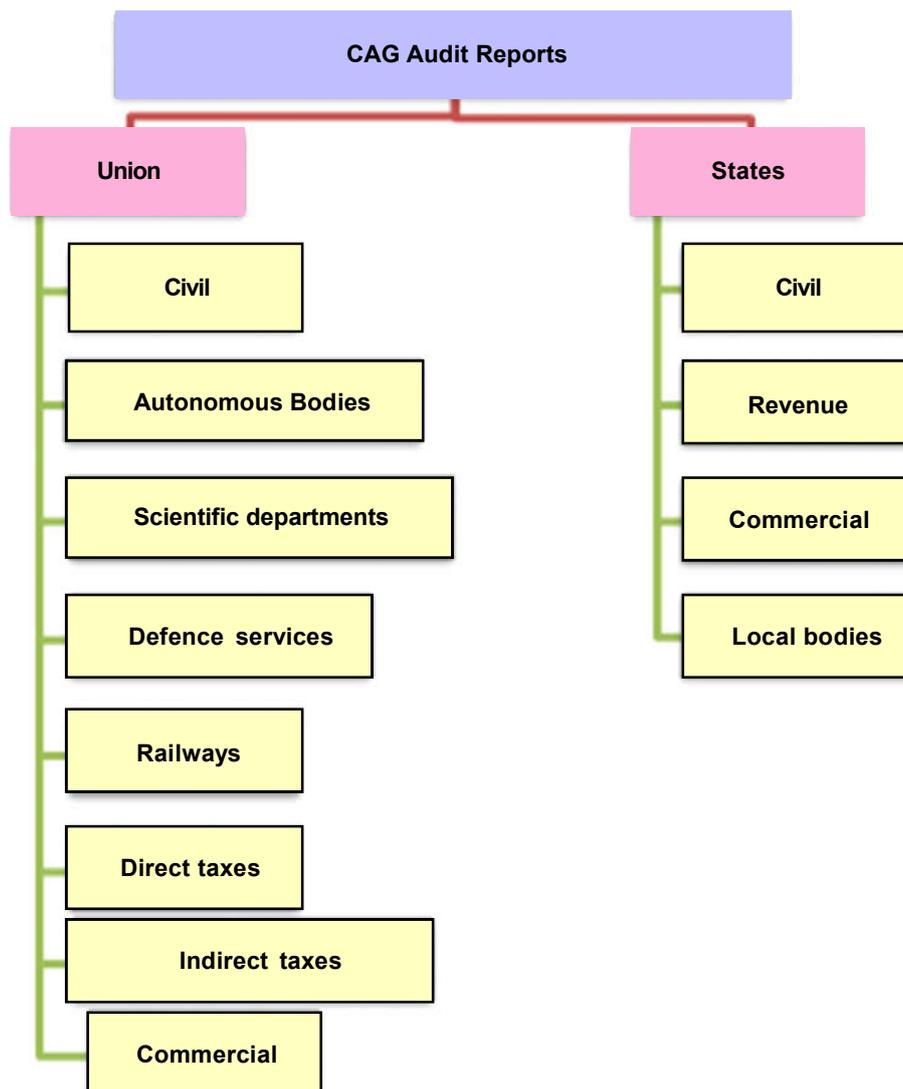
As per the provisions of the constitution, the CAG's (DPC) (Duties, Powers and Conditions of Service) Act, 1971 was enacted. As per the various provisions, the duties of the CAG include the audit of:

- ▶ Receipts and expenditure from the Consolidated Fund of India and of the State and Union Territory having legislative assembly.
- ▶ Trading, manufacturing, profit and loss accounts and balance sheets, and other subsidiary accounts kept in any Government department.
- ▶ Accounts of stores and stock kept in Government offices or departments.

- ▶ Government companies as per the provisions of the Companies Act, 1956.
- ▶ Corporations established by or under laws made by Parliament in accordance with the provisions of the respective legislation.
- ▶ Authorities and bodies substantially financed from the Consolidated Funds of the Union and State Governments.
- ▶ Anybody or authority even though not substantially financed from the Consolidated Fund, the audit of which may be entrusted to the C&AG.
- ▶ Grants and loans given by Government to bodies and authorities for specific purposes.
- ▶ Entrusted audits e.g. those of Panchayati Raj Institutions and Urban Local Bodies under Technical Guidance & Support (TGS).

**1971 Audit Reports by CAG:**

- ▶ The C&AG present one or more volumes of his Audit Reports to Parliament/State legislatures and Union Territories with legislative assemblies under the sectors as shown in the following graphics:



*Fig. 16*

### Current procedure of Appointment of CAG

- ▶ The Comptroller and Auditor-General of India is appointed by the President of India following a recommendation by the Prime Minister.

### Current Appointments:

- ▶ Mr. Shashi Kant Sharma (2013 onwards)

### Role of CAG in establishment of Good Governance

Good Accounting System refers to the fulfillment of the core purpose of accounting i.e., use of information intended to improve the state's management and operations, compliance, and accountability. Such system identifies errors, omissions, and inconsistencies. The Comptroller and Auditor General (CAG) of India is an authority, established by the Constitution of India, who audits all receipts and expenditure of the Government of India and the state governments including those of bodies and authorities substantially financed by the government. The CAG is also the external auditor of government-owned companies. The reports of the CAG are taken into consideration by the Public Accounts Committees, which are special committees in the Parliament of India and the state legislatures.

### CAG can bring transparency and accountability by following ways:

- ▶ **Participation:** *To understand contemporary concerns about the developmental interaction undertaken by the government, CAG have increased, and institutionalized their interaction with public and civil society for providing inputs for audit prioritization and benchmarks for evaluation. They have built synergies with social audit groups and other stakeholders.*
- ▶ **Transparency:** *Generally the reports of government agencies are lengthy and technical, which makes them opaque for general public. But CAG office has made out reports more concurrent and reader friendly. A reader now has the option to go through full reports or get a bird's eye view of their findings through the slim booklets and brochures prepared by them.*
- ▶ **Responsiveness:** *While reporting audit findings they highlight the good practices and innovations of the executive and make constructive recommendations for mid-course corrective action in respect of deficiencies pointed out.*

### CAG audit report flags irregularities in the PM's Rural Roads Scheme

#### About PMGSY:

Pradhan Mantri Gram Sadak Yojana (PMGSY) is a Centrally-sponsored scheme to build rural road connectivity. It was launched in December 2000.

The PMGSY aims to provide all-weather roads to all unconnected habitations in rural India with a population of 500 persons or above (in plains) and 250 persons or above (in hill States).

According to the Rural Development Ministry, out of 1.78 lakh eligible habitations, 1.09 lakh habitations had been provided with all-weather road connectivity, till March 2015.

### PMGSY: ACHIEVEMENT AND SPENDING

	Road Length (in km)	Expenditure incurred (₹ crore)
2004-05	15,464	3,077.45
2005-06	22,891	4,100.39
2006-07	30,710	7,304.27
2007-08	41,300	10,618.69
2008-09	52,405	15,161.99
2009-10	60,117	18,832.92
2010-11	45,109	14,910.98
2011-12	30,995	10,946.41
2012-13	24,161	8,386.75
2013-14	25,313	13,095.29
2014-15	36,337	16,538.05
2015-16	37,000*	19,200.00*

\*Projection based on current trends.

### CAG audit objectives and findings:

Purpose was to observe deficiencies in physical and financial planning, fund utilisation, implementation, tendering process, quality assurance, maintenance of roads, monitoring and efficacy of the online management and monitoring system (OMMS).

# PMGSY TO CHART PATH FOR RURAL DEVELOPMENT

The Union cabinet approved the launch of the second phase of the Pradhan Mantri Gram Sadak Yojana (PMGSY) on 1 May. It will focus on the upgradation of the existing rural road network in the country. PMGSY was first started in December 2000 under the authority of the rural development ministry to provide good all-weather road connectivity among villages.

### ABOUT THE SCHEME

- Will upgrade roads from existing carriageway width up to 5.5 metres
- Total Length of upgradation to be taken up is 50,000 km
- Centre to bear 75% of the cost of upgradation, 25% by the state
- Centre to bear 90% of the cost of upgradation for hill states, desert areas, tribal areas and naxalism-affected states

### ELIGIBLE ROADS

- Roads in States with sanctions for new connectivity and upgradation under PMGSY-I
- Roads constructed under PMGSY-I experiencing comparatively higher volumes of traffic
- Eligible roads under PMGSY-I but not yet sanctioned justifying upgradation
- Freshly identified roads in revised District Rural Roads Plan (DRRPs)

### FUND ALLOCATION

₹ crore

4,000	5,000	5,000	5,000
2013-14	2014-15	2015-16	2016-17

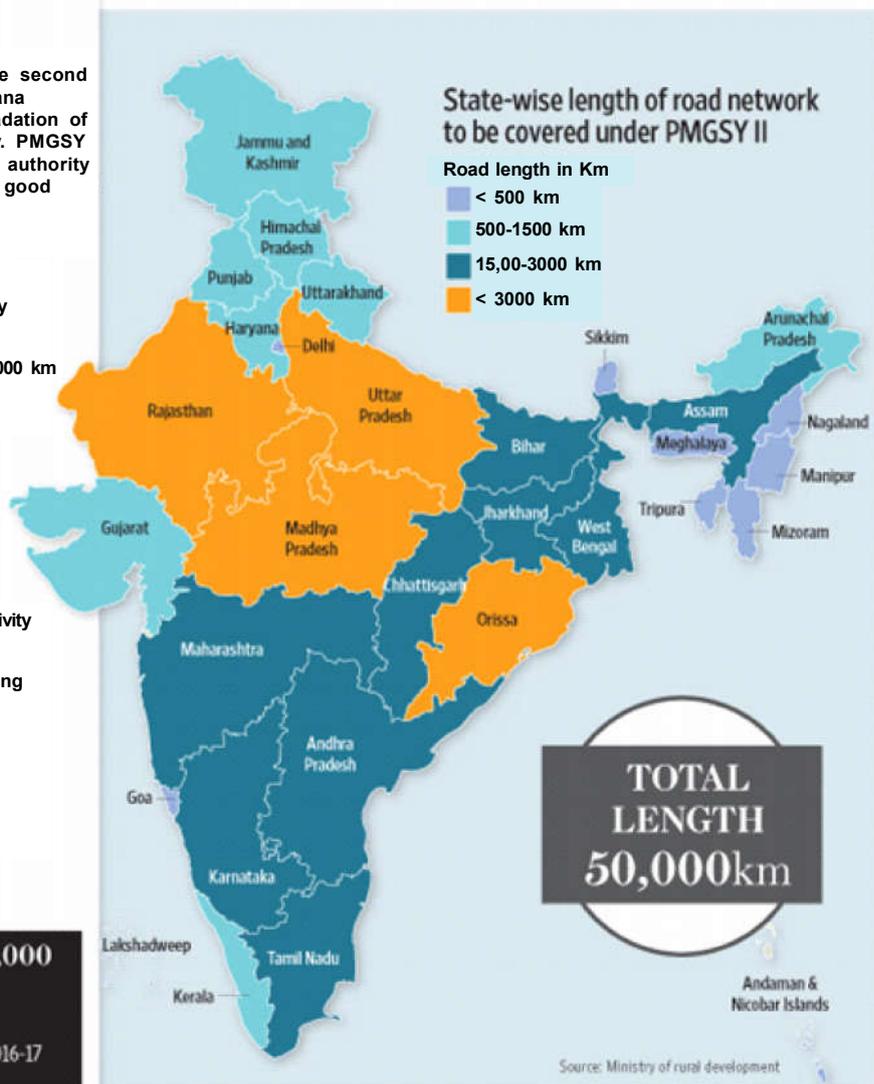


Fig. 17

The present **performance audit**, carried out by the Comptroller and Auditor General of India (CAG), reviews the implementation of the programme from April 2010 to March 2015, during which time Rs. 63,877.78 crore had been spent by States.

It covers a sample of 4,417 works, in 176 districts of 29 States involving Rs. 7.734.93 crore.

The fund sharing pattern of PMGSY has been made in the ratio of 60:40 between the centre and states for all states except for eight North-eastern States and three Himalayan States for which it is 90:10.

All the States have also been advised to get approval for sanctions of balance works under PMGSY as per the mandate of the scheme and to substantially complete them by March, 2019, so as to provide connectivity to target habitations.

The **performance audit** report of the PMGSY which was tabled in Parliament has highlighted several irregularities, ranging from -

- ▶ Flouting of planning procedures,
- ▶ Poor quality control,
- ▶ Diversion of funds,
- ▶ Extension of undue benefits to contractors,
- ▶ Showing road connectivity where there is none,
- ▶ Not providing roads to eligible habitations, and
- ▶ Pathetic maintenance of roads.

### The major findings of the report were:

- ▶ **Misleading Information:** 19 States, including Bihar, Uttar Pradesh, Gujarat and Rajasthan, showed unconnected habitations as connected, while excluding eligible habitations from road projects.

- ▶ **Project delays:** In 26 States, 4,496 works were delayed, with the delay period ranging from one month to 10 years. The CAG found nine States, including U.P., Karnataka and Gujarat, guilty of building roads to connect habitations that were already connected, with 31 habitations at a cost of Rs. 29.49 crore.
- ▶ **Incomplete Connectivity:** In the case of seven States, which again includes Bihar and Gujarat apart from Tamil Nadu and West Bengal, 73 road works, executed at Rs. 120 crore, were shown as completed though they **did not provide complete connectivity** to targeted areas.
- ▶ **Funds Diversion:** Five States, including Tamil Nadu, Kerala, and Uttarakhand, diverted funds to “inadmissible items” such as payment of salaries and purchase or construction of buildings.

### Suggestions of the CAG:

The CAG has now suggested a **social audit** of PMGSY, asking the Ministry of Rural Development to review the systemic flaws in the scheme. It says, Ministry may ensure that -

- ▶ The concept of social audit may be incorporated in the programme guidelines.
- ▶ Deficiencies in District Rural Road Plan and Core Network are removed by the states so that all eligible unconnected habitations are covered under the programme.
- ▶ Creation of Geographical Information System data base of Rural Roads Information System for each state is done.
- ▶ The state governments prepare detailed Project Reports with due diligence and by adopting proper laid down procedures.
- ▶ The programme implementing authorities should be made responsible for every case of undue advantage to contractors, poor execution of work and delay in completion of works.
- ▶ Maintenance of constructed roads maybe ensured for their optimum use. State governments may ensure that funds released for specific purpose are not diverted.
- ▶ Review of the systemic flaws in the quality control system to address deficiencies is done.
- ▶ A mechanism may be devised to fix responsibility and accountability on the erring agencies and individuals and corrective action taken.

The Public Accounts Committee of the 14th Lok Sabha had recommended that, given the various quality control and monitoring deficiencies, **social audit** (as included in the MGNREGA scheme) be incorporated in the PMGSY. But the CAG report says

that Rural Development Ministry is yet to include it in the programme guidelines.

### Criticism of the office of CAG

It is the importance of the CAG office, which led Dr. B.R. Ambedkar to say that the CAG was the most important officer under the Constitution of India. Further, it is the CAG's audit reports which helps ensure executive's accountability to the Parliament in the sphere of financial administration. Since it conducts audit of expenditure on behalf of the Parliament, it is an agent of the Parliament and thus responsible only to it.

However, in recent times questions have been raised not only with respect to the basis of the office of the CAG, but also the model of the institution of CAG and factual efficacy in the reports.

- ▶ The CAG's reports on the Commonwealth Games and the auctioning of 2G Spectrum have been the immediate triggers behind these utterances. In the CAG's report on the 2G case, the national loss figure of Rs. 176000 crore has been much criticised. The report in fact makes it clear that it is difficult to arrive at a firm figure of loss, because calculation was made in three different ways through different methods, and makes no claim that any of the figures is definitive. The CAG's figures have been questioned by various people, and government shrugged of its shoulder by claiming that there was zero loss.
- ▶ It must be remembered that the CAG is concerned with providing a fair and transparent audit leading to credible governance. In its quest to do so, it not only needs to look at the compliance of systems, but also go deeper into issues of policy making. This is because systems and policies are not independent of each other; therefore the effect that policies have on systems need to be looked into.
- ▶ Moreover, with changing times, governance has not remained confined only to the State. Not only the civil society and media but also the citizens at large have acquired a stake in ensuring that the best governance practices are followed in India.
- ▶ In this context, the independence of the CAG from the executive makes it an appropriate body for oversight on the government expenditure. In the pursuance of its goals, if it needs to question the rationale behind policies and whether they confirm to the standards of ethics and fairness, it would not be improper.
- ▶ Also, The CAG's reports have suffered from too little much publicity. In India very few of the CAG's

reports are widely known, and that not all of them get discussed in Parliament. Some years ago, press conferences began to be held after the Audit Reports were placed before Parliament, and that practice continues.

## **CONCLUSION**

Supreme auditory institution of India plays a major role in helping:

- ▶ Government departments in strengthening internal controls and understanding risks to improve delivery systems.
- ▶ The Finance Commission to gain an informed opinion on State Government's finances.
- ▶ The State Governments in putting in place better, transparent accounting systems for Local Bodies and PRIs.
- ▶ Through the Government Accounting Standards Advisory Board (GASAB) in framing Government Accounting Standards for greater transparency.

## **Conclusion**

The role of governance is an integral component of any country's growth and development. In an era where India has been plagued by the menace of unprecedented corruption, auditing and scrutiny of the government exchequer assume prime importance. The Office of the Comptroller and Auditor General is being increasingly perceived as an institution that can deliver the country from such plight.

However, if the CAG is to become more effective as an institution for the enforcement of accountability, it is necessary that Audit Reports be more widely known and discussed. The people have a right to know their contents. If, as a result of the controversies, the CAG and his reports are now better known than before, it is a very good development. If the CAG manages to enhance the effectiveness of this constitutional institution, it's a positive development towards a democratic nation.

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# RIVER LINKING PROJECT

## Context

After successfully interlinking Godavari and Krishna rivers by completing Pattiseema Lift Irrigation Project, Andhra Pradesh government is planning to Link Godavari, Penna and Palar Rivers.

### What is River Linking Project?

The River Linking Project (NRLP), envisages the transfer of water from water 'surplus' basins where there is flooding to water 'deficit' basins where there is drought/scarcity, through inter-basin water transfer projects. It links rivers by a network of reservoirs and canals that will allow for their water capacities to be shared and redistributed. This is an engineered panacea that will reduce persistent floods in some parts and water shortages in other parts besides facilitating the generation of hydroelectricity for an increasingly power hungry country.

The term 'surplus' as per the Government, states that it is the extra water available in a river after it meets the humans' requirement of irrigation, domestic consumption and industries.

The term 'deficit' has also been viewed in terms of humans only and not from the river's perspective, which includes many other factors.

### Proposed projects in Andhra Pradesh

Andhra Pradesh has interlinked Godavari and Krishna, the two of the most important rivers of the Deccan Plateau together by initiation of Pattiseema Lift Irrigation Project.

Now Andhra Pradesh government is planning to divert flood waters from Godavari basin to Penna River to quench the thirst of Rayalaseema region, Prakasam and Nellore districts in the State.

The State government has roped in Water and Power Consultancy Services (WAPCOS), a premier consultancy organisation under the Union Ministry of Water Resources, to prepare a detailed project report (DPR) to achieve this objective.

The DPR will give suggestion on how to interlink Godavari, Krishna, Pennar and Palar rivers. The report will also identify the number of villages that are likely to be submerged to provide relief and rehabilitation package for them.

### What are the proposed Benefits of the River Linking Projects?

- ▶ The river interlinking project claims to provide irrigation to the Rayalseema region which is usually drought ridden.
- ▶ It will lead to Ground water Recharging.
- ▶ The inter-link would create a path for aquatic ecosystems to migrate from one river to another, which in turn may support the livelihoods of people who rely on fishery as their income.

### What will the negative impact of the project?

#### A. Environmental Impact

- ▶ Different water flows represent different ecological systems thus can lead to ecological imbalance. The full range of natural intra and inter annual variation in hydrologic regimes and associated characteristics of timing, duration, frequency, and rate of change, are critical in sustaining the full native biodiversity and integrity of aquatic ecosystems.
- ▶ When rivers flow through forested, cultivated, and settled lands, they carry with them large amounts of silt. This silt is deposited along the way, enhancing the productivity of the surrounding lands, and finally of the coastal waters. This is the basis of the rich agriculture of the plains of India, and of the rich fisheries of our coasts. The river also pushes out the sea, which would otherwise invade deep into the land, and erode the coast.
- ▶ In order to create canals and reservoirs, mass deforestation will take place. This will have impact on rains and in turn affect the whole cycle of life. The project envisages the building of many dams with some of them having high lifts upto 120 m. This will lead to a huge social and environmental cost.
- ▶ Due to interlinking of rivers, there will be decrease in the amount of fresh water entering seas and this will cause a serious threat to the marine life system and will be a major ecological disaster.

**B. Displacement**

- ▶ Due to the creation of Canals and Reservoirs, huge amount of area which is occupied by the people will be submerged leading to displacement of people and government will have to spend more to rehabilitate these people. Along with the ecological cost, the project will also bring a great human cost in terms of those displaced by it. No estimates exist of the number of people who will be so affected by the river linking project, but it would surely run into hundreds of thousands. And they need to be properly rehabilitated. But where, in any case, is the land available to resettle them other than on forests, pastures, and wetlands.

Tehri dam hydropower project, which has the capacity of 1000 MW was developed at the cost of total submergence of Tehri town and 40 villages and partial submergence of 72 other villages affecting the lives of more than 100,000 people.

**Conclusion**

The River Linking project is a great challenge and an opportunity to address the water issues arising out of climate change. The long-term solution to water scarcity lies in making the River Linking project work by building a network of dams and canals across the length and breadth of the country. However, interlinking has to take place after a detailed study so that it does not cause any problem to the environment and society.

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# PONZI SCHEME AND ISSUES

## Context

The Reserve Bank of India (RBI) launched an online website, Sachet, to curb Ponzi schemes at an early stage, by sourcing information from individuals.

### What is Ponzi scheme?

A Ponzi scheme is an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors. Ponzi scheme organizers often solicit new investors by promising to invest funds in opportunities claimed to generate high returns with little or no risk. In many Ponzi schemes, the fraudsters focus on attracting new money to make promised payments to earlier-stage investors to create the false appearance that investors are profiting from a legitimate business.

### What are the characteristics of a Ponzi scheme?

- ▶ **The Benefit:** A promise that the investment will achieve an above normal rate of return. The rate of return is often specified. The promised rate of return has to be high enough to be worthwhile to the investor but not so high as to be unbelievable.
- ▶ **The Setup:** A relatively plausible explanation of how the investment can achieve these above normal rates of return. One often-used explanation is that the investor is skilled and/or has some inside information. Another possible explanation is that the investor has access to an investment opportunity not otherwise available to the general public.
- ▶ **Initial Credibility:** The person running the scheme needs to be believable enough to convince the initial investors to leave their money with him.
- ▶ **Initial Investors Paid Off:** For at least a few periods the investors need to make at least the promised rate of return - if not better.
- ▶ **Communicated Successes:** Other investors need to hear about the payoffs, such that their numbers grow exponentially. At the very least more money needs to be coming in than is being paid back to investors.

### How does the Ponzi scheme work?

The scheme revolves around the process of paying old investors with the money you get from

new investors. The central method remains the same. All one has to do is hook a few investors who are willing to get in early on once-in-a-lifetime business venture. The details of the investment don't matter much.

- ▶ After the schemer has convinced a handful of investors to fork over money, those funds can bankroll a nice car – or, if the schemer is truly sneaky, he or she can use it to rent office space and buy some fancy furniture. These props will help con the next round of investors. Now, he or she is ready to find more investors. This time, the schemer takes a slice off the top for him or her and uses the rest to pay off the first rung of investors with some initial returns.
- ▶ Eventually, the second rung of investors will need its payout. This is a simple matter of wash, rinse and repeat: The money from a newly recruited third rung of investors can pay off the second rung and deliver more returns to the first rung.
- ▶ But as the cycle goes on, it gets more complicated. Earlier rungs of investors will get suspicious if they don't continue to see returns. New investors will have to be paid back their initial investment, and the schemer will have to appease them with regular returns. This means that new investors will have to be added to the Ponzi scheme continuously in order to pay all the previous rungs. The schemer is under an enormous amount of pressure to keep adding investors, and one person can only do so much.

### Example

In January, the promoter convinces Katie to invest \$100,000 in his scheme. The promoter then pays Katie \$10,000 each month using Katie's own money.

As Katie receives \$10,000 each month she doesn't suspect anything is wrong and happily recruits friends and work colleagues to invest too. After 3 months, Katie's neighbor Adam decides to invest \$100,000 after hearing about Katie's great returns.

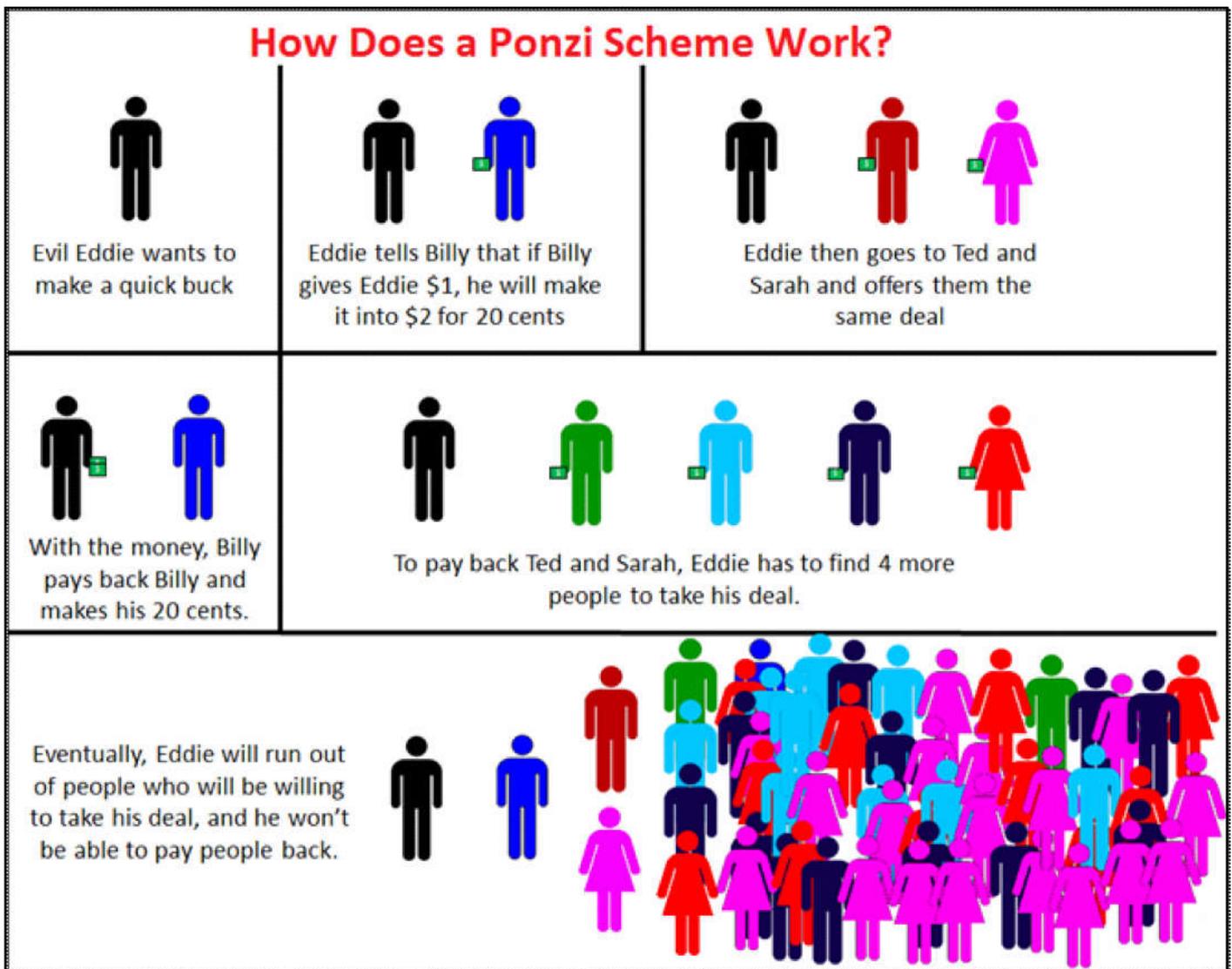


Fig. 18

After both Katie and Adam have invested their savings, the returns continue to come in April. But in May they don't hear anything from the promoter. They try to contact him but his number has been disconnected.

The promoter has taken off leaving two devastated people in his wake. Katie lost \$70,000 and Adam lost \$90,000. The promoter got \$160,000 out of the scheme.

This is example has only two victims but in reality these schemes can have dozens or even hundreds of victims.

**What are the impacts of Ponzi schemes?**

Companies illegally mobilizing deposits diverted considerable funds (estimated to be around INR 240 billion in the last three years) from small savings funds promoted by state government. Official data show a steady slide in small-savings deposits and a spurt in withdrawals, which left a thin slice for the state government to borrow to make ends meet.

- ▶ This had ripple effect on the **overall macroeconomic situation** of the state, as because instead of being used by government for public purpose the money went into Ponzi schemes which either were siphoned off to foreign locations or were put to use for private gains.
- ▶ On **microeconomic front** it is feared that legitimate Non-banking financial companies and micro finance institutions would be stigmatized and would lead to a vicious cycle of low depositor trust, higher interest rates, lower lending and a localized credit crunch.
- ▶ Furthermore as the majority of the depositors in Ponzi scheme came from the lowest economic strata, the loss of the investment would result in a further decrease in social mobility.

**What are the various steps taken by government?**

- ▶ **Steering Committee:** The Ministry of Corporate Affairs has constituted a Steering Committee to

develop a “Fraud Prediction Model” aimed at generating alerts for prevention of fraud and malfeasance.

- ▶ **Early Warning Systems:** It is also proposed to revamp the existing Market Research & Analysis Unit (MRAU) in the Serious Fraud Investigation Office (SFIO) to enable it to function as an intelligence unit. Giving a fillip to the early establishment of a state-of-art Forensic Lab within the premises of SFIO in the national capital; and the development of a Comprehensive Early Warning System (EWS) for detection of corporate fraud and malfeasance at the earliest
- ▶ **MOUs:** Three important MoUs have been signed by the Ministry of Corporate Affairs.
  - a) Between SFIO ( which functions under the Ministry of Corporate Affairs) and National Institute of Electronics and Information Technology (NIELIT), a scientific organization under the Ministry of Communications and Information Technology;
  - b) Between Ministry of Corporate Affairs and Financial Intelligence Unit (FIU-IND), an agency under the Ministry of Finance; and SFIO and FIU-IND.
  - c) NIELIT will set up a state-of-art Forensic Lab within the premises of SFIO. The MoUs signed with FIU-IND will lead to better and faster exchange of information between the three Government entities. FIU has been playing a pivotal role in the collection and dissemination of information on suspicious banking transactions under the Prevention of Money Laundering Act, 2002. These initiatives will facilitate development of a comprehensive EWS for detection of fraud and malfeasance at the earliest.
- ▶ **Public Awareness:** Regulatory agencies of the Government have adopted measures aimed at sensitizing the public of the need to be cautious while making investments into schemes, etc. The Ministry of Corporate Affairs conducts Investor Awareness Programs (IAP’s) for making the public aware of the various instruments of investments available to them.
- ▶ **Role of RBI:** RBI issues notice in newspapers regularly to caution the public against the design of entities in collection of deposits illegally. Presently, RBI is in the process of undertaking a comprehensive campaign aimed at alerting the public against falling prey to the Ponzy schemes and other monetary mal-practices.
- ▶ **NBFC Regulations:** RBI also regulates deposits / investments of the public with Non-banking Finance Companies (NBFC) that are registered with RBI. Complaints received against companies posing as NBFC’s and Unincorporated bodies indulging in cheating / fraud are forwarded by RBI to the Economic Offenses Wing of the State Police for investigation and further action.
- ▶ **Anti Money Laundering Guidelines:** Further, RBI has also advised banks to be careful in opening of accounts of the marketing/trading agency, etc. and ensure strict compliance with the Know Your Customer (KYC) and Anti Money Laundering (AML) guidelines of RBI. In cases where accounts have already been opened in the names of the marketing agencies, retail traders, investment firms, etc; the Banks have been advised to undertake quick reviews of operations in such accounts particularly in cases where large number of cheque books have been requested or issued.
- ▶ **Prize Chits and Money Circulation Schemes (Banning) Act, 1978:** There are certain companies which have floated fraudulent investment deposits mobilizing schemes (also called ponzi schemes) under various guises and are liable for action under this ACT. This Act is administered by Ministry of Finance (Department of Financial Services) through the State Governments.
- ▶ **SFIO:** Statutory status to the Serious Fraud Investigation Office (SFIO) has been assigned.
- ▶ **Amendments in securities laws** through Securities Laws (Amendments) Ordinance amending the Securities and Exchange Board of India (SEBI) Act, the Securities Contracts (Regulation) Act (SCRA) and the Depositories Act enabling SEBI to deal effectively to violations of laws by companies and individuals including those running Ponzi schemes;
- ▶ **Technological Intervention:** Increasing application of technology for early detection of frauds through data mining and Forensic Audit, etc.
- ▶ **Media Sensitization:** Editors of Newspapers are also sensitized to exercise caution for accepting advertisements pertaining to acceptance of deposits by un-incorporated bodies.
- ▶ **Role of SEBI:** SEBI also conducts Investor Awareness Programs in cities / towns across the country and has recently launched publicity campaigns through electronic and print media. SABI has initiated Sebi Complaints Redress System or Scores, popular with investors. Sebi received 38,442 complaints during 2014-15 and resolved 35,090 grievances, as compared to 33,550 received and 35,299 resolved in 2013-14.

**Recent initiative of RBI**

The Reserve Bank of India(RBI) launched an online website, Sachet, to curb Ponzi schemes at an early stage, by sourcing information from individuals.

Sachet is an initiative by State Level Coordination Committee (SLCC), a joint forum formed in all states to facilitate information sharing among regulators such as Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, and Enforcement Directorate, to control incidents of unauthorised acceptance of deposits.

An individual can share information with the regulator if he thinks a company is illegally collecting money. People can also use the website to get detailed information on companies that are authorised to collect deposits and also complain if they are cheated by unauthorised operators.

On receiving a complaint against any scheme (registered or unregistered), both the state-level regulatory offices and law enforcement agencies will act in unison.

The initiative is expected to enhance coordination between the state government departments such as police and the regulators strengthening the system as a whole.

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# ACCOUNTABILITY AND TRANSPARENCY IN NGOs

## Context

Several NGOs have come under the scanner for violating the Foreign Contribution Regulation Act.

### What are NGOs?

- ▶ NGOs are defined as the “formally registered not-for profit association of groups or individuals founded on the principles of equality, altruism and voluntary work spirit to promote human development (including environment and biodiversity) and nation building”.
- ▶ The Ministry of Statistics and Programme Implementation, in a first-ever official study of the not-for-profit institutions in the India, found that there were more than 3.3 million active NGOs operating in the country. This essentially means India has one NGO for at least 400 people.
- ▶ The CSO study, in fact, found that only 41 per cent of 3.3 million NGOs are engaged in social services and philanthropic activities whereas more than 36 per cent were operating in education, housing and development, religious and business and professional union activities. Interestingly, a majority of these bodies are run by not-for-profit Societies or Trusts registered by private groups. "The parent bodies of these organisations transfer a large chunk of their revenues to these Trusts or Societies as donations and thus, don't pay taxes on it. A large chunk of the donated funds finds its way back to the parent organisation in some form or the other.

Hence the issue of transparency and accountability comes up with respect to NGOs.

### What Are The Roles And Functions Of NGOs?

NGOs are delivering in various sectors, and capacities are being built in diverse areas such as **financial management, resource mobilization, human resources, leadership development, governance procedures and practices and institutional development.**

The functions of NGOs are discussed as follows:

- ▶ **Development and Operation of Infrastructure:** Community-based organizations and cooperatives can acquire, subdivide and develop land, construct housing, provide infrastructure and operate and maintain it such as wells, public toilets and solid waste collection services. They can also develop building material supply centers and other community-based economic enterprises.
- ▶ **Supporting Innovation, Demonstration and Pilot Projects:** NGOs have the advantage of selecting particular places for innovative projects and specify in advance the length of time for which they will be supporting the project. NGOs can also be pilots for larger government projects by virtue of their ability to act more quickly than the government bureaucracy.
- ▶ **Facilitating Communication:** NGOs use interpersonal methods of communication, and study the right entry points whereby they gain the trust of the community they seek to benefit. They would also have a good idea of the feasibility of the projects they take up. The significance of this role to the government is that NGOs can communicate to the policy-making levels of government, information about the lives, capabilities, attitudes and cultural characteristics of people at the local level.
- ▶ **Technical Assistance and Training:** Training institutions and NGOs can develop a technical assistance and training capacity and use this to assist governments.
- ▶ **Research, Monitoring and Evaluation:** Innovative activities need to be carefully documented and shared - effective participatory monitoring would permit the sharing of results with the people themselves as well as with the project staff.
- ▶ **Advocacy for and with the Poor:** In some cases, NGOs become spokespersons or ombudsmen for the poor and attempt to influence government policies and programmes on their

behalf. This may be done through a variety of means ranging from demonstration and pilot projects to participation in public forums and the formulation of government policy and plans, to publicizing research results and case studies of the poor. Thus, NGOs play roles from advocates for the poor to implementers of government programmes, from agitators and critics to partners and advisors, from sponsors of pilot projects to mediators.



Fig. 19

than an ‘occupation’ for a living. The PRIA survey (2002) had revealed that as many as 20 million people are associated with the NGO sector in India and 15 per cent of them are paid staff. One should not expect these paid employees to be either committed to the goal of social reconstruction or even to the particular task on which a project is launched. In other words, the vocation of social welfare has now got transformed into an occupation of social work to suit individual interest.

► This also contributes to increasing doubts and disillusionment about the way NGOs utilize their fund. Hence, NGOs should not be romanticized as one of the most effective organizations in alleviating poverty and bringing social transformation in society. One should, therefore, not compare the policies and perspectives of Project NGOs with the idealistic notion of altruistic, value based, people centric or non-profit voluntarism. Since NGOs are being formed with the singular objective to trap and manage money that is flowing in the names of corporate responsibility, sustainable development, equitable growth or grassroots development. As a corollary, non-remunerative societal tasks do not attract their attention.

**What are the issues of fund mis-management in NGOs?**

- The big source of corruption in NGO sector is government funds. The government is the largest source of organised funds for the sector. Through its various social sector projects, the government allocates crores of rupees every year to various grassroots level organisations.
- All leading organised players from the sector allege that almost all of the government funds are channeled out to organisations that are directly or indirectly controlled by politicians and bureaucrats. The practice, according to insiders, is more rampant in states such as Maharashtra, Andhra Pradesh, UP, Rajasthan and Tamil Nadu. Incidentally, these states, according to the government report, also have the largest number of registered NGOs.
- Today the NGO sector provides enormous employment opportunities to young social scientists and to those who merely work as paid employee of an NGO, the ‘service’ is nothing more

**What are the initiatives taken by government to bring transparency?**

- A short term training programme for strengthening the managerial capabilities of NGOs will go a long way in improving their performance and effectiveness significantly.
- The overdependence of NGOs on funding agencies and the syndrome of dependency should be reduced by involving the government directly in funding activities.
- The donor agencies should go for surveying the viable projects for NGOs and the needs of the people.
- Proper monitoring the activities of the NGOs and the enterprises run under the umbrella is the need of the hour. Therefore, the NGOs should also accountable for the funds on the one hand and the beneficiaries on the other.
- **FCRA** - MHA proposes to replace the existing FCRR (Foreign Contribution (Regulation) Rules), 2011 with a new Foreign Contribution (Regulation) Amendment Rules, 2015 in order to bring transparency in the functioning of NGOs and has proposed draft amendments to the FCRR, 2011.



Fig. 20

### What are the new FCRA Rules?

- ▶ Registration, prior permission and renewal of registration under FCRA, 2010 are to be accepted online.
- ▶ Fees for various services will be paid online.
- ▶ All FCRA designated bank A/C and utilization A/C to be brought on online platform of public Finance Management Service and Controller General of Accounts.
- ▶ Certificate of registration, renewal, and prior permission to be sent online.
- ▶ Number of forms reduced from 10 to 6.
- ▶ No filling of hard copy of annual returns.
- ▶ Requirement of seeking prior permission for change of name, aims and objects, address of the association, change of bank/account etc. now relaxed to only intimation through FCRA online service.

- ▶ List of purposes for which foreign contribution can be utilized, rationalized and reduced.
- ▶ Updating of Foreign contribution records by associations on their website on every 3 months.
- ▶ Info regarding FB page, Twitter handle of office bearers optional.

### What are the implications of new FCRA rules?

After the new rules were implemented government is of the view that all voluntary organisations must fall in line and abide by law and no genuine organisation should be fearful of government action.

Amidst the ongoing crackdown by government, thousands of NGOs, which were registered under the Foreign Contribution Regulations Act (FCRA) were functioning in a very casual approach and disregarding law.

As many as 14,222 NGOs were barred from receiving foreign funds in the past 4 years for violating norms. Of these, the largest number of 10,020 Non-Government Organisations (NGOs) was barred last year. A total of 4138, 4 and 59 NGOs were restrained from receiving foreign contributions in 2012, 2013 and 2014, respectively.

Recently, government cancelled the registration of several NGOs run by high-profile public figures like Sabrang Trust.

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# IMPACT OF TPP ON INDIAN TEXTILE INDUSTRY

## Context

A recent study has shown that the Trans Pacific Partnership will hurt India's trade mainly in the textile sector.

### What is Trans Pacific Partnership (TPP)?

The Trans-Pacific Partnership (TPP) is a trade agreement among 12 Pacific Rim countries. The TPP contains measures to lower non-tariff and tariff barriers to trade, an established an investor-state dispute settlement mechanism. This agreement aims to promote economic growth, support the creation and relation of jobs, enhance innovation, productivity and competitiveness, raise living standards, reduce poverty in the signatories' countries, and promote

transparency, good governance, and enhance labor and environmental protections.

India is not a party to the TPP comprising Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the US. However, it has serious implications for India's textile and clothing sector as the US is a key export destination. Post-Brexit turmoil in Europe will further increase India's dependency on US markets.



Fig. 21

### What is the current status of Indian textile industry?

Textile and clothing sector contributes approximately 5% of India's GDP, resulting into 15% of its industrial output and export earnings and provides livelihood support to 55-60 million people directly or indirectly.

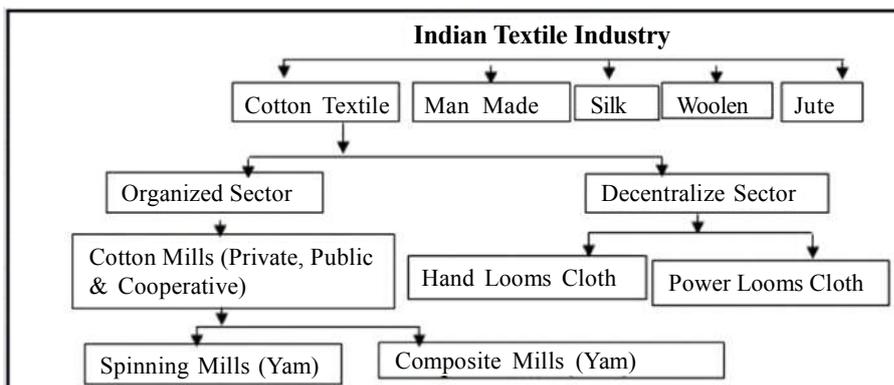


Fig. 22

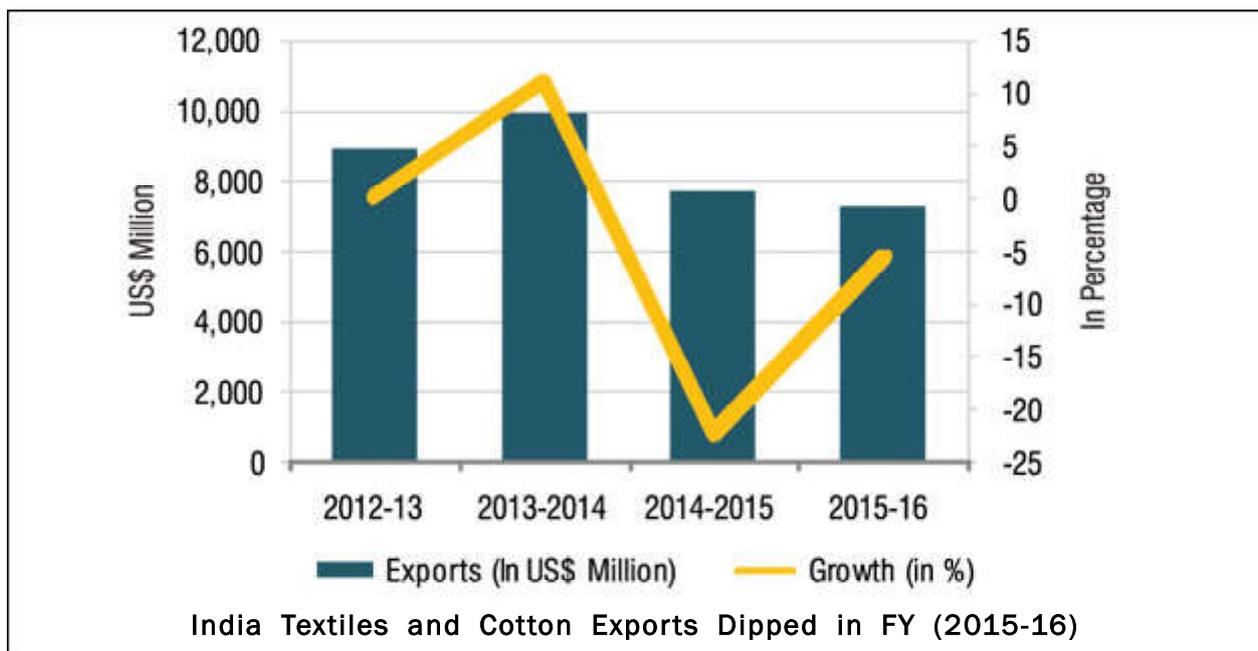


Fig. 23

### How will TPP affect Indian textile industry?

TPP will affect textile and clothing sector of India (and all non-TPP member countries such as Brazil or China) as follows:

- ▶ The US alone accounts for over 30% of India's total exports. Exporters from the TPP member countries will get **preferential access in the US market** vis-à-vis the exporters from Non-TPP member countries like India. This will cause the disadvantage to India's apparel exports (to the US) as average import duties on apparels ranges of 7.9% and US import duties on this section is quit high like duties on many clothing items are as high as 32% (as per WTO database).
- ▶ **The Yarn Forward Rule and its key features:** The TPP makes it mandatory to source Yarn and fabrics used in making cloths from any or a combination of TPP countries to avail duty preferences. This probably disrupts regional and global supply chain in textile and clothing. It will induce garment manufacturers in the TPP countries to source their inputs from TPP countries at the coast of Non-TPP countries such as India or China even though the suppliers in TPP regions are not the least cost. In this way trade diversion i.e. moving trade away from more efficient producers to less efficient producers.

#### Present issues

- ▶ India's textile and clothing sector is suffering from the severe pressure from slowing demand in key export markets along with backdoor entry of Chinese goods via Bangladesh under SAFTA and from

other LDCs under DFQF schemes that allow duty free import of garments from Bangladesh and other least developed countries such as Myanmar into India.

- ▶ Exclusion of India's clothing products from US GSP benefits is yet another source of comparative disadvantage for the sector. Comply with its commitments to WTO, India will soon have to phase out its exports incentives latest by 2018, India has already achieved a per capita GNP of \$ 1000 at 1990 prices. India's global export share in textile and clothing has already crossed 3.25%. This is WTO's requirement to be termed as 'export competitive with to phase out export subsidies.

#### DFQF- Duty Free, Quota Free

The LDCs managed to get duty free quota – free market access (DFQFMA) with WTO negotiations. The developed countries have to provide DFQFMA to 97% of the product originating from LDCs.

#### GSP- Generalized system of preferences

The concept of GSP was adopted in Delhi in 1968 in the context of UNCTAD II. Least developed countries (LDCs) have been granted preferential tariff treatment in the markets of developed and developing countries under a number of schemes and arrangements. The objectives are increase in export earnings, promote industrialization and accelerate economic growth.

**How does it affect textile retailers?**

Only 17% of textile and clothing exports under NAFTA and Central American Free Trade (CAFTA) have gone through yarn forward rule, yet, the US trade negotiators have incorporated it in the TPP. This shows the intention to protectionist to revive American Indigenous textile industry at the coast of foreigners.

However, insistence on YFR will limit the freedom of clothing retailers to choose their suppliers and minimize their sourcing cost. Clothing retailers (e.g. JC Penny, Levis or Gap) and their associations (TPP Apparel Coalition) have opposed the YFR.

As a possible remedy to it, the US trade negotiators came up with Short Supply List; It will give some flexibility to clothing retailers in sourcing their inputs (which are not available in TPP region) from Non-TPP countries either temporarily or on long term basis, this relaxation is not sufficient enough.

**What are the options before India?**

India should keep focusing at the most lucrative US market that accounts for roughly one-fourth of its apparel exports i.e. \$3.5-4 billion, especially when India’s merchandise exports have been declining for the last 18 months in a row though exports picked up but only 1.27%.

- ▶ The textile exports dominate India’s total merchandise exports. Hence, to revive exports, it is necessary to revive textile and clothing exports.
- ▶ India’s best bet multilateral trade liberalisation of heavily protected textile and clothing sector. However, not much scope is visible in it too as US is disinterested in WTO and current sentiments in most developed countries are against any more trade liberalisations.
- ▶ India’s joining TPP will benefit the textile and clothing sector. But, accepting WTO proposals on intellectual property, investment protection, services and State Owned Enterprises (SOE) as envisaged under TPP will not find support in policy makers or the Indian industries.

**Its significance:**

- ▶ Relocate part of India’s textile production to countries like Vietnam which is a TPP member

- ▶ Reach Least Developed African countries like Ethiopia having duty free market access to USA
- ▶ Limitation: These options means relocating jobs to Vietnam or Ethiopia, risking investments outside India and this would be against the Make in India spirit.

The loss in textile exports to TPP countries will have to be compensated by gains in other markets. It can be done by changing rules of original using yarns and fabric of Indian origin.

This pre-condition has to allow duty free import of garments from Bangladesh and other LDCs to stimulate India’s apparel exports. It will also check backdoor entry of Chinese fabric into India via Bangladesh.

**What are the possible ways to Safeguard Indian Textile Markets in future?**

Inclusion of textiles under India- Mercosur PTA:

- ▶ Textile and clothing sector is heavily protected in Mercosur countries,
- ▶ Import duties as high as 35% is imposed on many textile items.
- ▶ An FTA with it will increase access to Latin American markets.
- ▶ It will somewhat compensate for loss making export market because of TPP.

Related to Regional Comprehensive Economic Partnership (RCEP):

- ▶ India also needs to push for reduction Chinese import duties on apparel under RCEP as going forward China can be a high potential export destination for India’s apparel items given the rising wages and per capita income in the country despite growth slowdown. RCEP platform can also be used to improve access to Australian apparel import markets.

Product differentiation, example-voluntary carbon labeling).

- ▶ It is the marketing of generally similar products with minor variations that are used by consumers when making a choice.
- ▶ It will protect textile and apparel export to US despite TPP cost disadvantage as, TPP partner countries like, Vietnam.

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# BAD LOAN WOES CONTINUE FOR STATE RUN BANKS

## Context

The pace of formation of new Non-Performing Assets (NPAs) or bad loans has decelerated but some banks have posted losses for the current financial year due to higher provisioning, adding to increased bad loans. Uncertainty over the NPA situation of the country's lenders impacted national economy badly. Such huge losses are happening for the first time. Most of the banks are adequately capitalised and the government has promised additional capital if they require.

## Introduction

Recently, three more state-owned banks reported troubling with bad loans. Both Indian Overseas Bank (IOB) and UCO Bank reported losses in the June quarter, profit at United Bank of India (UBI) also fell. Gross Non-Performing Asset (NPA) ratios rose at all three banks. Chennai-based IOB fared the worst, with a fifth of its gross loans turning bad. This is the highest gross NPA ratio reported by an Indian lender in 13 years which is a matter of huge concern for Indian banking industry.

Besides, these are not the only banks which have reported weaker results during the financial quarter. Most public sector banks which have reported their results so far have seen some impact of higher provisioning and increased bad loans too.

## What is a bad loan or Non-Performing Asset (NPA)?

It is a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time. In simple terms, an asset is tagged as Non-performing when it ceases to generate income for the lender.

The term NPA is used by financial institutions that refer to loans that are in jeopardy of default. According to RBI, terms loans on which interest or instalment of principal remain overdue for a period of **more than 90 days** from the end of a particular quarter is called a Non-performing Asset.



Fig. 24

However, in terms of Agriculture / Farm Loans - the NPA is defined as under -

- ▶ For **short duration crop** agriculture loans such as paddy, Jowar, Bajra, etc. if the loan (instalment / interest) is not paid for 2 crop seasons.
- ▶ For **Long Duration Crops**, the above would be 1 crop season from the due date.

## NPA and SARFAESI Act

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act has provisions for the banks to take legal recourse to recover their dues. When a borrower makes any default in repayment and his account is classified as NPA, the secured creditor has to issue notice to the borrower giving him 60 days to pay his dues. If the dues are not paid the bank can take possession of the assets and can also give it on lease or sell it, as per provisions of the SARFAESI Act.

## Reselling of NPAs

If a bad loan remains NPA for at least two years, the bank can also resale the same to the Asset Reconstruction Companies such as Asset Reconstruction Company (India) (ARCIL). These sales are only on Cash Basis and the purchasing bank/ company would have to keep the accounts for at least 15 months before it sells to other bank. They purchase such loans on low amounts and try to recover as much as possible from the defaulters. Their revenue is difference between the purchased amount and recovered amount.

## How are the NPAs Classified by Banks?

Assets are classified into Performing and Non-performing Assets:

Performing assets are termed as **Standard Asset**, if the borrower regularly pays his dues regularly and on time. As per the norms, banks have to make a general provision of 40% for all loans and advances except that given towards agriculture and small and medium enterprise (SME) sector.

However, if the things go wrong, loans turn into bad loans or NPAs. Banks are required to classify NPA assets further into three main categories **Sub-standard doubtful** and **loss** based on the period for which the asset has remained non-performing.

- ▶ **Substandard Asset:** If the borrower does not pay dues for 90 days after end of a quarter, the loan becomes an NPA and it is termed as “Special Mention Account”. If this loan remains SMA for a period less than or equal to 12 months, it is termed as Sub-standard Asset. In this case, bank has to make provisioning as follows - 15% of outstanding amount in case of Secured loans 25% of outstanding amount in case of unsecured loans.
- ▶ **Doubtful Asset:** If sub-standard asset remains so for a period of 12 more months, it would be termed as “Doubtful asset”. This remains so till the end of 3rd year. In this case, the bank need to make provisioning as follows: Up to one year: 25% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured loans
- ▶ **Loss Asset:** If the loan is not repaid even after it remains sub-standard asset for more than 3 years, it may be identified as unrecoverable by internal / external audit and it would be called loss asset. An NPA can declare loss only if it has been identified to be so by internal or external auditors.

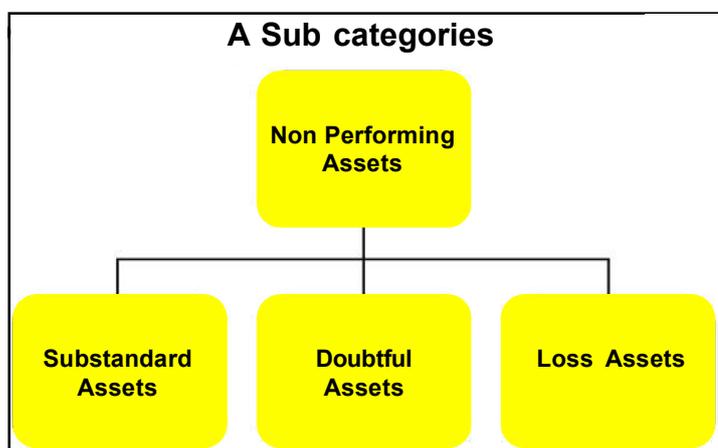


Fig. 25

**Example of NPA**

We suppose that a party was disbursed a loan on January 1, 2010. Its due date is June 1, 2010. But the party does not make a payment. So it will be an Standard Asset from January 1, 2010 till June 1, 2010 (Due Date). It will be a Special Mention Account From June 2, 2010 till August 29, 2010 (90 days). It will be Sub-standard from August 30, 2010 till August 29, 2011. It will be doubtful from August 30, 2011 till August 29, 2012. It may remain doubtful Asset for a period of 3 years, beginning from 12 months of being an NPA, but once the auditors identify it as a loss, it will be assigned a loss asset; however, the period may be anything above 3 years.

**What is gross and net NPA?**

The NPA may be Gross NPA or Net NPA. In simple words, Gross NPA is the amount which is outstanding in the books, regardless of any interest recorded and debited. However, Net NPA is Gross NPA less interest debited to borrowable account and not recovered or recognized as income. RBI has prescribed a formula for deciding the Gross NPA and Net NPA.

**Why do NPAs occur?**

**Internal factors:**

- ▶ Funds borrowed for a particular purpose but not use for the said purpose.
- ▶ Project not completed in time.
- ▶ Poor recovery of receivables.
- ▶ Excess capacities created on non-economic costs.
- ▶ In-ability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.
- ▶ Business failures.
- ▶ Diversion of funds for expansion\ modernization\ setting up new projects\ helping or promoting sister concerns.
- ▶ Willful defaults, siphoning of funds, fraud, disputes, management disputes, mis-appropriation etc.,
- ▶ Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delay in settlement of payments\ subsidiaries by government bodies etc.,

**External factors:**

- ▶ Sluggish legal system -
  - a) Long legal tangles
  - b) Changes that had taken place in labour laws
  - c) Lack of sincere effort.
- ▶ Industrial recession.

- ▶ Failures, non payment\ over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.
- ▶ Usual banking operations/Bad lending practices.
- ▶ Overhang component (due to environmental reasons, natural calamities, business cycle etc).

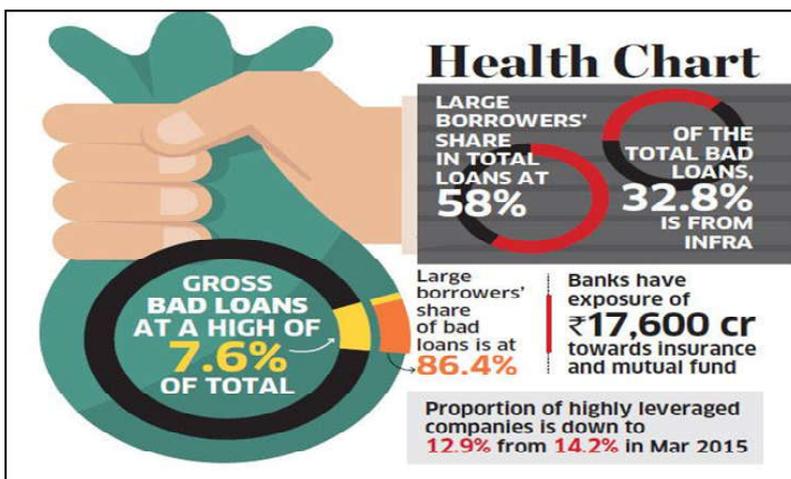


Fig. 26

**What are the implications of NPAs?**

- ▶ The most important implication of the NPA is that a bank can neither credit the income nor debit to loss, unless either recovered or identified as loss. If a borrower has multiple accounts, all accounts would be considered NPA if one account becomes NPA.
- ▶ Depositors do not get rightful returns and many times may lose uninsured deposits. Banks may begin charging higher interest rates on some products to compensate non performing loan losses.
- ▶ Banks shareholders are adversely affected.
- ▶ Bad loans imply redirecting funds from good projects to bad ones; hence the economy suffers due to loss of good projects and failure of bad investments.

**Why is it state of concern for state run banks?**

- ▶ Indian bank shares have been among the worst performers in Asia outside Japan over the past year, with State Bank of India declining 33 percent and ICICI Bank Ltd. down 32 percent. Eleven banks in India reported losses in the quarter that ended in December due to surging bad loans.
- ▶ State run banks were continue to offering borrowers with bad loans to take new loans to make their interest payments meanwhile, the borrower does little to address its underlying problems that prevent it from paying its loans back in the first place.
- ▶ Gross NPA as a ratio of gross advances were 20.48% which stands the highest gross NPA ratio reported by an Indian lender in last 13 years. For example, IDBI Bank reported, Indian Overseas Bank (IOB), UCO Bank, United Bank of India a gross NPA ratio of 29.9% in 2003 has counted the most extreme figure of NPA till the date.

- ▶ The concern is rises when, the move came after the bank’s gross bad loans ratio widened to 11% of its gross advances in 2015 furthermore its has get swift increase as 13.97% in march 2016.
- ▶ Measures of bank financial strength expressed as a ratio of capital to risk weighted assets, dropped to 9.47% below the limit of 9.625% set by reserve bank of India. Sectors such as steel; power and infrastructure are the biggest source of NPA. It becomes more critical when growth in unchecked loans by banks since 2010 along with the weaker risk management practices and higher provisioning resulted to maximizing the NPA ratio. It downgrade and worsen the bank asset with rising of gross NPA.
- ▶ In fact for the infrastructure sector alone, the percentage of loans that are either bad or restructured is up to 5 to 8 times more than the gross NPAs.

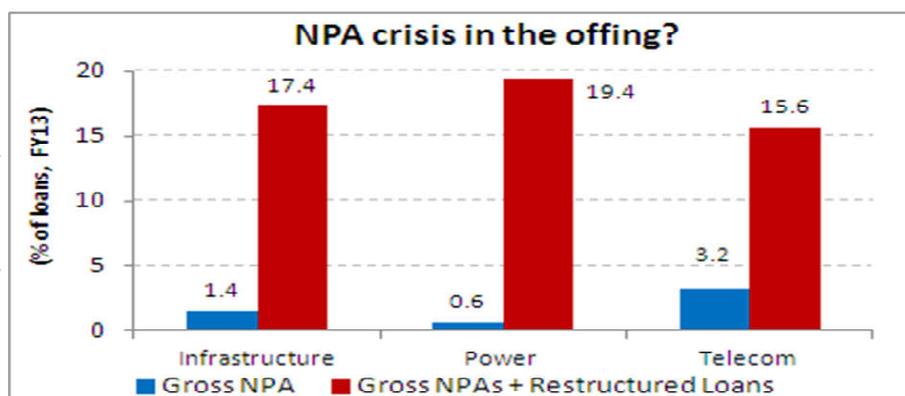


Fig. 27

**Case of Indian Overseas Bank**  
 Chennai-based IOB fared the worst, with a fifth of its gross loans turning bad. Gross NPAs as a ratio of gross advances were 20.48% at the

end of June, higher than the 17.4% reported three months earlier.

IOB's bad loan ratio has been deteriorating for a while now. In October 2015, the banking regulator called for corrective action at IOB to check bad loans, improve internal controls and consolidate its business activities. The move came after the bank's gross bad loans ratio widened to 11% of its gross advances at the end of the September 2015 quarter.

In absolute terms, gross NPAs at the end of June were Rs. 33,913 crore, up nearly 13% from Rs. 30,048.63 crore at the end of March. After providing for bad loans, the bank's net NPA ratio was still elevated at 13.97% at the end of the June quarter.

IOB's capital adequacy ratio, a measure of bank financial strength expressed as a ratio of capital to risk-weighted assets, dropped to 9.47%, below the limit of 9.625% set by the Reserve Bank of India in the quarter. The capital adequacy number a year ago was 9.75%. But the bank said if the Rs. 1,551 crore capital infusion from the government was included, the ratio would increase to 10.37%.

This is easily the most disappointing result among public sector banks. The government's proposed capital infusion might push the bank above the regulatory limit, but it will still not be enough for business growth. Any business expansion plans will require more funding from the market, which looks difficult.

#### Case Of PNB

New Delhi-based Punjab National Bank has reported a net profit worth Rs.306 crore in the April-June quarter against a profit worth Rs. 720 crores a year ago. Gross NPA ratio for the bank during the first quarter was at 13.75% compared with 12.9% in January-March period.

#### Mitigation efforts by the government and banks

While the strategy like, vigilance and cross checking of the bad loans, improvement in internal control, consolidate banks business activities will be useful for some short of time. India's government has already announced plans to invest at least 250 billion rupees in the lenders they control to boost capital ratios in the year.

- ▶ The bank is scaling back lending to large companies; Most of the banks are adequately capitalized to take care of minimum regulatory requirement.
- ▶ The government's proposed capital infusion might push the bank above the regulatory limit, but it will still not be enough for business growth. Any business expansion plans will require more funding from the market, which looks difficult.
- ▶ Bankruptcy law is under active consideration with some further steps to empower banks to be in a position to recover these monies (NPA).
- ▶ 'Indradhanush'- De-stressing the banking sector, it helps in Strengthening Risk Control measures and NPA Disclosures. Projects are increasingly stalled or stressed thus leading to NPA. Some of the actions proposed:
  - a) Project Monitoring Group to facilitate pending approval.
  - b) Address long-term availability of fuel for projects.
  - c) Early reforms in Discoms.
  - d) Promoters to bring in additional equity to address the worsening leverage ratio of projects.
  - e) Further flexibility in restructuring of existing loans.

#### Reserve Bank of India guidelines on the issue

Supreme Court directed the RBI to provide a list of the companies that have defaulted on bank loans of over Rs. 500 crores along with the list of companies whose loan have been restructured under corporate debt restructuring schemes.

- ▶ RBI forcing banks to separate their hidden non-performing loans, stop making new loans to debtors (borrowers) just to pay the interest on their previous bad loans moreover, guided them to set aside more cash to cover their write-offs.
- ▶ Easing it rules allowing lenders to consider reserves associated with property revaluations and foreign-currency translations as common-equity Tier 1 capital, which according to CLSA Ltd. estimates could frees up as much as \$8 billion in capital for state-run banks. Analysts continue to express concerns regarding banks' ability to recover bad loans due to India's lack of a legal system that offers quick resolution of disputes regarding recovery of assets.

**Conclusion**

The Gross NPA ratio for public sector banks may go up to 10.1 per cent by March 2017 under the baseline scenario. If there is a need the government would be ready to provide additional capital. The asset quality problem is moving out of the closet and banks have to address it. The joint initiatives must have undertaken to meet their capital requirements in the line with global risks norms Basel III.

The government's proposed capital infusion might push the bank above the regulatory limit, but it will still not be enough for business growth. Any business expansion plans will require more funding from the market, which looks difficult. Bad debts and weak laws may lead to the higher chance of a banking crisis. India's banks have a higher bad-debt ratio and its regulatory system is less prepared for a financial crisis than that of China.

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# TRACK DEATHS AND PASSENGER SAFETY

## Context

Comptroller and Auditor General (CAG) report has blamed the Indian Railways for not providing adequate train services, leading to overcrowding and death of passengers in suburban trains.

## Introduction

Indian Railways is the lifeline of our nation. More than 13 million passengers travel through railways every day. Passenger's safety and security is of prime concern to us.

## About the CAG Report

Recently a report has been released by the Comptroller and Auditor General (CAG), in which Indian Railways is blamed for not providing adequate train services, leading to overcrowding and death of passengers due to various reasons.

The salient findings of the report are:

- ▶ The report noted that 33,445 people died between January 2010 and December 2014, with half the cases being reported from the Mumbai suburban train network. This translates into more than 18 deaths a day in suburban trains. This data shows a mismatch on reporting of deaths by Railway administration to the Railway Board concerning safety issues which shows negligence on the part of Railway authorities.
- ▶ A comparison of the average number of passengers carried per rake with its carrying capacity, indicated an average crush load of 2510 passengers per rake. Crush load refers to a passenger density of twice the seating capacity of a rake, as per the Indian Railways. Around 15 per cent of the deaths happened due to passengers falling from running trains.
- ▶ Most of the deaths (59 per cent) in the suburban train network happened while line crossing and trespassing.
- ▶ There was also a "vast difference between number of deaths reported (by railway zones) in (the) Annual Statistical Statement of Indian Railways and the figures reported by the Government Railway Police (GRP). For instance, in its annual statement, Eastern Railway reported 154 deaths during 2010-14 whereas the GRP reported 7,923 deaths during the period of 2010-

13 in the two divisions of Sealdah and Howrah of the Eastern Railway itself.



Fig. 28

## Why there are so much of railway track deaths?

The accidents and track deaths are not due to collisions between trains or derailment. Rather, they are on account of a dysfunctional railway system that is unable to ensure facilities for smooth, quick, comfortable travel and the safe entry, exit and movement of passengers across platforms. There are two categories of accidents and deaths. The first is when people are hit by trains while crossing tracks and at midsections. Although this includes people who commit suicide, they form a small portion of the total number of deaths. The second is when passengers either fall from a train while travelling or when hit by a pole near the tracks while travelling close to or hanging out near the door due to the heavy rush as there are no coach doors to protect them. Causes can be listed as-

- ▶ **Boarding Congestion:** The basic reason for so many fatalities on tracks is that railway officials have failed to comprehend the hardships of the commuters. Most of the passengers fall off the running trains when they struggle to get into a coach and fail to enter it or get dashed against a pole near the railway track.
- ▶ **Falls from trains:** Crush load refers to a passenger density of twice the seating capacity

of a rake, as per the Indian Railways. Around 15 per cent of the deaths happened due to passengers falling from running trains. The report said, most of the people who died by falling from running trains were travelling in suburban trains, reflecting that the number of services is not sufficient to cater to the needs of heavy passenger traffic.

- ▶ **Crossing and Trespassing:** Most of the deaths (59 per cent) in the suburban train network happened while line crossing and trespassing. Trespassing occurs because of lack of barricading, fencing, lack of adequate number of pedestrian over-bridges and lack of facilities such as sufficient number of platforms, escalators, elevators.
- ▶ **Security in Railway Premises:** RPF is not at all vigilante to contain the accidents. Inadequacies in providing proper facilities resulted in so many deaths.
- ▶ **Railways authorities' lack of concern** over track deaths is a big issue. In fact they blame people, for people are too much in a hurry during peak hours, and in this period they try to find the shortcuts to change the platforms or for getting out of station.
- ▶ **Lack of Funds and investment** in suburban railways leads to poor infrastructure. For example, to transform the Mumbai suburban system, the Railways has to make a huge investment running into thousands of crores of rupees. In this context, the stumbling block for such huge investment is the extremely low passenger fare fixed for suburban travel.
- ▶ **Suicide Cases:** So many people come on tracks deliberately to commit suicide and increase the track death accidents.
- ▶ **Stunt Cases:** Youngsters performing stunts on the railway tracks, which often lead to their deaths or grievous injuries.

#### Case of Mumbai Suburban Trains:

**40% of India's rail deaths are on Mumbai tracks:** Travelling on Mumbai's suburban railway tracks is as good as inviting death. In Mumbai, about 10 people die every day. An estimated 15,000 people die on railway tracks every year because of trespassing. Of this, 6,000 deaths or 40% of the casualties take place on Mumbai's suburban railway network. Nearly 40,000 people died and an equal number of people were injured on the city's railway tracks between 2002 and 2011. The situation is grim and needs urgent attention. Reluctance of the Indian

Railways to own up to the casualties, which do not fall under the purview of accidents, are nothing but accidents on account of trains and shouldn't be ignored.

#### Case of Deaths on Platform

The murder of a young woman in broad daylight at a key suburban railway station in Chennai few months back has exposed how train passengers remain vulnerable in terms of their personal safety and security. It is no surprise that the accused chose a place where there was very poor security and surveillance. In fact public places with lax security are crime hotspots which include terrorist attacks.

#### Measures to deal with the situation

- ▶ **Closed Door Trains:** Fall from the trains issue can be addressed by providing closed-door trains.
- ▶ **Increase the Bogies and length of Platform:** There are plans to introduce 15 rake trains instead of 12 rake trains. This will also need increasing the length of platforms.
- ▶ To address the issue of people being hit by trains while crossing the tracks needs special attention.
  - a) New structures have to be developed in stations throughout the suburban network for safe passenger movement.
  - b) People shouldn't have the option to cross tracks in the first place. There must be easy and comfortable access to entry and exit routes and interconnected railway systems with escalators, lifts and walkalators.
  - c) Although there are foot over bridges to move across platforms, their use is rare. Most people prefer to cross tracks in an emergency, when late or when there is a lot of luggage to carry.
- ▶ **Raising awareness** among citizens and changing their behaviour whoever comes in contact with the railway system every day is an option but this involves time, money and persistence effort for a long time.
- ▶ **Frequent Announcements:** Sensing the gravity of the cases, constant announcements are needed to be made not to board or alight from running trains.
- ▶ **Foot over Bridges:** A foolproof measure to stop passengers from taking short-cuts across tracks and instead, making them avail of Foot Over Bridges and subways is to build boundary walls and put up fences.

- ▶ To stop youngsters from performing stunts the RPF on the Central Railway can launch a campaign in schools where pamphlets with graphic images of victims were circulated.
- ▶ Underground Rail Corridors can solve the problem of track deaths to a great extent.

- ▶ Higher average of freight trains, semi high speed trains running along the golden quadrilateral.
- ▶ Zero direct discharge of human waste.

**New Steps towards Safety and Security:**

Safety of 13 million passengers that Indian Railways serve every day is of paramount importance to the system. Over the years, apart from the regular safety norms followed, the network has taken a number of steps through innovative use of technology and stepped up training to its manpower to enhance safety standards.

**Constitution of Rs. 17,000 Crore non-lapsable Special Railway Safety Fund (SRSF)** to replace the arrears of aging assets of Railways over the next six years has been a historical move in this direction. A number of distressed bridges, old tracks, signalling system and other safety enhancement devices will be replaced during this period.

**Extensive field trials of the Anti-Collision Device (ACD)**, indigenously developed by Konkan Railway, is going on and once deployed across the Zonal Railways, this innovative technology will help railways reduce accidents due to collision between trains.

**Security of railway passengers is at present a shared responsibility of the:**

- ▶ Railway Protection Force (RPF)
- ▶ Government Reserve Police (GRP)

Efforts are on to amend the Railway Act to give more powers to the RPF in ensuring security of passengers on trains and within Railway premises. Deployment of women police Force has been made for security and assistance of women passengers.

**Conclusion**

Holistic solution is needed to tackle the menace of high track deaths in India. The solution does not lie in adopting a piecemeal approach like providing a random escalator in some station here or a closed door on a train there. The solution has to be complete and holistic.

The Indian Railways need to create an ecosystem that makes people be able to connect with the system safely. The Railways should take the risk in making a huge investment and raise fares substantially. People won't mind paying more if the fare hike means a superb travel experience. There is an urgency to tackle the grim situation on Indian Railway system on a war-footing.

**Case of Delhi Metro:** Highlighting the transportation system that has done everything to safeguard passengers is the Delhi Metro. In Mumbai, travel on the suburban system was about 95,000 million passenger-km (PKM), while in Delhi it was 14,000 million PKM in 2015-16. Barring cases of suicides, no passenger was killed in Delhi. Even if Delhi expands its network to match that of Mumbai's, its exemplary safety record is bound to continue. This is because Delhi Metro has focussed on complete passenger safety by providing safe and faster entry, crossings and exits and a safer journey with closed-door coaches. It is also true that the Delhi Metro is either elevated or runs underground so the issue of crossing tracks is much less. Holistically, it is the complete ecosystem around the Delhi Metro ensuring safety which makes the crucial difference in safety and security of passengers.

**Security features in Rail Budget 2016-17**

In the Railway Budget 2016-17, Government stressed on the need for constant innovation and the need to reimagining the conventional ways of solving things. This has to be done by drawing upon our inherent strengths. Theme of the Budget is:

**Overcoming challenges - Reorganize, Restructure and Rejuvenate Indian Railways:**

*'Chalo, Milkar Kuch Naya Karen'*

**Three pillars of the strategy:**

- ▶ Nav Arjan - New revenues
- ▶ Nav Manak - New norms
- ▶ Nav Sanrachna - New Structures

**Vision - long-felt desires of the common man to be fulfilled By 2020**

- ▶ Reserved accommodation on trains available on demand.
- ▶ Time tabled freight trains.
- ▶ High end technology to improve safety record.
- ▶ Elimination of all unmanned level crossings.
- ▶ Improved punctuality.

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# MOTOR VEHICLES (AMENDMENT) BILL, 2016

## Context

The Motor Vehicles (Amendment) Bill, 2016 was introduced in Lok Sabha on August 9, 2016 by the Ministry of Road Transport and Highways.

## Introduction

The Motor Vehicles Act consolidates the law relating to Motor Vehicles i.e. the law relating to the Constitution, use and control of motor vehicles. The Bill seeks to amend the Motor Vehicles Act, 1988. The Act provides for standards for motor vehicles, grant of driving licenses, and penalties for violation of these provisions.

## What is the objective of the Bill?

Under the law “Motor Vehicle” or “Vehicle” means any mechanically propelled vehicle adapted for use upon roads whether the power of propulsion is transmitted thereto from an external or internal source and includes a chassis to which a body has not been attached and a trailer: but does not include a vehicle running upon fixed rails or a vehicle of a special type adapted for use only in a factory or in any other enclosed premises or a vehicle having less than 4 where filled with engine capacity of not exceeding 25 cm<sup>3</sup>.

This act aims to provide a scientifically planned and evolving framework for the safety of all road users in India, including vulnerable road users, and for enabling the seamless development of a secure, efficient, cost-effective, sustainable and inclusive transport system for the movement of passenger and freight in the country as well as matters connected therewith or incidental thereto.

## Socio-economic aspect of Motor Vehicle safety requirement:

- ▶ Status of road accidents in India–
- ▶ According to official statistics 141,526 persons were killed and 477,731 injured in road traffic crashes in India in 2014 (NCRB, 2015).
- ▶ In India the accident faculties tend to be in the younger age-groups. The age profile of accident victims will have implications on the economy of a country in terms of working years lost.
- ▶ India has a higher rate of road crashes than High income countries.

- ▶ Since cost of life is reflected in the per capita income of the country and it's GDP, the proportion of costs due to loss of life should be similar in High income countries and Low income countries.
- ▶ As a proportion of per capita income, costs of similar levels of medical care are higher in Low income countries as compared to those in High income countries.
- ▶ Bs Energy Conservation Actuse of a scarcity of good rehabilitation care facilities and lack of aids for the disabled, road crash victims suffering permanent disability would suffer greater lack of access and employment opportunities in LICs.
- ▶ Owing to lack of welfare functions provided by the state and health care facilities, families of injury victims have to spend much more time looking after injury victims in LICs. This causes greater time and economic losses overall.

When someone in a poor family is injured and is bed ridden at home or the hospital, the whole family gets involved in the care of the patient. This result in the reallocation of labour of all family members – those on daily wages lose their income; children may not go to school; and older family members may spend less time in the care of children and infants. The household has to cope with the time and financial demands of the situation and this can have a permanent affect on the health of children and infants in the family. This can be the result of loss of income, less attention, worsening hygiene at home, etc.

It is clear that the outcome of a serious injury or death of a family member in poor communities has many long-term effects, socially, economically and psychologically on all the other family members and the community. Many of these outcomes are permanent and soul destroying for individuals and possibly for the larger community.

The effect of injury and death on the family structure, crushing of hopes and aspirations of future generations, and the psychology of the community are just not factored in.

### What are the Salient Features of the Bill?

- ▶ **Formation of National Transportation Policy:** The Bill requires the central government to develop a National Transportation Policy, in consultation with the states. It will establish a planning framework for road transport, develop a framework for grant of permits and schemes, and identify and specify priorities for the road transport system.
- ▶ **Recall of vehicles:** The Bill allows the central government to order for recall of motor vehicles if a defect in the vehicle may cause damage to the environment, or the driver, or other road users. Vehicles may also be recalled if defects in a vehicle are reported to the central government.
- ▶ **Compulsory insurance:** The Bill requires the central government to constitute a Motor Vehicle Accident Fund. The Fund will provide compulsory insurance cover to all road users in India. The Fund will be credited with: a cess or tax, a grant or loan made by the central government, or any other source as prescribed the central government. It will be managed by an authority specified by the central government.
- ▶ **Care for road accident victims:** The central government will develop a scheme for cashless treatment of road accident victims during golden hour.
- ▶ **Compensation in Hit and Run case:** The Bill also increases the compensation for death in a hit and run case from Rs. 25,000 to Rs 2,00,000 or more, as prescribed by the central government.
- ▶ **Protection of good Samaritans:** The Bill defines a good Samaritan as a person who renders emergency medical or non-medical assistance to a victim at the scene of an accident. The assistance must have been (i) in good faith, (ii) voluntary, and (iii) without the expectation of any reward. Such a person will not be liable for any civil or criminal action for any injury to or death of an accident victim. The central government may, through rules, provide for procedures related to their questioning or disclosure of personal information.
- ▶ **Aggregator services:** The Bill defines an aggregator as a digital intermediary or market place. The aggregator's services may be used by a passenger to connect with a driver for transportation purposes. The Bill requires these aggregators to obtain licenses. The aggregators will also be required to comply with the Information Technology Act, 2000.

- ▶ **Electronic services:** The Bill provides for the computerization of certain services. These include: (i) issue or grant of licenses or permits, (ii) filing of forms or applications (such as for licenses and registration), (iii) receipt of money (such as fines), and (iv) change of address. The state government must ensure electronic monitoring and enforcement of road safety on national highways, state highways, and urban roads. The central government will make rules for such monitoring.
- ▶ Strict penalties for offences involving children
- ▶ Unified vehicle registration system and registration to be linked with insurance, vehicle offences, and vehicle fitness.
- ▶ The Bill increases the penalties for several offences under the Act. For example, the maximum penalty for driving under the influence of alcohol or drugs has been increased from Rs. 2,000 to Rs. 10,000. If a motor vehicle manufacturer fails to comply with construction or maintenance standards of motor vehicles, the penalty may be a fine of up to Rs. 100 crore, or imprisonment up to one year, or both.

### What are the positive features in the Bill?

- ▶ "Epidemic of increasing road accidents in India" which had in 2014 claimed 1.41 lakh lives and left 4.81 lakh people severely injured. "Not only do these accidents cause an irreplaceable loss of human life but they are also responsible for huge economic drain for our country. According to the erstwhile Planning Commission of India, over 3% of India's GDP is lost to road accidents annually, and this amounted to 3.8 lakh crore rupees in 2014.
- ▶ A new legislation was the need of the hour, since at present the motorized transport in India is governed by the Motor Vehicle Acts 1988 which was enacted 27 years ago. Since then, deaths caused due to road accidents have increased by over 300% and the road transportation scenario has undergone a sea change.
- ▶ The Good Samaritan law for providing speedy aid to road accident victims was urgently need. "To accomplish the goal of halving the road crash fatalities, India must bring robust road safety legislation. The current legislation governing road transport in India, Motor Vehicles Act, 1988 is an obsolete legislation that fails to address road safety comprehensively.
- ▶ India also needs to take urgent steps in this direction to meet the Sustainable Development Goals adopted by the UN general assembly in September 2015, which call for halving the deaths

and injuries from road accidents by 2020. Road accidents remain the single largest cause of death among youngsters in the 15-29 age groups, followed by suicide, HIV/AIDS and homicide.

### **What are the issues in its implementation?**

- ▶ The implementation and enforcement of all said clauses in the proposed bill seems a tough task.
- ▶ Digitization of different process alongwith training of government officers need time.
- ▶ Further awareness about new rules and penalties has to be done, to create deterrence among people.
- ▶ Also for implementation at the ground level, the principal concerns are going to be manpower

needed on-ground to actually manage and police traffic. The ratio of traffic regulation enforcers to the number of vehicle users currently is so skewed it is simply impossible to manage traffic in a healthy and responsible manner.

### **Conclusion**

International experience suggests that unless a country establishes an independent national road traffic safety agency it is almost impossible to promote safety in a comprehensive and scientific manner. This is a landmark bill; if it gets passed, India could well and truly be on the way to making its roads safer and healthier.

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# STRATEGIC FORCES COMMAND OUT OF RTI AMBIT

## Context

Recently government notification placed the Strategy Forces Command under sub-section (2) of Section 24 of the RTI hence placed it out of ambit of RTI.

## Introduction

The Strategic Forces Command (SFC), which forms part of the National Command Authority (NCA), has been added to the Second Schedule of the Right to Information Act (RTI), 2005, which exempts security and intelligence establishments from its purview. The SFC has been included in the list of 26 intelligence and security agencies, which are exempted from providing information under the transparency law RTI. The crucial Strategic Forces Command (SFC), which looks after the nuclear arsenal of the country, has been kept out of the ambit of the Right to Information (RTI) Act.

## What is Nuclear Command Authority and Strategic Forces Command?

The Nuclear Command Authority (NCA) controls India's nuclear arsenal. It consists of two components - The Executive Council and the Political Council. The NCA's Executive Council, chaired by the National Security Adviser, gives inputs to the Political Council, which authorizes a nuclear attack if needed.

The Political Council is chaired by the Prime Minister and advised by the Executive Council. This mechanism is meant to ensure that the nuclear weapons are under civilian control. A Command and Control (C2) mechanism prevents their accidental or unauthorised use. The NCA's directives are executed by the Strategic Forces Command headed by a Commander-in-Chief of the rank of Air Marshal.

The responsibility of the Strategic Forces Command is to operationalise the directives of the Nuclear Command Authority (NCA), which is under Prime Minister's control. The Command has the sole responsibility of initiating the process of delivering nuclear weapons and warheads after acquiring explicit approval from the NCA.

The SFC also manages jurisdiction over both land and sea based nuclear armed ballistic missiles as it manages the tactical and strategic nuclear stockpile of the country. It also governs the testing of nuclear missiles like Agni-4 and Agni-5.

## What is RTI Act, 2005 and its objectives?

It is an Act to provide for setting out the practical regime of right to information for citizens to secure access to information under the control of public authorities, in order to promote transparency and accountability in the working of every public authority, the constitution of a Central Information Commission and State Information Commissions and for matters connected therewith or incidental thereto. It extends to the whole of India except the State of Jammu and Kashmir. Department of Personnel and Training (DoPT) acts as a nodal authority for implementation of the RTI law.

The basic objective of the Right to Information Act is to empower the citizens, promote transparency and accountability in the working of the Government, contain corruption, and make our democracy work for the people in real sense. It goes without saying that an informed citizen is better equipped to keep necessary vigil on the instruments of governance and make the government more accountable to the governed. The Act is a big step towards making the citizens informed about the activities of the Government.

## Exceptions to RTI/Related Sections of the RTI Act 2005:

**Section 8:** Deals with exemption from disclosure of information says that there shall be no obligation to provide any citizen information, disclosure of which will affect India's sovereignty and integrity, the security, strategic, scientific or economic interests of the state and relations with foreign States or will lead to incitement of an offence.

**Section 24 (1):** Nothing contained in this Act shall apply to the intelligence and security organizations specified in the Second Schedule, being organizations established by the Central Government or any information furnished by such organizations to that Government:

Provided that the information pertaining to the allegations of corruption and human rights violations shall not be excluded under this sub-section.

**Section 24 (2):** The Central Government may, by notification in the Official Gazette, amend the Schedule by including therein any other intelligence or security organization established by that Government or omitting there from any organization already specified therein and on the publication of such notification, such organization shall be deemed to be included in or, as the case may be, omitted from the Schedule.

**Exceptions Under Section 24, specified under Second Schedule**

1. Intelligence Bureau.
2. Research and Analysis Wing of the Cabinet Secretariat.
3. Directorate of Revenue Intelligence.
4. Central Economic Intelligence Bureau.
5. Directorate of Enforcement.
6. Narcotics Control Bureau.
7. Aviation Research Centre.
8. Special Frontier Force.
9. Border Security Force.
10. Central Reserve Police Force.
11. Indo-Tibetan Border Police.
12. Central Industrial Security Force.
13. National Security Guards.
14. Assam Rifles.
15. Sashastra Seema Bal.
16. Directorate General of Income-tax (Investigation).
17. National Technical Research Organisation.
18. Financial Intelligence Unit, India.
19. Special Protection Group.
20. Defence Research and Development Organisation.
21. Border Road Development Board.
22. National Security Council Secretariat
23. Central Bureau of Investigation.
24. National Investigation Agency.
25. National Intelligence Grid.
26. Special Force Command.

**Implication of removing SFC**

The implication of this formulation is that none of the security and intelligence organisations notified as being exempt agencies have a duty to compile information that is required to be proactively disclosed under Section 4 of the RTI Act or respond positively to requests for information other than that relating to allegations of corruption or human rights violation.

But exempt organisations must be required to make some proactive disclosure of basic information.

For example, the CBI, NIA, CRPF, BSF, ITBP, SSB- all have dedicated websites that put out some information about their vision, mission and activities for people's reference. The Sashastra Seema Bal (SSB) discloses a wealth of information that falls under Section 4 of the RTI Act such as organisational structure, transfer policy, monthly list of achievements including arrests and seizures made and believe it or not- the Immovable Property Returns of its senior level officers (since 2011).

This kind of transparency that is not in conflict with the protected public interests that we must demand from these organisations.

The CIC has a major role to play in promoting such transparency in the exempt organisations above and beyond merely deciding whether or not to disclose information requested by citizens.

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# RARE EARTH METALS - DIPLOMACY

## Context

India will be woefully short of critical minerals necessary for developing clean-energy applications, infrastructure for its solar mission and for manufacturing high-technology products in the future. Of late, India's interest on rare earth elements has increased to further its development and geopolitical interests. The renewed interest is due to China's dominant position in the global rare earths industry.

## Introduction

Council on Energy Environment and Water in its recent study identified 12 minerals out of 49 critical elements as 'most critical' for India's manufacturing sector by 2030. These are beryllium, chromium, germanium, limestone, niobium, graphite, rare earths, rhenium, strontium, tantalum and zirconium. India is 100 per cent import-dependent for seven out of 12 identified critical minerals and does not have any declared resources for them, except light rare-earths (found along with monazite sands) and beryllium.

## What are rare earth metals?

Rare earth elements are a set of seventeen chemical elements which include fifteen lanthanides plus scandium and yttrium. All the 17 elements have similar chemical properties. In terms of their overall abundance in the Earth's crust, the rare earth elements are not particularly rare. Cerium (Ce) is the most abundant and Thulium (Tm) is the rarest rare earths element. Promethium (Pm) is virtually absent, since it is radioactive with a short life-time.

Rare Earths (RE) are actually found quite abundantly in the Earth's crust, but termed 'rare' because they occur in minute quantities and in a diffused state that makes it difficult as well as expensive to extract and process.

## What are the applications of rare earths?

Due to their distinctive properties, rare earth elements have several desirable properties that have use in a variety of high technology applications.

Rare earths metals are critical to many industries of the future. These 17 elements are necessary for making everything from nuclear reactors to flat-screen televisions, from smart phones to hybrid cars to solar panels.

- ▶ They are important for manufacturing of key intermediates that are used in production of a number of green energy products such as hybrid cars, energy efficient, lighting, fuel cells and windmills.
- ▶ Some of the intermediate industries that are dependent on rare earth elements are the glass

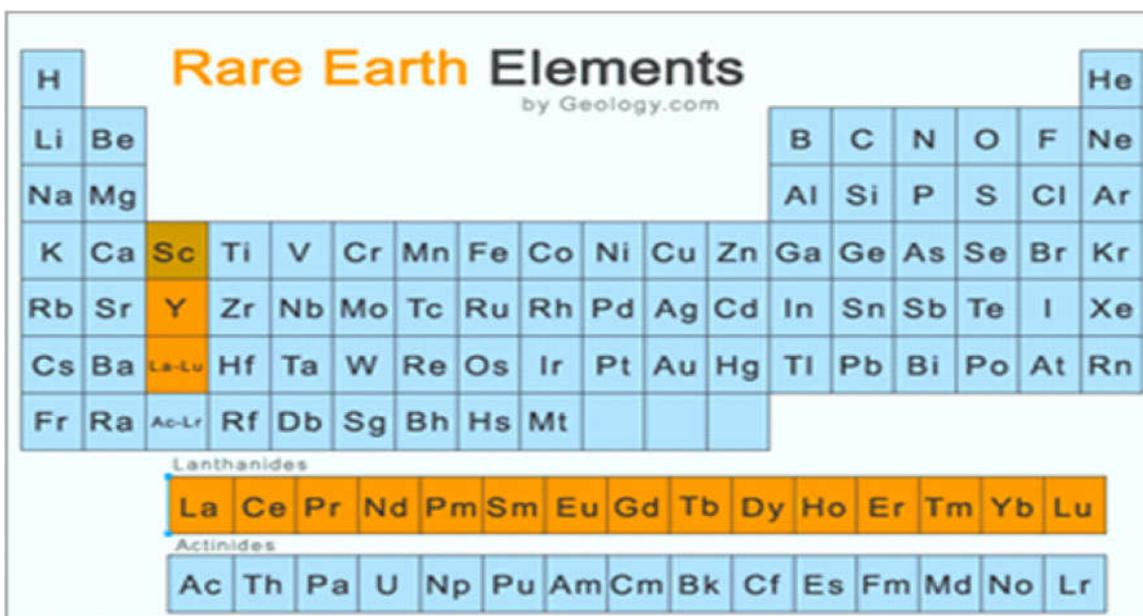


Fig. 29

industry, permanent magnet industry, phosphors used in lighting and display devices, catalysts for the oil refining industry, etc.

- ▶ Rare earth elements are also useful in a number of military and strategic systems. Neodymium-doped Yttrium Aluminium Garnet (NdYAG) lasers are used in range finding applications that are used in advanced weapon systems.

- ▶ Terfenol D, which is an alloy of terbium, iron and dysprosium, has unique properties and it is used in sonar and other acoustic applications.
- ▶ Rare earth oxides are mixed with Tungsten to improve its high temperature properties for welding, replacing thorium which was mildly hazardous to work with.



Fig. 30

### What is the status of India's rare earth reserves?

India was one of the early countries to recognise the significance of rare earth elements. Special organisations were set up by the government to develop, manage and regulate rare earth resources in the country. However, over a period of time, India lost its competitive position in the market in comparison to other countries due to global developments in the rare earths industry and also due to India's inertness.

- ▶ Given their strategic importance, India should decide on an appropriate action plan for development of rare earths industry. For that India needs deeper understanding of the various value chains in the global rare earths ecosystem.
- ▶ Kerala, Orissa and Tamil Nadu account for nearly 95% of the country's production of rare earths. PSUs, including IREL, Kerala Minerals and Metals

Ltd (KMML) and Travancore Titanium Products Ltd (TTPL), are the three leading state players in rare earths production. Although KMML and TTPL are not involved in export of rare earths directly, the two firms produce value-added products such as titanium dioxide pigment, titanium tetrachloride, zircon, etc., which are also exported.

### What is the India's position globally?

China, US, Australia and India are the world's important sources of rare earth elements. India at fourth position has 1.3 million tonnes of Rare Earth Oxide (REO) content. As per estimates, total rare earth reserves in India are 10.21 million tonnes. This would take India to the third position. Monazite is the principal source of rare earths in India. Monazite also contains thorium and uranium. Because of the presence of these radioactive elements, mining of monazite sands is undertaken by a government body, the Department of Atomic Energy.

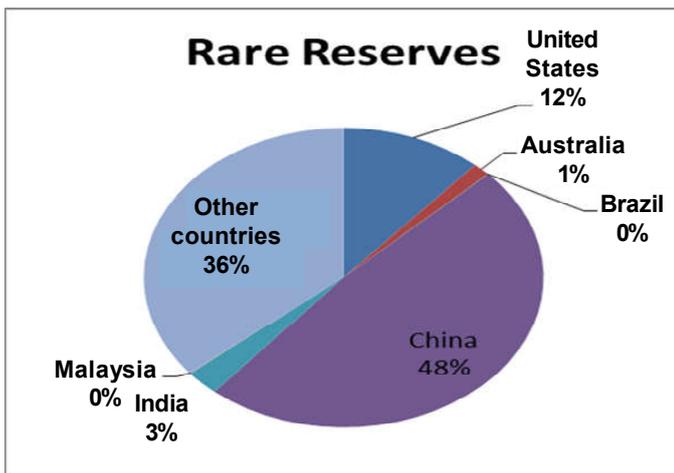


Fig. 31

**Why does the India’s rare earths industry declined?**

India and China started mining of rare earths at the same time. While China developed strong domestic rare earths system, India has been a supplier of rare earth raw materials and some basic rare earth compounds.

- ▶ The decreasing rare earths production in India is due to absence of a domestic market and the fall in exports because of low cost production by China. Most of the products that use rare earth elements are presently imported to India in finished form.
- ▶ Currently there is no manufacturing facility in India to produce intermediate rare earth products. In India, the knowledge creation part of the value chain taken place mostly within the confines of public sector technology-oriented organisations.
- ▶ The organisations are not connected to any industries or potential users and beneficiaries of this knowledge creation process. India has high production for these primary metals, yet no sign of by-product recovery [except tin] is evident so far. This situation demands suitable R&D interventions and policy support.
- ▶ China currently accounts for an overwhelming 97% of global production, and it has not been shy of using this dominance as a bargaining chip against other countries. China’s reserves of rare earths, at 36 mt, is nearly three times that of the US, which has reserves of 13 mt. Beijing’s increased focus on more investment in upstream mining and downstream processing in the last decades has also helped China become a leading producer of rare earths. This has also left most mines globally unprofitable. That leaves China with 36% of global deposits, but with 97% of production.

**China and its diplomacy of rare earths**

- ▶ Nearly a decade ago, China had begun using its Rare Earths (RE) supplies as a tool for political and economic hegemony against the US, Japan and other nations. Consequently, the US and other countries complained to the World Trade Organization about China’s restrictions on RE exports. With the WTO ruling that China’s restrictions were discriminatory and must be withdrawn, the Chinese authorities had no option but to drop the export cap in January 2015.
- ▶ Although the world has celebrated the withdrawal of China’s quotas, industry analysts warned that this is not the end of the road for the Chinese to use RE for strategic purposes. They believe China could still control RE exports and influence prices through other stratagems. The Chinese had raised export tariffs and imposed restrictions in 2010 in the quest for higher prices to help meet the immense environmental costs of mining RE and also to promote the growth of six state-owned RE producers. As global buyers rushed to stock up on RE, prices of some elements soared as much as 10-fold.
- ▶ With the restrictions having been lifted, industry watchers apprehended that China will implement new regulations to mine, process and export RE, even imposing a value-added tax in lieu of scrapped export tariffs. Furthermore, by controlling RE export licences, China manipulated export rates.
- ▶ Besides manipulating prices, China has been adept at using its RE stockpiles as a lightning rod to lure high-end manufacturers to the country. With RE critical in a raft of diverse industries, China offers these manufacturers much cheaper rates for RE supplies if their products are made in China. The bottom line bait proves irresistible for the best of companies, which is one of the factors that helped transform China into a global manufacturing hub.

**Chinese Policies affecting India’s Interests**

- ▶ Chinese policy of exhibiting its eagerness to clamp down on exports of critical elements to countries it considers inimical is not good for India or the world. Around the beginning of the 2016, China planned to restrict RE and a tungsten export to India, since these could be used in the latter’s militarisation drive. China views this with deep suspicion, particularly the creation of infrastructure in the mountainous border areas. The fact that India’s build-up is in response to China’s militarisation of border regions seems disturbing for the Chinese.

- ▶ Considering the Chinese moves to restrict India's 'reciprocal' military build-up, it is time the nation made all-out efforts to downsize dependence on supplies of critical elements from China.

### What are the India's current demands?

The researchers estimated future demand and possible shortage of the minerals by assuming that India's manufacturing sector would mirror historical growth trends in developed countries.

- ▶ Manufacturing contributes 17-18% of India's economy, though this is currently dominated by low-value industries.
- ▶ The pricey minerals are used in industries and sectors such as aerospace, automobiles, cameras, defence, entertainment systems, laptops, medical imaging, nuclear energy, and smartphones,
- ▶ The particular importance is of rare earth minerals used in the manufacturing of defence, aerospace, avionics, radar and other critical systems.

### India's strategy - how are we going to meet the demands?

Since India has a long history of producing rare earth metals, it will need to design a strategy on two fronts—domestic resources of rare earths will have to be brought into production and Indian companies will compete with global competitors to secure overseas deposits. On the other hand India must advance diplomatic ties for long term resource security.

#### A. Domestic Measure

- ▶ The government should boost domestic production of RE elements and even heavy minerals such as monazite, with the latter playing a key role in its nuclear power program. With state entities falling somewhat short in boosting supplies speedily, it is imperative that private companies are allowed to scale up RE production.
- ▶ The growing international tensions over rare earth supplies has led to the first signs of a new national strategy i.e. to ramp up domestic production, to consider inviting foreign companies to participate in joint ventures (JVs) with public sector units (PSUs) as minority partners and to strike cooperation deals with other governments which are worried about China's clout in the rare earths game.
- ▶ The government may have to lend a helping hand to private sector as they understand this market well, and so it is time for the Indian government to promote resource security for India. A similar strategy in oil has met with limited success, as

Indian national oil companies have lost out to Chinese oil firms in securing oil assets in Africa. But in rare earths, developed nations seem to be showing greater willingness to forge a partnership with India to refine and process rare earths.

#### B. Diplomatic measure - Indo-Japan strategic partnership

- ▶ Meanwhile, India signed a deal to supply rare earths to Japan. This deal comes after China banned exports of rare earths to Japan in protest against the detention of a Chinese fishing boat captain who had strayed into Japanese waters that are claimed by China.
- ▶ The tensions such as those between Japan and China over rare earths are a "blessing in disguise for India" as they give India a chance to work with countries that do not succumb to "Chinese blackmailing".
- ▶ At a time when the momentum and stakes in exploring sea-bed minerals are gaining ground, the technological innovations in deep-sea exploration in the Indian Ocean region hold immense potential for Indo-Japanese collaboration.
- ▶ Amid the larger framework of the Indo-Japanese strategic partnership, Tokyo and New Delhi had signed a significant agreement in 2014 on the commercial contract between Indian Rare Earths Limited (IREL) and Toyota Tsusho Corporation (TTC) for the exploration and production of rare earths and are working towards finalising the commercial contract and commencement of commercial production at the earliest.

#### Advantages

- ▶ Joint collaboration between India and Japan in the Indian Ocean to explore and produce rare earths is the way to go forward.
- ▶ Indo-Japanese collaboration in the field of rare earths holds immense potential in the backdrop that Japan is the second largest consumer of rare earths globally and a vital component of Japanese policy of regional integration has been its 'rare earths diplomacy initiative' as part of which, Japan has been the key in building capacities including opening a Rare Earth Research and Technology Transfer Centre in Hanoi, Vietnam.
- ▶ The Industrial Development Corporation of Orissa Limited (IDCOL), and Indian Rare Earth Limited (IREL), operating under the Department of Atomic Energy, have signed an MoU to set up a mineral separation plant in the Ganjam district of Odisha that will undertake Beach Sand mining and mineral processing to produce Limonite, Garnet, Sillimanite, Rutile, Zircon and Monazite.

- ▶ Moreover, a subsidiary of Japan's Toyota Tsusho Corporation is already based at Visakhapatnam, Andhra Pradesh, and is involved in the production of REs while also operating a monazite sand rare earth production base.
- ▶ Further, India's resource security can only be protected if the nation cultivates reliable suppliers for its requirements of RE and other critical elements, besides boosting domestic production. Without doubt, resource security is the only way for India to ascertain that its national interest and sovereignty are safeguarded at all times.

**Conclusion**

- ▶ India is endowed with vast mineral resources and it is among the top five nations with reserves of rare-earth minerals but its potential is untapped.

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