

ISSN-0971-8400



YOJANA

JANUARY 2018

A DEVELOPMENT MONTHLY

₹ 30

Special Issue

Banking Reforms

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INS Kalvari Dedicated to the Nation



The Prime Minister, dedicated the naval submarine INS Kalvari to the nation, at a function in Mumbai on 14th December 2017.

Congratulating the people of India on this occasion, the Prime Minister described INS Kalvari as a prime example of “Make in India.” He commended all those involved in its manufacture. He described the submarine as an excellent illustration of the fast growing strategic partnership between India and France. He said the INS Kalvari will add even more strength to the Indian Navy.

The Prime Minister said that the 21st century is described as Asia’s century. He added that it is also certain that the road to development in the 21st century goes through the Indian Ocean. That is why the Indian Ocean has a special place in the policies of the Government, he added.

The Prime Minister said this vision can be understood through the acronym SAGAR – Security and Growth for All in the Region.



The Prime Minister said that the entire ecosystem related to defence and security has started to change in the last three years. He said the skill-set accumulated during the manufacture of INS Kalvari is an asset for India.

The INS Kalvari is a diesel-electric attack submarine that has been built for the Indian Navy by the Mazagon Dock Shipbuilders Limited. It is the first of six such submarines that will be inducted into the Indian Navy, and represents a significant success for the “Make in India” initiative. The project has been undertaken with French collaboration.



January 2018

Volume-62

YOJANA

Since 1956 A DEVELOPMENT MONTHLY

Let noble thoughts come to us from all sides
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Banking on Banks

Concept of saving has always existed in different cultures all over the world. Collecting currency/gold coins in pots and burying them under the earth is something that has been done all over the world in ancient times. The royal treasury was the repository of monies collected in a kingdom by way of taxes or acquired as levies from subordinate vassals/dependent kingdoms.

With the advent of modern banking, management of money shifted from the home to the bank. People found it safer to deposit money and jewellery in the bank which had vaults to safeguard their wealth. Also, banks offered interest on deposits which meant additional income. Banks, on their side, began to invest these deposits in various stocks and securities. Thus, began a new system of investment banking and corporate banking. Government money, too, passed from the treasury of the king to the central bank which slowly became the monetary policy regulator also. Today, one cannot visualize an economy without a central regulatory bank. The central bank, in India's case, the Reserve Bank of India, is no longer a parker of government funds but has become the monetary policy regulator, banker to banks, regulator of currency, et al.



The banking system in India started with small, private commercial banks. But, when some of these began to fail or funds deposited were siphoned off by the banker and customers lost hard earned money deposited, the government decided to step in and nationalize these banks. This major reform ensured that the customer was not affected by any loss incurred by the bank or the bank could not misuse customer money. Gradually, over the years, other regulatory mechanisms were introduced to regulate public sector banks. Recommendations of Narsimham Committee on Banking sector reforms proved to be another major stepping stone in this direction. Thereafter there have been series of gradual reforms focusing on improving efficiency and governance of banking sector.

At one time, the government felt that, like in all other sectors, privatization should be brought into the banking sector also, to keep pace with global trends. Private sector banks like HDFC, ICICI, Axis and Yes Bank were allowed to operate in the Indian banking sector. These banks proved more successful in gaining customer satisfaction as compared to the public sector banks and became a main stay in both corporate banking and retail banking. Taking a clue, public sector banks also began to become more customer friendly and introduced technological improvements in their functioning.

A very big obstacle to successful banking has been the issue of Non-performing assets which has been a major source of concern for most of the banks in India, whether in the public or private sector. To resolve this major issue in the banking sector, the government announced Mission Indradhanush focusing on important reform mechanisms like recapitalization, creation of Banking Board Bureau, and creating framework of accountability. Later Insolvency and Bankruptcy Code provided another framework for resolving the issue of NPAs.

Cyber security is another concern in modern banking especially with the era of less cash economy and digitalization of banking transactions. This is attempted to be resolved through various initiatives by the department of information technology in collaboration with institutions like IIT. Financial inclusion through banking is a major thrust of the government with schemes like Jan Dhan Yojana and DBT. Rural banking is also another area of concern, since many areas still remain to be covered by banking services due to inaccessibility. Rural populations are still, to a large extent, not very comfortable with the banking system partially due to low levels of literacy, inaccessibility of banking services etc. These have been sought to be addressed by the government by introduction of Banking correspondents who serve as link between banks and the rural population.

On the face of it, the concept of banking reforms may seem an issue for economists and policy planners. But banks are the places which people trust their hard earned money with. Being in control of your finances is a great stress reliever and an efficient good banking system is the key to relieving this stress from everyone's life.

Banking Sector Reforms: Ensuring Regulation

Atisha Kumar



In the future, India should strive to have a more robust and well-capitalized banking system, with enhanced capacity to extend credit and an incentive structure suitable for productive allocation of resources. To build a robust banking system, recapitalization will have to be complemented by a host of other measures including corporate governance reforms, lower entry barriers, improved financial supervision, development of a dynamic corporate debt market and efficient debt recovery mechanisms

For both firms and households, the banking system is one of the most important sources of credit in India. The size, resilience and level of capitalization of banks are critical for the smooth functioning of financial markets. India's banking sector has been characterized by a high proportion of publicly controlled banks. Key challenges to the banking system include low financial depth, a high share of non-performing assets (NPAs) and a high concentration of public sector banks (PSBs). These issues constrain industrial credit and banks' ability to meet international capital requirements. Existing measures have not been enough to tackle these challenges. Looking ahead, we need to focus on three areas to stimulate the banking sector: improving governance of banks, enhancing competition in the sector and developing corporate bond markets to relieve pressure from banks as lending sources.

History of Bank Reforms in India

Before 1991, India had been nationalizing a large share of its banking sector. In 1969, the government nationalized banks with deposits greater than Rs. 50 crore. It controlled more than 80 percent of bank branches. In

1980, the government brought an additional number of banks under its control, nationalizing banks with country-wide deposits more than Rs. 200 crore. About 90 per cent of all banks were controlled by the government and this share remained fairly steady during this period. Between 1969 and 1991, the geographical penetration, density of coverage and number of bank branches grew significantly. Banks also witnessed large deposit and credit growth. Priority sector lending grew from 14 to 41 percent.

However, by 1991, banks' efficiency and productivity had declined, customer service quality was poor and profitability was low. In 1991, when the government liberalized the economy, it also undertook a number of banking reforms. The Committee on Financial Systems, chaired by Mr. M. Narasimham in 1991, recommended reducing the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) to free up bank resources, relying on market forces to determine interest rates, making it easier for private and foreign banks to enter to enhance competition and reducing substantially the number of public sector banks (PSBs). Many of the committee's recommendations were implemented, including the reduction in SLR and CRR, having

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a market determined interest rate and opening of new private sector and foreign banks.

In 1998, the Committee on Banking Sector Reforms, also chaired by Mr. Narsimham, recommended a further set of measures to strengthen the banking sector. It reviewed progress in existing measures and proposed further measures related to legislation, capital adequacy and bank mergers. Beyond these, the 1998 Committee also recommended steps relating to greater technology use, skills training and professional management of banks.¹ Many of these reforms put in place since 1991 improved the performance and strength of India's banking sector. For example, the amount of credit extended by the banking system as a share of GDP increased, from 51.5 per cent in 1990 to 53.4 per cent in 2000. However, it remained less than half of the credit to GDP ratio in other countries. In 2000, the ratio was 133 per cent in China, 143 per cent in Malaysia and 122 per cent in Thailand.

In the 2000s, a number of committees relating to banking reforms were constituted and further reforms have been instituted gradually. The Committee on Financial Sector Reforms included recommendations on macroeconomic and regulatory frameworks for India, financial inclusion and domestic financial development.² In 2014, the Committee to Review Governance of Boards of Banks in India (P.J. Nayak Committee) was also constituted. Its key recommendations focused on enhancing the governance and management of public sector banks which continued to have a large presence in India's banking sector.

The Current Situation

Even today, India's banking system is characterized by a high share of Public Sector Banks (PSBs). Accounting for over 70 per cent of total assets, PSBs' performance inevitably represents the performance

of the overall banking system. PSBs are the biggest contributors to the large and rising stock of non-performing assets (NPAs), with a share of 88 per cent of the stock as of March 2016. The situation has been worsening over time. Put another way, gross NPAs in PSBs rose from Rs. 2.78 lakh crore in March 2015 to Rs. 7.33 lakh crore in June 2017.

The share of stressed assets in Public Sector Banks (PSBs) is nearly 16 per cent, more than 3 times that in private banks. Rising NPAs have also put a strain on the health of the PSBs, reflected in their declining Return on Assets (ROA) and Return on Equity (ROE) ratios, which turned negative in 2016 for the first time in a decade.

Table 1: Stressed Advances of Banks as a Share of Total Advances (per cent)

	March 2008	March 2017
Public Sector Banks	3.5	15.6
Private Sector Banks	4.2	4.6
Foreign Banks	3.0	4.5
All Banks	3.5	12.1

Source: Reserve Bank of India

But even private banks have been plagued by a high share of NPAs. The gross non-performing assets of all scheduled commercial banks amounted to Rs. 6.1 Trillion in March 2016. Further, asset quality and profitability have been deteriorating over time. Between March 2008 and March 2017, the stressed advances of banks as a share of total advances of all banks increased from 3.5 per cent to 12.1 per cent. Banks' Profit After Tax (PAT) contracted on a year-



on-year basis during the first half of 2016-17. The decline in banks' profits is largely due to higher growth in risk provisions, loan write-offs and decline in net interest income.

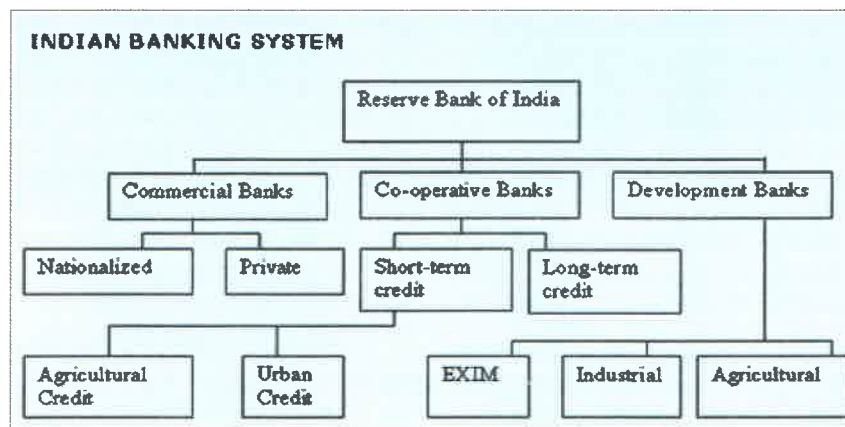
The stresses on the banking sector have translated into a slowdown in industrial credit. They also limit banks' ability to meet international capital requirements. In January 2017, credit growth to the industrial sector contracted by 5.1 per cent relative to an increase of 5.6 per cent in January 2016. High NPAs are also likely to impede banks' ability to meet higher capital requirements under Basel III. These requirements will come into force in January 2019.

The government has infused funds to address the challenge. The measures for recapitalization under the Indradhanush Plan in 2015-16 acknowledge the government's recognition of high NPA ratios and their adverse effects on the economy. The negative effects include further declines in bank credit, low bank profitability and declining capital adequacy ratios. To counter these, the Ministry of Finance announced a Rs. 2.1 lakh crore plan to recapitalize banks on October 24. These funds will not only help Public Sector Banks (PSBs) meet their minimum capital requirements but they will also help banks clean up their balance sheets and cover bad loans going forward.

Beyond recapitalization, the Indradhanush Plan also includes wider banking reforms needed to strengthen institutional governance and align incentives in the banking system. Its seven points include creating a framework of accountability, separating the roles of CEO and Chairman in PSBs, creating a Bank Board Bureau (BBB) for appointments and governance reforms. However, implementation remains incomplete. Further, the Insolvency and Bankruptcy Code (IBC) also provides a channel for addressing NPAs. It requires banks and promoters to agree on a resolution plan within 270 days or face asset liquidation.

Global Competition

India's banks lag behind global counterparts in terms of financial depth or the size of banks, other financial institutions and markets relative to economic output. Not only does financial depth matter for capturing the relative size of the banking system, but it is also positively associated with economic growth and poverty reduction.³ A study using state-level data from India highlights that financial deepening has contributed to poverty alleviation in rural areas.⁴ Figure 1 highlights bank assets as a share of GDP in India and selected comparators. India also has low levels of private credit to GDP and credit to deposit ratio,



relative to other emerging economies. In 2015, India's private credit to GDP ratio was 50.2 per cent relative to 140 per cent in China and 71 per cent in Brazil.⁵ Similarly, bank credit as a ratio of bank deposits was 77 per cent in India compared to 119 per cent in Brazil and 312 per cent in China in 2015.

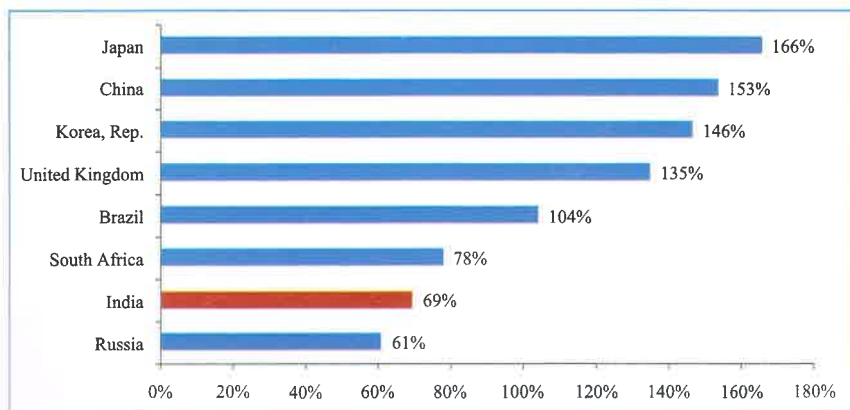
Large banks dominate the banking system with few new entrants. As of March 2016, the top 10 banks (ranked by assets) owned 58 per cent of the total assets in the system. Since 1991, only 14 licenses have been granted for universal banks. In contrast, in the United States, over 130 new banks were chartered annually on average between 1976 and 2009.⁶ The number of foreign banks in India remains small. As of March 2016, foreign banks accounted for 6 per cent of total banking assets.

Looking Ahead

In the future, India should strive to have a more robust and well-capitalized banking system, with enhanced capacity to extend credit and an incentive structure suitable for productive allocation of resources. To build a robust banking system, recapitalization will have to be complemented by a host of other measures including corporate governance reforms, lower entry barriers, improved financial supervision, development of a dynamic corporate debt market and efficient debt recovery mechanisms.

There are three particular areas that can be prioritized. The first is improving governance and strengthening institutions, particularly in PSBs. In terms of sequencing, these reforms are as important as recapitalization and will also need to be pursued in parallel. Global examples highlight the importance of undertaking banking sector reforms in tackling NPAs. For example, in China, besides recapitalization, banking sector reforms focused explicitly on strengthening financial regulation and supervision, improving corporate governance and enhancing transparency. Similarly, South Korea created a Financial Supervisory Service (FSS) to ensure supervision in their banks following the East Asian Financial Crisis of the late 1990s. To some extent, the government has already acknowledged the need for better governance of banks. The Indradhanush Plan had suggested the

Figure 1: Deposit Money Banks' Assets to GDP (per cent), 2015



Source: International Financial Statistics, International Monetary Fund (IMF)

creation of an independent Bank Board Bureau to oversee the employment of bank officials. If a truly independent Bureau is created, this can have a profound effect on PSB governance. Greater accountability can ensure that banks' lending practices are in line with the productive allocation of credit. We need to ensure that implementation takes place in a timely manner.

The second area for reform is the development of corporate bond markets. Bond markets need to complement banks as important sources of finance. Liquid and deep bond markets will enable firms to raise debt at low costs. Over time, ideally, the share of bond markets as the source of corporate debt will increase and the share of banks in lending will decline.

The third area for banking sector reform is continuing to make the banking sector more competitive. India should continue to encourage the entry of private and foreign players to foster greater competition and innovation in the sector. The new policy of "on-tap" licensing of banks is a positive step

in this direction. However, the entry requirements could be relaxed further to reduce barriers to entry. Advocating a subsidiary structure will not only encourage foreign banks to enter the Indian banking sector but it will also help limit exposure to global shocks. In the long run, greater competition will raise the efficiency and profitability of the sector.

Historically, India's banking sector reforms – especially in the 1990s – have also focused on enhancing competition, strengthening governance and regulation. Future reforms should also build upon these areas and draw lessons from past experiences.

Endnotes

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Source: International Financial Statistics, International Monetary Fund (IMF).

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Cabinet approves India's Membership for European Bank for Reconstruction & Development

The Union Cabinet chaired by the Prime Minister has approved India's Membership for European Bank for Reconstruction & Development (EBRD). Membership of EBRD would enhance India's international profile and promote its economic interests, give access to EBRD's Countries of Operation and sector knowledge.

- India's investment opportunities would get a boost. • It would increase the scope of cooperation between India and EBRD through co-financing opportunities in manufacturing, services, information technology, and energy. • EBRD's core operations pertain to private sector development in their countries of operation. The membership would help India leverage the technical assistance and sectoral knowledge of the bank for the benefit of development of private sector.
- This would contribute to an improved investment climate in the country. • The membership of EBRD would enhance the competitive strength of the Indian firms, and provide an enhanced access to international markets in terms of business opportunities, procurement activities, consultancy assignments etc. • This would open up new vistas for Indian professionals on the one hand, and give a fillip to Indian exports on the other. • Increased economic activities would benefit the employment generating potential. • It would also enable Indian nationals to get employment opportunity in the Bank.

The minimum initial investment towards the membership of EBRD will be approximately €1 (one) million. However, this assumption is based on India deciding to buy the minimum number of shares (100) required for obtaining the membership. If India were to buy a higher number of Bank shares, the financial implications could be higher. In-principle approval of the Cabinet at this stage is being obtained for joining the Bank.

The issue relating to acquiring the membership of the "European Bank for Reconstruction & Development (EBRD)" had been under consideration of the Government. With the country's impressive economic growth over the years and enhanced international political profile, it was considered appropriate that India should expand its presence on the global developmental landscape beyond its association with the Multi-lateral Development Banks (MDBs) such as the World Bank, Asian Development Bank and African Development Bank.

Protagonist to Economic Transformation

Vivek Kumar, Sanket Tandon, Shubhada Rao



Banking landscape in India will see a transformation with the entry of new age specialized banks. The urge to innovate, compete and remain in business will also pave the way for synergetic consolidation

As the Indian economy heads into 2018, it is likely to see a discreet but profound change.

For the first time, the per capita dollar income of the country will touch the 2000 mark, a threshold, which in global economic history is usually associated with multifold expansion in domestic consumption with improving affordability turning past luxuries into necessities.

The Indian banking system will have to play the role of a protagonist in this economic transformation. Not only are we going to witness a sustained rise in banking services, but we will also see increasing sophistication of solutions and delivery.

Response to Reforms

Before we embark on this journey, it would be instructive to take a short historical detour. After the bank nationalization in 1969/1980, the banking sector in India saw the next leg of far-reaching reforms in the post 1991 period. Deregulation of credit processes and interest rate structures, gradual reduction in pre-emptions, migration to CBS, and licensing of new age private sector banks set the stage for rapid expansion of banking services in 2000s. And it is not a

surprise that deposit penetration increased to 60.8 per cent of GDP in FY07 from 35.6 per cent in FY97 while credit intensity more than doubled to 45.0 per cent of GDP in FY07 from 19.6 per cent in FY97. Over the next 10 years, the deposit and credit ratios with respect to GDP rose further to 71.2 per cent and 51.9 per cent respectively as of FY17 despite considerable economic and financial market volatility ever since the 2008 Global Financial Crisis.

The initial phase of this expansion (in 1990s) was dominated by the Public Sector Banks. However, the narrative slowly started changing as Private Sector Banks turned from being peripheral players to one of the principal drivers in the process of credit dissemination in the economy. This is evident from the fact that as of FY07, Private Sector Banks had 20 per cent share in outstanding credit which now stands at 29 per cent as of FY17. The share in incremental credit is even starker with 75 per cent of incremental credit being disbursed by the private sector banks. One could argue that the above figures are biased due to asset quality issues disproportionately weighing upon the public sector banks. While they have played apart, the gain in market share for credit has been playing

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out since 2010 as credit growth of private sector banks has consistently outpaced the growth seen in case of Public Sector Banks.

The faster pace of growth of private sector banks can be attributed to the fact that they have been nimble in adapting to the evolving needs of the customer. Private sector banks have been able to differentiate themselves with focus on better customer experience. This is evident from the fact that in addition to this, private banks have also been able to mobilize a larger share in deposits as well. Private sector banks' ownership of deposits has risen from 20 per cent in FY07 to 24 per cent in FY17.

Factors which contributed towards increase in market share for private sector banks in the last 10 years are predominantly of two types:

- **Vintage:** With public sector banks undertaking most of the industrial/ infrastructure financing, their balance sheets naturally bore the brunt of business downswings. In contrast, most of the new age private sector banks were bereft of any asset quality baggage as they spawned in the post liberalization era with bulk of their expansion in 2000s. Relatively newer vintage also helped private sector banks to invest in latest technology intensive solutions and enhancing their capabilities which are key in scouting for new revenue fronts in addition to improving customer experience. An example of early adoption of technology by private banks is seen in the expansion of point of sale machines. Despite having only 18 per cent share in credit in 2012, private sector banks had started expanding their reach via installation of POS machines where they had 80 per cent share in 2012. While public sector banks have played a rapid catch up since then, private sector banks still have a majority share of 57 per cent - this is likely to be a steady source of revenue generation. It is noteworthy that with this diversification, other income

contributes 20 per cent to the total income for private sector banks vis-a-vis 14 per cent for public sector banks.

- **Productivity:** Analyzing the cost to income ratio –CI- (employee expenditure + other operating expenditure)/(net interest income + other income) for banks we see a stark difference between public and private sector banks. For private banks, CI has consistently been on the downtrend, coming down from 47 per cent in FY12 to 43 per cent in FY17. Whereas, for public sector banks, this ratio has increased from 44 per cent to 49 per cent in the same time period. Keeping overall costs under control is a major competitive advantage as it improves the return on assets which enables the firm to perform on both fronts - it delivers sufficient return to the existing shareholders and provides opportunity to raise more capital for further expansion.
- **Agility:** Most new age private sector banks are remarkably flexible in hiring the right talent, while also ensuring that compensation and retention policies are attractive. In addition, Private Sector Banks are also nimble footed with respect to making decisions regarding early identification of stress, followed by its resolution/recovery thereafter. This has worked in their favor so far both with human resource challenge and asset quality concerns (post the recent Asset Quality Review by the RBI) having a disproportionately larger impact on the public sector banks.

Public Sector Banks

While the public sector banks have lagged behind their peers in the private sector over the last one decade, recent structural reforms undertaken by the government could certainly help the

them in consolidating their position hereon.

- Governance reforms like setting up of Bank Board Bureau, splitting up CMD's post into a non-executive Chairman and a CEO, and recommendation for a longer tenure for CEO (5 years) are expected to help improve efficiency in the longer run.
- The creation of CRILC (Central Repository of Information on Large Credits) and the implementation of IBC (Insolvency and Bankruptcy Code) have provided an institutional framework for sharing of information and resolution of stressed assets. This will unlock a large part of stuck capital on banks' balance sheets currently, and thereby hone their appetite for credit expansion.
- The large scale recapitalization plan worth Rs 2.11 lakh cr recently announced by the government for public sector banks can be a potential game changer. While it is timely and will ensure that public sector banks will be able to meet Basel III regulatory requirements, it also incorporates room for 'growth capital' for banks which are able to display superior performance metrics. This, in my opinion, is an efficient way to incentivize competition among public sector banks, which would eventually benefit the overall economy.

Next Generation Banking

With India expected to become the fourth largest economy in the world by 2025, the following 4Ds will determine and drive the banking landscape:

- **Development:** This includes government's financial inclusion agenda and other key sectoral and structural reforms
- **Deregulation:** Policy improvement in financial intermediation and savings propensity

- **Demographics:** Market getting dominated by young and digitally equipped population
- **Disruption:** This involves digitization and the integration of banking, telecom, and financial space

Based on these 4 Ds, the following seven trends will define the next generation banking in India:

Transforming the Way We Bank

Technology will define banking contours in the future. This would include big data, cloud computing, smart phones and other such innovations. 'Omnichannel', not multichannel, will redefine the way customers interact with banks. For example, disseminating personalized offers on customers' mobile phones, use of home video-conferencing system for personalized connect, leveraging face-detection technology for efficient cross-sell are some of the avenues through which technology will aid banking in the future.

And it goes without saying that mobile banking and mobile payments/commerce is truly the future. Amidst a high mobile density in India, the potential for leveraging this technology for offering financial services remains immense. There are over 946 million mobile users in the country but only 50 mn mobile banking customers. In this respect, the **JAM Trinity** (Jan Dhan-Aadhar-Mobile) has the potential to change the face of banking.

'Creative Destruction' of Banks

Banks will need to focus on innovation that raises competition and leads to better and cheaper services for customers. Banks may also partner to achieve scale and find best practices, combining their infrastructure into JVs. Also, outsourcing utilities like customer authentication, fraud checking, payments' processing, account infrastructure, KYC processing, to existing technology service providers, could be key steps going forward.

Cashless and Branchless Banking

Post demonetization and with active policy emphasis on cashless economy, cashless banking will revolutionize ease of doing transactions with further penetration of internet (about 400 million users as of December 2015) and mobile phones metamorphosing into a personal bank branch (smart phone usage doubled to 80 mn in 2014 in just 1 year). As per Morgan Stanley, Indian internet market could rise from \$11 bn in 2013 to \$137 bn by 2020, and this poses as an undeniable opportunity.

The banking industry could soon transform from 9 to 5 brick and mortar business to a 24x7 solutions platform across the globe. Branchless banking could help in achieving economies of scale in revenue generation and cost management. The increasing trend of branchless banking is leading to closure of traditional brick-and-mortar branches in advanced countries (Bank of America closed down more than 1000 branches in last 5-years). Banking business model innovations could be combined with national platforms such as Aadhaar to reduce customer acquisition cost by 40 per cent in order to make branchless banking model even more viable.

Innovation in ATM usage

As per World Bank estimates, the operational cost per transaction for Indian Banks is Rs 48 per Branch, Rs 25 for phone banking, Rs 18 for ATM, Rs 8 for IVR and Rs 4 for online. India has poor ATM penetration - there are only 11 ATMs for every 1 million people in India compared to 37 in China and 52 in Malaysia. In this regard, Solar ATMs could reduce set up cost by almost 50 per cent and also cater to power scarce rural areas.

Infrastructure Financing

India has about 5 per cent share in the global infrastructure market, which is expected to increase to 9-10 per cent by 2025. The futuristic development models will evolve on the lines of 5:25 structure and Private-

Public-Partnership (PPP) model for long-term financing. Additionally, there will be new arrangements in the form of Infrastructure Debt Funds, Green Banking and Viability Gap Funding.

New Models to serve MSMEs

The MSME sector contributes 8 per cent to the country's GDP. SIDBI has estimated the overall debt finance demand of the MSME sector at USD 650 billion. New structures such as Cluster Based Financing, Capital Subsidy Policy for Technology Upgradation, MUDRA Bank, Credit Guarantee Schemes, Incubation Centres and start-up facilities will play an important role in the coming years.

Competition and Consolidation

Banking landscape in India will see a transformation with the entry of new age specialized banks. The urge to innovate, compete and remain in business will also pave the way for synergetic consolidation. The following are a few innovative thoughts that could become a differentiating reality over the next 15-20 years:

- ✓ Account number portability (on lines of mobile number portability)
- ✓ Efficient leverage of Big Data Analytics
- ✓ Securitization of retail loans

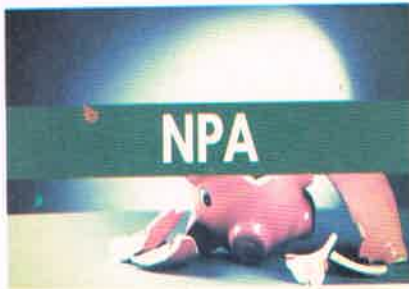
Conclusion

The early movers from both private and public sector banking space who are effectively able to leverage these changes will be in a sweet spot and enjoy tremendous strategic advantage vis-à-vis their peers as well as NBFCs. A complete embracement of these anticipated changes will not only put Indian banks in the global league, they will also help in pushing up the Indian economy to the Top 4 slot in the world in the next five years. □

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Managing Non-Performing Assets: A Paradigm Shift

Deepak Narang



Emerging scenario after Insolvency and Bankruptcy Code has kicked in, will change the borrowing culture and make lending, in future by the banks, much safer. Banks, undoubtedly, will heave a sigh of relief. Kudos to the Government for the paradigm shift. The mindset of borrowers will change for sure

Financial intermediation by banks is an engine of growth because they cause money to be circulated in the economy by seeking deposits from those who have surplus and lend for investment activity. It has a multiplier effect in the economy. Borrowing leads to creation of demand for productive resources and increases the income level of those who supply goods and services. Expenditure of one is income of the other. This leads to higher GDP and faster productive growth.

Contraction in lending has opposite effect and growth falters. One major reason for muted credit growth is fast accretion of Non Performing Assets (NPAs) on banks' balance sheets. Roughly 72 per cent of market share of outstanding credit of SCBs (Scheduled Commercial Banks) is of PSBs. The twin balance sheet problem is overleveraged and distress companies coupled with rising NPAs of PSBs is holding up investment in the economy.

Gross Non- Performing Assets (ie. Bad Loans) of banks in India as on September 30, 2017 are Rs 8.40 lakh crore showing a growth of 1.31 per cent from Rs 8.29 lakh crore as on June 30, 2017. Meteoric rise of NPAs from Sept 15 had its genesis in rapid credit growth of banks during

the preceding years say from 2008 onwards. During the period of 2008 to 2014 gross advances of public sector banks grew from 18 lakh crores to Rs 54 lakh crores and by September 17 this figure was Rs 55.01 lakh crores. No wonder that the share of sticky assets of government owned banks in this pile of bad loan is almost 90 per cent.

During the last quarter ie Q2 2017-18, the bad loans of PSBs have remained almost flat at Rs 7.33 crores vis-a vis Q1 June 17 whereas those of 17 private sector banks increased by nearly 10.5 per cent to Rs 1.06 lakh crores.

Though the share of large borrowers, defined as those having limit of Rs 5 crores and above, in the advances of scheduled commercial banks is 56 percent but their share of NPAs is 86.5 percent. Maximum slippage to NPA has happened in the accounts (numbers as well as amount) having outstanding between Rs 20 crores to Rs 50 crores followed by those in the range of Rs 50 crores to Rs 100 crores. Top 100 large exposures (outstanding advances) account for nearly 15.2 per cent of gross advances but their share in top 100 Non-performing accounts is 25.6 per cent of GNPA's of SCBs.

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The Stressed Advance Ratio of industries constitutes roughly 23 per cent as on March 17 of SCBs whereas this ratio for agriculture, services and retail was 6.3 per cent, 7 per cent and 2.1 per cent respectively. Of this PSBs as a group had Stressed Advance Ratio of Advance to industry as 28.8 per cent when Private Banks and Foreign Banks had 9.3 per cent and 7.1 per cent respectively. Across the broad spectrum of industries, those which are under stress include primarily basic metals and their products, cement and their products, textiles, infrastructure etc.

It would be desirable to discern the reason for this state of affairs which are quite a few-

- Exuberance in increasing balance sheet size by lending to borrowers unworthy of such loans on account of their past credit history.
- Funds were borrowed for creating excess capacities in anticipation of demand without factoring in the global capacities/demand supply position.
- Project completion was delayed for various reasons.
- Recovery of receivables was poor.

- The concerned corporate was not able to raise capital through the issue of equity or other debt instruments from capital markets and used borrowed money as equity leading to double leveraging. Banks did not look at the color of an equity.
- Business failure because of over optimistic projections.
- Diversion of funds meant for expansion/modernization. Borrowed funds were not used for the purpose for which they were lent.
- Willful defaults, siphoning of funds, fraud, mis-appropriation etc.
- Lack of skill on the part of the banks to monitor end use of funds and diversion by the borrower through web of shell companies etc.
- Deficiency in credit appraisal and improper due diligence.

There is a lag of nearly 3 to 4 years before NPAs out of the fresh lending appear. Fresh creation of NPAs during the phase of growth get masked by the high growth of advances and ever greening. Gross NPA ratio does not show alarming rise as denominator

(Advances) increase much faster than the numerator (NPA).

Banks should have been alert about the emerging situation by effectively monitoring the cause of delinquency (for reasons as stated above) coupled with prompt corrective action to deny fresh loans to willful defaulters and for sum optimal projects. They should have taken the intent of RBI circular to monitor/pickup early warning signals (EWS) with all seriousness and declare the errant borrower as non cooperative or willful defaulter.

The provisions of company law as detailed below provide ammunition to bankers to initiate action and refer such cases to the Serious Fraud Investigation Office (SFIO):

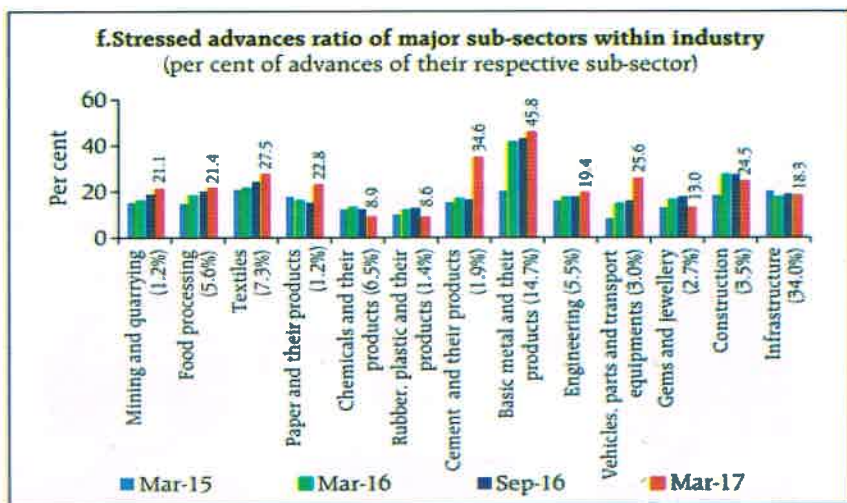
As per section 447 of the Companies Act, 2013, a new offence of fraud in relation to the affairs of a company is as under:

Any act or omission, concealment of any fact or abuse of position committed by any person with intent to deceive or to injure the interest of the company or its shareholders or creditors, whether or not there is a wrongful gain or loss, can be investigated by Serious Fraud Investigation Office (SFIO)

Cases of wilful defaults can, therefore, be entrusted to the SFIO to investigate whether such default amounts to serious fraud under Section 447 of the Companies Act.

Unless the banks are in a position to establish dishonest intention and false representations on the part of borrowers, it is difficult to initiate criminal proceedings against borrowers for wilful defaults.

Any person who is found to be guilty of fraud- imprisonment for a term which shall not be less than 6 months but which may extend to 10 years and fine – Not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud.



Note: Numbers given in parenthesis with the legend is share of the respective sub-sector's credit in total credit to industry.

Source: Financial Stability Report 20, June 2017.

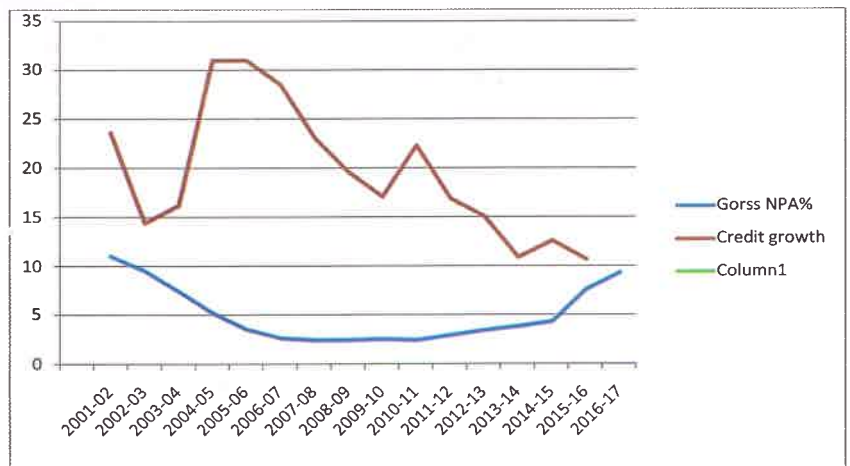
	GNPAs Ratios	Credit Growth
2001-02	11	23.6
2002-03	9.5	14.4
2003-04	7.4	16.2
2004-05	5.2	31
2005-06	3.5	31
2006-07	2.6	28.5
2007-08	2.4	23.1
2008-09	2.4	19.6
2009-10	2.5	17.1
2010-11	2.4	22.3
2011-12	2.9	16.9
2012-13	3.4	15.1
2013-14	3.8	10.9
2014-15	4.3	12.6
2015-16	7.6	10.7
2016-17	9.3	5.08

If the fraud in question involves public interest – Term of imprisonment shall not be less than 3 years .

There are enabling laws which are specifically meant for banks to recover default amount from borrowers viz RDDBFI Act, SARFAESI Act -02 and recent legislation of Insolvency and Bankruptcy Code 2016.

SARFAESI Act allows bankers to take possession of the assets charged to the bank and auction these without intervention of the court. No doubt it is a powerful tool and with proper planning and perfect execution the assets can be sold. As is the wont, the defaulters use all means to brow beat the bankers in not allowing them to auction assets. False allegation/cases of criminal trespass are filed against authorised officers while management of the banks in few cases proactively come to the rescue of such harassed executives. This leads to demoralization of work force and recovery going for a toss. In a decided case of Deepak Narang vs State of Haryana And Anr. on September 14, 2006 the Hon’ble Justice of Punjab and Haryana court not only came to the rescue of the harassed AGM (ie the author) of Allahabad bank, who was

% Credit growth vs GNPA per cent



Credit growth %
 Gross NPA%

the authorised officer, but castigated the magistrate who admitted the FIR and ordered prosecution based on concocted facts. Hon’ble Justice R S Madan held that.

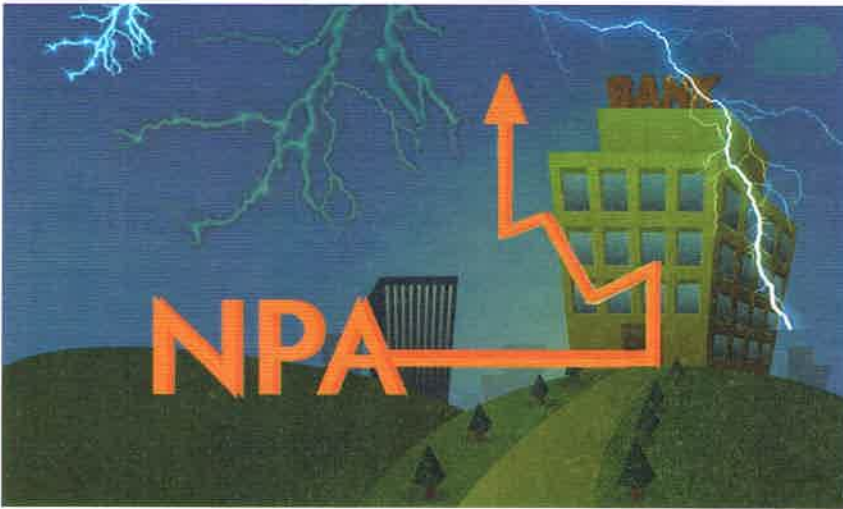
- It is a case where the petitioners are not only protected under Section 197 of the Code of Criminal Procedure but under Section 32 of 2002 Act, which are reproduced as under:
- Sanction for prosecution of public servant is required for any offence alleged to have been committed by him while acting or purporting to act in the discharge of his official duty. Official duty implies that the act or omission must have been

done by the public servant in course of his service and such act or omission must have been performed as part of duty which further must have been official in nature. Section 197, Cr.P.C will apply to those acts which are discharged in course of duty.”

- “Securitization Act, 2002-Section 32-Protection of action taken in good faith-No suit, prosecution or other legal proceedings shall lie against any secured creditor or any of his officers or manager exercising any of the rights of the secured creditor or borrower for anything done or omitted to be done in good faith under this Act.

About Non Performing Assets (NPAs)





- Admittedly, respondent No. 2 had no cause of action to sue the petitioners as he was not available in the house at the relevant time. Therefore, the present complaint is an act of revenge on the part of defaulters to get the present complaint filed through his son by concocting a false version in the complaint, which has never seen the light of the day. Therefore, the present complaint is an act of an abuse of the process of the Court which cannot be allowed to proceed.

Despite various judicial pronouncements related to this act being in favor of the bank's authorized officer the process lost its sheen and banks are not so bullish in making recovery under this act.

Under this Act, 64,519 properties were seized or taken possession of by the banks in the year 2015-16; as of June 17 the figure is 33928. This ought to have been much more.

Government amended the law to make it mandatory for the district collector /district magistrate to hand over the physical possession to the bank when application is made under the act by the authorized officer. There are other impediments which borrowers create to thwart the efforts of Bankers. Borrowers have been gaming the system for far too long.

As a banker, one can understand the predicament of an honest borrower. Evaluate this: An industrialist from Ludhiana said that he was manufacturing those very goods which other industries are making in Ludhiana. While he is paying interest at documented rate, installment in time, all taxes etc in an honest manner but banks do not consider his request for reduction in rate of interest and rewarding him for his past excellent conduct which signals very low credit and default risk. He lamented that dishonest borrowers after having diverted money and running their business aground could manage to readily get, under various restructuring schemes, the concession in rate of interest and moratorium in repayment of installment. He obviously was at a disadvantage while marketing his product vis a vis the dishonest borrower. He questioned whether there is a premium on dishonesty. Are honest borrowers to suffer? This was the time the words of Hon'ble Prime Minister echoed in my mind. He said in an interview that he would give a taste of law to willful loan defaulters.

A laudable effort made by the present government in implementing Insolvency and Bankruptcy Code on December 1, 16 is a game changer. Twice the government has brought an ordinance to plug the loophole and make a stringent law for recovery. Insolvency and Bankruptcy Code now is a potent weapon like a Brahmastra

to be used to destroy the demon of NPAs. Its efficacy will depend on the will power and honest intent of the user to find a just and equitable solution. It is utmost necessary to discern and destroy the ill motive and bad intent of anyone to defeat the real purpose of the law. Resolution under IBC has to be based on intelligence through discrimination.

The recent ordinance which debars willful defaulters from buying back their companies after diverting loan amount and /or making their accounts NPA has taken wind out of the sails of such promoters. The alacrity with which government has acted is remarkable and makes the intent amply clear i.e to rid the system of the menace of NPA and disallow any one to game the system. This, coupled with the provision of section 447 of Companies Act 2013 has unnerved these willful defaulters. The time is right to make willful default, as per definition of RBI, a serious crime as is the case in some countries, thus putting the final nail in the coffin of such willful defaulters. These measures are going to have salutary impact on the behavior of those who borrow money from banks and consider it as their birth right not to pay. The day of reckoning for errant borrowers has come at last.

Going forward, banks need to do forensic audit for ascertaining the end use of funds. They should use Big Data Analytics and other IT based solutions for doing proper due diligence about the borrower and his businesses like fintech companies are doing. Artificial Intelligence(AI) can be leveraged to predict default at least one year in advance with confidence of 80 per cent. A fintech company like D2K technology of Navi Mumbai has developed such a software and results have been remarkable. Banks have to fine tune their HR policies to train the young work force, which at present lacks experience, and upgrade their skills.

The government on its part has to appoint professionals on the Board of

Banks having domain knowledge and sufficient experience of Bank's functioning. Selecting retired executives like MD and ED having impeccable track record on the bank Board is worth examining. To expedite recovery government will do well to have a few more NCLTs and large number of DRTs as present benches are woefully short to achieve this objective. Strength of judges can be increased to cope up with the workload. With the coming in of insolvency of individuals, proprietors and partnership firms the need will be acutely felt.

Emerging scenario after Insolvency and Bankruptcy Code has kicked in, will change the borrowing culture and make lending, in future by the banks, much safer. Banks, undoubtedly, will heave a sigh of relief. Kudos to the Government for the paradigm shift. The mindset of borrowers will change for sure. □

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Cabinet approves Subsidizing MDR Charges on Debit Card/BHIM UPI/AePS Transactions

The Union Cabinet chaired by Prime Minister has approved that the Merchant Discount Rate (MDR) applicable on all debit card/BHIM UPI/ Aadhaar enabled Payment System (AePS) transactions upto and including a value of Rs. 2000 will be borne by the Government for a period of two years with effect from 1st January, 2018 by reimbursing the same to the banks.

A Committee comprising of Secretary, Department of Financial Services, Secretary, Ministry of Electronics & I.T. and the CEO, National Payment Corporation of India (NPCI) will look into the industry cost structure of such transactions which will form the basis to determine the levels of reimbursement.

As a result of this approval, for all transactions less than Rs. 2000 in value, the consumer and the merchant will not suffer any additional burden in the form of MDR thereby leading to greater adoption of digital payment modes for such transactions. Since such transactions account for sizeable percentage of transaction volume, it will help to move towards a less cash economy.

It is estimated that the MDR to be reimbursed to the banks in respect of transactions less than Rs.2000 in value would be Rs.1,050 crore in FY 2018-19 and Rs.1,462 crore in FY 2019-20.

When payment is made at a merchant point of sale, MDR is payable by the merchant to the bank. Citing this, many people make cash payments inspite of having debit cards. Similarly, MDR is charged on payments made to merchants through BHIM UPI platform and AePS.

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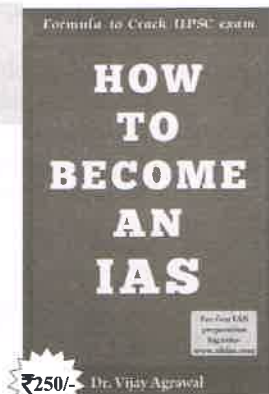
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Bank Recapitalisation: Enhancing Capital Base

Ashutosh Kumar



...it is going to be beneficial for the banks as it enhances their capital base. Also, in a scenario wherein government allows the banks to trade the bonds in the secondary market, it will help them raise money and bolster their loan book

On October 24, 2017 the Union Cabinet took a very important decision concerning the health of the Public Sector Banks (PSBs), which have been reeling under massive Non Performing Asset (NPA) stress over the past few years. The NPA load on the balance sheets of PSBs has been adversely affecting their lending capability, which in turn is hindering private investments and private sector gross capital formation. NPAs in the PSBs have grown to a whopping Rs 7.33 crore in June 2017, compared with Rs 2.73 crore in March 2015. In essence, in a little over two years, the bad debt in the public sector banking system has zoomed over three times. Yet another figure which reveals the challenge that the banking system is facing is that NPAs of domestic banks have reached about 10 per cent of loans and advances recently.

The Union Cabinet, finalised an elaborate Rs 2,11,000 crore plan to revitalise the domestic banking system with a mix of instruments such as market borrowing, budgetary support and most importantly – launch of bank recapitalisation bonds. Announcing the scheme, the Finance Minister said, “Strengthening the banks will lead to more jobs, more growth and more investments.” The breakup of the Rs 2,11,000 crore

bank recapitalisation plan is thus: Rs 18,000 crore from Budgetary support, Rs 58,000 from equity issuance and Rs 1,35,000 crore from issue of bank recapitalisation bonds.

Let us now take the case of the bonds and examine how they are going to benefit the banking system. As of now, the Department of Financial Services in co-ordination with the Department of Economic Affairs in the Ministry of Finance are finalising the broad contours of the Bond issue. An announcement on the exact details of which bank is going to get what quantum of capital through the bond issue is imminent. During the launch of the Bond, it was said that the bonds would be front loaded. This essentially means that a large chunk of total Rs 1,35,000 crore will be pumped into the banking system in the next few months itself.

Let us now examine as to how the Recapitalisation Bond will work and what are the probable impacts on the economy. In all likelihood, government will issue the bonds and banks will subscribe the instrument directly. In doing so, the sovereign money will not move out and it will simply be an accounting entry. Money not changing hands will ensure that the government remains insulated from an additional burden on the fiscal.

The author is Assistant Editor with BTVI news channel with twelve years of journalist experience. He has covered sectors such as infrastructure, macroeconomy, and taxation, among others.



Now it remains to be seen whether the government will allow the lenders to sell the bonds in the secondary market to do so. Since the contours of the bond issue are still being worked upon by the Ministry of Finance, one has to wait for the announcement to understand the minute details. However, it may be argued that in both the scenarios, it is going to be beneficial for the banks as it enhances their capital base. Also, in a scenario wherein government allows the banks to trade the bonds in the secondary market, it will help them raise money and bolster their loan book. On the flip side, if the banks are not allowed to sell the bonds in the secondary market, it can serve as investments earning interest income. On both counts, it can be safely concluded that issue of recapitalisation bonds is beneficial for the banking system.

The issue of bonds is also a step in the right direction owing to the deluge of deposits that have come into the banking system post demonetisation. Banks would not have otherwise lent the money for want of capital adequacy. As per the Reserve Bank of India (RBI), 99 per cent of the demonetised Rs 500 and Rs 1000 notes are back into the banking channel.

The significance of the bond issue can also be gauged from the Insolvency

and Bankruptcy Code angle. The Code, which was drafted last year, is now being used for resolution of about 300 accounts. Of these, 12 are the big ticket NPA accounts worth about Rs 2.25 lakh crore, which were referred by the RBI to National Company Law Tribunal (NCLT) in June 2017. With so many corporate debtors going in for resolution, the possibility of explaining hair cut to be borne by the banks cannot be denied. In fact, experts see a range of upto 60 per cent haircut that have to be borne by the banks in some of the top NPA accounts.

A Crisil report released in July, 2017 points out that the banks may have to take haircuts to the tune of Rs 2,40,000 crore or 60 per cent in case of resolution of 50 large stressed accounts. These companies represent very significant sectors of the economy. The companies are from metals sector, which accounts for 30 per cent of the total debt, construction sector (25 per cent), and power (15 per cent). Also, these sectors account for almost half of the total NPAs in the economy, as on March 31, 2017.

“Banks may have to take a haircut of 60 per cent, worth Rs 2.4 lakh crore, to settle 50 large stressed assets with debt of Rs 4 lakh crore,” the rating agency said.

The agency has also classified the haircuts in four categories. These

categories are deep (more than 75 per cent), aggressive (50-75 per cent), moderate (25-50 per cent) and marginal (less than 25 per cent). Putting the figures further in a perspective, about 25 per cent of the debt may require marginal or moderate haircuts, while a third needs aggressive, and nearly 40 per cent deep haircuts.

In terms of sectors, power sector would require moderate haircuts, while those from the metals and construction sectors would need aggressive ones, according to the rating agency. A majority of the debts requiring deep haircuts belong to companies with unsustainable businesses; so asset sales are necessary to recover monies, Crisil said. Companies needing moderate or aggressive haircuts had gone for debt-funded capital expenditure. However, due to demand slump or projects running into regulatory issues causing time and cost overruns, they were rendered unviable.

Additionally, according to the Crisil report, companies requiring marginal haircuts are those facing temporary setbacks, which could be corrected over time. “It would be in the larger interest of the economy to pop the bitter pill of haircut than kick the can down the road,” the rating agency said.

So, for haircuts on account of insolvency resolution and meeting capital norms under BASEL III, PSBs do require infusion, which is the primary responsibility of the government itself, as it is the majority stakeholder. Recap Bonds essentially fit the Bill over here. However, there will be more clarity only when the government announces the exact details with amount, issuer, subscriber, ticket size and coupon rate, among others.

It is interesting, however, to see how the bond issue impacts the macroeconomy and specifically the fiscal deficit. The annual interest cost of the bonds is likely to be in the range of Rs 8,000 crore to Rs 9,000 crore. According to Chief Economic

Advisor, Arvind Subramanian, the bond issue is not going to stoke inflation or widen the fiscal deficit. However, it depends on accounting treatment whether the issue will widen the fiscal deficit or not.

“The annual interest cost of issuing the Rs 1.35 lakh crore recapitalisation bonds would neither result in inflation, nor push fiscal deficit because of increased economic activities and asset creation even as it incurs an annual interest cost of Rs 8000-Rs 9000 crore, Chief Economic Advisor Arvind Subramanian said in a lecture at Delhi University a day after announcement of the bond issue. Delivering the lecture, Subramanian said under the Indian accounting system, recap bonds would give rise to debt, which would push up the fiscal deficit but it would not happen

if accounts were prepared under IMF methods.

The bond issue, meanwhile, has also to be accompanied with wide ranging banking sector reforms, which the government has already hinted at and is very committed to. Banking and Financial Services Secretary Rajiv Kumar had recently hinted that expansion of capital base has to be accompanied with accountability. “Everything is linked to the banking reforms which each board will consider within a short time as to what kind of business and how they want to go ahead. It’s not an easy money which is going to come, that is the main point. It has to be followed with a whole lot of reforms,” Kumar said. The banking reforms also include bank boards taking a stand and coming up with

a clear plan on consolidation, added Kumar.

According to Kumar, recapitalisation does not come on its own and it has to be followed and preceded by a whole set of reforms. On the bonds he had said the plan is to front-load them, which means most of it would happen in the current year.

Meanwhile, the corporate India has also supported the idea of bank recapitalisation. In its pre-budget representation to Finance Minister, Confederation of Indian Industries (CII) has said suggested ideas to further strengthen the banking sector. CII said, “Banks may be permitted to reissue the recapitalisation bonds, which can be purchased by institutional and investors and even general public.” □

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Trajectory for Solar Generating Capacity Announced

The Government announced recently the trajectory for achieving its targets of commissioning 175 GW of Renewable Energy (RE), 100 GW of solar generating capacity and 60 GW of wind power, by 2022. With the declaration of this trajectory, the Government has clearly spelt out its plan of speeding up of RE installation in the country and strengthening the RE manufacturing base in India.

To encourage the Make in India in RE sector, Ministry of New & Renewable Energy (MNRE) is working out the scheme and proposes to issue an Expression of Interest (EoI) to the Industry, for establishing domestic manufacturing facilities to the tune of 20GW, in the near future. Further, the MNRE is exploring innovative ways to achieve additional installed RE capacity through Floating Solar Power Plants over dams, Offshore Wind Energy Systems and Hybrid Solar-Wind power systems, which may provide over 10GW additional capacity. The MNRE team of experts has already surveyed the Bhakra Nangal dam for floating solar power plants and off-shore Gujarat and Tamil Nadu for wind power plants.

The RE Development road map, envisages achieving 100 GW solar power target by 2022, for which the Ministry, along with the States, would lay out bids for ground mounted solar parks for 20 GW in 2017-18.

Further, against the target of 60 GW for wind power, 32 GW have already been commissioned. The Central Government in participation with the State Governments intends to issue bids of cumulative capacity of about 8 GW this year. Out of this, 5 GW (including present 2 GW) have already been bid out, 1500-2000 MW will be bid out in January 2018 and 1500-2000 MW in March 2018. A total of 10 GW will be bid out in the financial year 2018 and 10 GW in 2019, leaving a margin of 2 years for commissioning of projects. The Ministry would also be issuing the Wind Bidding Guidelines.

The present scheme of Wind Power Auction is for setting up of 2000 MW Wind Power Project connected to Inter-State Transmission System (ISTS). The projects under this scheme are expected to be commissioned towards the end of 2019.

Power Sale Agreements (PSA) for purchase of wind power under second wind auction with States were also signed with Solar Energy Corporation of India with utilities of Uttar Pradesh, Bihar, Jharkhand, Assam, Punjab, Goa and Odisha. The reverse auction for SECI-II wind bid was conducted on 4th October 2017, which resulted in very competitive tariff of Rs.2.64/2.65 per unit.

It may be mentioned that the winners of SECI II wind bid namely Renew Power (250 MW at Rs.2.64/unit), Orange (200 MW at Rs.2.64/unit), Inox (250 MW at Rs.2.65/unit), Green Infra (250 MW at Rs.2.65/unit) and Adani Green (50 MW at Rs.2.65/unit) would be setting up wind power plants in states of Gujarat, TN and MP to sell power to these utilities. PPAs with these winners are expected to be signed shortly.

Facilitating Financial Inclusion

Charan Singh

Shivakumara Reddy K



...commercial banks, especially public sector banks, have played an important role in extending financial inclusion in the country, especially rural and semi-urban areas. The successful expansion of banks is now being used to leverage the infrastructure for other financial products like insurance schemes and pension funds

Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players (GOI, 2008). The objective of financial inclusion is to transform the lives of vulnerable people, mainly poor, by providing them access to banking finance and enabling them to generate stable income (Reddy, 2017).

In fact, contrary to general belief, historically, India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to the cooperative movement in India (Roy, 2011).¹ The objective of cooperative banks was to extend banking facilities, mainly availability of credit, on easy terms compared to the money lender. In India, the financial inclusion exercise, explicitly started with nationalization of State Bank of India in 1955. In 1967, there emerged a debate on social banking and consequently 14 private sector banks were nationalised in 1969 to serve the unbanked. The concept of priority sector lending became important by 1974 which implied

directed lending to unbanked areas, and in 1980, eight more private banks were nationalised to extend banking in rural areas and for vulnerable sections of society. Since then, there was considerable reorientation of bank lending to accelerate the process of development, especially of the priority sector of the economy which had not previously received sufficient attention.

The Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) have also been making concerted efforts in extending banking across the country under which schemes of microfinance initiatives, and business correspondents (BCs) were launched. Other initiatives included establishing Regional Rural Banks (1975), adopting service area approach (1989), and Self-Help Group-Bank linkage programme (1989, 1990).

In more recent years, especially since November 2005, special efforts were made to ensure financial inclusion, by the RBI by simplifying norms on know-your-customer requirements, and introducing 'no-frills' account. RBI's cautious policy on financial inclusion has been to ensure a balance between equity and efficiency as well as ensuring

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financial health of banks, considering their lending capacities. RBI adopted a bank-led approach and encouraged technological innovations, like hand-held devices, to be used by banks in remote locations.

Reach of Banking

The reach of banking was limited despite different initiatives of financial inclusion contributing in changing the economic landscape in India. There were still important factors such as poverty, low income levels, and distance from bank branches that were restricting vulnerable groups from getting access to the formal banking system. According to Census 2011, only 58.7 percent of total households in India and only 54.4

percent households in rural areas had access to formal banking services (Table 1).

Expansion of Banking and Role of Money Lender

The efforts made by the government and the RBI resulted in branch expansion but the money lender continued to play an important role. The number of banking offices in India on the eve of establishment of the RBI in 1935 were 946. In March 1969, when banks were nationalized there were only 1,833 rural and 3,342 semi urban bank offices out of total



8,262 offices. Of these, there were 160 branches of Imperial Bank, 98 of exchange banks and 688 of Indian joint stock banks. This implied one bank branch for 3 lakhs of population. In such a situation money lenders were doing substantial business and continued to play an important role in

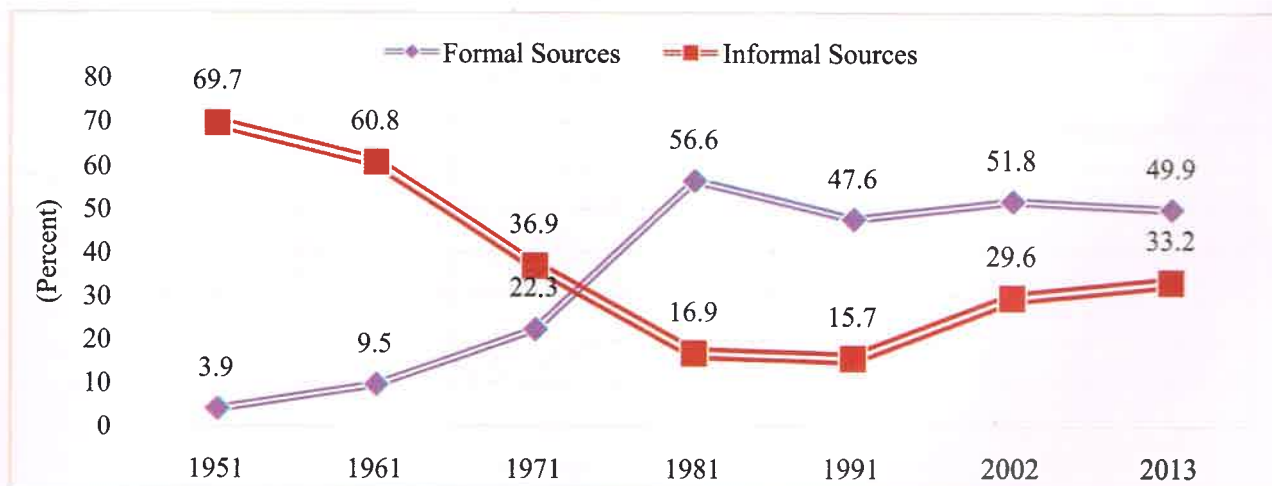
Table 1: Percentage of Households availing Banking Services

(Households in Crore)

House holds	As per Census 2001			As per Census 2011		
	Total number of households	Number of households availing banking services	Percent	Total Number of households	Number of households availing banking services	Percent
Rural	13.8	4.2	30.1	16.8	9.1	54.4
Urban	5.4	2.7	49.5	7.9	5.3	67.8
Total	19.2	6.8	35.5	24.7	14.5	58.7

Source: GOI.

Chart 1: Institutional and Non-Institutional Rural Credit



Note: Informal Sources: Consists of Money Lenders, Formal Sources: Consists only of Co-op. Society/bank and Commercial bank incl. RRBs. Source: All India Debt and Investment Survey, Various Issues, NSSO.

rural areas, even after nationalisation, because bank branches were few, and located far away. The spread of branch networks was extensive but despite government's efforts to expand banking penetration and extend credit, share of professional moneylenders in rural credit started increasing after 1991 (Chart 1).

Government Initiatives

To ensure a banking account in every household, the Prime Minister, on assuming office, in the maiden speech from the Red Fort on August 15, 2014 announced the need for concerted efforts. Pradhan Mantri Jan Dhan Yojana (PMJDY), which envisages universal access to banking facilities with at least one basic banking account for every household, consolidates government's effort to increase number of households availing banking services. As of December 06, 2017 a total of 30.7 crore accounts had been opened under the scheme of which 18.1 crore are in rural areas and 12.7 crore in urban

areas. The number of RuPay cards have also increased to 23.1 crore. The progress has been impressive, considering that total amount of bank deposits with commercial banks was Rs. 69,841.2 crore as on December 06, 2017 (Table 2).

The size of branch network increased rapidly in rural areas though growth rate was higher in urban and metropolitan areas (Table 3). In 2015, the presence of nationalized banks, and SBI and its Associates was highest in rural areas (Table 4).

The public sector banks, traditionally involved in social banking, continue to play an important role in extending banking services to unbanked areas but share of private banks, both in number of accounts and amount outstanding is increasing significantly in the last decade (Table 5). Some of the banks benefited from institutional memory as they earlier operated Pigmy, Honey deposit or Jeevannidhi Schemes, which migrated to no-frill or basic saving accounts in recent years.

The commercial banks have played a significant role in extending credit in northern region, especially in rural and semi-urban areas (Table 6). There has also been a significant increase in credit in urban areas in Eastern and North-Eastern region.

In extending credit to agriculture sector, commercial banks have been more successful than RRBs or Cooperative Banks (Table 7).

Innovation in Extending Credit

To extend banking services to unbanked population, commercial banks began exploring alternatives to brick and mortar branch like mobile vans, banking kiosks and BCs. A large number of the unbanked customers are those who have never entered a bank branch and the BC channel introduced them to a process of inculcating banking culture. Banking with BCs provided not just convenience of banking in a place that is in close proximity to their

**Table 2: Status of Pradhan Mantri Jan Dhan Yojana
(As on December 6, 2017)**

(in Crore)

Bank Name / Type	Number of Beneficiaries			Deposits in Accounts (Rs. Crore)	Number of Rupay Debit Cards issued to beneficiaries
	Rural	Urban	Total		
Public Sector Banks	13.3	11.5	24.8	55646.6	18.6
Regional Rural Banks	4.2	0.8	4.9	12033.9	3.6
Private Sector Banks	0.6	0.4	1.0	2160.6	0.9
Grand Total	18.1	12.7	30.7	69841.2	23.1

Source: GoI - <https://pmjdy.gov.in/account>

Table 3: Number of Bank Branches by Population Group

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
1969	1833	3342	1584	1503	8262
1979	13337	7889	5037	3939	30202
1989	33014	11166	7524	5995	57699
1999	32857	14168	9898	8016	64939
2009	30943	19282	15356	14288	79869
2017	48806	38201	24574	26478	138059

Note: Data exclude 'administrative Offices'.

Source: RBI, Handbook of Statistics on Indian Economy.

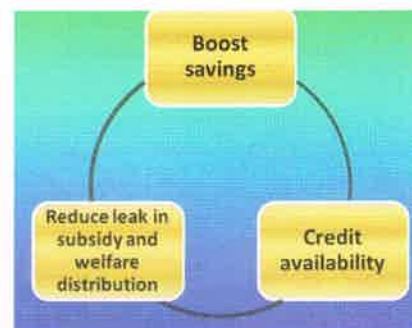
business or residence but offered substantial savings on transacting banking business. The customers save cost of transportation and time/wages lost to visit a branch to complete a transaction. In case of rural areas savings are often substantial since the cost of visiting a branch to complete a transaction requires about 2-6 hours which implies absence from regular activity. The banking outlets, with BCs have now been established in remote areas or amidst slums, places where banking penetration was low or non-existent. Accordingly, commercial banks have been successful in extending banking services to nearly 6 lakh villages, mainly through BCs. The progress of financial inclusion has been extensive with banking outlets increasing from 33,378 in March 2010 to 50,860 in March 2017 while those with BCs, increased rapidly from 34,316 to 5,47,233. The business transacted as well as number of accounts have increased manifold during the last seven years (Table 8). The amount deposited in basic savings account

through BCs increased nearly 26 times while that through branches recorded an increase of 15 times over the period. The amount transacted through use of information technology recorded highest growth over the period. Finally, encouraging results of PMJDY are apparent - amount in basic savings account and transactions through use of technology show a substantial increase after 2014.

Select Issues and Suggestions

There is a need to examine some emerging gaps to achieve financial inclusion. First, there is need to extend financial inclusion to the disabled, including those elderly where locomotor activity, vision and hearing is impaired. RBI directives to banks to be accessible to all kind of disabled have not recorded notable progress with very few ATMs and bank branches being disabled-friendly.

There is potential for more expansion of financial inclusion but for technological issues like frequent machine breakdowns and lack of



connectivity which negatively impacts confidence of customers towards informal banking. The problems with hand-held devices continue to deter financial inclusion. There is a need for facilities like biometric-enabled and multi-lingual hand-held devices which can provide confidence in rural masses. Technological innovations like integrated machines that have functionality of cash withdrawals and deposits; facility of scanning documents to facilitate new account opening and loan disbursements; and voice commands and narration for available facilities could help increase banking penetration.

Table 4: Number of Bank Branches by Bank Group - 2015

Type of Banks	Rural	Semi-urban	Urban	Metropolitan	Total
SBI and Associates	8029	6593	4304	3622	22548
Nationalized Banks	21605	16956	13083	11703	63347
Regional Rural Banks	14613	3748	1071	228	19660
Private Sector Banks	4302	6457	4521	4698	19978
Foreign Banks	8	12	57	247	324
All-India	48557	33766	23036	20498	125857

Source: GOI.

Table 5: Bank Group-wise Outstanding Credit of Scheduled Commercial Banks
(Accounts in Million and Amount in Rs. Billion)

	1996 March		2016 March	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
SBI and its Associates	14.2	742	26.8	16113
Nationalised Bank	25.7	1300	56.4	35146
RRBs	13.1	73	23.4	2068
Private Sector Banks*	2.4	202	50.3	18129
Foreign Banks	1.2	229	5.5	3770
All Banks	56.7	2547	162.4	75226

*In 1996: Other Scheduled Commercial Banks.

Source: RBI, *Basic Statistical Returns of Scheduled Commercial Banks (SCBs) in India*.

Table 6: Outstanding Credit of Commercial Banks

(Rs. Billion)

	1996				2016			
	Rural	Semi-Urban	Urban	Metro-politan	Rural	Semi-Urban	Urban	Metro-politan
Northern Region	77	53	85	261	1774	1990	2964	10502
North-Eastern Region	12	8	8	-	181	252	220	-
Eastern Region	59	37	46	116	866	714	1351	2837
Central Region	66	58	71	47	1352	1226	2231	1708
Western Region	64	57	60	646	913	1368	1414	20703
Southern Region	109	155	172	278	2270	3813	4784	9789
All- India	386	369	444	1348	7358	9363	12966	45540

Source: RBI, *Basic Statistical Returns of Scheduled Commercial Banks (SCBs) in India*.

Table 7: Targets and Achievements for Agricultural Credit

(Rs. Billion)

Year	Commercial Banks		Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
2013-14	4,750	5,090	1,250	1,199	1,000	827	7,000	7,116
2016-17*	6,250	7,998	1,500	1,428	1,250	1,232	9,000	10,658

*: Provisional.

Source: RBI Annual Report.

**Table 8: Progress on Financial Inclusion by Banks
(Year ending March)**

Year	Amount						(Rs. Billion)
	BSBDA		OD	KCCs	GCCs	ICT	
	Branches	BCs					
2010	44	11	0.1	1,240	35	7	
2014	273	39	16	3,684	1,097	524	
2017	691	285	17	5,805	2,117	2,652	
Year	Volume						(Million)
	BSBDA		OD	KCCs	GCCs	ICT	
	Branches	BCs					
2010	60	13	0.2	24	1	27	
2014	126	117	6	40	7	329	
2017	254	280	9	46	13	1,159	

Note: BSBDA - Basic Savings Bank Deposit Account, OD - Overdraft, KCC - Kisan Credit Card, GCC - General Credit Card, BC - Business Correspondents, ICT - Information and Communication Technology.

Source: RBI.

The instruments offered under financial inclusion also need consideration. There is significant difference in the socio-economic background of people living in rural India and therefore there is a need for flexibility in financial schemes designed for different segments of unbanked population. Illustratively, standard instruments that are offered by commercial banks are designed for salaried segments of society like

recurring deposit schemes which would need to differ in rural areas depending on pattern of income based on cycle of agriculture production.

To monitor developments regarding financial inclusion there is a need to assign responsibility to a dedicated financial institution. National Bank for Agriculture and Rural Development, probably, is the most appropriate institution to be made accountable

for furthering progress of financial inclusion in rural areas given their domain knowledge.

Financial literacy is a constant challenge and therefore, bankers have been adopting different strategies to reach larger segments of the society, mainly in villages. It is important to build a relationship with customers, especially villagers, before they part with their money. To enhance financial literacy some banks have

taken several initiatives such as conducting quiz at college level, preparing comic books, organizing magic shows. etc. There is need to standardize literature/material to extend financial literacy amongst the unbanked.

Conclusion

To conclude, commercial banks, especially public sector banks, have played an important role in extending financial inclusion in the country, especially rural and semi-urban areas. The successful expansion of banks

is now being used to leverage the infrastructure for other financial products like insurance schemes and pension funds.

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Cabinet Approves Setting Up of National Nutrition Mission

The Union Cabinet chaired by Prime Minister has approved setting up of National Nutrition Mission (NNM) with a three year budget of Rs.9046.17 crore commencing from 2017-18.

The NNM, as an apex body, will monitor, supervise, fix targets and guide the nutrition related interventions across the Ministries. The proposal consists of • mapping of various schemes contributing towards addressing malnutrition • introducing a very robust convergence mechanism • ICT based Real Time Monitoring system • incentivizing States/UTs for meeting the targets • incentivizing Anganwadi Workers (AWWs) for using IT based tools • eliminating registers used by AWWs • introducing measurement of height of children at the Anganwadi Centres (AWCs) • Social Audits • setting-up Nutrition Resource Centres, involving masses through Jan Andolan for their participation on nutrition through various activities, among others.



The programme will strive to reduce the level of stunting, under-nutrition, anemia and low birth weight babies. It will create synergy, ensure better monitoring, issue alerts for timely action, and encourage States/UTs to perform, guide and supervise the line Ministries and States/UTs to achieve the targeted goals.

More than 10 crore people will be benefitted by this programme. All the States and districts will be covered in a phased manner i.e. 315 districts in 2017-18, 235 districts in 2018-19 and remaining districts in 2019-20.

An amount of Rs. 9046.17 crore will be expended for three years commencing from 2017-18. This will be funded by Government Budgetary Support (50 per cent) and 50 per cent by IBRD or other MDB. Government budgetary support would be 60:40 between Centre and States/UTs, 90:10 for NER and Himalayan States and 100 per cent for UTs without legislature. Total Government of India share over a period of three years would be Rs. 2849.54 crore.

Implementation strategy would be based on intense monitoring and Convergence Action Plan right upto the grass root level. NNM will be rolled out in three phases from 2017-18 to 2019-20. NNM targets to reduce stunting, under-nutrition, anemia (among young children, women and adolescent girls) and reduce low birth weight by 2 per cent, 2 per cent, 3 per cent and 2 per cent per annum respectively. Although the target to reduce Stunting is atleast 2 per cent p.a., Mission would strive to achieve reduction in Stunting from 38.4 per cent (NFHS-4) to 25 per cent by 2022 (Mission 25 by 2022).

There are a number of schemes directly/indirectly affecting the nutritional status of children (0-6 years age) and pregnant women and lactating mothers. In spite of these, level of malnutrition and related problems in the country is high. There is no dearth of schemes but lack of creating synergy and linking the schemes with each other to achieve common goal. NNM through robust convergence mechanism and other components would strive to create the synergy.

BANKER TO BANKS

The Reserve Bank of India (RBI) was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as follows:

“to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth.”

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act.

RBI Monetary Policy

Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act. The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.

The primary objective of monetary policy is to

maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.

Recent Initiatives

In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.

The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years. Prior to the amendment in the RBI Act in May 2016, the flexible inflation targeting framework was governed by an Agreement on Monetary Policy Framework between the Government and the Reserve Bank of India of February 20, 2015.

Along with Government of India, RBI is responsible for the design, production and overall management of the nation's currency, with the goal of ensuring an adequate supply of clean and genuine notes.

The Government of India is the issuing authority of coins and supplies coins to the Reserve Bank on demand. The Reserve Bank puts the coins into circulation on behalf of the Central Government.

In consultation with the Government, RBI works towards maintaining confidence in the currency by constantly endeavouring to enhance integrity of banknotes through new design and security features.

RBI's as Regulator

Mandate/Goals: Regulation aimed at protecting depositors' interests, orderly development and conduct of banking operations and fostering of the overall health of the banking system and financial stability.

Perimeter: Commercial banks (91), All India Financial Institutions (5), Credit Information Companies (4), Regional Rural Banks (56) and Local Area Banks (4).

Evolution: Regulatory functions have evolved with the development of the Indian banking system and



adoption of prudential norms based on international best practices.

Universal Bank Licensing Policy

In-principle approvals were given to two new applicants, namely, IDFC Limited and Bandhan Financial Services Private Limited, on April 2, 2014 to set up banks under the Guidelines on Licensing of New Banks in the Private Sector issued on February 22, 2013. The Reserve Bank intends to use the learning from this licensing exercise to revise the guidelines appropriately and move to give licences more regularly, that is, virtually “on tap”. The Reserve Bank is working on the guidelines for continuous authorisation of universal banks.

Management of Stressed Assets

To ensure effective stressed asset management, guidelines were issued to banks which among other things, covered the need to ensure that the banking system recognises financial distress early and takes prompt steps to resolve it.

Reviewing Governance of Boards of Banks in India

The Reserve Bank is currently reviewing the governance of boards of banks.

Regulating Cooperative Banks

The rural co-operative credit system in India is primarily mandated to ensure flow of credit to the agriculture sector. It comprises short-term and long-term co-operative credit structures. The short-term co-operative credit structure operates with a three-tier

system - Primary Agricultural Credit Societies (PACS) at the village level, Central Cooperative Banks (CCBs) at the district level and State Cooperative Banks (StCBs) at the State level. PACS are outside the purview of the Banking Regulation Act, 1949 and hence not regulated by the Reserve Bank of India. Primary Cooperative Banks (PCBs), also referred to as Urban Cooperative Banks (UCBs), cater to the financial needs of customers in urban and semi-urban areas.

The Reserve Bank acts in close co-ordination with other regulators, such as, Registrar of Co-operative Societies and Central Registrar of Co-operative Societies.

Regulating Non Banking Financial Institutions

India has financial institutions which are not banks but which accept deposits and extend credit like banks. These are called Non-Banking Financial Companies (NBFCs) in India.

It is the constant endeavour of the Reserve Bank to enable prudential growth of the sector, keeping in view the multiple objectives of financial stability, consumer and depositor protection, and need for more players in the financial market, addressing regulatory arbitrage concerns while not forgetting the uniqueness of the NBFC sector. The Reserve Bank is, at present, reviewing the regulatory framework for NBFCs.

Consumer Protection and Education

The Reserve Bank's initiatives in the field of consumer protection include the setting up of a

Looking Back...

The Reserve Bank was constituted to regulate the issue of Banknotes, to maintain reserves with a view to securing monetary stability and to operate the credit and currency system of the country to its advantage. The Bank began its operations by taking over from the Government the functions so far being performed by the Controller of Currency and from the Imperial Bank of India, the management of Government accounts and public debt. The existing currency offices at Kolkata, Mumbai, Chennai, Rangoon (Myanmar), Karachi, Lahore and Cawnpore (Kanpur) became branches of the Issue Department. Offices of the Banking Department were established in Calcutta, Bombay, Madras, Delhi and Rangoon. Burma (Myanmar) seceded from the Indian Union in 1937 but the Reserve Bank continued to act as the Central Bank for Burma till Japanese Occupation of Burma and later upto April, 1947. After the partition of India, the Reserve Bank served as the central bank of Pakistan upto June 1948 when the State Bank of Pakistan commenced operations. The Bank, which was originally set up as a shareholder's bank, was nationalized in 1949.

An interesting feature of the Reserve Bank of India was that at its very inception, the Bank was seen as playing a special role in the context of development, especially Agriculture. When India commenced its plan endeavours, the development role of the Bank came into focus, especially in the sixties when the Reserve Bank, in many ways, pioneered the concept and practise of using finance to catalyse development. The Bank was also instrumental in institutional development and helped set up insitutions like the Deposit Insurance and Credit Guarantee Corporation of India, the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, the Discount and Finance House of India etc. to build the financial infrastructure of the country.

With liberalisation, the Bank's focus has shifted back to core central banking functions like Monetary Policy, Bank Supervision and Regulation, and Overseeing the Payments System and onto developing the financial markets.



Customer Redressal Cell, creation of a Customer Service Department in 2006 which was recently rechristened as Consumer Education and Protection Department. In order to strengthen the institutional mechanism for dispute resolution, the Reserve Bank in the year 1995 introduced the Banking Ombudsman (BO) scheme. The BO is an Alternate Dispute Redressal mechanism for resolution of disputes between a bank and its customers. There are 20 Banking Ombudsman offices in the country at present. The scheme covers grievances of the customers against Commercial Banks, Scheduled Primary Cooperative Banks and Regional Rural Banks. In 2006, the Reserve Bank revised the BO scheme. Under the revised scheme, the BO and the staff in the offices of the BO are drawn from the serving employees of the Reserve Bank.

Some recent initiatives of the Reserve Bank in consumer education and protection are:

The RBI has formulated a “Charter of Customer Rights” for banks based on global best practices in the area of consumer protection. The Charter enshrines broad,



overarching principles for protection of bank customers and enunciates the following five basic rights of bank customers

1. Right to Fair Treatment
2. Right to Transparency, Fair and Honest Dealing
3. Right to Suitability
4. Right to Privacy
5. Right to Grievances Redress and Compensation

RBI's Role as Banker and Debt Manager to the Government

Since its inception, the Reserve Bank of India has undertaken the traditional central banking function of managing the government's banking transactions. The Reserve Bank of India Act, 1934 requires the Central Government to entrust the Reserve Bank with all its money, remittance, exchange and banking transactions in India and the management of its public debt. The Government also deposits its cash balances with the Reserve Bank. The Reserve Bank may also, by agreement, act as the banker and debt manager to State Governments. Currently, the Reserve Bank acts as banker to all the State Governments in India (including Union Territory of Puducherry), except Sikkim. For Sikkim, it has limited agreement for management of its public debt.

The Reserve Bank has well defined obligations and provides several banking services to the governments. As a banker to the Government, the Reserve Bank receives and pays money on behalf of the various Government departments. The Reserve Bank also undertakes to float loans and manage them on behalf of the Governments. It provides Ways and Means Advances – a short-term interest bearing advance – to the Governments, to meet temporary mismatches in their receipts and payments. Besides, like a portfolio manager, it also arranges for investments of surplus cash balances of the Governments. The Reserve Bank acts as adviser to Government, whenever called upon to do so, on monetary and banking related matters.

Initiatives to Improve Customer Service

Giving incentive to banks for adjudication of cut notes and mopping up of soiled notes

- Transferring currency exchange facility to bank branches
- Permitting banks to engage the services of Business Correspondents and Cash-In-Transit companies for distribution of notes and coins and ensure last mile connectivity
- Withdrawal of old series of banknotes (issued before 2005) keeping in view the standard international practice
- Creating 'Paisa bolta hai' – an educative micro-site, which includes a film for public awareness about bank notes.

Foreign Exchange Management

For a long time, foreign exchange in India was treated as a controlled commodity because of its limited availability. The early stages of foreign exchange management in the country focussed on control of foreign exchange by regulating the demand due to its limited supply. Exchange control was introduced in India under the Defence of India Rules on September 3, 1939 on a temporary basis. The statutory power for exchange control was provided by the Foreign Exchange Regulation Act (FERA) of 1947, which was subsequently replaced by a more comprehensive Foreign Exchange Regulation Act, 1973. This Act empowered the Reserve Bank, and in certain cases the Central Government, to control and regulate dealings in foreign exchange payments outside India, export and import of currency notes and bullion, transfer of securities between residents and non-residents, acquisition of foreign securities, and acquisition of immovable property in and outside India, among other transactions.

Extensive relaxations in the rules governing foreign exchange were initiated, prompted by the liberalisation measures introduced since 1991 and the Act was amended as a new Foreign Exchange Regulation (Amendment) Act 1993. Keeping in view the changed environment after significant developments in the external sector, such as, substantial increase in foreign exchange reserves, growth in foreign trade, rationalisation of tariffs, current account convertibility and liberalisation of Indian investments abroad, the Foreign Exchange Management Act (FEMA) was enacted in 1999 to replace FERA. FEMA became effective from June 1, 2000. FEMA aims at facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India. Emphasising the shift in focus, the Reserve Bank in due course also amended (since January 31, 2004) the name of its department dealing with the foreign exchange transactions to Foreign Exchange Department from Exchange Control Department.

The Central Government and State Governments may make rules for the receipt, custody and disbursement of money from the consolidated fund, contingency fund, and public account. These rules are legally binding on the Reserve Bank as accounts for these funds are with the Reserve Bank .

Management of Public Debt

The union budget decides the annual borrowing needs of the Central Government. Parameters, such as, interest rate, timing and manner of raising of loans are influenced by the state of liquidity and the expectations of the market. The Reserve Bank's debt management strategy aims at minimising the cost of borrowing, reducing the roll-over and other risks, smoothening the maturity structure of debt, and improving depth and liquidity of Government securities markets by developing an active secondary market



*RBI Monetary Museum at Amar Building, Ground Floor,
Sir Phirozshah Mehta Road, Mumbai.*

Reserve Bank as Banker to Banks

The Reserve Bank continuously monitors operations of these accounts to ensure that defaults do not take place. Among other provisions, the Reserve Bank stipulates minimum balances to be maintained by banks in these accounts. Since banks need to settle transactions with each other occurring at various places in India, they are allowed to open accounts with different regional offices of the Reserve Bank. The Reserve Bank also facilitates remittance of funds from a bank's surplus account at one location to its deficit account at another. Such transfers are electronically routed through a computerised system called e-Kuber. The computerisation of accounts at the Reserve Bank has greatly facilitated banks' monitoring of their funds position in various accounts across different locations on a real-time basis.

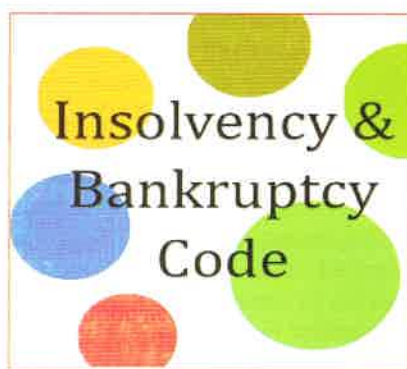
Oversight of Payment and Settlement Systems

Oversight of the payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change. By overseeing payment and settlement systems, central banks help to maintain systemic stability and reduce systemic risk, and to maintain public confidence in payment and settlement systems. The Payment and Settlement Systems Act, 2007 and the Payment and Settlement Systems Regulations, 2008 framed thereunder, provide the necessary statutory backing to the Reserve Bank of India for undertaking the Oversight function over the payment and settlement systems in the country.

Source- Official Website of RBI

Resolving Insolvency

Indivjal Dhasmana



The Code is quite different from the earlier resolution systems as it shifts the responsibility to the creditor to initiate the insolvency resolution process against the corporate debtor. Under the earlier regime, it was the debtor who primarily initiated a resolution process, while the creditor was last to pursue separate actions for recovery of dues. However, corporate debtor can also file for insolvency

India improved its position on the 'Ease of Doing Business' ranking, 2018 released by the World Bank by 30 places to 100th position. One of the reasons cited for that was its performance on resolving insolvency. Though it still stood at 103rd position on this parameter, it was much better off than 136th rank in the 2017 report. Also, our economy was crawling up on this front in the previous years. For instance the position in the 2016 report was 136th and 137th in 2015.

The improvement was basically noticed after the government put into effect the Insolvency and Bankruptcy Code (IBC) with a regulator Insolvency and Bankruptcy Board of India (IBBI) in 2016. It should be noted that bankruptcy provisions for individuals and partnerships are yet to be notified since the rules have not come. Insolvency arises when an individual or organization could not pay its financial dues to its lenders. Insolvency can be tackled through restructuring the debt or if it is not settled this way legal action may be taken against the insolvent, the company concerned is restructured or else its assets are sold to pay the debts.

Well-defined and time-bound

norms for entry and exit are considered key to ease of doing business. The Code filled the gap in the exit or restructuring of businesses that the country had.

Before the enactment of the Act, the time taken for resolving insolvency was quite long. There were pending litigations for recovery of money primarily because of overlapping jurisdictions of various laws governing insolvency resolution. Before the Code, there were about 12 laws, including the Contracts Act, the Recovery of Debts Due to Banks and Financial Institutions Act, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act. These have not yielded the results that were required. Also the Sick Industrial Companies (Special Provisions) Act and the winding up provisions of the Companies Act, 1956 did not prove to be too effective.

The pieces of legislation relating to individual insolvency such as the Presidency Towns Insolvency Act, and the Provincial Insolvency Act are almost a century old, having been enacted in 1909 and 1920 respectively. These Acts are still in statute as the Section 243 of the Code which provides for repeal of these enactments has not been notified and

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as said above rules for bankruptcy for individuals and partnerships are yet to be put into effect.

The National Company Law Tribunal (NCLT) adjudicates insolvency resolution for companies. The Debt Recovery Tribunal (DRT) will adjudicate insolvency resolution for individuals.

The Code creates time-bound processes for insolvency resolution of companies. If the default is over Rs. One lakh, the creditor may initiate insolvency resolution process and go to NCLT.

The Code is quite different from the earlier resolution systems as it shifts the responsibility to the creditor to initiate the insolvency resolution process against the corporate debtor. Under the earlier regime, it was the debtor who primarily initiated a resolution process, while the creditor was the last to pursue separate actions for recovery of dues. However, corporate debtor can also file for insolvency.

After a case is admitted by NCLT, resolution processes will have to be completed within 180 days, extendable by another 90 days.

However, there is also a provision for fast tracking resolution process to complete it in 90 days which could be extended by further 45 days. However, only small companies (private entities having a paid up

Insolvency and Bankruptcy Board of India issues Guidelines for Technical Standards for Core Services

Based on recommendations of the Technical Committee, the Insolvency and Bankruptcy Board of India (IBBI) has laid down the Technical Standards for the performance of Core Services for the following matters under Regulation 13 of the IBBI (Information Utilities) Regulations, 2017:

i) standard terms of service; ii) registration of users; iii) unique identifier for each record and each user; iv) submission of information; v) identification and verification of persons; vi) authentication of information; vii) verification of information; viii) data integrity; ix) consent framework for providing access to information to third parties; x) security of the system; xi) security of information; xii) risk management framework; xiii) preservation of information; and xiv) purging of information.

An information utility shall comply with the applicable Technical Standards, while providing services.

The Guidelines are available at www.mca.gov.in and www.ibbi.gov.in.

capital of up to Rs 50 lakh or turnover of up to Rs two crore) and start-ups could opt for this method. An unlisted company with total assets of up to Rs 1 crore in the preceding financial year can also choose this method.

During the resolution process financial creditors assess whether the debtor's business could be restructured and also consider options for the revival. During this process, creditors' claims will be frozen. If the insolvency resolution process fails, the liquidation of assets begins.

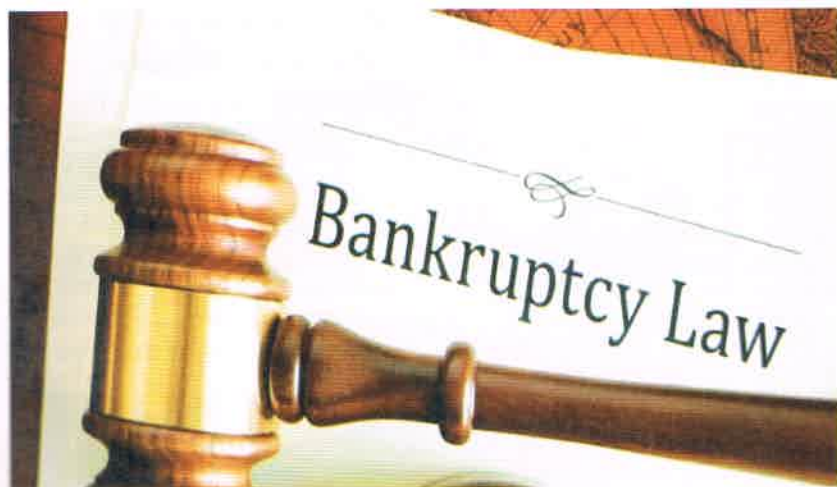
The resolution processes are conducted by licensed Insolvency Professionals (IPs). IPs have at least ten years of experience as chartered

accountants, company secretaries, cost accountants, lawyers or in management. He has to clear the Limited Insolvency Examination also. A Person can also become IP by passing the National Insolvency Examination.

NCLT appoints an interim IP upon confirmation by IBBI within 14 days of acceptance of application. An interim IP holds office for 30 days only. He takes control of the debtor's assets and company's operations, collects financial information of the debtor from information utilities. He constitutes the creditors' committee. All financial creditors are part of creditors' committee, barring the ones who are related party of corporate debtor. Operational creditors should also be part of the committee but without voting rights but their aggregate dues have to be at least ten per cent of the total dues.

Creditors' committee meets within seven days of its constitution and decides by 75 per cent of votes either to replace or confirm interim IP as resolution professional. After that, resolution professional is appointed by the NCLT.

The Code provides a hierarchy of priority to distribute assets during liquidation. Secured creditors will



receive their entire outstanding amount, rather than up to their collateral value, unsecured creditors have priority over trade creditors and the government dues will be repaid after considering claims of unsecured creditors.

This created some issues since home buyers facing rough weather due to some builders did not find a place in this order. After some protests, the regulator did allow home buyers to file their claims in the new form F, but they still do not figure anywhere in the priority list.

As the time progresses, issues keep coming up in the implementation of the Code.

For instance, the country's first corporate resolution plan under the Code caused ripples when NCLT allowed haircut of over 90 per cent. NCLT permitted Synergies Castings, acquirer of Synergies-Dooray Automotive, which used to manufacture and supply aluminum alloy wheels to global carmakers, to pay Rs 54 crore to its creditors out of its total dues of over Rs 900 crore.

Besides, terms were too attractive. Of the Rs 54 crore, Rs 20-odd crore were to be paid upfront and the remaining over five years. The principal amount of the debt was Rs 215 crore, while the remaining Rs 685 crore includes interest, statutory dues and payments to other creditors.

Synergies-Dooray is one of the 93,000 cases that were pending with the Board for Industrial and Financial Restructuring (BIFR) and transferred to the NCLT under the IBC. It was one of the early cases to be filed with the NCLT under the code.

The insolvency process got much impetus when the government in May this year promulgated an ordinance (which later was replaced by The Banking Regulation (Amendment) Act, 2017) giving wide-ranging powers to the Reserve Bank of India (RBI) to issue directions to lenders

What are Haircuts in the Banking System?

A haircut is the difference between the loan amount and the actual value of the asset used as collateral. The haircut reflects the lender's perception of the risk of fall in the value of assets. In the context of loan recoveries, it is the difference between the actual dues from a borrower and the amount he settles with the bank. Haircuts are used as a last resort when there is absolutely no hope of a recovery and the loan is written off for a one time settlement.

to initiate insolvency proceedings for the recovery of bad loans.

Non-Performing Assets (NPAs) of Public Sector Banks (PSBs) had reached high levels, the chunk of which are in sectors such as power, steel, road infrastructure and textiles.

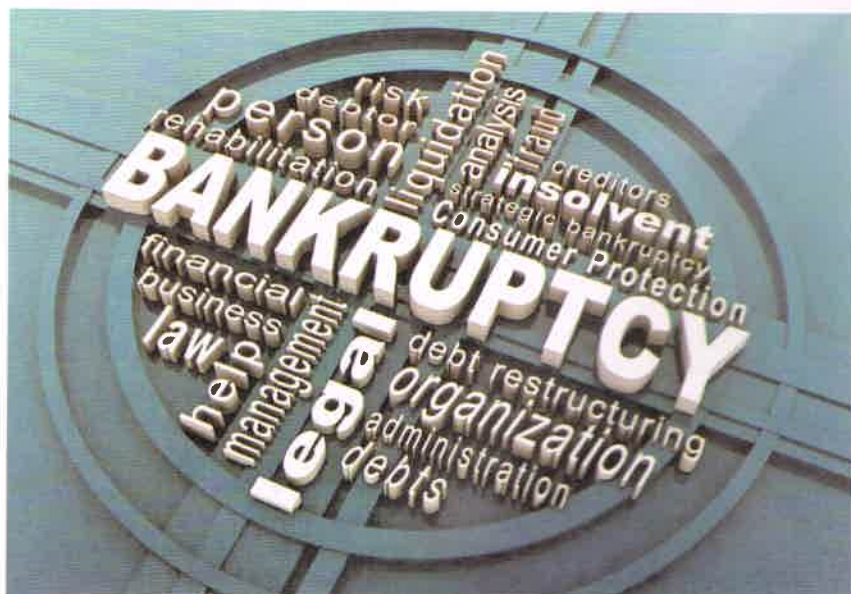
Following the ordinance, RBI asked banks to refer the 12 largest bad loans for resolution under the Code. The central bank took the decision based on the recommendations of its internal advisory committee (IAC) that also mandated a time-bound resolution of these cases.

The accounts constitute 25 per cent of the banking system's non-performing assets. The gross bad debt of the Indian banking system as of March was at Rs 7.11 lakh crore, which means the 12 accounts would be responsible for about Rs 1.78 lakh crore.

According to a report by financial services firm Motilal Oswal, a total of 376 cases have been referred to the NCLT over the first nine months of the current calendar year. A majority of these cases, 187 have been filed by the operational creditors, 122 cases by the financial creditors and the remaining cases by the corporate debtors.

Resolution of these accounts is expected to be a major trigger for corporate lenders. However, the beginning appears to be modest, with only two accounts taken up for resolution (at hefty haircuts), seven accounts directed to undergo liquidation, and another 14 witnessing further appeals, says the report.

The issue of haircuts also came up in 12 cases referred to NCLT on the recommendation of RBI as well.



The Insolvency and Bankruptcy Board of India (IBBI) notifies Regulations for handling of Grievances and Complaints.

The Insolvency and Bankruptcy Board of India (IBBI) notified the IBBI (Grievance and Complaint Handling Procedure) Regulations, 2017 in the Gazette of India on 7th December, 2017. The Regulations enable a Stakeholder, namely, debtor, creditor, claimant, service provider, resolution applicant or any other person having an interest in an insolvency resolution, liquidation, voluntary liquidation or bankruptcy transaction under the Insolvency and Bankruptcy Code, 2016 (Code), to file a grievance or a complaint against a Service provider, namely, insolvency professional agency, insolvency professional, insolvency professional entity or information utility. The Regulations provide for an objective and transparent procedure for disposal of grievances and complaints by the IBBI, that does not spare a mischievous service provider, but does not also harass an innocent service provider.

A Stakeholder may file a grievance that shall state the details of the conduct of the service provider that has caused the suffering to the aggrieved; details of suffering, whether pecuniary or otherwise, the aggrieved has undergone; how the conduct of the service provider has caused the suffering of the aggrieved; details of his efforts to get the grievance redressed from the service provider; and how the grievance may be redressed.

A Stakeholder may file a complaint in the Specified Form along with a fee of Rupees Two Thousand and Five Hundred (Rs.2,500). A complaint needs to state the details of the alleged contravention of any provision of the Code, or rules, regulations, or guidelines made there under or circulars or directions issued by the IBBI by a Service provider or its associated persons; details of alleged conduct or activity of the Service provider or its associated persons, along with date and place of such conduct or activity, which contravenes the provision of the law; and details of evidence in support of alleged contravention. If the complaint is not frivolous or malicious, the fee will be refunded.

Where the IBBI is of the opinion that there exists a prima facie case, it may order an inspection under sub-regulation (3) of Regulation 3, order an investigation under sub-regulation (2) of Regulation 7 or issue a Show Cause Notice under sub-regulation (2) of Regulation 11 of the Insolvency and Bankruptcy Board of India (Inspection and Investigation) Regulations, 2017, as may be warranted and the matter shall be proceeded accordingly.

The Regulations have been effective from 7th December, 2017. These are available at www.mca.gov.in and www.ibbi.gov.in.

The other issue was promoters bidding for their own companies. To address the issue, the regulator amended the rules under the Code making it difficult for dubious promoters to take over the companies. This was aimed at allaying fears of lenders that such firms might go back to the very people who were responsible for the current mess, at lower prices.

As such, no willful defaulter can take back the company now as they would be screened by the committee of creditors. The regulator also made norms strict for others bidding for insolvent companies. The revised regulations made it mandatory for the resolution professional to ensure that the credit plan presented contains relevant details to assess credibility

of the resolution applicants, including promoters. As such promoters will be put to a stringent test with respect to their credit worthiness and credibility.

The resolution applicants' details in terms of convictions, disqualifications, criminal proceedings, categorization as willful defaulter as per Reserve Bank of India (RBI) guidelines, debarment imposed by Sebi have to be disclosed now.

However, issues on promoters bidding still remained unclear. As such, the government came out with an ordinance amending IBC by not only debarbing willful defaulters, dubious promoters, but promoters or sister concerns of those companies whose insolvency cases have been admitted by NCLT. The ordinance added Section 29A to the Code to this effect.

The wordings of the ordinance meant that it prohibits promoters or sister concerns of companies with Non-Performing Assets of more than a year from bidding for these companies. This theoretically does not debar promoters per se since they could pay the principal and interest overdue and make the assets standard before a year is completed.

However, even this is not allowed once the NCLT has accepted an insolvency petition. It means that none of the promoters or their associates can buy the stressed assets of the 12 large debt accounts mentioned above.

Besides, corporate guarantors will also not be eligible to bid for these companies. It also includes the holding company, or related party of the promoters of the distressed assets.

Here comes the issue of definition of related party of the promoters. For instance, whether a company like ArcelorMittal, which has shown an interest in bidding for distressed assets of Uttam Galva, a company that is on the NPA list for over a year,

will be eligible despite its credit-worthiness.

ArcelorMittal has made a strong pitch as an eligible bidder for these distressed assets, saying it holds a non-controlling minority shareholding in Uttam Galva, has no representation on the board of directors, nor has influence on management decisions. As such, it is not a promoter of Uttam Galva and therefore there is no objective reason for it to be prevented from bidding for any steel asset under the restructuring process.

ArcelorMittal owns minority 29 per cent stake in Uttam Galva, but along with the Miglani family, it is listed as one of the promoters of the company in disclosures to Bombay Stock Exchange.

IBC defines a related party as someone who controls more than

20 per cent of the voting rights in the distressed company and also directors in a public company with more than a 2 per cent stake.

However, the Securities and Exchange Board of India Act defines a promoter and a promoter group as anyone with more than 10 per cent equity and control over the running of the company.

As such, a clarity is needed on the definition on related parties to make it clear who all will not be allowed to bid.

Of 12 companies dragged to NCLT for resolution under the IBC, five steel companies and Amtek Auto have drawn proposals from prospective buyers.

Besides these 12 accounts, RBI has given another list of 29 companies

to banks to settle the issue of NPA bilaterally or these accounts will be referred to NCLT.

Here comes the issue of parity. If banks are given some time to deal with defaulting companies bilaterally in the second list before the accounts could be referred to NCLT, why was such time not given to the 12 cases referred to NCLT in the first list?

Contesting issues will keep coming in insolvency cases, but the experiment to make it easier for companies to exit or restructure themselves will make it easy to do business in India. However, a care has to be taken that the process does not linger on to make it rather tedious for companies to do business. □

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YE-740/2017

Strengthening of Cyber Security

R Subramaniakumar



...our country shall provide a completely Cyber Secure architecture that is secure and reliable for the digital transactions. However, it is to be continuously upgraded, as new threats emerge. Security is a journey. Awareness will enable to face and mitigate the risk

Digitalization is the rise of the digital transaction where bank, customers, merchants, industries and other stakeholders form an interdependent financial system network. Digitization is not an option for banking industry, rather it is inevitable, because every industry is being digitized and banking sector is no exception.

Digitalization

Banking and Financial transactions play a significant role in our daily lives. For many of us, a day will not end without at least a single financial transaction with merchants or at banks. Hence, financial institutions should be at the fore-front to adopt latest technologies and to enhance customer experience thus eliminating rural and urban gap.

The following factors influence the digitalisation in banking-

- Changing consumer behaviour in favour of digitalization.
- Financial Inclusion and government initiatives.
- Leveraging increased smart phone usage and mobile penetration.

A Less-cash Economy is an economy in which many of the transactions are carried out through digital means. It includes various

modes such as internet banking, mobile banking, debit and credit cards, card-swipe or Point of Sales (PoS) machines, Unified Payments Interface(UPI)-BHIM, QR Code (Quick Response) based transactions, Touch-n-Go cards.

BHIM UPI – Bharat Interface for Money – Unified Payments Interface

BHIM UPI is a revolutionary payment system introduced in India which is a first of its kind across the globe. With sixty banks being a part of BHIM UPI, 21 million users have downloaded BHIM apps. Around 82 lakhs transactions per month are taking place in the BHIM platform.

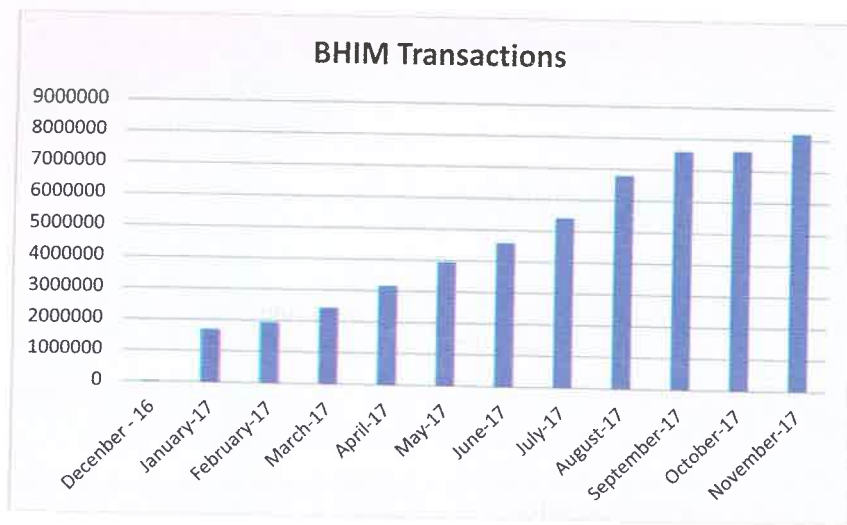
After the launch of BHIM app in the month of December 2016, the number of transactions have grown 200 times exponentially from around forty thousand to eighty two lakhs transactions per month.

BHIM Aadhaar is a digital payment acceptance solution enabling merchants to receive digital payments from customers over the counter through Aadhaar authentication. Customer performs transaction by providing his Aadhaar number and biometric authentication.

Cyber Security

The sky rocketing intrusion of digitalisation in the banking industry

The author is Managing Director and Chief Executive Officer, Indian Overseas Bank. Being a techno Banker, he has contributed in various Indian Banks' Association (IBA) and Institute for Development & Research in Banking Technology (IDRBT) committees on technology and financial inclusion, and was core member of the Smart Card and Micro ATM Standards Committee.



has given more thrust on the implementation of Cyber security in the digital platform. The whole eco system of digitalisation includes the following stakeholders.

- Customer/Originator
- Originating institution
- Processing agency
- Beneficiary Institution
- Beneficiary

Security is to be ensured at all the touch points of the digital transactions. The complete eco-system is to be Cyber-sanitised for all the transactions to be flawless and with the following Security triangulation intact along with Non-Repudiation-

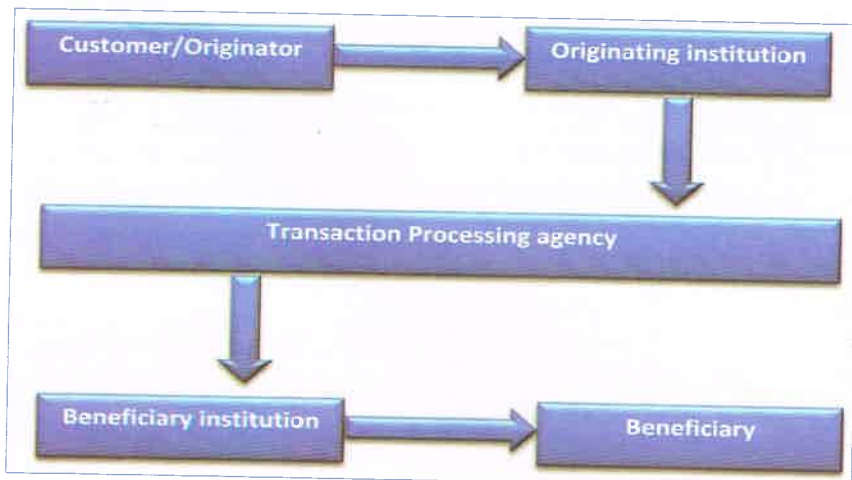
- Confidentiality
- Integrity
- Availability

Let's see how the stakeholders can make sure that the transaction is unimpaired in its whole journey.

Customer/Originator

The originator of any transaction shall ensure that his device from which he is originating is completely Cyber-sanitised. The device should have been patched up with latest Anti-Virus signatures. Care should have been taken to type the website addresses if it is an online transaction and not clicked from e-mail.

“No lunch is Free Lunch” – Any mobile/online tools which are offered free or given free should be dealt or used with much due diligence. Password/PIN which is used by the originator should be kept confidential with him and not to be shared with any one or through any link online. This will



enable the transaction processing to confirm with the confidentiality of the transaction.

Originating/Beneficiary Institution

The transaction traverses from the originator of the transaction to its originating institution which could be the IT systems of any financial institution. Any home, whether it is a hut or a lavish bungalow, should have a lock and key. Similarly, any IT system, which could be state-of-the-art or of the legacy technology, should be secure with tight security controls. The secure controls shall ensure the integrity of the transaction cycle.

Integrity ensures maintaining the consistency, accuracy, and trustworthiness of data over its entire life-cycle. Data must not be changed in transit, and steps must be taken to ensure that data cannot be altered in an unauthorized manner.

Processing Agency

Most of the digital transactions pass through a central nodal agency which could be either NPCI, Mumbai (National Payments Corporation of India) or IDRBT, Hyderabad (Institute for Development and Research in Banking Technology).

The IT architecture of the financial institutions which are interacting online with these systems shall conform to the Standards and Procedures as stipulated by these nodal agencies. The availability of the systems across these parties are ensured by the nodal agency.

Beneficiary

Beneficiary shall be comparatively less Cyber-responsible since this entity receives funds. The only caution which beneficiary should follow is to share the correct account number/IFSC Code or VPA (Virtual Payment Address) to the originator.

Various measures as discussed below are being taken by the

Government of India to strengthen the Cyber Security in the complete digital eco-system on a continuous basis.

National Cyber Security Policy, 2013 (NCSP)

National Cyber Security Policy was released in 2013 as a formalized step towards cyber security by the Ministry of Communication and Information Technology under Department of Electronics and Information Technology.

The Policy has been built to offer a secure and resilient cyberspace for citizens, businesses and the Government. Its mission is to protect cyberspace information and infrastructure, build capabilities to prevent and respond to cyber-attacks, and minimise damages through coordinated efforts of institutional structures, people, processes, and technology.

Few Strategies adopted by the Policy include:

- Creation of a secure cyber ecosystem through measures such as a national nodal agency, encouraging organisations to designate a member of senior management as the Chief Information Security Officer and develop information security policies.
- Creating an assurance framework for IT and security.
- Encouraging open standards
- Strengthening the regulatory framework coupled with periodic reviews, harmonization with international standards, and spreading awareness about the legal framework.
- Creating mechanisms for security threats and responses to the same through national systems and processes.
- National Computer Emergency Response Team (CERT-in) functions as the nodal agency for coordination of all cyber security efforts, emergency responses, and crisis management.

- Securing e-governance by implementing global best practices, and wider use of Public Key Infrastructure.
- Protection and resilience of critical information infrastructure with the National Critical Information Infrastructure Protection Centre (NCIIPC) operating as the nodal agency.
- To promote cutting edge research and development of cyber security technology.
- Human Resource Development through education and training programs to build capacity.

Cyber Swachhhta Kendra (Botnet Cleaning and Malware Analysis Centre)

To combat cyber security violations and prevent their increase, Government of India's Computer Emergency Response Team (CERT-in) in February 2017 launched 'Cyber Swachhhta Kendra' (Botnet Cleaning and Malware Analysis Centre). The centre has designed new desktop and mobile security solutions for cyber security.

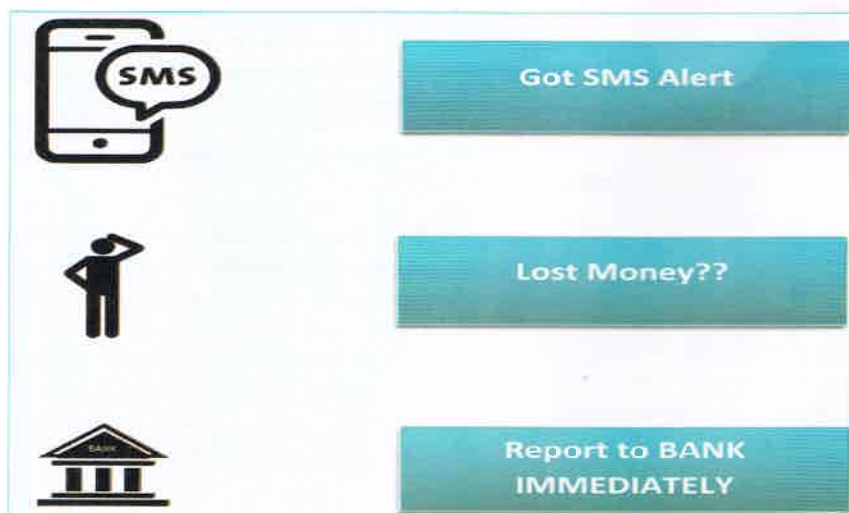
The Centre is operated by CERT-in under Section 70B of the Information Technology Act, 2000. The solution, which is a part of the Ministry of Electronics and Information Technology's Digital India initiative, will detect botnet infections in India and prevent further infections

by notifying, enable cleaning and securing systems of end-users. It functions to analyze BOTs/malware characteristics, provides information and enables citizens to remove BOTs/malware and to create awareness among citizens to secure their data, computers, mobile phones and devices such as home routers.

The Cyber Swachhhta Kendra is a step in the direction of creating a secure cyber ecosystem in the country as envisaged under the National Cyber Security Policy in India.

The Centre offers the following security and protective tools:

- USB Pratirodh, was also launched by the government which is aimed at controlling the unauthorised usage of removable USB storage media devices like pen drives, external hard drives and USB supported mass storage devices.
- An app called **Samvid** was also introduced. It is a desktop based Application Whitelisting Solution for Windows Operating System. It allows only pre approved set of executable files for execution and protects desktops from suspicious applications from running.
- **M-Kavach**, a device for security of Android mobile devices has also been developed. It provides protection against issues related to malware that steal personal



data and credentials, misuse Wi-Fi and Bluetooth resources, lost or stolen mobile device, spam SMSs, premium-rate SMS and unwanted / unsolicited incoming calls.

- **Browser JSGuard**, is a tool which serves as a browser extension which detects and defends malicious HTML and JavaScript attacks made through the web browser based on Heuristics. It alerts the user when he visits malicious web pages and provides a detailed analysis threat report of the web page.

Information Technology Act

IT Act, 2000 is the primary law in India dealing with cybercrime and electronic commerce which had subsequent amendment in the year 2008.

IT Act describes the following:

- Digital and Electronic Signature.
- Electronic Governance.
- Attribution, Acknowledgement Despatch of Electronic Records.
- Secure Electronic Records and Secure Digital Signatures.
- Regulation of Certifying Authorities.
- Electronic Signature Certificates.

The description of the electronic offences and the Penalty are detailed in the IT Act for the offences given below:

- Tampering with computer source documents.
- Hacking with computer system.
- Receiving stolen computer or communication device.
- Using password of another person.
- Cheating using computer resource.
- Acts of cyber terrorism.
- Failure to maintain records.
- Failure/refusal to comply with orders.



- Failure/refusal to decrypt data.
- Securing access or attempting to secure access to a protected system.
- Misrepresentation.

Online Frauds and IT Act

IT act has detailed the various cybercrimes and also specified the penalty for the cyber wrong doings by fraudsters online. Phishing is the most common banking fraud which happens online.

Phishing

Phishing is a type of social engineering attack often used to steal user data, including login credentials and credit card numbers. It occurs when an attacker, masquerading as a trusted entity, dupes a victim into opening an email, instant message, or text message.

The following Sections of the Information Technology Act, 2000 are applicable to the Phishing fraud:

Section 66 - Hacking with Computer system

If a person with the intent to cause or knowing that he is likely to cause wrongful loss or damage to the public or any person destroys or deletes or alters any information residing in a computer resource or diminishes its value or utility or affects it injuriously by any means, commits hack.

Penalty for this section is

imprisonment up to three years, or/ and with fine up to ₹500,000.

Section 66 B- Receiving stolen computer or communication device

A person receives or retains a computer resource or communication device which is known to be stolen or the person has reason to believe is stolen.

Imprisonment up to three years, or/ and with fine up to ₹100,000 would be the penalty for the same.

Section 66 C- Using password of another person

A person fraudulently uses the password, digital signature or other unique identification of another person. Imprisonment up to three years, or/ and with fine up to ₹100,000 shall be the penalty

Section 66 D- Cheating using computer resource

If a person cheats someone using a computer resource or communication, the imprisonment is up to three years, or/ and with fine up to ₹100,000.

Credit Card Fraud

Credit Card Fraud is another online banking fraud where a customer's card is spoofed and the same is used online. In this fraud also IT Act and IPC rescues the victim and assures penalty from the fraudster.

The below Sections of IT Act shall be applicable:

- Section 66 - Hacking with computer system
- Section 66C-Using password of another person
- Section 66D-Cheating using computer resource

Section 420 of Indian Penal Code is also applicable for Credit Card fraud which deals with cheating and dishonestly inducing delivery of property. The maximum punishment which can be awarded is imprisonment for a term of 7 years and fine.

Even though a customer has the aforesaid protections under IT Act 2000/2008, RBI has also directed all banks in the country to re-assure protection against cyber frauds.

RBI Directions

Reserve Bank of India has given directions to protect interests of the customer in its circular on Customer Protection – Limiting Liability of Customers in Unauthorised Electronic Banking Transactions.

RBI has thrust upon 'Zero Liability' and 'Limited Liability' for bank customers against any fraud

provided if the same is reported to the bank immediately.

A customer will have zero liability in respect of a fraudulent transaction if there is contributory fraud or negligence on the part of the bank. The customer will also not be liable if there is a third-party breach, without bank involvement, which is reported to the bank within three working days of receiving communication regarding the unauthorized transaction. Also, the defrauded amount shall be credited in the accounts concerned within 10 days.

RBI has made it mandatory for banks to register all customers for text message alerts and permit reporting of unauthorised transactions through a reply to the alert message. This shall alert the customers on the frauds instantly.

Banks shall enable reporting of unauthorized transactions on their website itself for easier customer grievance redressal. Fraud can be reported through any of the channels, including phone banking, SMS, email, call centre and interactive voice

response systems.

However, in cases where the loss is due to negligence of the customer, he/she shall have to bear the entire loss until he/she reports the unauthorized transaction to the bank.

In case of loss caused by a third party, the customer will be liable for the transaction value if he fails to report the fraudulent transaction within 4-7 days of receiving the alert from the bank. In case the fraud is reported within 4-7 working days, a customer's maximum liability will be from Rs. 5,000 to Rs. 25000, depending on the type of accounts and credit card limit.

Wrap Up

With all the measures towards strengthening of Cyber Security, our country shall provide a completely Cyber Secure architecture that is secure and reliable for the digital transactions. However, it is to be continuously upgraded, as new threats emerge. Security is a journey. Awareness will enable to face and mitigate the risk. □

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Integrated Command & Control Center Projects Being Developed in 20 Cities

The Integrated Command & Control Center projects which enable fast and efficient citizen service delivery in an integrated way, are being developed in 20 cities and are already operational in cities like Pune, Surat, Vadodara, producing positive results. 10 more cities have issued tenders for developing command and control centers in their cities. For smart reuse and wastewater projects, 33 cities have issued tenders, and work has begun in 16 of them. In order to promote renewable energy usage in the cities, projects for providing solar projects on rooftops of government buildings have been encouraged. Till date, 44 cities have issued tenders, and work has begun in 38 cities

City-wise service level improvement plans (SLIP) for all the 500 cities and State Annual Action Plans (SAAP) for all the 36 States/UTs with a project investment worth Rs. 77,640 crores were approved. Under AMRUT, 215 projects worth Rs. 157 crores have already been completed, 1606 projects worth Rs. 32,459 crores are at various stages of implementation and about 1800 projects worth Rs. 23, 568 crores are under tendering stage.

Details of the three-tiered approach being followed by the Ministry of Housing and Urban Affairs for states and cities to implement the reform Agenda are as follows: "First Tier: the performance grant of the 14th Finance Commission of about Rs 18000 Crore is used to accelerate on-going key financial and service level reforms in cities. The 14th Finance Commission gave recommendations for assured transfers to Local Bodies for a period of five years (2015-16 to 2019-20). A total of Rs. 87143.80 crores will be transferred to Municipalities during the award period. Second Tier: AMRUT Reforms consisted of launch of 11 Urban Management and governance reforms comprising of 54 milestones. These reforms have been achieved by all the States / cities. Hence five more have been added to the new list of AMRUT New Reforms which included Value Capture Financing, credit rating and Municipal bonds, municipal cadre professionalization, trust and verify approach for frontline services like building permissions and land titling. Third Tier: Incentive fund with a focus on 'rapid' and transformational reforms along the three main pillars: governance, planning, and financing focusing on strengthening devolution, own source revenue mobilization, and flexible urban planning. These reforms will enhance downstream accountability mechanisms like making local ward committees responsible for O&M of projects etc.

Rural Banking: Translating Vision to Reality

Manjula Wadhwa



The new rural finance paradigm needs to be based on the premise that 'rural people are bankable' and rural clientele is not limited only to the farmers and uneducated but also includes a generation which can use and adopt technology, and hence, a demand-driven design and efficient provision of multiple financial products and services through an inclusive financial sector comprising sustainable institutions serving a diverse rural clientele, is the need of the hour

As the Father of our Nation said, 'India lives in villages', Rural Development is the sine-qua-non of the overall development of India. Since independence, it has been the constant endeavour of our policy makers to give adequate thrust to bringing rural prosperity in India. During the last 70 years of independence, beginning with cooperative credit structure, followed by nationalization of Public Sector Banks (PSBs) and expansion of their branch network in rural areas and then launching of Regional Rural Banks in 1976, the formal rural institutional structure has grown and expanded many-fold. Unfortunately, in spite of these expansion programmes, the large segment of our rural population, is still 'financially excluded', still under the clutches of money-lenders, which of course, is a matter of grave concern.

Even today, the country is home to 24 per cent of the world's unbanked adults and about two-thirds of South Asia's. About 31 crore 'potentially bankable rural Indians' do not have access to formal banking services. As on June 30, 2016, as reported by SLBCs, out of 6,00,000 villages of India, 4,52,151 villages have been provided banking services; 14,976 through branches, 4,16,636 through BCs and 20,539 by other modes viz.

ATMs, mobile vans, etc. What is more, the poor physical and social infrastructure also impacts the access to financial services. The reality of electrification of rural India is shown in Figure 1.

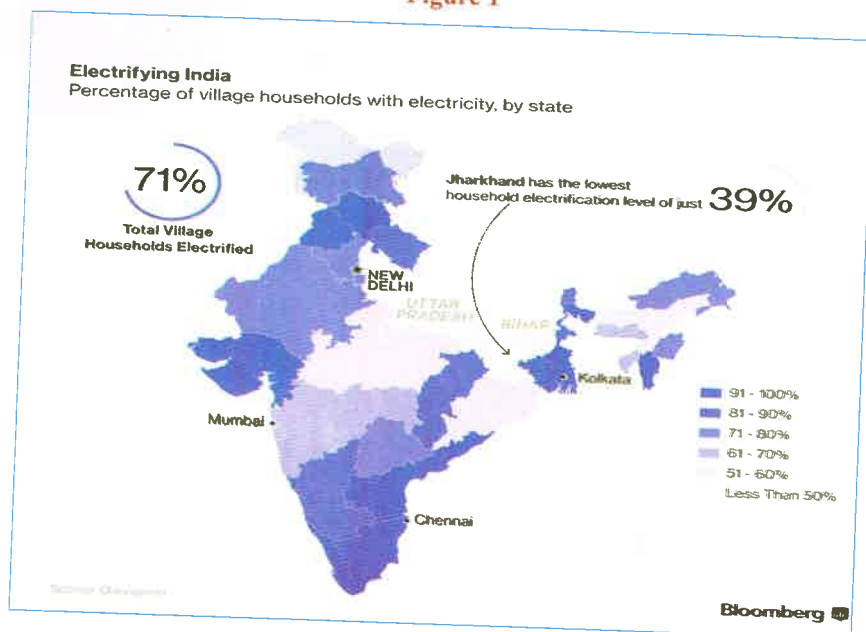
With an average rural literacy rate of 71 per cent most rural Indians are not likely to sacrifice an entire day's wage to travel to a bank branch which is open between 10.00 AM to 5.00 PM. Intermediaries like NGOs, Self-help Groups, Micro Finance Institutions, semi-formal delivery channels like Banking Correspondents and Business Facilitators, are being used by banks to improve access to credit and savings. However, these channels in their current form, offer limited services and suffer from many a lacunae.

Apart from this, many banks view the rural market as a regulatory requirement rather than an economic opportunity. Some of its obvious reasons are-

Since rural households have irregular income and expenditure patterns, the banks have high Non-performing loans in rural areas. The issue is compounded by the dependence of the rural economy on vagaries of monsoons. The loan waivers driven by political agenda, further aggravate the bankers' woes.

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Figure 1



The average ticket size of both a deposit transaction and a credit transaction in villages is small, which means the banks need more customers per branch or channel to break-even. Since many rural folks are not literate and so not comfortable using technology-driven channels like ATMs, phone banking or internet banking, hence mostly dependent on bank branches, leading to banks' high cost to serve.

The highly irregular and volatile income streams and unscheduled expenditure like medical or social emergency, attribute to higher risk of credit for the banks. While poorer groups might need basic savings services and micro-credit to cover production costs and emergency expenses, farmers and farmers' organisations require larger amounts of credit to finance production, inputs, processing and marketing besides risk mitigation products, for example, insurance for loss of life and assets.

The new rural finance paradigm needs to be based on the premise that 'rural people are bankable' and rural clientele is not limited only to the farmers and uneducated but also includes a generation which can use and adopt technology, and hence, a demand-driven design and efficient

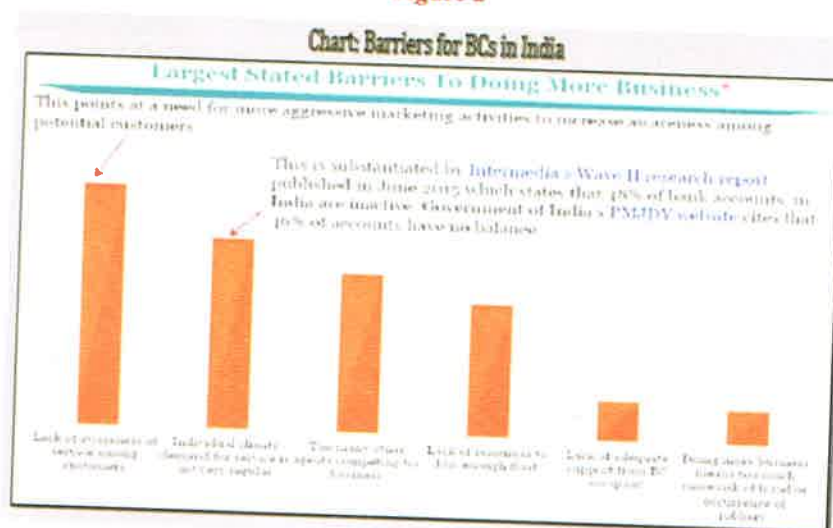
provision of multiple financial products and services through an inclusive financial sector comprising sustainable institutions serving a diverse rural clientele, is the need of the hour. Thus, developing an inclusive yet sustainable rural financial system is extremely challenging and involves comprehensive understanding of the host of complementary issues, which can be placed in seven broad categories-

- **Product strategy:** For catering to the varied needs of small ticket size transactions, whether a chunk of diversified products

and services can be developed without compromising on the flexibility, continuous availability and convenience of the products? Which types of financial products have the greatest impact on reducing poverty and lifting growth rates in deprived rural areas?

- **Processes:** What kinds of business processes can help banks to reach deprived and vulnerable segments and provide hassle-free near doorstep service to the customers without endangering financial viability? How do we design an efficient hub and spoke model to overcome the hurdles in the agent-led branchless banking?
- **Partnerships:** What are the constraints faced by the unbanked and underbanked people in accessing financial services from different types of service providers? Are the bank-non-bank partnerships, such as, Business Correspondents, SHGs, MFIs, etc. working efficiently in easing the accessibility and availability of financial services?
- **Protection:** What measures and mechanisms are needed to protect both the providers and the receivers of rural finance from abuse and misuse of such services? Whether enough risks mitigants are there

Figure 2





for the borrowers given the higher vulnerability in the sector? Are lenders protected against ebb and flow of uncertainty in credit culture?

- **Profitability:** Whether the business strategies and delivery models are geared to provide affordable and acceptable services to the rural clientele while ensuring that rural finance service providers function profitably on a sustained basis? How do we tap into the customer willingness to pay through an appropriate pricing model?
- **Productivity:** How do we increase the productivity of financial services provided in the rural areas? What are the strategies needed to synergize other resources with finance (say, under a “credit plus” approach) to ensure more productive and optimal use of financial services?
- **People:** Are the rural branch staff well-equipped to meet the needs of driving the process of financial inclusion in terms of knowledge, skill and attitude? Do these people have the capacity, comprehension and commitment to identify potential customers and offer them timely advice and multiple banking services?

As Nelson Mandela said, “The test of our progress is not whether

we add more to the abundance of those who have much; it is whether we provide enough for those who have too little”. So now, let us appear in this test by dwelling upon the initiatives taken by our government with a view to addressing the challenges of rural banking:

In India, the first structured attempt towards financial inclusion, featured in 2005, when it was launched by K C Chakraborty, the chairman of Indian Bank. Mangalam village became the first village in India where all households were provided with banking facilities.

Reserve Bank of India (RBI) has been undertaking financial inclusion initiatives in a mission mode through a combination of strategies ranging from provision of new products, relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. Some of these steps are: facilitating no-frill accounts and General Credit Cards (GCCs) for small deposits and credit, norms were relaxed for people intending to open accounts with annual deposits of less than 50,000. GCCs were issued to the poor and the disadvantaged with a view to help them access easy credit. With a

view to provide hassle-free and timely credit to farmers, as on September 2016, above 50 million Kisan Credit Cards (KCC) have been issued by the banking system. In January 2006, RBI permitted commercial banks to make use of the services of Non-Governmental Organizations (NGOs)/Self Help Groups (SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries act as business facilitators or business correspondents on behalf of commercial banks. RBI also directed the commercial banks in different regions to start a 100 per cent financial inclusion campaign, as a result of which UTs like Puducherry and states like Himachal Pradesh, Kerala announced 100 per cent financial inclusion in all their districts. RBI’s vision for 2020 is to open nearly 600 million new customers’ accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income, savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure as well.

Now, let us try to address the issues one by one:

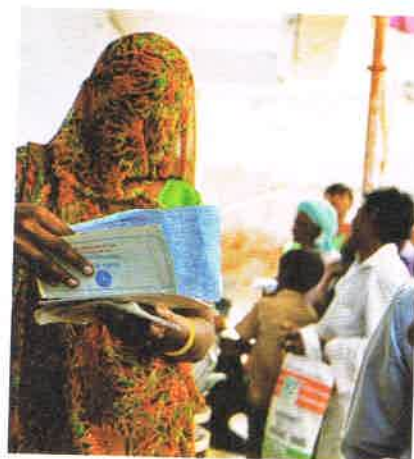
- 1 For effective functioning of Business Correspondent (BC) model in reaching poor villagers, the following need to be done:
 - BCs are not making enough income due to catering of services to low-income customers with low volume transactions. For optimum usage of BCs, they need to be adequately compensated by banks so that they are sufficiently incentivized to provide banking services to villagers at their door-steps.
 - For effective supervision of BC operations and for addressing

cash management issues as also to take care of customer grievances, banks should open small brick and mortar branches at a reasonable distance.

- Further, banks need to initiate suitable training and skill development programmes for effective functioning of BCs.
- 2 Designing suitable innovative products to cater to the requirements of poor villagers at affordable rates is an absolute imperative.
- To wean away villagers from borrowing from money lenders, banks should develop simplified credit disbursement procedures and also flexibility in their processes.
- 3 In an ICT enabled environment, technology is the main lever to achieve the eventual goal of functional inclusion at the earliest.
- Banks need to enhance their ATM network in rural and unbanked areas to serve the rural villagers. Alongwith this, adequate security measures as well as Financial Literacy campaigns need to be undertaken.
 - To reduce the overall transaction costs, associated with small ticket transactions in rural areas, use of domestic RuPay Cards may be enhanced.
 - In rural India, there are 506 million mobile subscribers as on March 2017, The options including the feasibility of using encrypted SMS based funds- transfer using an application that can run on any type of handset, may be explored.
 - In accordance with the provisions of recent NABARD circular, banks may make use of PACs, the largest rural network of cooperatives as business correspondents.
 - Since Remittance Facility for migrant population is of paramount importance, providing easy

and cheap remittance facilities to migrants is an absolute imperative.

- To deal with the poor villagers, banks need to initiate training programmes to equip their staff as well as BCs on the human side of banking.
- To achieve meaningful financial inclusion, banks should give priority for small farmers as compared to large farmers while sanctioning credit.
- Banks need to ensure scalability of their CBS platforms.
- There is a need to promote Electronic Benefit Transfer systems effectively for boosting rural banking.
- Govt/banks should initiate steps to increase the credit absorption capacity in rural areas by promoting employment and other opportunities.
- The latest data show that the number of bank branches in rural areas has increased from 33,378 in March 2010 to 51,830 in March 2016, while the number of branchless banking outlets in rural India has risen from 34,316 in March 2010 to 534,477 in March 2016. This shows an impressive outreach of banking services through branchless banking. Still, in the case of private sector banks, rural branches accounted for just 20 per cent of the total number of

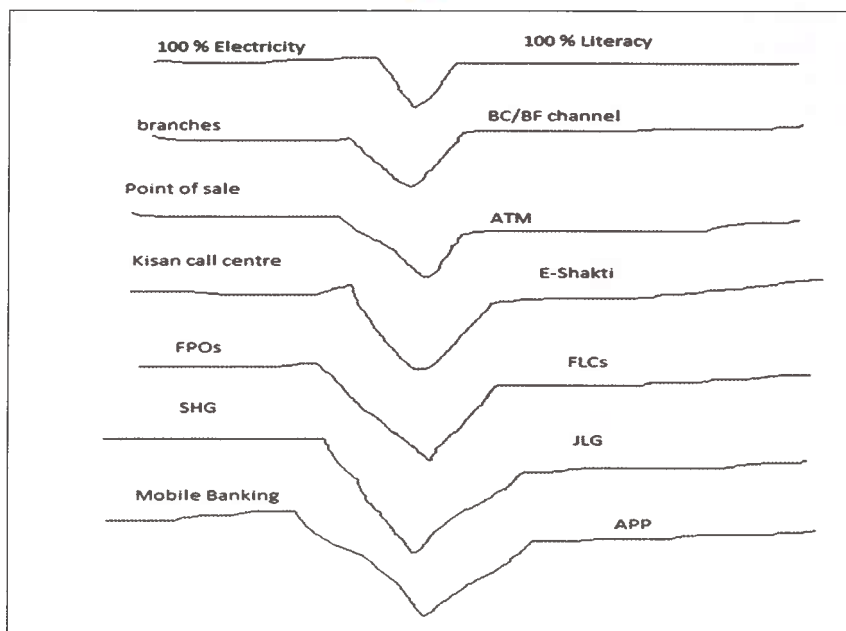


branches in March 2017. There is, therefore, an imperative need to ramp up the number of rural branches by the private banks.

- Reportedly, out of 6 lakh villages in India, around 18000 have no electricity, so government needs to make efforts on a war-footing for adequate infrastructure such as physical and digital connectivity, uninterrupted power supply etc.
- The need for vernacularisation of all banking forms is an absolute must, at least in major languages. As part of the Financial Literacy drive, banks need to undertake pro-active steps in helping the common public to get over their English phobia.
- India has the largest Postal Network in the world with over 1,54,882 Post Offices of which 1,39,182 (89.86 per cent) are in the rural areas. In this backdrop, all-round efforts are to be made



Rural Banking - Vision 2025



to ensure that Post Offices play a greater and more active role due to their known advantages. Launching of India Posts Bank by GOI is undoubtedly, a remarkable step in this direction.

- Although, the SHG-Bank Linkage programme of NABARD, has become the biggest Micro-Credit programme of the world, their sustainability and graduation to Micro-enterprise related issues are yet to be addressed.
- Recipients of BC services are mostly illiterate and unfamiliar with technology rendering them susceptible to misguidance by BCs.

The government as well as the Reserve Bank of India have taken various measures recently to solve the above issues like:

1. Enormous success in opening of about 26 crore accounts under **Jan Dhan Yojana**.
2. Setting up Micro Unit Development Refinance Agency (Mudra) for providing micro credits.
3. Various social sector schemes

like Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima yojana which would provide social security.

4. Providing banking services through banking correspondents and business facilitators.
 5. Proposed concessions on credit and debit transactions,
 6. Aadhaar enabled micro ATMs and RuPay cards to replace cash transactions
 7. Promoting differential banking through new licenses given to 11 payment banks and 10 small finance banks.
- However, these initiatives also pose certain challenges : PMJDY has the problem of multiplicity of accounts. A large number of accounts created under PMJDY do not have any money and lie dormant which only increases costs for banks to run these accounts. Poor people live on subsistence level of earning and with no source of regular earning, they don't have surplus to save in bank account or take any other financial instrument.

Resultantly, financial inclusion has no meaning for them.

- Technology enabled services such as linking of Jan Dhan, Aadhaar and Mobile (JAM) is slow to pick up. Payment banks will have the benefit of wider reach but they will need to counter issues of complex user interfaces, lack of internet penetration, lack of grievance redressal mechanisms etc. which might deter users. Further, RBI will have increased accountability on behalf of its increased responsibility towards the new payment banks.
- Direct Benefit Transfer may see collaboration of erstwhile middlemen with bank officials to delay/deny benefits.
- The spread of payments banks might also deprive regular banks of the fee income they earn from customers, like those for making demand drafts, cash transfers, remittances, cash withdrawal through cheques and ATM transaction fees.
- Schemes like PMJJBY, PMSBY, APY etc are largely dependent on the success of banking reaching the poor and face a herculean task when a large section of the population does not have access to or awareness of pension or insurance products.
- In quite a number of cases, the Business Correspondents have been accused of siphoning off money
- Banking technology related frauds are increasing at an alarming rate
- In rural and hinterland areas mobile connectivity is still in poor condition.
- Priority Sector Lending targets may not reach the deserved, as many banks shy away from lending money to the poor. So, to achieve targets they give loans to the undeserved, who make fraud-documents to receive the same. For example, gold loans are available for lower rate for

farmers. But people who do not even do agriculture, receive these loans, using their contacts at banks. So here PSL gets diverted away from the deserved to the undeserved. The Government should look into this issue and make sure that loans are provided to the deserving applicants and strict action is taken against the fraud-applicants and bank officials who support it.

Let me conclude with the hope that the Reserve Bank remains committed to creating a conducive regulatory

environment where financial entities can ensure hassle free financial services to the poor without jeopardising financial stability. Contextually, banks may be given the freedom to determine their own financial inclusion strategies as part of their overall business philosophy and pursue it as a commercial activity, taking on board their risk appetite and product sophistication. With a couple of financial service providers, and especially an erstwhile microfinance service provider, allowed to become banks and with the possible

introduction of on-tap licensing of small banks and payment banks in addition to entry of foreign banks in the context of priority sector requirements, it is hoped that the size and scope of the rural financial system landscape will expand and thereby, address the persistent and emerging challenges relating to rural finance and thus substantially improve the lot of rural folks, both qualitatively and quantitatively. Let us look forward to translating the underlying vision of Rural Banking into reality. □

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Schemes for Women Empowerment Approved by Cabinet Committee

The Cabinet Committee on Economic Affairs (CCEA) chaired by the Prime Minister has given its approval for expansion of the schemes of Ministry of Women and Child Development under Umbrella Scheme "Mission for Protection and Empowerment for Women" for a period 2017-18 to 2019-20. CCEA has also given approval to the new scheme called 'Pradhan Mantri Mahila Shakti Kendra', which will empower rural women through community participation to create an environment in which they realize their full potential. Expansion under Beti Bachao Beti Padhao has also been approved based on the successful implementation in 161 districts.

The financial outlay during 2017-18 to 2019-20 will be Rs.3,636.85 crore with a Central Share of approximately Rs.3,084.96 crore.

The approved sub-schemes are social sector welfare schemes especially for care, protection and development of women. It will also aim at improvement in declining Child Sex Ratio; ensuring survival and protection of the girl child; ensuring her education, and empowering her to fulfil her potential. It will provide an interface for rural women to approach the government for availing their entitlements and for empowering them through training and capacity building. Student volunteers will encourage the spirit of voluntary community service and gender equality. These students will serve "agents of change" and have a lasting impact on their communities and the nation.

The new scheme "Pradhan Mantri Mahila Shakti Kendra (PMMSK)" is envisaged to work at various levels. While, National level (domain based knowledge support) and State level (State Resource Centre for Women) structures will provide technical support to the respective government on issues related to women, the District and Block level Centres will provide support to PMMSK and also give a foothold to BBBP in 640 districts to be covered in a phased manner.

Community engagement through Student Volunteers is envisioned in 115 most backward districts as part of the PMMSK Block level initiatives. More than 3 lakh student volunteers from local colleges will be engaged in this process, while association with NSS/NCC cadre students will also be an option for contributing to nation building as responsible citizens. This will provide an opportunity to Student Volunteers to participate in the development process by bringing change in their own communities and ensuring that women are not left behind and are equal partners in India's progress.

Expansion and intensification of efforts have also been approved for Beti Bachao Beti Padhao (BBBP) through sustained nation-wide Advocacy and Media Campaign in 640 districts and focused multi-sectoral action in selected 405 districts. All low CSR districts shall be taken up in the first year itself under BBBP. To provide support to working women 190 more Working Women Hostels to accommodate approximately 19,000 additional working women will be set up. Additional Swadhar Grehs have been approved to provide relief and rehabilitation of approximately 26,000 beneficiaries.

To provide comprehensive support to women affected by violence, One Stop Centres (OSCs) will be established in 150 additional districts during the period. These One Stop Centres will be linked with women helpline and will provide 24 hour emergency and non-emergency response to women affected by violence both in public and private space across the country. A unique initiative involving engagement of Manila Police Volunteers (MPVs) on a voluntary basis in States/UTs will also be done to create public-police interface, which will be expanded to 65 districts covering all States /UTs.

One common Task Force shall be created at National, State and district level for planning, reviewing and monitoring all the sub-schemes in this Umbrella, with the objective of ensuring convergence of action and cost efficiency.

Global Entrepreneurship Summit 2017



The Global Entrepreneurship Summit (GES) was held for the first time in South Asia in Hyderabad, India, from November 28-30, 2017. Co-hosted by the Governments of the United States and India, Prime Minister of India inaugurated the summit and Advisor to the President Ivanka Trump led the U.S. contingent to GES. The GES is the preeminent annual gathering of emerging entrepreneurs, investors, and business leaders from around the world. This year, the focus was on women entrepreneurs and the tremendous potential women bring to entrepreneurship.

This was the eighth edition of the Global Entrepreneurship Summit. With the theme of “Women First, Prosperity for All,” this was the first GES in which women were the majority, over 52.5 per cent, of the participants.

Attended by over 1600 delegates, including entrepreneurs and investors, CEOs of major knowledge-based industries, representing the full measure of entrepreneurial talent from diverse backgrounds across the world.

More than 10 countries were represented by an all-female delegation, including from Afghanistan, Saudi Arabia, and Israel.

The summit primarily focused on four thematic sectors: Energy and Infrastructure, Healthcare and Life Sciences, Financial Technology and Digital Economy, and Media and Entertainment sectors.

In his inaugural address, the Prime Minister expressed his happiness in co-hosting the 2017 Global Entrepreneurship Summit in partnership with the Government of the United States of America.

Some of the highlights of his speech were:

- The Summit is being held in South Asia for the first time. It brings together leading investors, entrepreneurs, academicians, think-tanks and other stakeholders to propel the global entrepreneurship ecosystem. ● This event not only connects the Silicon Valley with Hyderabad but also show-cases the close ties between the United States of America and India. It underlines our shared commitment towards encouraging entrepreneurship and innovation.
- The theme “Women First, Prosperity for All” makes this edition of GES stand out. In Indian mythology, woman is an incarnation of Shakti - the Goddess of power. We believe women empowerment is vital to our development.
- To my young entrepreneur friends from India, I would like to say: each of you has something valuable to contribute towards creating a New India by 2022. You are vehicles of change and instruments of India’s transformation.
- To my entrepreneur friends from across the globe, I would like to say: Come, Make in India, Invest in India - for India, and for the world. I invite each one of you to become a partner in India’s growth story. And once again assure you of our whole-hearted support.

Mission Indradhanush: Revamping of Public Sector Banking in India

D S Malik



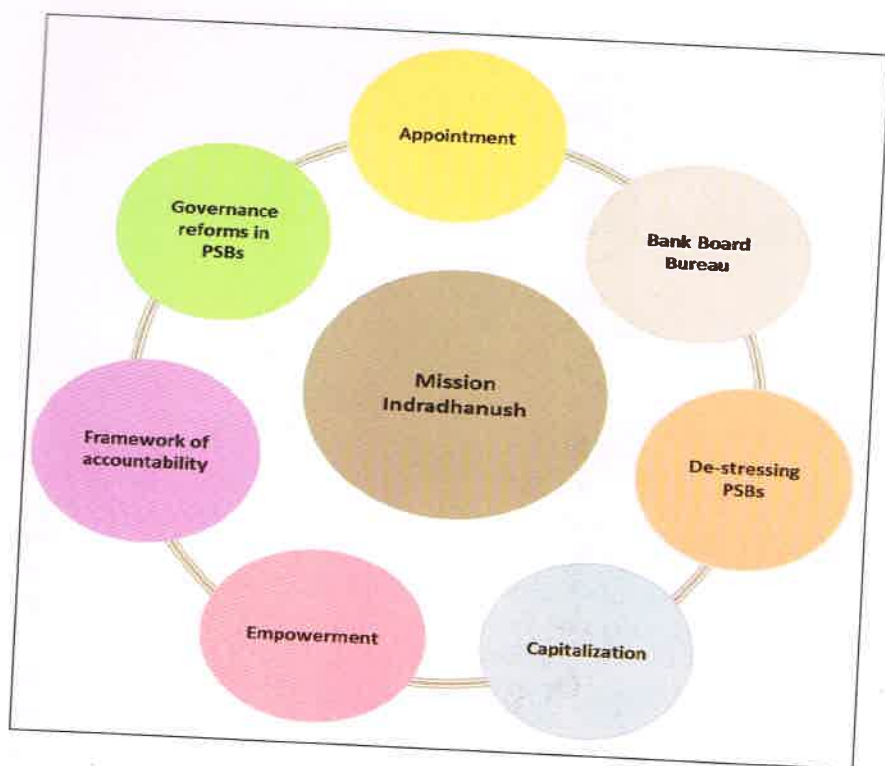
In order to overcome such challenges, the Government in 2015 developed what is popularly known as the 'Indradhanush Plan'. This plan for recapitalising and revamping of PSBs was announced by the Central Government on August 14, 2015 in national capital and was one of the most comprehensive reforms undertaken by the Government since banking nationalisation in the year 1970

In the last two months, the Financial Services Sector has been abuzz with the Government announcing a massive capital infusion plan of Rs 2.11 lakh crore over the next two years for the Public Sector Banks (PSBs), for the amendments made to the Insolvency and Bankruptcy Code (IBC) and also for focusing on the mergers of PSBs, for which an 'Alternative Mechanism' was set-up to fast track consolidation of PSBs. These may come across as sudden initiatives to revamp the Public Sector Banking System. However, these initiatives have been strategically planned by the Government and are now seeing the light of the day. Since the present Government assumed power in 2014, there have been debates on the performance of PSBs as they play a vital role in India's economy. In the past few years, PSBs which had a predominant share of infrastructure financing had been deeply affected due to several reasons like, delay in approvals and land acquisition, low global and domestic demand among others. Thus resulting in lower profitability. In order to overcome such challenges, the Government in 2015 developed what is popularly known as the 'Indradhanush Plan'. This plan for recapitalising and revamping of PSBs was announced by the Central Government on August 14, 2015

in national capital and was one of the most comprehensive reforms undertaken by the Government since banking nationalisation in the year 1970.

- **Appointments:** The Government decided to separate the post of Chairman and Managing Director by prescribing that in the subsequent vacancies to be filled-up, the CEO will get the designation of MD & CEO and there would be another person who would be appointed as non-Executive Chairman of PSBs.
- **Banks Board Bureau (BBB):** The BBB will be a body of eminent professionals and officials, which will replace the Appointments Board for appointment of Whole-time Directors as well as non-Executive Chairman of PSBs. They will also constantly engage with the Board of Directors of all the PSBs to formulate appropriate strategies for their growth and development.
- **Capitalization:** As of now, the PSBs are adequately capitalized and meeting all the Basel III and RBI norms. However, the Government of India wants to adequately capitalize all the banks to keep a safe buffer over and above the minimum norms

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of Basel III. The requirement of extra capital for the next four years up to FY 2019 is likely to be about Rs.1,80,000 crore. This estimate is based on credit growth rate of 12 per cent for the current year and 12 to 15 per cent for the next three years depending on the size of the bank and their growth ability. Out of the total requirement, the Government of India proposed to make available Rs.70,000 crores out of Budgetary Allocations for four years as per the figures given below:

- (A) De-stressing PSBs:** The Infrastructure Sector and Core Sector projects have been the major recipient of PSBs' funding during the past decades. But due to several factors, these projects got stalled/stressed thus leading to NPA burden on banks. In a recent review, problems causing stress in the power, steel and road sectors were examined. Discussion were held with the stakeholders of

the specific sectors. Some of the actions undertaken after these meetings are as follows-

- Project Monitoring Group (Cabinet Secretariat)/Respective Ministries will pursue with concerned agencies to facilitate issue of pending approval/permits expeditiously.
- Pending policy decisions to facilitate project implementation/operation would be taken-up by the respective Ministries/Departments.
- Ministry of Coal/PNG will evolve policies to address the long-term availability of fuel for these projects.
- Respective Discoms will be provided hand-holding towards enabling early reforms.
- Promoters will be asked to bring in additional equity in an attempt

to address the worsening leverage ratio of these projects. Wherever the promoters are unable to meet this requirement, the Banks would consider viable options for substitution or taking over management control.

- The possibility of changing the extant duty regime without adversely impacting the downstream user industry would be considered by the Government. The decision to increase import duty on steel has already been taken.
- RBI has been requested to consider the proposal of the Banks for granting further flexibility in restructuring of existing loans wherever the Banks find viability.

(B) NPA Disclosures

Besides the recovery efforts under the DRT and SARFASI mechanism, the following additional steps have been taken to address the issue of NPAs:

- RBI released Guidelines in 2014 for "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy" suggesting various steps for quicker recognition and resolution of stressed assets.
- RBI has now come-out with new category of borrower called Non-Cooperative borrower. Fresh exposure to a borrower reported as non-cooperative will necessitate higher provisioning.
- RBI has tightened the norms for Asset Reconstruction Companies (ARCs), where the minimum investment in Security Receipts should be 15 per cent which was

Financial Year 2015 -16
Rs. 25,000 crore

Financial Year 2016-17
Rs. 25,000 crore

Financial Year 2017-18
Rs. 10,000 crore

Financial Year 2018-19
Rs. 10,000 crore

earlier 5 per cent. This step will increase the cash stake of ARCs in the assets purchased by them. Further, by having more cash-up front, the banks will have better incentive to clean their balance sheets.

- The Central Government has decided to establish six new Debt Recovery Tribunals (DRT) at Chandigarh, Bengaluru, Ernakulum, Dehradun, Siliguri, Hyderabad to speed-up the recovery of bad loans of the banking sector.
- **Empowerment:** The Government has issued a circular that there will be no interference from Government and Banks are encouraged to take their decision independently keeping the commercial interest of the organisation in mind.
- **Accountability:**
- A new framework of Key Performance Indicators (KPIs) to be measured for the performance of PSBs.
- Department of Financial Services (DFS), Ministry of Finance has issued a circular to PSBs laying down strict timelines for filing of complaints of fraud cases with CBI as well as for monitoring each and every case almost on a day-to-day basis.
- Streamlining vigilance process for quick action for major frauds including connivance of staff etc. RBI has issued Guidelines in May, 2015 to streamline the framework for dealing with the loan frauds.
- **Governance Reforms:**

The process of Governance Reforms started with "GyanSangam" - a conclave of PSBs and FIs organized at the beginning of 2015 in Pune which was attended by all the stake-holders including Governor, RBI and CMDs of

all PSBs and FIs. The Prime Minister and the Finance Minister addressed the participating stakeholders and actively interacted with them in order to understand and resolve their issues. The Prime Minister gave the Government's overall view in order to improve the banking system including giving financial autonomy and assuring non-interference from the Government in their day to day commercial operations. However, he said that this is with accountability and telling what all is expected from them. The 'GyanSangam' recommendations included among others strengthening of Risk Management practices. The focus is on improving HR Management practices and removing barriers so that the banks can share and work together on common resources. Various steps have been taken to empower the Banks' Boards.

In the last one year, the major game changing initiatives in line with the Banking Reforms have been executed:

- **Insolvency and Bankruptcy Code** - The Insolvency and Bankruptcy Code, 2016 (Code) was enacted on May 28, 2016, with an aim to consolidate the laws relating to insolvency of companies and limited liability entities (including limited liability partnerships and other entities with limited liability), unlimited liability partnerships and individuals, presently contained in a number of legislations, into a single legislation. Recently amendments were made in IBC to ensure that willful defaulters are discouraged to bid again for their own stressed assets which created huge NPAs for banks.
- **Recapitalisation of PSBs** - In order to promote credit growth and job creation, the Government has sought to recapitalise PSBs. This entails mobilization of capital, with maximum allocation in the current year, to the tune of

about Rs.2,11,000 crore over the next two years, through Budgetary Provisions of Rs. 18,139 crore, Re-Capitalisation Bonds to the tune of Rs. 1,35,000 crore, and the balance through raising of capital by banks from the market while diluting the Government equity (estimated potential of Rs. 58,000 crore) with a view to support credit growth and job creation.

- **Consolidation of Banks** - Even though the consolidation has been on RBI's agenda in the last few years, there have not been many significant mergers in the banking sector except that of six SBI Associate Banks and Bhartiya Mahila Bank with the SBI. Consolidation has been largely confined to a few mergers in the private sector and among the associates of SBI in particular. The RBI Governor has said the Indian Banking System could be better-off if some Public Sector Banks (PSBs) are consolidated to have fewer but healthier entities, as it would help in dealing with the problem of stressed assets.

Meanwhile, the Central Government has constituted an Alternative Mechanism for consolidation of the Public Sector Banks (PSBs) under the Chairmanship of the Union Minister of Finance and Corporate Affairs,

The proposals received from banks for in-principle approval to formulate schemes of amalgamation will be placed before the aforesaid Alternative Mechanism. A Report on the proposals cleared by Alternative Mechanism will be sent to the Cabinet every three months. Alternative Mechanism may also direct banks to examine proposals for amalgamation. Alternative Mechanism will receive inputs from Reserve Bank of India (RBI) before according in-principle approval. Alternative Mechanism shall devise

its own procedure for appraisal of amalgamation proposals by banks, and be guided overall by the objectives of the Nationalisation Acts {Banking Companies (Acquisition and Transfer of Undertakings) Acts, 1970 and 1980}.

The Final Schemes formulated will be approved by the Central Government, and laid in both the Houses of Parliament. Alternative

Mechanism will be serviced by the Department of Financial Services for this purpose.

Besides above, the Central Government also plans to come-out in near future with 'Indradhanush 2.0', a comprehensive plan for re-capitalisation of Public Sector Lenders, with a view to make sure that they remain solvent and fully comply with the global capital

adequacy norms, Basel-III. However, 'Indradhanush 2.0' will only be finalised after a detailed analysis of the Asset Quality Review (AQR) conducted by the Reserve Bank of India (RBI). The numbers are being re-looked at and a revised programme of capitalisation of PSBs will be issued as part of Indradhanush 2.0. □

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National Trachoma Survey Report (2014-17) Released

The National Trachoma Survey Report (2014-17), was released recently. India is now free from 'infective trachoma', - a momentous achievement. The survey findings indicate that the active trachoma infection has been eliminated among children in all the survey districts with overall prevalence of only 0.7 per cent. This is much below the elimination criteria of infective trachoma as defined by the WHO- active trachoma is considered eliminated if the prevalence of active infection among children below 10 years is less than 5 per cent, The Survey results indicate that active trachoma is no longer a public health problem in India. The goal of trachoma elimination as specified by the WHO under its GET2020 program have been met. This has been possible due to decades of inter-sectoral interventions and efforts that included provision of antibiotic eye drops, personal hygiene, availability of safe water, improved environmental sanitation, availability of surgical facilities for chronic trachoma, and a general improvement in the socio economic status in the country,



Trachoma (Rohe/Kukre-रोहे / कुक्करे) is a chronic infective disease of the eye and is the leading cause of infective blindness globally. Trachoma is a disease of poor environmental and personal hygiene and inadequate access to water and sanitation. It affects the conjunctiva under the eyelids. Repeated infections cause scarring leading to in-turning of the eyelashes and eyelids. This further causes damage to the cornea and blindness. It is found affecting the population in certain pockets of the States of North India like Gujarat, Rajasthan, Punjab, Haryana, Uttar Pradesh and Nicobar Islands. Trachoma infection of the eyes

was the most important cause of blindness in India in 1950s and over 50 per cent population was affected in Gujarat, Rajasthan, Punjab, and Uttar Pradesh. It was the most important cause of corneal blindness in India, affecting young children.

The National Trachoma Prevalence Surveys and the Trachoma Rapid Assessment Surveys were conducted by Dr. Rajendra Prasad Centre for Ophthalmic Sciences, All India Institute of Medical Sciences, New Delhi in collaboration with National Program for Control of Blindness and Visual Impairment, Union Ministry of Health and Family Welfare from 2014 to 2017. This was conducted in 27 high-risk districts across 23 states and union territories. Trachoma Prevalence Surveys were done in 10 districts selected from the previously hyper-endemic states. Under the survey, 19662 children in 1-9 year age group were examined by trained ophthalmologists. As many as 44135 persons were examined among the 15years+age group. The Trachoma Rapid Assessment Surveys (TRA) was done in 17 other districts from other parts of the country in places where trachoma cases have been reported, which were not previously hyper-endemic.

DO YOU KNOW?

SPECIALIZED BANKS IN INDIA

Financial Institutions are an important segment of the financial system of any country as they provide medium to long term finance to different sectors of the economy. In India, these institutions are set up to meet the growing demands of particular sectors, such as rural, housing, small industries, export and import. These institutions have been playing a crucial role in channelizing credit to these sectors.

There are four prominent specialized banks or financial institutions in India. These are - Export-Import Bank of India (EXIM Bank), National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI).

Export-Import Bank of India (EXIM Bank)

Export-Import Bank ranks high among the specialized financial institutions in India. It was established under the Export-Import Bank of India Act, 1981 as a purveyor of export credit, mirroring global Export Credit Agencies (ECAs). The EXIM Bank commenced its operations in 1982. It serves as a growth engine for industries and SMEs through a wide range of products and services. These include import of technology and export product development, export production, export marketing, pre-shipment and post-shipment and overseas investment. It offers financial assistance to the exporters and importers and also by acting as a link between the various financial institutions to ensure overall development of the Indian financial market. The category of term loans are issued for modernization, purchase of equipments, acquisitions etc.

For the exporters the bank provides warehousing finance, export lines of credit facilities. The funded capital scheme of the bank includes long-term working capital, cash flow financing, and the non funded capital scheme include letter of credit limits, guarantee limits. For the film industry the bank has arranged for cash flow financing for film production, funds for exhibition in overseas market. The bank is engaged in offering specialized services Human Resource Management, Research and Planning, Internal Audit etc. The Export-Import Bank of India has set up offices throughout India and in foreign countries as well. The head office is located at Mumbai.



National Bank for Agriculture and Rural Development (NABARD)

The importance of institutional credit in boosting rural economy has been clear to the Government of India right from its early stages of planning. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into these very critical aspects. The Committee was formed on March 30,

1979. The Committee's report outlined the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to credit related issues linked with rural development. Its recommendation was formation of a unique development financial institution which would address these aspirations and formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act



61 of 1981. NABARD came into existence in July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). Set up with an initial capital of Rs. 100 crore, its' paid up capital stood at Rs. 5,000 crore as on March 31, 2016. Consequent to the revision in the composition of share capital between Government of India and RBI, the Government of India today holds Rs. 4,980 crore (99.60 per cent) while Reserve Bank of India holds Rs. 20.00 crore (0.40 per cent).

National Housing Bank (NHB)

The National Housing Bank (NHB) was established in the year 1988 as per the guidelines of the National Housing Bank Act, 1987 with a view to accelerate the growth of the Housing Financing Institutions by providing them with financial and other required assistance. It extends financial assistance for entire infrastructural development offers refinance to the existing housing finance companies etc. The bank has set up specialized divisions like Development and Risk Management, Project Finance, Refinancing Operations, Resource Mobilization and Management etc. NHB is wholly owned by Reserve Bank of India, which contributed the entire paid-up capital. The general superintendence, direction and management of the affairs and business of NHB vest, under the Act, in a Board of Directors.



Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector and for co-ordination of the functions of the institutions engaged in similar activities.

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of



UdyamiMitra



SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 5.1 crore units, creating employment of about 11.7 crore, manufacturing more than 6,000 products, contributing about 45 per cent to manufacturing output and about 40 per cent of exports in terms of value, about 37 per cent of GDP.

The business strategy of SIDBI is to address the financial and non-financial gaps in MSME eco-system. Financial support to MSMEs is provided by way of (a) Indirect / refinance to banks / Financial Institutions for onward lending to MSMEs and (b) direct finance in the niche areas like risk capital, sustainable finance, receivable financing, service sector financing, etc. In order to promote and develop the MSME sector, SIDBI adopts a 'Credit Plus' approach, under which, besides credit, SIDBI supports enterprise development, skill up-gradation, marketing support, cluster development, technology modernisation, etc., in the MSME sector through its Promotional and Developmental support to MSMEs. These P and D support have benefitted more than 2.3 lakh persons in the MSME sector, created more than 1.5 lakh employment and helped in setting up more than 80,000 units, mostly rural enterprises.

A New Dimension in Highway Development

Yudhvir Singh Malik



Bharatmala envisages a quantum leap forward to redefine road development in terms of development, operation and maintenance of National Highways (NH) across the country based on corridor approach of planning and execution. The objective of Bharatmala is to optimize logistics efficiency for both freight and passenger movement on NHs across the country through suitable interventions

The proposal for Phase-I of Bharatmala Pariyojana has been approved by the Cabinet Committee on Economic Affairs in its meeting held in October, 2017. Bharatmala is a comprehensive highway development programme for the country. The highways sector continues to remain a critical infrastructure sector in India due to existing gaps and enhanced transportation requirements. Bharatmala marks the beginning of a new era for highways infrastructure.

National Highways Development Project (NHDP) was the first flagship highway development programme in the country launched by the Government in 1998. Using the experience from implementation of (NHDP), Bharatmala envisages a quantum leap forward to redefine road development in terms of development, operation and maintenance of National Highways (NH) across the country based on corridor approach of planning and execution. The objective of Bharatmala is to optimize logistics efficiency for both freight and passenger movement on NHs across the country through suitable interventions.

Approach in Designing Bharatmala

A detailed study of the goods movement between the high-density Origin-Destination (O-D) pairs was

conducted in a scientific manner. Thereafter, a considered strategy was formulated to identify and develop new economic corridors so that the logistics efficiency of the economic region is maximized, which, in turn, is expected to have a force multiplier effect on the economy. This O-D study took into account the integration of economic corridors with the ongoing projects under NHDP.

This study also brought out that most of the economic corridors in the country have infrastructure asymmetry. For example, in the Mumbai-Kolkata corridor, a significant stretch in the state of Odisha is two-laned and also there are frequent lane changes. If this entire stretch is not upgraded to at-least uniform 4-lane facility, the traffic movement will continue to be hampered leading to freight cost escalation that will have a cascading effect on the end product e.g. steel and power. There was, thus, an urgent need to address such asymmetry on corridors across the country.

In addition to development of new corridors and feeder routes, there is a need to improve the throughput of the road stretches already developed under the National Highways Development Project (NHDP), by de-congesting stretches through development of bypasses, ring roads etc. and development of Multimodal Logistics Parks to enable freight

aggregation and disaggregation and effective modal shifts.

Development of infrastructure along the borders and coastal areas is critical to boost India's Export-Import (EXIM) trade. Border roads have been identified based on strategic importance along with the objective of improving connectivity to trading points with India's neighbours - Nepal, Bangladesh and Bhutan. The coastal road development and port-connectivity roads enhancement have been synergized with the Sagarmala Programme of the Ministry of Shipping.

Recognizing the importance of shifting the focus from project-based road development to a corridor-based approach, and thereby bridging the critical gaps, Ministry of Road Transport and Highways (MoRTH) has designed the 'Bharatmala Pariyojana'.

Bharatmala – Six Components

Economic Corridors - Identified Highway Corridors of Economic importance are expected to carry 25 per cent of freight in the coming years. Once built, the National and Economic corridors, along with their inter-corridors and feeder routes, is expected to carry 80 per cent of our freight traffic. A total of about 26,200 kms of corridors have been identified to be developed as Economic Corridors, of which 9,000 kms are being taken up in Phase-I.

Inter-Corridors and Feeder Roads – Around 8,000 kms of inter-corridor and around 7,500 kms of feeder routes have been identified, of which 6,000 kms are being taken up in Phase-I.

National Corridors Efficiency Improvement – The Golden-Quadrilateral and North-South and East -West corridors carry 35 per cent of India's freight and are proposed to be declared as National Corridors. The average traffic in the 6 national corridors is 30,000 PCUs. The 6/8 laning of these corridors would be



taken up as per need. The National Corridors have developed choke points every time, impacting logistics efficiency. There is a requirement to construct Ring Roads and bypasses/ elevated corridors in addition to lane expansion to decongest these National Corridors. Further, Logistics Parks are also planned to be developed at strategic locations to enable efficient modal transfers and freight aggregation and disaggregation. Around 5,000 kms are being taken up under this category in Phase-I.

Border and International Connectivity Roads – Around 3,300 km of border roads have been identified to be developed along the international borders for their strategic importance. Around 2,000 km of roads are required for connecting India's major highway corridor to International trade points so as to facilitate Export-Import (EXIM) trade with our neighbors, namely, Nepal, Bhutan, Bangladesh and Myanmar. Around 2,000 kms roads are being taken up under this category in Phase-I.

Coastal and Port Connectivity Roads – Around 2,100 km of coastal roads have been identified to be developed along the coast of India. These roads are expected to boost tourism and industrial development of the coastal regions. Around 2,000 km of port connectivity roads have been identified to facilitate EXIM trade with an emphasis to improve connectivity to non-major ports. The roads identified have been synergized with the Sagarmala programme of the Ministry of Shipping. Around 2,000 kms are being taken up under this category in Phase-I.

Greenfield Expressways – Certain sections of National and economic corridors have traffic exceeding 50,000 PCUs and have also developed several choke points. About 1,900 km of these stretches have been identified for development of greenfield expressways, of which around 800 kms are being taken up under this category in Phase-I.

Bharatmala Phase-I

A total of around 24,800 km of roads are planned to be developed in Bharatmala Phase-I. In addition,

Summary of approved Phase-I components and approved outlay for the same are as follows:

Sr. No.	Components	Length -km	Outlay -Rs crore
(i)	Economic corridors development	9,000	1,20,000
(ii)	Inter-corridor & feeder roads	6,000	80,000
(iii)	National Corridors Efficiency improvements:	5,000	100,000
(iv)	Border & International connectivity roads	2,000	25,000
(v)	Coastal & port connectivity roads	2,000	20,000
(vi)	Expressways	800	40,000
	Total:	24,800	385,000
	Balance road works under NHDP	10,000	1,50,000
	Total		5,35,000

Phase-I also includes about 10,000 kms of the residual road works under NHDP. Estimated outlay for Phase-I is Rs 5,35,000 crores spread over 5 years.

There is adequate flexibility in terms of identification of above 24,800 kms as Minister-RT and H is authorized to substitute up to 15 per cent of this length with other suitable projects, in case development of certain identified stretches cannot be taken up due to land acquisition issues or other unforeseen factors.

Appraisal and Approval of Projects

Effective delegation in appraisal/ approval of individual NH project stretches is a distinguishing feature of this programme. This will enable streamlined and time-bound award of identified projects leading to faster implementation. The National Highways Authority of India (NHAI) has been empowered to appraise and approve projects. At the same time, due care has been taken to ensure that there is no dilution in the quality of assessment involved in the appraisal/ approval mechanism. All projects shall be technically, financially and economically appraised by well-equipped Project Appraisal and Technical Scrutiny Committees to be setup in the NHAI and MoRTH comprising experts from NITI Aayog. Project preparation activities have already been initiated by the implementing agencies to expedite award of contracts. CEO, NITI Aayog has been included as a part-time member on the NHAI Board (Authority).

Grand Challenge Mechanism

Encouraging State Governments

to participate in the development process through Grand Challenge mechanism is another distinguishing feature of this programme. Under this mechanism, projects wherein concerned State Governments play a proactive role, particularly in terms of providing project land at a fast pace, shall get priority in terms of being identified for implementation.

Institutional Capacity Enhancement

In order to effectively implement the programme, conscious efforts are being made for enhancing the internal capacities of MoRTH and its executing agencies. A study on "Organization and Process Transformation of MoRTH and its implementation agencies" has been taken up and some of the recommendations of the study have already been implemented e.g. reforms related to land acquisition, reforms to enhance quality of project DPRs, development and implementation of an online Project Monitoring Information System (PMIS) and others.

Impact of Bharatmala

- i) Optimized efficiency of traffic movement on roads across the country through adoption of a coherent corridor approach. The network identified is expected to cater to about 80 per cent of the inter-district freight movement in the country. It will enable improvement in average speed of vehicles in the country by about 20- 25 per cent.
- ii) The development of economic corridors and the associated inter-corridor and feeder routes will result in improved road infrastructure, removal of congestion points on the network
- iii) Connecting 550 Districts in the country through NH linkages. Currently, around 300 Districts have NH linkages.
- iv) Creation of major opportunities for investment and construction activities in the highways and associated infrastructure development, operation and maintenance.
- v) Upgradation of 24,800 km of corridor network in Phase-I of Bharatmala is expected to generate about 34 crore man-days of employment during the construction phase and approximately 22 million permanent jobs driven by increased level of economic activities. □

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YOJANA

Forthcoming Issue

Public Grievances Redressal

India's Credit Ratings: Boost to Investors' Sentiment

Pravakar Sahoo
Bhavesh Garg



India's macroeconomic health, particularly its investment position and debt indicators (economic growth, current account balance, FDI inflows, and forex reserves) have improved since 2013. India has clearly demonstrated its ability to repay its debt and always exhibited remarkably high willingness to pay; it has never defaulted on its obligations. India has the capacity to bear large debt and can simultaneously secure financing to remain solvent. It is stable, and is one of the fastest growing economies worldwide, and this reflects in positive investor sentiment over the past few years

Earlier this year, Economic Survey 2016-17 pointed out the bias in perception about Indian economy by international Credit Rating Agencies (CRAs). On the backdrop of the debate whether India's credit ratings deserve an upgrade or not, the Moody's has finally upgraded India's ratings from BAA3 to BAA2 and outlook from positive to stable. This upgrade has come after a gap of more than thirteen years. The Moody's have cited various reasons for this upgrade, viz. change in taxation regime with the introduction of Goods and Services Tax (GST), Insolvency and Bankruptcy Code to resolve bankrupt cases, institutional reforms in the form of India's aggressive stance for a less cash economy, raising the Foreign Direct Investment (FDI) equity limits on various sectors, emphasis on infrastructure development with various new projects being announced to enhance India's road and port network and following the fiscal consolidation path. This is the second positive news about Indian economy after it was ranked 100 in the World Bank's Ease of Doing Business indicators by moving up 30 places in one year. On the contrary, another agency, the Standard and Poor' (S&P) did not upgrade credit ratings for India despite notable improvements in the overall health of the Indian economy in the last few years. Infact, S & P has

continued to assign a stable rating for India since 2007.

Importance of Credit Ratings

CRA, in order to rate investments, consider broad financial, macroeconomic, and stability indicators in a borrower country and its economic outlook to estimate its ability and willingness to pay its debt (and its likelihood of default). Three international CRAs regulate most of the world market—Standard and Poor's (S&P), Moody's, and Fitch—and maintain that a credit rating should not be intended as a guarantee of credit quality, as the future cannot be forecast accurately and ratings should be considered just a market signal. Also, different CRAs do not measure similar things before taking decisions on credit ratings. In particular, S&P is most interested in the creditworthiness of the borrowers, i.e. the probability of default. Moody's, on the other side, examines the expected losses which are a part of the broader likelihood of default. Though the credibility of ratings agencies has moderated during post financial crisis where AAA rated investments defaulted, their importance has by no means diminished. Credit ratings do not use a rule-based method, and are subjective, but these affect the cost of borrowing and access to international capital markets and so remain important, and

countries remain dependent on ratings (Kerwer 2005).

To raise capital in international financial markets and attract foreign investment, governments and companies in emerging market economies (EME) like India depend on the ratings of international CRAs. Hence, these credit ratings play a pivotal role in bringing investment and thereby increasing economic growth of a country. To rate investments, CRAs consider indicators such as total and external debt-to-GDP ratio, GDP growth, GDP per capita, capital and FDI inflows, fiscal and current account deficit, and default history of an economy.

The upgrade in ratings by Moody's will benefit India in many ways. India is a capital-scarce economy and given the improvement in ratings, it will be easier to attract capital from abroad which in turn will help fuel the economic growth further. Second, the investments now could be attained at a lower borrowing cost as the risk premium on credit will be reduced. Third, the external deficits now could be financed easily and at a lower cost, and the surge in investment will help improve the stock market performance of the economy as well.

Performance of Indian Economy

The Indian economy has performed relatively well in the past decade. The

economy, on an average, has grown at 7.68 per cent over the last ten years. Infact, India is the fastest growing emerging economy and is projected to grow at 7.2 per cent in fiscal year 2017-18 and the improvement in growth is mainly on account of rise in exports and government spending. India has outpaced other emerging and developing economies that are expected to grow at only 4.1 per cent (World Bank, 2017).

Table 1 presents data on important macroeconomic indicators for the Indian economy. As can be observed, current account position has significantly improved since the outbreak of global financial crisis. The current account deficit even reached to an unprecedented level of 4.8 per cent of GDP in 2013 along with high fiscal deficit of 7 per cent of GDP which created fears of unsustainability. Following the launch of flagship program, "Make In India" by Government of India, in September 2014 to provide a boost to the manufacturing sector in India for job creation and higher growth, Indian economy managed to sustain a high level of deficits and secured its financing through stable capital flows. The trend in FDI inflows, which are the most stable form of capital flows and are relatively immune to sudden 'stops' witnessed a twofold increase from US\$ 22.826 billion in 2007 to US\$ 55.558 billion in

2016. The 'make in India' program focuses on 25 potential sectors to generate 100 million jobs with the objective of increasing the share of manufacturing in India's GDP to 25 per cent by 2020. Since the launch of this programme, government of India has initiated a wide range of reforms relating to infrastructure development, easing environmental approvals and clearances, ease of doing business, protecting Intellectual property rights, giving incentives to small and medium enterprises, making the tax regime simpler, reforming labour laws, easing FDI norms and promoting an open economy led by efficient trade policy reforms. The economic policies of the government of India have been consistent and progressive in the last few years creating an enabling and stable business environment. The increase in capital flows shows that investment has become more certain and since FDI inflows play a significant role in improving growth and creating jobs, the effect has been positive in the last few years. The fiscal position has deteriorated slightly but several measures have been taken to improve the fiscal balance in the form of fiscal consolidation.

The total gross debt-to-GDP ratio is one of the most crucial factors of a country's rating. It peaked at 84.2 per cent in 2003 and improved gradually every year and stood at 69.5 per cent in 2016. Public debt is only 42 per cent

Table 1. Macroeconomic Indicators of Indian economy

Year	Current Account Deficit (as per cent of GDP)	Fiscal Deficit (as per cent of GDP)	FDI inflows (in US\$ billions)	Gross Debt (as per cent of GDP)
2007	1.0	5.1	22.826	74.027
2008	1.3	4.0	34.844	74.536
2009	2.3	8.3	41.903	72.527
2010	2.8	9.3	37.745	67.458
2011	2.8	6.9	36.047	69.643
2012	4.2	7.8	46.551	69.105
2013	4.8	6.9	34.298	68.529
2014	1.7	6.7	36.047	68.576
2015	1.3	6.7	45.147	69.551
2016	1.1	7.5	55.558	69.537

Source: RBI and IMF-IFS

of India's total debt and most of that is internal. In 2007, when S&P upgraded India's rating, the gross debt-to-GDP ratio was at 77.1 per cent; it declined to 69.5 per cent in 2016.

Further, the Fiscal Responsibility and Budget Management (FRBM) Committee is committed to decrease the debt-to-GDP ratio to below 60 per cent by 2023. In fact, it is argued that primary deficit that measures the fiscal operational reflects better when it comes to India's road to fiscal consolidation. However, FRBM says that interest payments constitute a major portion and it is prudent to stick with fiscal deficit to assess fiscal health of the economy.

With regard to external debt indicators, the long-term debt comprises around 83 per cent of the total external debt, while the short-term debt is hovering at 17 per cent of the total external debt (Table 2). The debt-service ratio increased from 5.9 in 2014 to 8.8 in 2016, and can be a mild concern. The external debt-to-GDP in India has increased by about 6 percentage points between 2007 to 2016. However the ratio of long-term and short-term debt to total external debt has changed by less than 1 percentage point during the same period, and an analysis of the composition of long-term and short-term debt in total external debt shows that circumstances are a little worrisome as absolute figures

may imply. Infact, the ratio of long term debt in total external debt has improved by 6 per cent points between 2013 to 2016 implying less worry in the short run for external stability.

Forex reserves constitute another stability indicator relevant to credit ratings. India's forex reserves have increased from US\$ 199.179 billion in 2007 to US\$ 360.176 billion in 2016, implying a comfortable position even if capital flows and exchange rate pressure mounts up in the near future. With a better foreign exchange reserves position, the import cover (in term of months) has also increased to around 12 months in 2017 with forex reserves crossing \$ 400 billion after falling to 7 months in 2013.

Apart from improvement in overall macroeconomic indicators, there have been reforms initiatives by the government for investment and growth such as allocating more resources to the infrastructure sector, hiking FDI equity in many crucial sectors, bringing in transparency for quick approvals and clearances, encouraging states to undertake labour reforms, steps to facilitate ease of doing business including insolvency and bankruptcy code and finally the goods and services tax. Government also came up with its flagship program like 'Make in India' and complementary programs like 'Start-up India' 'Skill India' 'Digital India' etc. to boost investment, more in manufacturing

for jobs. One of the best things that has helped investment rating is the introduction of the Insolvency and Bankruptcy Code to revive stalled projects and help cleaning balance sheet problems of corporates and banking sector.

Bringing Out the Bias: China vs India

Policymakers in India have found the standards of CRAs inconsistent, particularly while dealing with India and China, and disagreed with the credit ratings (GoI, 2017). The debate fueled earlier this year when Standard and Poor's (S&P's) rightly downgraded China's rating from A+ to AA-, from stable to negative, but did not upgrade India's rating despite significant improvements in macro fundamentals. Chief Economic Advisor, GoI, pointed out the inconsistent standards of CRAs, particularly calling S&P's rating 'poor'. In 2007, S&P upgraded India's credit rating to BBB-. Since then, S&P rated India four times in the past 10 years (February 2009, March 2010, April 2012, and September 2014) and maintained the status quo. Moody also took more than 13 years to upgrade the ratings. However, policy analysts and market experts believe that the upgrade is still under deserved and the ratings should have been upgraded earlier and by another notch.

Table 2. India's Key External Debt Indicators and Ratios

Year	External Debt (in US\$ billions)	External Debt to GDP	Long-Term Debt to Total External Debt	Short-Term Debt to Total Exte	Debt-Service Ratio
2007	172.36	17.5	83.7	16.3	4.7
2008	224.407	18.0	79.6	20.4	4.8
2009	224.498	20.3	80.7	19.3	4.4
2010	260.935	18.2	79.9	20.1	5.8
2011	317.891	18.2	79.6	20.4	4.4
2012	360.766	21.1	78.3	21.7	6.0
2013	409.374	22.4	76.4	23.6	5.9
2014	446.178	23.8	79.5	20.5	5.9
2015	474.675	23.8	82.0	18.0	7.6
2016	485.023	23.7	82.8	17.2	8.8

Source: RBI

Box-1: Recent Initiatives taken for Ease of Doing Business

- Setting up an expert committee to eliminate multiple prior permissions.
- Establishing a 24x7 e-business portal, which houses fourteen regulatory permissions in one place.
- Reducing corporate tax rates from 30 per cent to 25 per cent over the next four years.
- Deferred the General Anti-Avoidance Rule by two more years and Retrospective tax is almost over.
- Proposed a new bankruptcy law to allow an easier exit for investors. Comprehensive bankruptcy law in 2016 additional to bankruptcy code of 2015.
- Proposed establishment of new legal mechanisms for the early resolution of commercial disputes.
- One time settlement of tax disputes.
- Approximately 50 amendments to the companies act proposed.
- Proposed to enable registration of a company in one day which takes on an average 15 to 20 days today.
- More allocation to 1500 multi skill training institutes apart from National Skill Development council to skill young Indians.
- Corporate tax rate of 25 per cent for new firms registered after March 1, 2016 and tax holidays for three years out of five years for Startups.
- Tax and duty cuts on imports of intermediary inputs and components for Scale economies and 'Make in India'.
- Using technology to improve accountability of executives and judiciary.
- Documents for Exports and imports reduced from 11 to 3.
- Delicensing of defense items-56 per cent defense items taken out of licensing requirement.
- NRI investments be treated as Indian Investments.

In comparison to other EMEs, S&P rates a few other Emerging Markets (EMEs) BBB-, but these have not fared well relative to the Indian economy. Over 2014–16, GDP growth averaged 3.06 per cent in Hungary, 4.96 per cent in Indonesia, -0.79 per cent in Russia, and 1.88 per cent in Uruguay (all EMEs that S&P rates BBB-) but around 7.3 per cent in India. This shows that India has outpaced other countries in the same rating bracket. On the inflation side as well, India has performed better than Indonesia, Russia, and Uruguay. With regards to gross government debt-to-GDP ratio, India is better placed than countries like Hungary (74.19 in 2016) and Italy (132.60 in 2016). However, on the external sector front, Hungary, Italy, Russia, and Uruguay have a current account surplus. India has a current account deficit of only 1 per cent in 2016 from 4.8 per cent in 2013, which is comparable with all these EMEs. Given that India has never defaulted on its obligations even in its worst crisis, it clearly exhibits India's ability to repay its debts and remain solvent. Further, India has shown its capacity to finance large external deficits by securing its financing with more stable capital flows such as foreign direct investments.

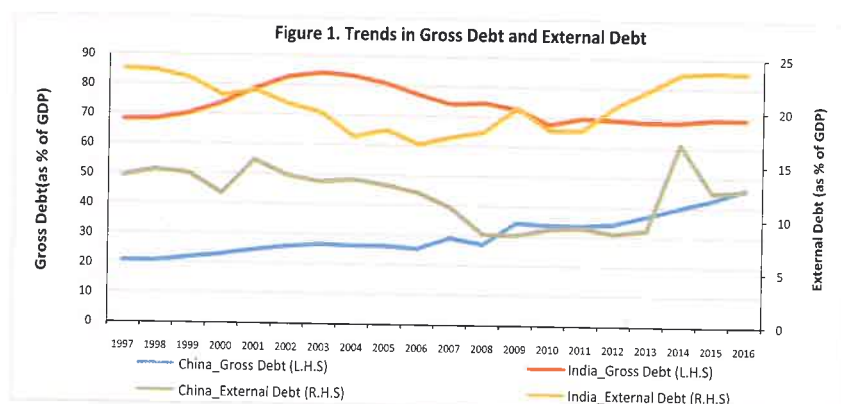
Though S & P downgraded China's rating from A+ to AA-, from stable to negative, citing soaring debt, it has maintained the status quo for India even after India has shown improvements in its economic growth rate, current account deficits, capital

inflows and debt ratios. India and China are large emerging countries competing for foreign investment but their macroeconomic fundamentals and international investment positions are so different that it is not fair to compare the two.

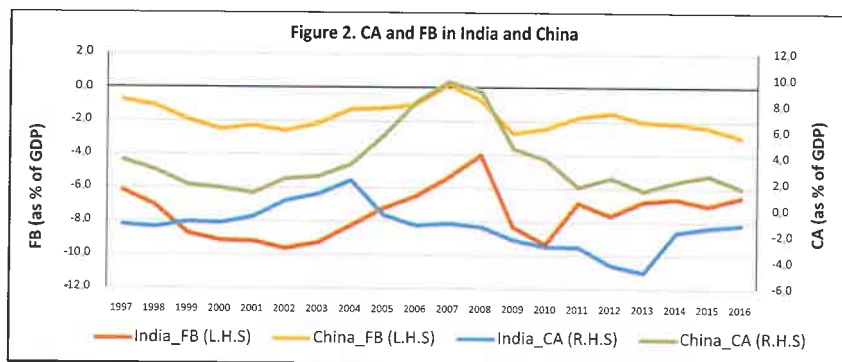
As opposed to China, India followed a market-driven exchange rate regime after liberalization, and ran fiscal and current account deficit for most years since the early 1990s, to fuel its economic growth. Henceforth, we present why there is still a strong case for upgrading its rating solely based on its performance on several key macro indicators.

One of the most crucial parameters, the gross debt-to-GDP ratio, has deteriorated in many countries. It has increased to 239.2 per cent in Japan, 112 per cent in Singapore, 107 per cent in the US, and 99 per cent in Spain. But CRAs did not pay any heed and maintained their ratings. The gross debt-to-GDP ratio in India is substantially lower than in these countries but higher than in China, which CRAs cite to justify India's current credit rating (Figure 1). But, in fact, the International Debt Statistics 2016 of the World Bank Group ranks India after China and Brazil in terms of absolute external debt. However, India has never defaulted either on its fiscal or external debts which make a valid and strong case for an upgrade.

Even on comparison with respect to fiscal deficits and current account, the gap has narrowed in the past few years,



Source: CEIC



indicating an improvement in these parameters (Figure 2). The combined gross fiscal deficit and current account deficits have remained below the normative level of 10 per cent in the past few years while China's current account surplus has reduced from around 10 per cent in 2007 to around 2 per cent in 2016. Though China is placed better vis-à-vis India, many positive developments in the Indian economy justify a credit upgrade. FDI inflows more than doubled from \$23 billion in 2007 to \$56 billion in 2016, the highest annual FDI ever. Out of India's total debt, public debt stands at only 42 per cent of GDP, of which external debt is a mere 4 per cent. The credit-to-GDP ratio increased in China from 142 per cent in 2010 to 205 per cent in 2016 but remained a remarkably low at 70 per cent in India. Nevertheless, comparing these two countries can be misleading.

Conclusion

India's macroeconomic health,

particularly its investment position and debt indicators (economic growth, current account balance, FDI inflows, and forex reserves) have improved since 2013. India has clearly demonstrated its ability to repay its debt and always exhibited remarkably high willingness to pay; it has never defaulted on its obligations. India has the capacity to bear large debt and can simultaneously secure financing to remain solvent. It is stable, and is one of the fastest growing economies worldwide, and this reflects in positive investor sentiment over the past few years.

But international rating agencies have been unfair to India so far and the current upgrade by Moody reflects stability of Indian economy and positive investors' sentiments with a stable political environment. The S&P has ignored these improvements and maintained the status quo with respect to India's credit ratings. Therefore, the concern that CRAs are

biased against India is well justified. This bias hurts India, as its economy is growing and aggressively wooing foreign investment to attain even higher growth without worrying about external sector solvency and related risks. A fair upgradation in credit rating by other credit rating agencies can help India greatly in raising relatively scarce capital. Given its upward trajectory in economic growth with stable external sector and active inflation targeting, India deserves an upgrade both on its individual merit as well as in comparison to other countries that have shown fragility in the global economy.

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Moody's Upgrade Sovereign Credit Rating of India to BAA2 from BAA3

Moody's Investors Service ("Moody's") has upgraded the Government of India's local and foreign currency issuer ratings to BAA2 from BAA3 and changed the outlook on the rating to stable from positive. India's rating has been upgraded after a period of 13 years. India's sovereign credit rating was last upgraded in January 2004 to BAA3 (from BA1).

This upgradation is in recognition of major economic and institutional reforms undertaken by Government of India. These reforms include introduction of path breaking Goods and Services Tax (GST); putting in place a sound monetary policy framework; measures taken to address recapitalisation of public sector banks and a number of measures taken to bring formalisation and digitalisation (The JAM agenda) in the economy - demonetization, the Aadhaar system of biometric accounts and targeted delivery of benefits through the Direct Benefit Transfer (DBT) system.

Moody's have also recognized the Government's commitment to macro stability which has led to low inflation, declining deficit and prudent external balance and Government's fiscal consolidation programme which has resulted in a reduction of fiscal deficits from 4.5 per cent of GDP in 2013-14 to 3.5 per cent in 2016-17 and its consequential sobering impact on general government debt.

J&K WINDOW

PRIVATE COACHING CENTRES ASKED TO FOLLOW SET NORMS

The Jammu and Kashmir Government has asked the Private Coaching centres to adhere to the norms and rules set by the Government. A meeting in this regard was held recently in which these rules and norms were discussed.

It was instructed that no coaching shall take place in any tuition centre before 9:00 am and after 5.30 pm during winter season. The owners were advised to publish the fee structure and details of the faculty in the leading newspapers.

They were further told to have all the proper facilities of lighting, heating arrangements, drinking water, separate washroom for boys and girls, sanitation and proper accommodation for the students. Coaching centres were also instructed to have proper safety measures which include installation of CCTV Cameras for the security and safety of students. Conveying the concern of the Government regarding the fee structure of tuition centres, Director School Education asked the coaching centres to send the list of students enrolled in their centres to the Directorate of School Education, Kashmir (DSEK). These centres were also asked to reserve 10 per cent seats for the students coming from Poor/ BPL backgrounds.

All the participants assured Director Education that they shall follow all the rules, norms and guidelines to provide education in transparent way.

WORK SHOP ON ICT FOR TEACHERS

Directorate of School Education organized a 3 -day training workshop on "ICT for Science and Mathematics Teachers" in Srinagar recently.

It was conducted in collaboration with Homi Babha Atomic Research Institute Mumbai. Around 50 teachers of school education department were imparted training. They would further act as Master Trainers in their respective districts. The aim of the workshop was to modernize education system and provide latest information and knowledge to the students.

POWER CONNECTIONS TO BE SEEDED WITH RATION, AADHAAR CARDS

In order to identify the genuine power consumers and increase the revenue generation, the electric connections would be seeded with the Aadhaar cards and the ration cards being issued by the Food Civil supplies and Consumer Affairs (FCS&CA) department in J&K. It was also given out that by adopting the mechanism power pilferage would also be checked as connections would be provided to genuine consumers only.

SKILL DEVELOPMENT TRAINING TO TRIBAL YOUTH

The State government has taken path-breaking initiatives for providing quality education to tribal youth with emphasis on imparting skill development training to them. Various steps are being taken up by the government in education sector. These include the construction work of Eklavya Model Residential Schools in Kulgam and Anantnag and release of Rs 2 crore for starting academic activities in these institutions from April 2018. Besides, Rs. 29 crore have been released for upgrading Gujjar and Bhakerwal hostels into residential schools at Poonch, Rajouri, Kathua, Doda, Bandipora and Kupwara. Thirty four e-classrooms would also be established in the schools in tribal areas for providing better education to the children belonging to these sections. The government will also impart skill development training to 1,100 tribal candidates in different sectors including paramedical courses to make them employable.

Big Data Analysis in Banking Industry

*Chaturbhuj Barik
Shreekant Sharma*



Regardless of the fact that we are moving towards a phase where a few people will visit banks branches denouncing our style of marketing and the pace is too fast to catch hold. And the time has come to focus ourselves on alternatives and big data analysis which gives a greater opportunity to do the same. Banks can use identinomics to reach the identity of our customers and to connect with them for a greater good

When we look back, in 1990s if we need to calculate our daily calorie consumption we need to take a note of our daily steps and then converting into calorie which was standardized by research methodologies. In this way we need to take note of everything regularly to analyze and find a proper conclusion. But in 2017, simply we need to install a health application in our mobile which records our movement precisely and converts it into calorie, stores data in its memory and then analyses to get a proper conclusion. So what changed in these years where the science behind this remained same, now we are capable of collecting more data and store more data and analyse. This in technical terms is coined as big data. The two things that are fueling this big data movement the fact that we have more data on anything and our improved ability to store and analyze any data. Big data is used for better understanding of customers behaviors and preferences. Companies are keen to expand their traditional data sets with social media data, browser logs as well as text analytics and sensor data to get a more complete picture of their customers. Big data analytics is the process of examining large and varied data sets i.e. big data to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful

information that can help organizations make more-informed business decisions. Big data is in practice in so many big companies/organizations for improving performance like Walmart, Netflix, Microsoft, Royal Bank of Scotland, USA government etc., Recently by data has proved its really efficiency in USA and India elections. Recently elections in USA and India has proved its reach and efficacy.

How is Big Data used in Practice?

These are major areas in which big data is currently being used to excellent advantage in practice - but within those arenas, data can be put to almost any purpose. For example:

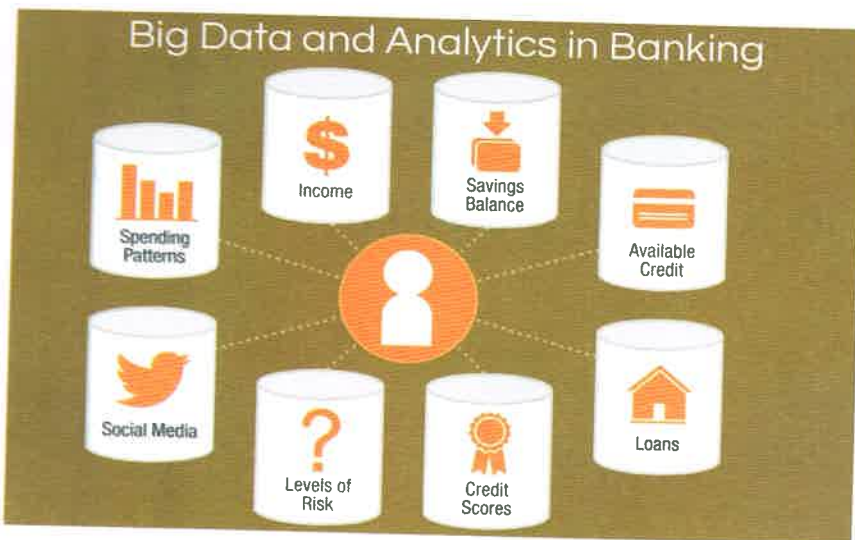
1. Understanding and Targeting Customers.
2. Understanding and Optimising Business Processes.
3. Improving Healthcare and Public Health.
4. Improving Science and Research.
5. Improving and Optimising Cities and Countries.
6. Improving Security and Law Enforcement Etc.

Implications in Our Day to Day Life

Big data analysis affects us many ways in and around our digital

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life. Once we are connected to the world via internet we disseminate quantum of data to the system by the way of visiting different websites, our spending habits and our social behaviour. If we mark closely we get an email or a personalised advertisement in our Facebook if we have searched a product in Amazon mentioning the variation in price. This is nothing but you are being targeted as a customer by taking into account of your behaviour in internet. So, with digital revolution it is expected that by 2020, 1.7 MB/sec new data will be created per human being in this planet. This data is coming from not just Facebook, WhatsApp but from all the sensors we are surrounded by like GPS on phone, millions of photographs we upload and download etc. In Indian scenario linking of everything with AADHAAR enables data preciseness

of marketing and targeting customers of course with the consent of the holder.

Indian Scenario at Banking Parlance

In the nineties before advent of Core banking banks, through the agency of their branch staff and managers, knew their customers individually. They knew who they were and how they fitted in, who their family were and what they are trying to do. After core banking implementation and stress on retail business with a little leaning towards third party products we have lost that insight we were having. In the previous scenario we were meeting customer expectations and now we have shifted our focus to 'getting products out of the door'. In this transition phase we need to go back

to the good old days of principles of banking. This banking can be coined as 'identinomics'. Where individual needs are to be known in advance and instead of pushing products we must sell what customer needs. This big tax can be executed by the help of big data

analysis. Organically banks do have more data in comparison to any other industry do have, but still we have not started using it. With the vital information of customers we can sell our products better than any organisation can do.

Presently we are going through a data crisis due to our legacy of accounts and staff attitude where proper data is not captured by our system which makes our journey difficult. So if we want to take big data approach we need to go through the following process.

Data collection > Data storage > Data analysis > Data utilisation.

To understand its proper implementation, we must divide the data into two groups. Number one group is existing customers where we will need analysis and the other as prospective customer who will be utilised for lead generation.

Existing Customer

Data collection: Creating data collection points through various channels like.

1. Branches. 2. Apps banking
3. Internet banking. 4. SMS and emails
5. Credit Rating 6. Credit Information Companies.

Branches: The greatest advantage of our organisation is its spread of branches across this subcontinent. Only thing we need is to spread a culture of data collection through proper engagement of personnel.

Apps Banking and Internet Banking: This is a greater opportunity for us as these customers are already on boarded to our facilities. By introducing certain features in our apps only can collect a big deal of data which essentially to be customer oriented features. These features may include a tax calculator, a financial planner, and a model product which will give a special discount in cheque book charges or something alike benefits. Basically we need to think ways which will induce customer





Banks can focus on certain aspects of data utilisation. As we have discussed earlier about identinomics the data can give a greater insight to it.

Few Uses We Can Think of

- Extracting data of top contributors to our business bank can send personalised gifts as calendars, birthday wish cards etc requesting for further patronage and

interest and in turn they provide their vital data of income and savings.

SMS and emails: A common method of data point creation, banks can send SMS and request customers for a feedback of the services they are getting and in turn banks collect customer data.

Credit Rating Agencies: Data required for lending can be collected which will lead us to zero in on the customers as per their ratings.

Credit Information Companies: A nice model for data collection of existing customers like their geographical shift, contact change, credit card or any other requirements they felt.

Data Storage: Banks can contact or follow organisations which follow big data analysis.

Data Analysis and Utilisation: The data which can't be analysed and used for banks, products are useless.

extending their cooperation in recommending our brand. This can be accompanied by their requirement listing in a return mail. This will not only help banks working in the line of identinomics but generate business and address grievances. One of the best ways to cool down aggrieved customers is by allowing them to vent their anger by any communication.

- By extracting data from credit rating agencies will help banks in identifying the desired rated customers to be chased. They might be chased for main loan product or any other ancillary products. In case of a cash credit borrower of another bank can be looked for housing loan.
- Credit bureaus are really Big Data machines working for bankers. Suppose we upon specific agreement, go for portfolio data extraction, say we would like to extract information of our housing

loan borrowers above 25 lakhs banks can get exact credit details of those borrowers. That can be further analysed for different products like credit card, a car loan (if the car Loan sanction date showing 5 years backwards) etc. They can track customers and can predict what they really want which can bring us a greater success. Besides it can help them predicting the default rate going to arise in portfolio or the possible takeover of the accounts.

New Customers

Banks' websites can do wonders for this. Let us put some customer centric contents in our Web Page and in most cases banks must try to gather vital basic information by making them compulsory for its access. They can tie up with various organizations for inputs. The websites like www.fundoodata.com provide information with a nominal charge. This can be utilized for our advantage.

Conclusion

Regardless of the fact that we are moving towards a phase where a few people will visit banks branches denouncing our style of marketing and the pace is too fast to catch hold. And the time has come to focus ourselves on alternatives and big data analysis which gives a greater opportunity to do the same. Banks can use identinomics to reach the identity of our customers and to connect with them for a greater good.

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Loan Agreement with World Bank for SANKALP Project

A Financing Agreement for IBRD loan of USD 250 million (equivalent) for the "Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) Project" was signed recently with the World Bank.

The objective of the project is to enhance institutional mechanisms for skills development and increase access to quality and market-relevant training for the work force. The key result areas for the project include Institutional Strengthening at the National and State Levels for Planning, Delivering, and Monitoring High-Quality Market-Relevant Training; Improved Quality and Market Relevance of Skills Development Programmes; Improved access to and completion of skills training for female trainees and other disadvantaged groups; and Expanding skills training through Private-Public Partnerships.

NORTH EAST DIARY

STATE FORMATION DAY CELEBRATIONS OF NAGALAND

The President of India, Shri Ram Nath Kovind, inaugurated the Hornbill Festival and State Formation Day celebrations of Nagaland on December 1, 2017 in Kisama. The Hornbill Festival is the perfect showcase of rich Naga culture and traditions, preserved over the years in the form of music, dance and food.

PRIME MINISTER DEDICATED 60 MW TUIRIAL HYDRO ELECTRIC POWER PROJECT IN MIZORAM

The Prime Minister formally dedicated the 60 MW Tuirial Hydro Electric Power Project (HEPP) to the Nation on December 16, 2017. The Tuirial HEPP has been constructed as a Central Sector Project and implemented by North Eastern Electric Power Corporation (NEEPCO), under the administrative control of the Ministry of Power, Government of India.

The Cabinet Committee on Economic Affairs (CCEA) cleared the Project for implementation in July 1998 with commissioning scheduled in July 2006. After completion of about 30 per cent of the project activities, the works were totally suspended in June 2004 due to local agitation. With sustained efforts by NEEPCO and with active support of Ministry of Power and Ministry of DoNER, Government of India and Government of Mizoram, the stalled works of the project were resumed in January 2011. The Project has been built at a cost of Rs 1302 crore. It is the biggest power project located in the State of Mizoram and will feed the entire energy to be generated to the home State, which will facilitate all-round development of the State and achieving Government of India's ambitious and flagship Mission '24x7 Affordable Clean Power for All'. The State's current demand of electricity is only 87 MW and this is being met by State's mini power projects and availability of its share of power from central sector projects. With the additional 60 MW of electricity from the project, the State of Mizoram will now be the third power-surplus State in North East India after Sikkim and Tripura. Apart from attaining self-sufficiency in electric power, the project will fetch other spin-off benefits to the State of Mizoram like employment generation, navigation, water supply, pisciculture and wild life conservation, tourism etc.



The Prime Minister, walks through the exhibition of farm produce of North-East and display of relevant farm and non-farm technologies, at Assam Rifles Cantt, Aizawl on December 16, 2017.

The Prime Minister also dedicated to the nation the project of 2 Laning of Shilong-Nongstoin section of NH-106 and Nongstoin-Tura Road of NH-127B, in Meghalaya.

CABINET APPROVES CONTINUATION OF NLCPR SCHEME TILL MARCH 2020

The Union Cabinet chaired by the Prime Minister has approved the continuation of the existing Non Lapsable Central Pool of Resources (NLCPR) scheme with funding pattern of 90:10 till March, 2020 with an outlay of Rs 5300 crore. It would enable completion of ongoing projects. The Union Cabinet also approved the introduction of new Central Sector Scheme of "North East Special Infrastructure Development Scheme" (NESIDS) from 2017-18 with 100 per cent funding from the Central Government to fill up the gaps in creation of infrastructure in specified sectors till March, 2020. The new scheme NESIDS will broadly cover creation of infrastructure under following sectors:-

- a) Physical infrastructure relating to water supply, power, connectivity and specially the projects promoting tourism;
- b) Infrastructure of social sectors of education and health.

The assets to be created under the new scheme of NESIDS will not only strengthen health care and education facilities in the region but will also encourage tourism thereby the employment opportunities for local youth. The scheme will act as a catalyst in overall development of the region in the years to come.

48th International Film Festival of India



The 48th International Film Festival of India-IFFI was celebrated as grand cinematic event from November 20-30, 2017, showcased the best films from India and across the globe. Addressing the opening ceremony of the Film Festival, Minister of Textiles and Information and Broadcasting, Smt. Smriti Zubin Irani said that India is a land of festivals, celebrations, dynamic youth and stories, where in stories were told in over 1600 dialects. She said that the festival will help the film lovers to meet the biggest and brightest names of Indian film industry.

IFFI 2017 showcased 195 films from across the globe with 10 World Premieres, 10 Asian and International premieres and over 64 Indian premieres. The Indian Film Personality of the Year Award was presented to Bollywood legend Amitabh Bachchan amidst thunderous applause.

As the first of its kind in the country, IFFI 2017 has a specially curated section of James Bond films. Further, IFFI 2017 had a special focus on Canada curated by the Toronto International Film Festival.

The International Competition section of IFFI 2017 had 15 films competing for the Golden and Silver Peacock awards. The Homage presentations at the 48th IFFI included tributes to the late Actors Om Puri, Vinod Khanna, Tom Alter, Reema Lagoo, Jayalalitha, Directors Abdul Majid, Kundan Shah, Dasari Narayana Rao and Cinematographer Ramananda Sengupta.

Morocco born French Director Robin Campillo's drama film '120 BPM' or '120 Beats Per Minute' has won the coveted Golden Peacock Award. The film, set in France in the 1990s deals about homosexuality and the AIDS epidemic. Chinese director Vivian Qu won the Best Director Award for her 2017 film 'Angels Wear White'. The film is about the travails of two teenage girls who are assaulted by a middle aged man in a seaside town in China.

The Best Actor (Male) Award went to Nahuel Perez Biscaryat for his portrayal of AIDS activist Sean Dalmazo, an effective member of ACT UP to represent all the horror of the epidemic in the French film '120 BPM'. The Best Actor (Female) went to Parvathy T K for her portrayal of a nurse who wages a battle for the release of her husband held hostage by the rebel army in the war-torn Iraq in Mahesh Narayanan's Malayalam film 'Take Off'.

Mahesh Narayan also walked away with the Special Jury Award for his directorial debut 'Take Off' which focusses on the dramatic rescue of Indians trapped in Tikrit. Bolivian director Kiro Russo has won the Silver Peacock for the Best Feature Film of the Director. Russo's debut film 'Dark Skull' offers a darkly beautiful subterranean study in atmosphere and mourning. Manouj Kadaamh's Marathi film 'Kshitij' has won the ICFT-UNESCO Gandhi Medal. One of Canada's most celebrated art house directors, Atom Egoyan was honoured with the IFFI 2017 Lifetime Achievement Award.