3.1 INDUSTRIAL POLICY

The term industrial policy refers to policy towards industries their establishment, functioning, growth and management. It is the most important document which indicates relationship between government and business.

Rationale

- Corrects imbalance in development of industries and brings desired balance and diversification in them.
- Directs the flow of scarce resources in the most desirable area of investment.
- Prevent wastage of scarce of resources and ensures their conversation.
- Empowers government to regulate private industries and their expansion.
- Demarcation of private, public and joint sectors of the industrial sector.
- Enables government towards formation of monopoly and restrictive trade practices.
- Gives guidelines for foreign capital and explains the conditions on which foreign capital should be allowed to enter the country.

Industrial policy resolution of 1948

Main features of first industrial policy were:

- Acceptance of importance of both private and public sector.
- Division of industrial sector
  - Industries where state had monopoly
  - Mixed sector
  - The field of government control
- Role of small and cottage industries.
- Other important features.

Industrial policy 1956

- The setting for favourable for **Industrial Policy, 1956.**
- The planning was started on organized basis after first five-year plan was initiated.
- The government increased its span over industries and created a drive-in public sector.
- With an aim to increase in development, industrial policy, 1956 it was announced in 30th April 1956.

Objectives of industrial policy, 1956

- To accelerate growth of industrial development and speed up industrialization
- To expand public sector, develop heavy machinery and machine making industry.
- To increase employment opportunities and standard of living of citizens.

- To prevent creation of monopolies and concentration of economic power.
- To reduce disparities of income.
- To build large and growing private sector.
- To expand cottage, small scale industries.
- To achieve balanced industrial growth.

Industrial policy, 1956

- 17 industries were listed in first category (A). It included, defence equipment, iron and steel, machine building industries.
- 12 industries were listed in second category (B). It included minerals extruding, fertilizers, tools making, drugs, rubber.
- Rest of industries were open for the private sector.
- State provided infrastructural facilities to the industries.
- Mostly this policy was criticized for depending on public sector for growth.

Industrial policy 1991

On 24th July 1991, government under Mr P.V Narsimharao, introduced an industrial policy to drastically alter industrial scenario in our country.

Objectives

- Self reliance to build on many sided gains already made.
- Encouragement to Indian Entrepreneurs for technology and employment promotion.
- Development of indigenous technology
- Removing regulatory system and other weakness.
- Increasing competitiveness of industries.
- Incentives for industrialization of backward areas.
- Enhance support for small scale sector.
- Ensure functioning of PSU's and decreasing their losses.
- Protect interests of workers.
- To abolish monopoly.
- To link Indian economy to global markets

Small Scale Industries

An industry which has an investment up to Rs. 1 Crore in plant and machinery is termed as Small Scale Industry. The limit has been increased to Rs. 5 Crore for 71 items so that technological updates can be done by SSI’s and still the business can be termed as SSI. Presently, the investment for tiny/micro sector is Rs. 25Lacs.

Industries covered under SSI

The Group of Ministers considered the recommendations and came out with a Comprehensive Policy Package for the Small Scale and Tiny Sector which was announced by the Hon'ble Prime Minister Shri Atal Bihari Vajpayee at first ever National Conference on the Small Scale Industries organised by the Ministry of SSI & ARI at Vigyan Bhavan, New Delhi on 30th August 2000.

- Small Scale Industrial Undertaking
- Ancillary Industry Undertaking
- Export Oriented Firms
- Tiny Enterprises
- Small Scale Service Enterprises
- Cottage Industry
- Women Entrepreneurship

Characteristics of SSI’s

- Personal character of owner embedded
- Closely held
- Local operations
- Labour intensive
- Limited resources
- Easily managed
- Limited Scale and Size
- Supplementary
- Wide Scope
- Various other functions

Importance of Small Scale Industries in Economy

- Employment Generation
- Promotes Equal distribution of Wealth
- Harmonious Relations
- Helps in tapping latent resources
- Balanced regional growth
- Production efficiency

- Product differentiation
- Consumer satisfaction
- Flexibility
- Export Potential
- Fosters Entrepreneurship
- Elasticity
- Quick Returns
- Low Social Costs
- Sustainable

Objectives of SSI

- To generate large scale employment
- To mobilize untapped capital and human resources
- To improve standard of living in country
- To promote balance regional development
- To meet demand for major goods and services.

Significance of small scale industries

- Small is beautiful
- Innovative and productive
- Individual tastes
- Symbol of national identity
- Happier in work
- Always winner of the game
- dispersal over wide areas

Facilities to SSIs

- Policy initiatives
- Institutional support
- Credit dispensation

Policy initiatives

- Small industry and policy incentives
- Economic reforms and SSI policy
- Infrastructural facilities

- Small industry cluster
- Industrial growth centres
- Marketing
- Pollution control
- Women entrepreneurs

Institutional Support

Help of government, non-government, state government organizations to SSI. SIDBI, CII, FICCI are the examples. To improve the competitiveness of Small-Scale Sector, the exemption for excise duty limit raised from Rs. 50 lakhs to Rs. 1 crore.

Credit dispensation

Availability of adequate credit is vital for growth of SSI in India. The composite loans limit raised from Rs. 10 lakhs to Rs.25 lakhs.

Following are credit giving agencies

  - SIDBI
  - Banks (Commercial Banks, Regional rural banks)
  - State level institutions (State industrial investment corporation)

Protective and promotional measures undertaken by the Government (State & Central).

- Industrial extension services
- Institutional support in respect of credit facilities,
- Provision of developed sites for construction of sheds,
- Provision of training facilities,
- Supply of machinery on hire-purchase terms,
- Assistance for domestic marketing as well as exports,
- Special incentive for setting up enterprises in backward areas etc.
- Technical consultancy & financial assistance for technological upgradation.

Problems of SSIs

- Expansion has been policy driven
- Lack of expert knowledge (HR, Marketing, Finance)
- Sickness
- Getting finance
- Modernization
- Hurdles created by government officials

- Lack of awareness among entrepreneurs

3.2 Monetary Policy

Monetary policy is a policy statement, traditionally bi-annually through which the RBI targets the key set of indicators to ensure price stability in the economy. It is of great use to the government, as the focus of government has shifted towards non-physical controls. It is about basically control of the economy from use of interest rates and controlling the flow of money.

The price stability is ensured by following

- Money supply
- Interest rates
- Inflation

RBI has to keep a watch on

- Extent of Money
- Expansion of money
- Contraction of money

Extent of Money

RBI generally the extent of money and credit available in economy at a given time.

Following indices are used for the purpose.

- M_1: represents money supply with public
- M_2: represents savings in post office and bank deposits
- M_3 : Sum total of time deposits

Expansion of money

It is the money pumped into the economy through the issue of currency by the RBI, budgetary operations of the government and borrowing of the government. The rate of supply of money is increased in the economy thus the economy is under pressure from inflation.

Contraction of money

- The expansion of money results in hyper inflation.
- Inflation hits all the sections of the society.
- It is responsibility of RBI to control and take remedial measures to control the flow of money.
- The instruments used by RBI are CRR, SLR, Repo Rate, Reverse Repo Rate etc.

3.3 Fiscal Policy

It refers to the policy of the government regarding taxation, public expenditure and public debt. Governments all over the world use fiscal world to regulate their economies and business activities.

Desired objectives of fiscal policy

- Accelerating the growth of investment.
- Promote economically desirable investment.
- Achieving rapid economic development.
- Achieving full employment.
- Promoting foreign trade.
- Reducing inequalities of income.
- Establishing a welfare trade.

Instruments used in fiscal policy

Government uses budget as a major instrument in fiscal policy:

- Budget
  - Revenue of the government
    - Taxes (direct/indirect)
  - Expenditure of the government.
    - Welfare schemes, salaries to employees

Fiscal policy must have

- Completion of tax reforms agenda
- Curb wasteful expenditure
- Minimize budgetary allocation to PSU.
- Adopt new approaches to administered prices.
- Reduce and redirect subsidies

3.4 Depository System in India

Concept of Stock Exchange

Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations. The Indian Securities Contracts (Regulation) Act of 1956, defines Stock Exchange as,

"An association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

Bombay Stock Exchange

It is the leading and the oldest stock exchange in India as well as in Asia. It was established in 1887. BSE is a very active stock exchange with highest number of listed securities in India. Nearly 70% to 80% of all transactions in the India are done alone in BSE. There are 14 groups and 121 industries different sectors listed in BSE. BSE is now a national stock exchange as the BSE has started allowing its members to set-up computer terminals outside the city of Mumbai (former Bombay). The BSE has computerized its trading system by introducing BOLT (Bombay On Line Trading) since March 1995. BSE is operating BOLT at 275 cities with 5 lakh (0.5 million) traders a day. Average daily turnover of BSE is near Rs. 200 crores.

National Stock Exchange

Formation of National Stock Exchange of India Limited (NSE) in 1992 is one important development in the Indian capital market. The need was felt by the industry and investing community since 1991. The NSE is slowly becoming the leading stock exchange in terms of technology, systems and practices in due course of time. NSE is the largest and most modern stock exchange in India. In addition, it is the third largest exchange in the world next to two exchanges operating in the USA.

Depositary System

A depository can be defined as 'an institution which transfers the ownership of securities in electronic mode on behalf of its members.' A depository is a nominee of the investors, who keeps the shares on their behalf. Therefore, the depository acts as a custodian of securities.

It is necessary for maintaining and enhancing the efficiency of mature market. The term depositary refers to a place where a deposit of money, securities, properties, etc are deposited for safekeeping under the agreement of depositary. Depositary is an organization, which assists in allotment and transfer of shares and securities. It holds shares and securities in electronic form to avoid paper work. Depositaries carry out their functions through various business partners.

The need for depository arose mainly due the following reasons

<u>Growth in Securities transactions</u>:-

- There has been considerable growth in securities transactions, especially, in the post-reform period, i.e., since **1991.**
- After 1991, the Govt of India introduced several reforms in the Indian Economy, including capital market reforms.

<u>Limitations of Physical Transfer</u>:-

There were several limitations relating to physical transfer of shares. The limitations were

- **Delay** in transfer of shares.
- **Problem of bad** deliveries
- **High cost** of handling and transfer
- **Chances** of loss of certificates in transit.
- **Chances** of theft of certificates, etc

<u>To comply with global standards</u>:

- Almost all the developed markets had introduced the depository system ensuring efficient transfer and settlement of securities.

- Due to reforms in capital markets, the foreign institutions investors (FIIs) were allowed to deal in stock exchanges. For this purpose the government also introduced the depository Act, 1996.

<u>To enhance liquidity in stock markets</u>:-

- There was a need to enhance liquidity in Indian Stock Markets. The seller of securities to get immediate cash payment for their transactions.
- The depository undertakes the trade and settlement processing through its subsidiary.

<u>To ensure transparency in allotment of shares</u>:-

- Now-a-days, the allotment of shares is to be done only through the Demat mode. The allotment of shares is to be effected through the depository in the Demat account of the investors.
- This has generated transparency in allotment of shares and reduced manipulations relating to transfer of shares.

<u>Centralised Systems in Securities Dealings</u>:-

- There was a need to adopt a central system for handling all the securities dealings.
- This has been made possible by setting up Central depository system, although there are two different depositories (NSDL, and CDSL).

Legal framework for depositary

It is governed by following acts

- SEBI 1992
- SEBI (Depositories and Participants) regulation, 1996
- By laws of depositary
- Business rules of depositary
- Companies act 1956.

Depositories in India

There are two depositaries in India:-

- National Securities Depository Limited: it was first depositary of India set up by SEBI on 7th June 1996. it was promoted by IDBI, UTI, NSE.
- Central Securities Depository Limited: CDSL is promoted by Bombay Stock Exchange Limited (BSE) jointly with State Bank of India, Bank of India, Bank of Baroda, HDFC Bank, Standard Chartered Bank and Union Bank of India AXIS BANK. It started its operations from February 1999.

Futures

It is contract between buyer and seller to settle or execute a trade some future date on pre-agreed price. Mark to margin is the amount of fund buyer or seller need in the daily basis to obligate the trade. Margin is the % of amount paid by buyer and seller need to pay to broker to keep the position open.

Options

Option is a non-obligated future contract for the buyer, but obligated for seller.

- The difference is that both parties can execute contract at different price strikes by paying and receiving token amount called premium.

Options are traded <u>both on exchanges and in the over-the-counter market.</u>

There are two types of option:

- Call option gives the holder the right to buy the underlying asset by a certain date for a certain price.
- Put option gives the holder the right to sell the underlying asset by a certain date for a certain price.

The price in the contract is known as the exercise price or strike price.

The date in the contract is known as the expiration date or maturity.

Derivatives

A derivatives exchange is a market where individuals trade standardized contracts that have been defined by the exchange. The one of the oldest derivatives markets was Chicago Board of Trade (CBOT). It was established in 1848 to bring farmers and merchants together.

Electronic markets

Traditionally derivatives exchanges have used what is known as the ***open outcry system***. This involves traders physically meeting on the floor of the exchange, shouting, and using a complicated set of hand signals to indicate the trades they would like to carry out. Exchanges are increasingly replacing the open outcry system by electronic trading. This involves traders entering their desired trades at a key board and a computer being used to match buyers and sellers. The open outcry system has its advocates, but, as time passes, it is becoming less and less common.

Over-the-counter markets

over-the-counter market is an important alternative to exchanges and measured in terms of the total volume of trading, has become much larger than the exchange-traded market. It is a telephone- and computer-linked network of dealers. Trades are done over the phone and are usually between two financial institutions or between a financial institution and one of its clients.

Forward contracts

Forward contract is relatively a simple derivative. **It is an agreement to buy or sell an asset at a certain future time for a certain price.** It can be contrasted with a spot contract, which is an agreement to buy or sell an asset today. A forward contract is traded in the over-the-counter market—usually between two financial institutions or between a financial institution and one of its clients.

One of the parties to a forward contract assumes a long position and agrees to buy the underlying asset on a certain specified future date for a certain specified price. The other party assumes a short position and agrees to sell the asset on the same date for the same price.

3.5 Role and Functions of RBI

In every country there is one organization which works as the central bank. The function of the central bank of a country is to control and monitor the banking and financial system of the country. In India, the Reserve Bank of India (RBI) is the Central Bank. The RBI was established in 1935. It was nationalised in 1949. The RBI plays role of regulator of the banking system in India. The Banking Regulation Act 1949 and the RBI Act 1953 has given the RBI the power to regulate the banking system.

Functions of the RBI

- RBI is the Regulator of Financial System
- RBI is the Issuer of Monetary Policy
- RBI is the Issuer of Currency
- RBI is the Controller and Supervisor of Banking Systems

RBI is the Regulator of Financial System

- Controlling money supply in the system,
- Monitoring different key indicators like GDP and inflation,
- Maintaining people's confidence in the banking and financial system, and
- Providing different tools for customers' help, such as acting as the "Banking Ombudsman."

Monitoring different key indicators like GDP and inflation

- Inflation control
- Control on bank credit
- Interest rate control

The tools used for implementation of the objectives of monetary policy are:

- Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR),
- Open market operations,
- Different Rates such as repo rate, reverse repo rate, and bank rate.

RBI is the Controller and Supervisor of Banking Systems

- Public sector banks
- Private sector banks
- Foreign banks
- Co-operative banks, or
- Regional rural banks

Roles of the Reserve Bank of India

- Issue Of Licence

- Prudential Norms
- Corporate Governance
- KYC Norms
- Transparency Norms
- Risk Management
- Audit and Inspection
- Development

Reasons to analyse banking sector

India had to airlift gold to International Monetary Fund (IMF) to loan money to meet its financial obligations. The banking sector, handling 80% of the flow of money in the economy, needed serious reforms to make it internationally reputable, accelerate the pace of reforms and develop it into a constructive usher of an efficient, vibrant and competitive economy by adequately supporting the country's financial needs.

Number of committees

Two committees were made for studying the banking sector

- The Narasimham-I Committee
- The Narasimham-II Committee

Narasimham-I Committee

It was appointed to study all aspects relating to the structure, organisation, functions and procedures of the financial systems and to recommend improvements in their efficiency and productivity. The Committee submitted its report to the Finance Minister in November 1991 which was tabled in Parliament on 17 December 1991.

Narasimham-II Committee

It was appointed to review progress of the implementation of the banking reforms since 1992 with the aim of further strengthening the financial institutions of India. It focussed on issues like size of banks and capital adequacy ratio among other things. In April, 1998, Narasimham Committee submitted its report and recommended some major changes in the financial sector. Many of these recommendations have been accepted and are under process of implementation.

Narasimham-II Committee Recommendations

- Strengthening Banking System
- Asset Quality
- Prudential Norms and Disclosure Requirements
- Systems and Methods in Banks
- Structural Issue

Measures to strengthen the banking system

- Capital Adequacy
- Asset quality, NPAs and Directed Credit
- Prudential Norms and Disclosure Requirements
- Systems and Methods in Banks
- Structural Issues
- Rural and Small Industrial Credit
- Regulation and Supervision
- Legal and Legislative Framework
- In total 61 recommendations were made under these heads by the committee for reforming banking sector.

Strengthening Banking Sector

RECOMMEDNATION	PRESENT STATUS
Capital adequacy requirements should take into account market risks in addition to the credit risks	RBI has already implemented the same as market risks already taken into account for investment portfolio.
In the next three years the entire portfolio of government securities should be marked to market and the schedule for the same announced at the earliest (since announced in the monetary and credit policy for the first half of 1998-99); government and other approved securities which are now subject to a zero risk weight, should have a 5 per cent weight for market risk.	More stringent norms under Basel II already implemented.
Risk weight on a government guaranteed advance should be the same as for other advances. This should be made prospective from the time the new prescription is put in place.	This has already been implemented by RBI.
Foreign exchange open credit limit risks should be integrated into the calculation of risk weighted assets and should carry a 100 per cent risk weight	More stringent norms under Basel II already implemented.
Minimum capital to risk assets ratio (CRAR) be increased from the existing 8 per cent to 10 per cent; an intermediate minimum target of 9 per cent be achieved by 2000 and the ratio of 10 per cent by 2002; RBI to be empowered to raise this further for individual banks if the risk profile warrants such an increase. Individual banks' shortfalls in the CRAR be treated on the same line as adopted for reserve requirements, viz. uniformity across weak and strong banks. There should be penal provisions for banks that do not maintain CRAR.	More stringent norms under Basel II already implemented.

Prudential Norms and Disclosure Requirements

In India, income stops accruing when interest or installment of principal is not paid within 180 days, which should be reduced to 90 days in a phased manner by 2002.	Implemented w.e.f. year ending 31/03/2004.
Introduction of a general provision of 1 per cent on standard assets in a phased manner be considered by RBI.	Already implemented
As an incentive to make specific provisions, they may be made tax deductible	

3.6 Planning Commission

- The Planning Commission was an institution in the Government of India, which formulated India's Five-Year Plans, among other functions.
- It was located at Yojana Bhawan, Sansad Marg, New Delhi.
- It was established in accordance with article 39 of the constitution which is a part of directive principles of state policy.
- Planning commission prepared 5 year plans
- With the Prime Minister as the ex-officio Chairman, the commission has a nominated Deputy Chairman, who holds the rank of a Cabinet Minister.
- Montek Singh Ahluwalia was the last Deputy Chairman of the Commission (resigned on 26 May 2014).
- The Eleventh Plan completed its term in March 2012 and the Twelfth Plan is finished in march 2017

First Plan (1951-1956)

- Pandit Jawaharlal Nehru presented the First Five-Year Plan to the Parliament of India. he First Five-Year Plan was based on the **Harrod–Domar** model.
- The target growth rate was 2.1% annual gross domestic product (GDP) growth achieved growth was 3.6%.
- The Plan Focussed on agriculture, price stability, power and transport
- It was a successful plan primarily because of good harvests in the last two years of the plan.

- Objectives of rehabilitation of refugees, food self sufficiency & control of prices were more or less achieved.

Second Plan (1956-1961)

- The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician P.C Mahalanobis in 1953.
- The plan assumed a closed economy in which the main trading activity would be centred on importing capital goods.
- The Plan Focussed on rapid industrialization- heavy & basic industries . Advocated huge imports through foreign loans.
- The Industrial Policy 1956 was based on establishment of a socialistic pattern of society as the goal of economic policy.
- Acute shortage of forex led to pruning of development targets , price rise was also seen (about 30%) vis a vis decline in the earlier Plan & the 2nd FYP was only moderately successful.
- Targeted growth:- 4.5%, actual growth:- 4.3%.

Third Plan (1961–1966)

- The Third Five-year Plan stressed agriculture and improvement in the production of wheat.
- At its conception, it was felt that Indian economy has entered a “takeoff
- stage”. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy.
- Based on the experience of first two plans (agricultural production was seen as limiting factor in India’s economic development) , agriculture was given top priority to support the exports and industry.
- The Plan was thorough failure in reaching the targets due to unforeseen events - Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66. Due to conflicts the approach during the later phase was shifted from development to defence & development.
- The target growth rate was 5.6%, but the actual growth rate was 2.4%.

Fourth Plan (1969–1974)

- It had twin objectives of “ growth with stability “ and “progressive achievement of self reliance.
- Main emphasis was on growth rate of agriculture to enable other sectors to move forward . First two years of the plan saw record production. The last three years did not measure up due to poor monsoon.

- Implementation of Family Planning Programmes were amongst major targets of the Plan.
- Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue along with price situation deteriorating to crisis proportions.
- The plan is considered as big failure.
- The target growth rate was 5.6%, but the actual growth rate was 3.3%

Fifth Plan (1974–1979)

- It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self reliance'.
- The final Draft of fifth plan was prepared and launched by D.P. Dhar.
- Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments
- Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards.
- The emphasis shifted to the implementation of Prime Ministers 20 Point Programme.
- When Janta Party came to power in 1978, the Plan was terminated.
- The target growth rate was 4.4% and the actual growth rate was 4.8%.

Sixth Plan (1980 - 85)

- The Sixth Five-Year Plan marked the beginning of economic liberalisation.
- Price controls were eliminated and ration shops were closed.
- This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian-Mahalobonis socialism.
- The Plan focussed on Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment through schemes for transferring skills(TRYSEM) and seets(IRDP) and providing slack season employment (NREP), controlling population explosion etc.
- It was the great success for the country. Target Growth was 5.2% and Actual Growth was 5.7%

Seventh Plan (1985–1990)

- The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with focus on 'food, work & productivity'.
- The plan was very successful as the economy recorded 6% growth rate against the targeted 5% with the decade of 80's struggling out of the '**Hindu Rate of Growth**'.

- Under the Seventh Five-Year Plan, India strove to bring about a self-sustained economy in the country with valuable contributions from voluntary agencies and the general populace.
- The target growth rate was 5.0% and the actual growth rate was 6.01%.

Eighth Plan (1992–1997)

- The worsening Balance of Payment position, rising debt burden, widening budget deficits, recession in industry and inflation were the key issues during the launch of the plan.
- The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% through introduction of fiscal & economic reforms including liberalisation under the Prime Minister ship of P V Narasimha Rao.
- LPG was introduced. High growth rate was achieved even though the share of public sector in total investment had declined considerably to about 34 %.
- An average annual growth rate of 6.78% against the target 5.6%

Ninth Plan (1997-2002)

- Shri Atal Bihari Vajpayeeji was the Prime Minister of India during the Ninth Five-Year Plan.
- The Plan prepared under United Front Government focussed on "Growth With Social Justice & Equality ".
- Ninth Plan aimed to depend predominantly on the private sector – Indian as well as foreign (FDI) & State was envisaged to increasingly play the role of facilitator & increasingly involve itself with social sector viz education, health etc and infrastructure where private sector participation was likely to be limited.
- It assigned priority to agriculture & rural development with a view to generate adequate productive employment and eradicate poverty
- The target growth was 7.1% and the actual growth was 6.8%.

Tenth Plan (2002–2007)

- The major objectives of plan was to attain 8% GDP growth per year. Reduction of poverty rate by 5% by 2007. Providing gainful and high-quality employment at least to the addition to the labour force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007 and 20-point development program was introduced.
- Governance was considered as factor of development & agriculture was declared as prime moving force of the economy. States role in planning was to be increased with greater involvement of Panchayati Raj Institutions.

- State wise break up of targets for growth and social development sought to achieve balanced development of all states.
- Target growth was 8.1% and growth achieved was 7.7%.

Eleventh Plan (2007-2012)

- The objectives of plan were to reduce poverty, emphasis on social sector and delivery of service therein. Empowerment through education and skill development. Reduction of gender inequality. Environmental sustainability. To increase the growth rate in all sectors of economy. Provide clean drinking water for all by 2009.
- Growth was reduced due to global crisis. The issue of **Price Stability** remained resonating for more than half of the Plan period.
- Inability to pass on burden on costlier imported oil prices might have constrained the supply of investible funds in the government's hand causing the 11th Plan to perform at the levels below its target.
- Targeted growth was 9% and achieved growth was 8%.

Twelfth Plan (2012–2017)

- The Twelfth Five-Year Plan of the Government of India has decided for the growth rate at 8.2%.
- The world is facing global economic crisis. Thus the plan emphasizes that our first priority must be to bring the economy back to rapid growth while ensuring that the growth is both inclusive and sustainable.
- There has been reduction in investments and inflation has been on the high.
- The plan targeted at economic growth, poverty and employment, education, health infrastructure creation, environment and sustainability and service delivery at each house hold.
- Targeted growth rate was 8-8.5%, achieved growth rate was 6.5-7%.

3.7 Fiscal Responsibility and Budget Management Act 2003

Fiscal Responsibility and Budget Management (FRBM) became an Act in 2003. The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government.

The Government notified FRBM rules in July 2004 to specify the annual reduction targets for fiscal indicators. The FRBM rule specifies reduction of fiscal deficit to 3% of the GDP by 2008-09 with annual reduction target of 0.3% of GDP per year by the Central government. Similarly, revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination to be achieved by 2008-09. It is the responsibility of the government to adhere to these targets. The Finance Minister has to explain the reasons and suggest corrective actions to be taken, in case of breach.

FRBM Act provides a legal institutional framework for fiscal consolidation. It is now mandatory for the Central government to take measures to reduce fiscal deficit, to eliminate revenue deficit and to generate revenue surplus in the subsequent years. The Act binds not only the present government but also the future Government to adhere to the path of fiscal consolidation. The Government can move away from the path of fiscal consolidation only in case of natural calamity, national security and other exceptional grounds which Central Government may specify.

Further, the Act prohibits borrowing by the government from the Reserve Bank of India, thereby, making monetary policy independent of fiscal policy. The Act bans the purchase of primary issues of the Central Government securities by the RBI after 2006, preventing monetization of government deficit. The Act also requires the government to lay before the parliament three policy statements in each financial year namely Medium-Term Fiscal Policy Statement; Fiscal Policy Strategy Statement and Macroeconomic Framework Policy Statement.

To impart fiscal discipline at the state level, the Twelfth Finance Commission gave incentives to states through conditional debt restructuring and interest rate relief for introducing Fiscal Responsibility Legislations (FRLs). All the states have implemented their own FRLs.

Background

Indian economy faced with the problem of large fiscal deficit and its monetization spilled over to external sector in the late 1980s and early 1990s. The large borrowings of the government led to such a precarious situation that government was unable to pay even for two weeks of imports resulting in economic crisis of 1991. Consequently, Economic reforms were introduced in 1991 and fiscal consolidation emerged as one of the key areas of reforms. After a good start in the early nineties, the fiscal consolidation faltered after 1997-98. The fiscal deficit started rising after 1997-98. The Government introduced FRBM Act,2003 to check the deteriorating fiscal situation.

Implementation

The implementation of FRBM Act/FRLs improved the fiscal performance of both centre and states. The States have achieved the targets much ahead the prescribed timeline. Government of India was on the path of achieving this objective right in time. However, due to the global financial crisis, this was suspended and the fiscal consolidation as mandated in the FRBM Act was put on hold in 2007-08.The crisis period called for increase in expenditure by the government to boost demand in the economy. As a result of fiscal stimulus, the government has moved away from the path of fiscal consolidation. However, it should be noted that strict adherence to the path of fiscal consolidation during pre crisis period created enough fiscal space for pursuing counter cyclical fiscal policy.

3.8 International Monetary Fund and World Bank

The International Monetary Fund and the World Bank were both created at an international conference convened in Bretton Woods, New Hampshire, United States in July 1944. The goal of the conference was to establish a framework for economic cooperation and development that would lead to a more stable and prosperous global economy. While this goal remains central to both institutions, their work is constantly evolving in response to new economic developments and challenges.

The IMF's The IMF promotes international monetary cooperation and provides policy advice and capacity development support to help countries build and maintain strong economies. The IMF also makes loans and helps countries design policy programs to solve balance of payments problems when sufficient financing on affordable terms cannot be obtained to meet net international payments. IMF loans are short and medium term and funded mainly by the pool of quota contributions that its members provide. IMF staff are primarily economists with wide experience in macroeconomic and financial policies.

The IMF works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries and their citizens to transact with each other. It does so by keeping track of the global economy and the economies of member countries, lending to countries with balance of payments difficulties, and giving practical help to members.

The World Bank's The World Bank promotes long-term economic development and poverty reduction by providing technical and financial support to help countries reform certain sectors or implement specific projects—such as building schools and health centers, providing water and electricity, fighting disease, and protecting the environment. World Bank assistance is generally long term and is funded both by member country contributions and through bond issuance. World Bank staff are often specialists on particular issues, sectors, or techniques.

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development.

Together, IBRD and IDA form the World Bank, which provides financing, policy advice, and technical assistance to governments of developing countries. IDA focuses on the world's poorest countries, while IBRD assists middle-income and creditworthy poorer countries.

IFC, MIGA, and ICSID focus on strengthening the private sector in developing countries. Through these institutions, the World Bank Group provides financing, technical assistance, political risk insurance, and settlement of disputes to private enterprises, including financial institutions.

History of IMF and World Bank:

- The Great Depression of 1930s led to failure of several economies as a result the gold standard for valuation of currencies (where currencies were back by gold) dissipated.
- Nations raised trade barriers, and devalued their currencies to compete against each other, in the export markets.

- These factors led to a decline in world trade, which caused high unemployment, and sharp drop in living standards across many countries.
- The Bretton Woods Conference after World War II in 1944, established a new international monetary system. **C.D. Deshmukh** was an Indian civil servant who represented India at the Bretton Woods Conference in 1944. Also remember that he was the first Indian Governor of Reserve Bank of India (RBI)
- The international Bank for Reconstruction and Development (now called the World Bank) and the International Monetary Fund (IMF) were established with different mandates.
- Both these IMF and World Bank are also known as **'Bretton Woods Twins'**.

Structure and Size of World Bank and IMF:

The World Bank:

- 188 countries member.
- The World Bank has two major organizations in it: The International Bank for Reconstruction and Development and the International Development Association (IDA).
- Headquarters: Washington, D.C.
- It has 7,000 staff members, and it is about 3 times as large as the IMF.

The International Monetary Fund:

- 188 countries member.
- Headquarters: Washington, D.C.
- It has 2,300 staff members.

Functions of IMF & World Bank:
The World Bank functions :

- The World Bank promotes economic and social progress in developing countries. It helps these countries to raise productivity to enable people to live a better and fuller life.
- Therefore, its primary mandate is to finance economic development.

The International Monetary Fund functions :

- The IMF is basically a lending institution which gives advances to members in need.
- It is the mentor of its members' monetary and exchange rate policies.
- To maintain the stability in Exchange rate system around the World.

Operations of IMF and World Bank :
The World Bank operations:

- It works to encourage poor nations to develop, by providing technical assistance and funding for their projects and that will help realize the nations' economic potential.
- It endeavors to achievement direct involvement of the poor in the economic activity, through agriculture and rural development, small-scale enterprises, and urban development lending.
- Since the World Bank's lending decisions depend on the economic condition of the borrowing country, it carefully analyses the economy and needs of the sectors for which lending is contemplated. These studies help in formulation of an appropriate long-term development

assistance strategy for the economy of the concerned country.

International Monetary Fund	World Bank
Oversee the international monetary systems and promotes international monetary cooperation.	Seeks to promote economic development and structural reforms in developing countries.
Promote exchange stability and orderly exchange relations among its members.	Assists developing countries by providing long-term financing of development projects and programmes.
Assists members in temporary BOP difficulties by providing them with the opportunity to correct maladjustments in their BOP.	Provides special finance assistance to the poorest developing countries through the IDA.
Supplements the reserves of its members by allocating SDBs if there is a long-term global need.	Stimulates private enterprise in developing countries through its affiliate, the International Finance Corporation.
Draw its financial resources principally from the quota subscriptions of its members.	Acquires most of its financial resources by borrowing on the international bond market.

The International Monetary Fund operations :

- It primarily urges its members to allow their currencies to be exchanged without any restriction for the currencies of other member countries of IMF.
- The IMF supervises economic policies that influence the balance of payments in member's' economies. This provides an opportunity for early warning of any exchange rate or balance of payments problem in its member nations.
- It provides short- and medium-term financial assistance to its member nations which run into any temporary balance of payments difficulties. This financial assistance involves the option of convertible currencies to alter the affected member's troubled foreign exchange reserves. It is done only in return for that government's promise to reform their economic policies that have caused the said balance of payments problem.

3.9 The Insolvency and Bankruptcy Act 2016

Insolvency is when an individual or organization is unable to meet its outstanding financial debt towards its lender as it become due. Insolvency can be resolved by way of changing the repayment plan of the loans or writing off a part thereof. If it cannot be resolved, then a legal action may lie against the insolvent and its assets will be sold to pay off the outstanding debts. Generally, an official assignee/liquidator appointed by the Government of India, realizes the assets and allocates it among the creditors of the insolvent.

Bankruptcy is a concept slightly different from insolvency, which is rather amicable. A bankruptcy is when a person voluntary declares himself as an insolvent and goes to the court. On declaring him as 'bankrupt', the court is responsible to liquidate the personal property of the insolvent and hand it out to its creditors. It provides a fresh lease of life to the insolvent.

The Insolvency & Bankruptcy Code 2016 ("IBC")

Enacted to address the troubling shortcomings in existing staggered insolvency laws in India and to bring them under one umbrella, is set up to face a monumental challenge and equally monumental expectations. At present, according to the data available with the World Bank in 2016, insolvency resolution in India takes around 4.3 years on average, compared with United Kingdom (1 year), USA (1.5 years) and South Africa (2 years). India was ranked 135th/190 countries in the World Bank Ease of Doing Business Index 2015 on the ease of resolving insolvency. Thus it is apparent that the Code is perhaps one of the most critical legislations introduced in the recent years impacting the ease of doing business in India.

The Insolvency and Bankruptcy Code 2016, enacted to radically change the process of insolvency resolution in India, is keenly watched by economists and jurists as well as businessmen and investors, for the reason that each aspect of the implementation of law has the potential to critically impact the ease of doing business in India. For this reason, the Code is especially sensitive to interpretation and it is vital that the issues thrown up in its inaugural year of implementation be recognized and the judicial remark on the same be understood. The present article thus traces the emerging jurisprudence of the Code through judgments of the Supreme Court of India and the National Company Law Appellate Tribunal.

Legal framework of Indian insolvency and bankruptcy resolution procedures:

There are several laws which regulate insolvency resolution for companies in India. These include (i) **Sick Industrial Companies Act, 1985**, (ii) **Recovery of Debt Due to Banks and Financial Institutions Act, 1993 (DRT Act)**, (iii) **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI)**, and **Companies Act, 2013**. These laws provide for the restructuring of debt, seizure and sale of the debtor's assets for repayment of outstanding loans. Similar laws such as the **Presidency Towns Insolvency Act, 1909** and the **Provincial Insolvency Act, 1920** regulate insolvency resolution for individuals. While these laws specify processes for resolving insolvency, a creditor may also approach civil courts for recovery of debt.

The Code seeks to consolidate the existing framework by repealing the Presidency Towns Insolvency Act, 1909 and the Provincial Insolvency Act, 1920. In addition, it amends 11 laws including Companies Act, 2013, DRT Act, 1993 and SARFAESI Act, 2002.

Legal framework of Insolvency and Bankruptcy Code, 2016 (IBC):

The Statement of Objects and Reasons of Insolvency and Bankruptcy Code, 2016 (the Code) indicates that the Legislature was of the opinion that the existing framework for insolvency and bankruptcy was inadequate and ineffective and resulted in undue delays in resolution. The Code was proposed with the objective of consolidating and amending the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders, including alteration in the priority of payment of Government dues and to establish an Insolvency and Bankruptcy Fund, and matters connected therewith or incidental thereto. The Code provides for designating the NCLT and the Debts Recovery Tribunal (DRT) as the Adjudicating Authorities for corporate persons, firms and individuals for resolution of insolvency, liquidation and bankruptcy. The Code was published in the Gazette of India dated 28.05.2016. Provisions of the Code were however brought into effect from different dates in terms of the proviso to Section 1(3) of the Code.

The Insolvency and Bankruptcy Code, 2016 (31 of 2016) ("the Code") came into effect with the assent of the President of India on 28th May 2016. In a notification dated 1st June, 2016, the Central Government had constituted 11 benches of the National Company Law Tribunal (NCLT) in different states. Under Part II, Chapter VI of the Code, National Company Law Tribunal (NCLT) would be adjudicating authority for insolvency resolution and liquidation of Companies, Limited Liability Partnerships (LLPs), any entity with limited liability under any law and bankruptcy of personal guarantors thereof.

The Central Government established (powers conferred by sub-Section (1) and (3) of Section 188 of the Code) the Insolvency and Bankruptcy Board of India on 1st October, 2016 which has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies and Information Utilities needed for operation of the Code. It also writes and enforces rules for transactions, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code.

The new code will construct an institutional framework, consisting of:

(1) IBBI (Insolvency & Bankruptcy Board of India) as the regulating authority,
(2) Insolvency professionals (to act as intermediary and help sick units and financial institutions including banks with a smooth takeover or liquidation process),
(3) Information utilities (credit information storing units), and
(4) Adjudicatory mechanisms, to facilitate a timebound insolvency resolution procedure and liquidation if necessary.

The IBC appoints two different authorities to make the procedure for insolvency resolution smoother. The NCLT (National Company Law Tribunal) to deal with cases related to companies and LLP's and the DRT (Debt Recovery Tribunal) for partnership firms and individual.