PART 3 : ECONOMIC AND BUSINESS ENVIRONMENT

LESSONS

1. Basics of Demand and Supply and Forms of Market Competition **431**

2. National Income Accounting and Related Concepts **449**

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6. Entrepreneurship Scenario **553**

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SYLLABUS

PART 3 : ECONOMIC AND BUSINESS ENVIRONMENT

Objective:

- To test understanding on concepts of Micro & Macro Economics with a focus on Indian economic system.
- To test understanding on various crucial elements of business environment.

Total Marks – 50 Marks

Sub-part A – Economics (25 Marks)

Sub-part B – Business Environment (25 Marks)

S. No.	*Topic*	*Sub-topics*
		Sub-part A - Economics (25 Marks)
1	Basics of Demand and Supply and Forms of Market Competition	• Theory of Demand and Supply • Equilibrium Price • Elasticity of Demand and Supply and other related concepts • Increase and Decrease in Demand and Expansion and Contraction of Demand • Forms of Market Competition- Monopoly, Duopoly, Oligopoly, Perfect Competition and Monopolistic Competition
2	National Income Accounting and Related Concepts	• Meaning and methods to compute National Income • Key concepts of National Income (GNP, GDP, NNP, NDP, Domestic Income, Private Income, Personal Income, Disposable Income, Real Income and Per Capita Income)
3	Indian Union Budget	• Key terminologies / heads covered under the budget • Revenue and Capital Budget • Major components of Revenue and Capital Budget • Meaning of Fiscal Deficit • Components/ Variables covered under Fiscal Deficit
4	Indian Financial Markets	• Overview of Indian Financial Ecosystem • Key facets of Indian financial system • Growth of Financial Institutions • Public and private sector banks

S. No.	Topic	Sub-topics
		• Industrial Finance Corporation of India and Small Industries Development Bank of India • Regional Rural Banks • Cooperative Banks • Non-Banking Finance Companies • Basics of Capital Market: Types of Shares and Debentures • Financial assistance scenario for Small and Medium Enterprises and Start-Ups
5	Indian Economy	• Primary (Agriculture and allied activities) • Secondary (Manufacturing) • Tertiary (Services) • Current scenario of agriculture and allied activities in India • Agricultural and Industrial Policies of India • Current scenario of services sector in India • Balance of Payments • Components of Balance of Payments • Favorable and Unfavorable Balance of Trade • Foreign Investments in India- Types and Flows
Sub-part B – Business Environment (25 Marks)		
6	Entrepreneurship Scenario	• Government initiatives to foster entrepreneurship • Need for entrepreneurship in India • Bottlenecks in entrepreneurial growth
7	Business Environment	• Overview of Business Environment • Features and factors influencing business environment • Types of environment: Economic environment, Socio-cultural environment, Political environment, Legal and Technological environment • Ease of Doing Business Index by World Bank for India and Department for Promotion of Industry and Internal Trade (DPIIT) for States
8	Key Government Institutions	• Basic awareness about various institutions and regulatory bodies in India such as NITI Aayog, MCA, SEBI, RBI, IBBI, CCI, NCLT and NCLAT

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A : ECONOMICS

LESSON 1

BASICS OF DEMAND AND SUPPLY AND FORMS OF MARKET COMPETITION

THEORY OF DEMAND AND SUPPLY

Meaning of Demand

Demand is an economic principle referring to a consumer's desire to purchase goods and services and willingness to pay a price for a specific good or service.

Law of Demand

According to the law of demand, other things being equal, if price of a commodity falls, the quantity demanded of it will rise, and if price of the commodity rises, its quantity demanded will decline. It implies that there is an inverse relationship between the price and quantity demanded of a commodity,. In other words, other things being equal, quantity demanded will be more at a lower price than at a higher price.

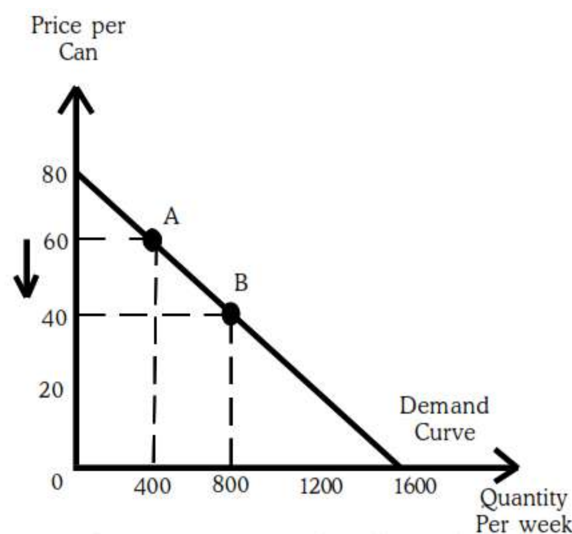
The law of demand describes the functional relationship between price and quantity demanded. Among various factors affecting demand, price for a commodity is the most critical factor. Thus, demand of a commodity is mainly determined by the price of commodity.

Dx = f(Px).

The law of demand may be understood from the following example:

PRICE PER CAN (INR)	QUANTITY DEMANDED
80	0
70	200
60	400
50	600
40	800
30	1000
20	1200
10	1400
0	1600

Source: Economics Online



Source : www.economicsonline.co.uk

Thus, it may be observed that with the rise in price per can, the demand for the cans is reducing.

Assumptions of the law of demand

The above stated law of demand is conditional. It is based on certain conditions as given. It is therefore, always stated with the 'other things being equal'. It relates to the change in price variable only, assuming other determinants of demand to be constant. The law of demand is thus, based on the following ceteris paribus assumptions:

1. No Change in Consumer's Income
2. No Change in Consumer's Preferences
3. No Change in the Fashion
4. No Change in the Price of Related Goods
5. No Expectation of Future Price Changes or Shortages
6. No Change in Size, Age Composition and Sex Ratio of the Population
7. No Change in the Range of Goods Available to the Consumers
8. No Change in the Distribution of Income and Wealth of the Community
9. No Change in Government Policy
10. No Change in Weather Conditions.

EXCEPTIONS TO THE LAW OF DEMAND

There are few exceptional cases where the law of demand is not applicable, which may be categorised as follows:

Giffen Goods : In the case of certain inferior goods called Giffen goods (named after Sir Robert Giffen), when the prices fall, quite often less quantity will be purchased than before because of the negative income effect and people's increasing preference for a superior commodity with the rise in their real income. Examples of Giffen goods can include bread, rice, and wheat.

Articles of Snob Appeal : Sometimes, certain commodities are demanded just because they happen to be expensive or prestige goods, and have a 'snob appeal'. They satisfy the aristocratic desire to preserve exclusiveness for unique goods.

Speculation : When people speculate about changes in the price of a commodity in the future, they may not act according to the law of demand at the present price, say, when people are convinced that the price of a particular commodity will rise still further, they will not contract their demand with the given price rise: on the contrary, they may purchase more for the purpose of hoarding.

Consumer's Psychological Bias or Illusion : When the consumer is wrongly biased against the quality of the commodity with the price change, he may contract this demand with a fall in price.

Law of Supply

Supply represents how much the market can offer. The quantity supplied refers to the amount of a good producers are willing to supply when receiving a certain price. The supply of a good or service refers to the quantities of that good or service that producers are prepared to offer for sale at a set of prices over a period of time. Supply means a schedule of possible prices and amounts that would be sold at each price. The supply is not the same concept as the stock of something in existence, for example, the stock of commodity X in Delhi means the total quantity of Commodity X in existence at a point of time; whereas, the supply of commodity X in Delhi means the quantity actually being offered for sale, in the market, over a specified period of time.

The law of supply states that a firm will produce and offer to sell greater quantities of a product or service as the price of that product or service rises, other things being equal. There is a direct relationship between price and quantity supplied. In this statement, change in price is the cause and change in supply is the effect. Thus, the price rise leads to an increase in supply and not otherwise. It may be noted that at higher prices, there is a greater incentive to the producers or firms to produce and sell more. Other things including the cost of production, change of technology, prices of inputs, level of competition, size of the industry, government policy and non-economic factors.

Thus 'Ceteris Paribus'

(a) With an increase in the price of a good, the producer is willing to offer more quantity in the market for sale.

(b) The quantity supplied is related to the specified time interval over which it is offered.

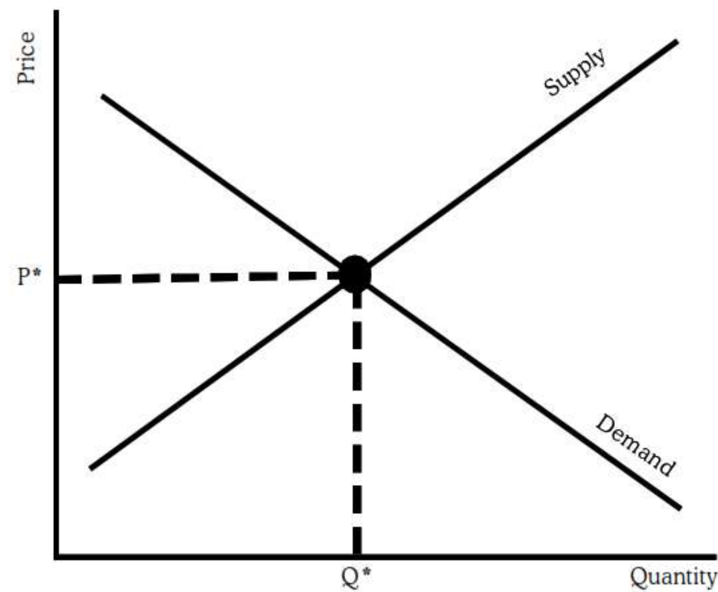
The law of supply is the microeconomic law that states that, all other factors being equal, as the price of a good or service increases, the quantity of goods or services that suppliers offer will increase, and vice versa. The law of supply says that as the price of an item goes up, suppliers will attempt to maximize their profits by increasing the quantity offered for sale.

Assumptions of Law of Supply

The term "other things remaining the same" refers to the following assumptions in the law of supply:

1. No change in the state of technology.
2. No change in the price of factors of production.
3. No change in the number of firms in the market.
4. No change in the goals of the firm.
5. No change in the seller's expectations regarding future prices.
6. No change in the tax and subsidy policy of the products.
7. No change in the price of other goods.

The equilibrium price is the market price where the quantity of goods supplied is equal to the quantity of goods demanded. This is the point at which the demand and supply curves in the market intersect.



Source: Study.com

At equilibrium, there is no shortage or surplus unless a determinant of demand or a determinant of supply changes. If a change in the price of a good or service creates a shortage, it means that consumers want to buy a higher quantity than the one offered by producers. In this case, demand exceeds supply and consumers are not satisfied. In contrast, if a change in the price of a product or a service creates a surplus, it means that consumers want to buy less quantity than the one offered by producers. In this case, supply exceeds demand and producers need to lower the price of the product or the service to avoid excessive inventory.

Let us take an example to understand the concept.

Price ($)	Quantity Demanded (Kg)	Quantity Supplied (Kg)	Surplus (kg)	Shortage (kg)
100	5	50	45	
90	12	41	29	
80	18	35	17	
70	22	28	6	
60	25	25	0	0
50	34	22		12
40	41	18		23
30	47	14		33

20	50	9		41
10	55	5		50

Source : My Accounting Course

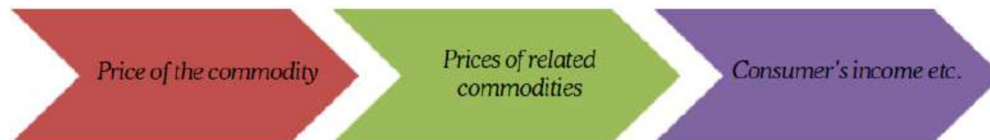
In the table above, the quantity demanded is equal to the quantity supplied at the price level of $60. Therefore, the price of $60 is the equilibrium price. At any other price level, there is either surplus or shortage. Specifically, for any price that is lower than $60, the quantity supplied is greater than the quantity demanded, thereby creating a surplus. For any price that is higher than $60, the quantity demanded is greater than the quantity supplied, thereby creating a shortage.

ELASTICITY OF DEMAND

In economics, the demand elasticity (elasticity of demand) refers to how sensitive the demand for a good is to changes in other economic variables, such as prices and consumer income.

Demand elasticity is calculated as the percent change in the quantity demanded divided by a percent change in another economic variable. A higher demand elasticity for an economic variable means that consumers are more responsive to changes in this variable.

"Elasticity of demand is the responsiveness of the quantity demanded of a commodity to changes in one of the variables on which demand depends. In other words, it is the percentage change in quantity demanded divided by the percentage in one of the variables on which demand depends." The variables on which demand can depend are:



There are major three types of elasticity of demand, i.e. Price elasticity; Income elasticity and Cross elasticity. However, this lesson focuses only on price elasticity of demand.

Price Elasticity of Demand

The price elasticity of demand is the response of the quantity demanded to change in the price of a commodity. It is assumed that the consumer's income, tastes, and prices of all other goods are steady. It is measured as a percentage change in the quantity demanded divided by the percentage change in price. Therefore, price elasticity of demand is:

$$Ep = \frac{\text{Percentage Change in Quantity Demanded}}{\text{Percentage Change in Price}}$$

$$\text{Or, } Ep = \frac{\text{Change in Quantity}}{\text{Original Quantity}} \times \frac{\text{Original Price}}{\text{Change in Price}}$$

Types of Price Elasticity of Demand

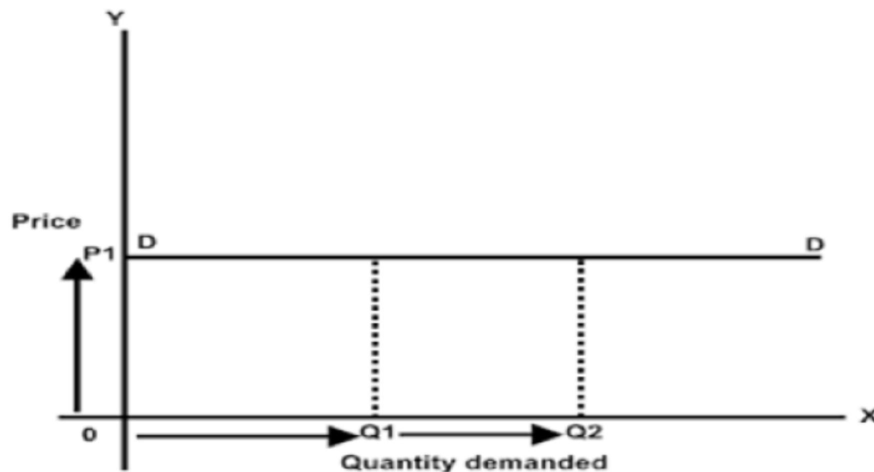
The extent of responsiveness of demand with change in the price is not always the same. The demand for a product can be elastic or inelastic, depending on the rate of change in the demand with respect

to change in price of a product.

Elastic demand is the one when the response of demand is greater with a small proportionate change in the price. On the other hand, inelastic demand is the one when there is relatively less change in the demand with a greater change in the price.

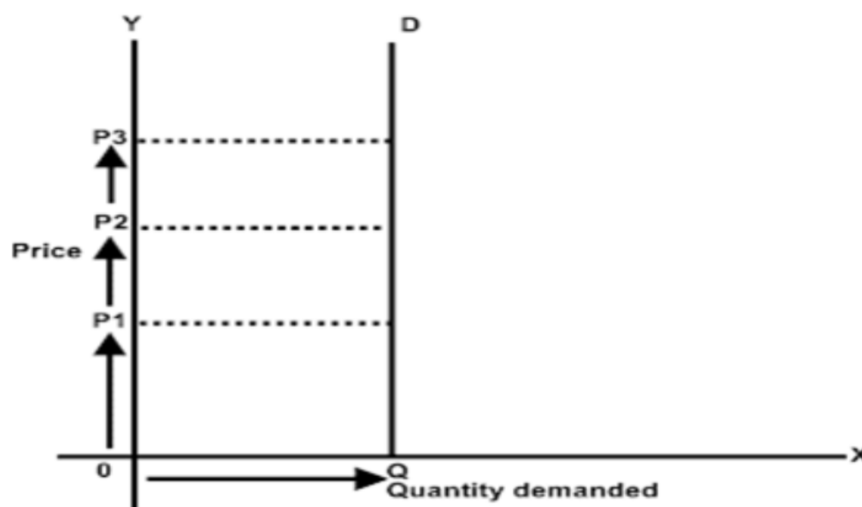
The various forms of price elasticity of demand are as under:

1. *Perfectly Elastic Demand* : When a small change in the price of a product causes a major change in its demand, it is said to be perfectly elastic demand. In perfectly elastic demand, a small rise in price results in a fall in demand to zero, while a small fall in price causes an increase in demand to infinity. In such a case, the demand is perfectly elastic or ep = .



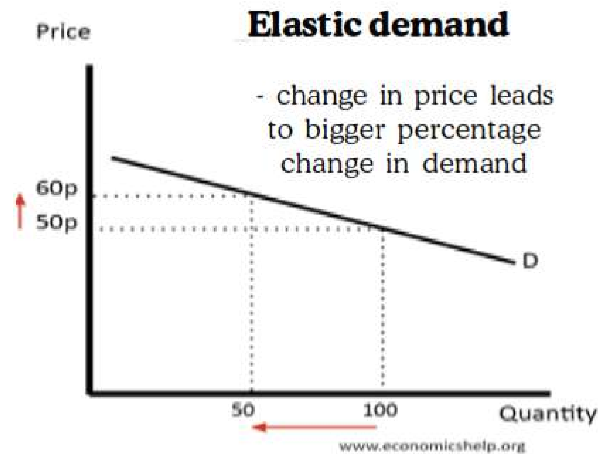
Source: Economics basics

2. *Perfectly Inelastic Demand* : A perfectly inelastic demand is one when there is no change produced in the demand of a product with a change in its price. The numerical value for perfectly inelastic demand is zero (ep=0).



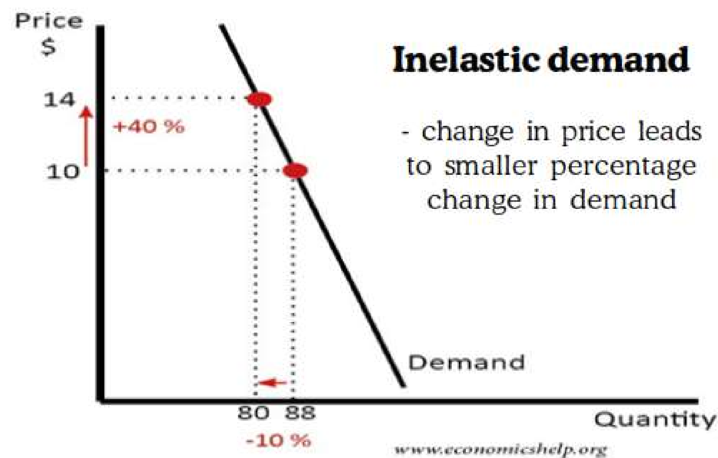
Source: Economics basics

3. *Relatively Elastic Demand* : Relatively elastic demand refers to the demand when the proportionate change produced in demand is greater than the proportionate change in price of a product. The numerical value of relatively elastic demand ranges between one to infinity (ep>1).



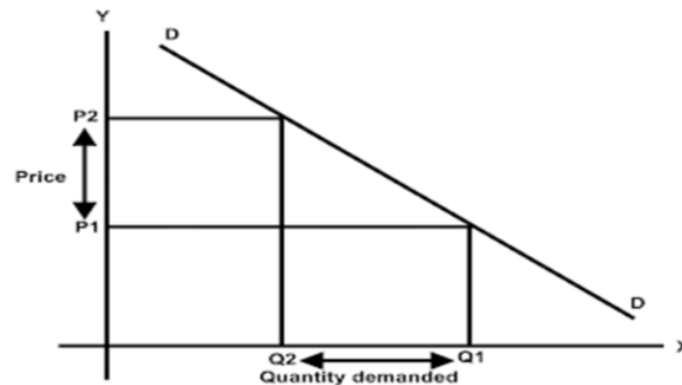
Source: Economics help

4. *Relatively Inelastic Demand*: Relatively inelastic demand is one when the percentage change produced in demand is less than the percentage change in the price of a product. For example, if the price of a product increases by 30% and the demand for the product decreases only by 10%, then the demand would be called relatively inelastic. The numerical value of relatively elastic demand ranges from zero to one (ep<1).



Source: Economics help

5. *Unitary Elastic Demand* : When the proportionate change in demand produces the same change in the price of the product, the demand is referred as unitary elastic demand. The numerical value for unitary elastic demand is equal to one (ep=1).



Source: Economics basics

A quick recap

Perfectly Elastic Demand (E_P = ?)

Perfectly Inelastic Demand (E_P = 0)

Relatively Elastic Demand (E_P > 1)

Relatively Inelastic Demand (E_p < 1)

Unitary Elastic Demand (E_p = 1)

Factors affecting Price Elasticity of Demand

1. *Price Level* : The demand is generally elastic for moderately priced goods but, the demand for very costly and very cheap goods is inelastic. The rich do not bother about the prices of the goods that they buy. Very costly goods are demanded by the rich people and hence their demand is not affected much by the change in prices. For example, on increase in the price of Toyota car from Rs. 5,00,000 to Rs. 5,20,000 will not make any noticeable difference in its demand. Similarly, the change in the price of very cheap goods (such as salt) will not have any effect on their demand, for their consumption which is very small and fixed.

2. *Availability of Substitutes* : If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it. A small rise in the price of such a commodity will induce consumers to switch their consumption to its substitutes. For example gas, kerosene oil, coal etc. will be used more as fuel if the price of wood increases. On the other hand, the demand of such commodities which have no close substitutes is inelastic, such as salt.

3. *Necessities* : If a good is a necessity, then the demand tends to be inelastic. For example, if the price for drinking water rises, then there is unlikely to be a huge drop in the quantity demanded since drinking water is a necessity.

4. *Time Period* : Over time, a good tends to become more elastic because consumers and businesses have more time to find alternatives or substitutes. For example, if the price of gasoline goes up, over time people will adjust for the change, i.e., they may drive less or use public transportation or form carpools.

5. *Habits* : The demand for addictive or habitual products is usually inelastic. This is because the consumer has no choice but no pay whatever the producer is demanding. For example, if the price for a pack of cigarettes goes up, it will likely not have any effect on demand.
6. *Nature of the Commodities* : The demand for necessities is inelastic and that for comforts and luxuries is elastic. This is so because certain goods which are essential will be demanded at any price, whereas goods meant for luxuries and comforts can be dispensed with easily if they appear to become costlier.
7. *Various Uses* : A commodity which has several uses will have an elastic demand such as milk, wood etc. On the other hand, a commodity having only one or fewer uses will have inelastic demand. The consumer finds it easier to adjust the quantity demanded of a good when it is to be used for satisfying several wants than if it is confined to a single or few uses. For this reason, a multiple-use good tends to have more elastic demand.
8. *Postponing Consumption* : Usually the demand for commodities, the consumption of which can be postponed, is elastic as the prices rise and are expected to fall again. For example, the demand for mp3 is elastic because its use can be postponed for some time if its price goes up, but the demand for rice and wheat is inelastic because their use cannot be postponed when their prices increase.

Income Elasticity of Demand

Income elasticity of demand is the degree of responsiveness of demand to the change in income. Prof. Watson defines it as : "Income elasticity of demand is the rate of change of quantity with respect to changes in the income, other determinants remaining constant." The income elasticity of demand can be measured by the following formula :

Ey = Percentage change in quantity demanded/Percentage change in income

Percentage change in quantity demanded = New quantity demanded (ΔQ)/Original quantity demanded (Q)

Percentage change in income = New income (ΔY)/original income (Y)

Symbolically,

$Ey = \Delta Q/Q \times \Delta Y/Y$

Income elasticity of demand, thus explains the responsiveness of demand to a change in income. Ordinarily, demand for most goods increases with an increase in household's level of income. Demand for inferior goods, however, shows a negative relation to change in income.

Types of Income Elasticity of Demand

Income elasticity of demand can be of five different types : These are tabulated with description below:

S. No.	Numerical Measure of Income elasticity of demand	Verbal description
1.	Negative Demand for a commodity fallsas income rises.	The trend is visible in case of inferiorgoods.

2.	Zero Demand for a commodity does not change as income changes.	This is true in the case of essential goods.
3.	Greater than zero but less than one.	Demand for commodity rises in proportion to a rise in income.
4.	Unity	Demand for commodity rises in the same proportion as rise in income.
5.	Greater than the unity	Demand for commodity rises more thanin proportion to rise in income.

Cross Elasticity of Demand

The responsiveness of demand to changes in prices of related commodities is called cross elasticity of demand. Prof. Watson defines it as, "Cross elasticity of demand is the rate of change in quantity associated with a change in the price of related goods." Thus cross elasticity of demand is the responsiveness of demand for commodity X to change in price of commodity Y and is represented as follows :

Symbolically :

Cross Elasticity of Demand Ec

% increase in quantity demanded of A

% increase in price of product B

The relationship between X and Y commodities may be substitutive as in case of tea and coffee or complementary as in the case of ball pens and refills. Main measures of cross elasticity with description are as follows :

1. Cross elasticity = Infinity (Commodity X is nearly a perfect substitute for commodity Y)
2. Cross elasticity = Zero (Commodity X and Y are not related)
3. Cross elasticity = Negative (Commodities X and Y are complementary)

Thus, if Ec approaches infinity, it means that commodity X is nearly a perfect substitute for commodity Y. On the other hand, if Ec approaches Zero it would mean that the two commodities in question are not related at all. Ec shall be negative when commodity Y is complementary to commodity X.

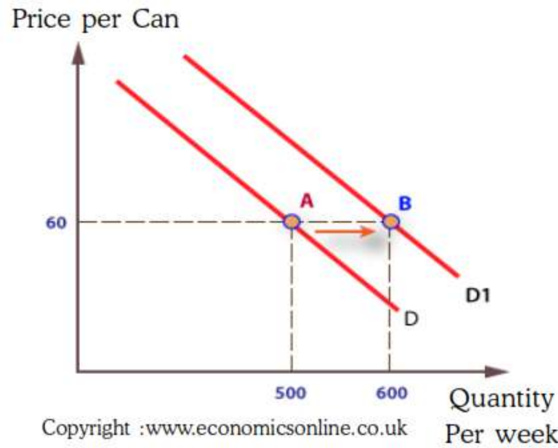
INCREASE AND DECREASE IN DEMAND AND EXPANSION AND CONTRACTION OF DEMAND

Increase in Demand and Decrease in Demand

Changes in demand include an increase or decrease in demand. Due to the change in the price of related goods, the income of consumers, and the preferences of consumers, etc. the demand for a product or service changes.

(a) *Increase in Demand* : When demand changes not because of price but because of changes in other determinants of demand, it is a case of either increase or decrease in demand. "Increase in demand means more demand at same price".

Increases in demand are shown by a shift to the right in the demand curve. This could be caused by a number of factors, including a rise in income, a rise in the price of a substitute or a fall in the price of a complement.



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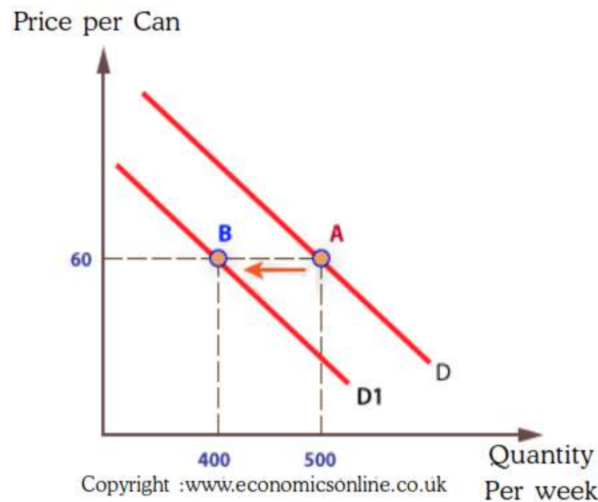
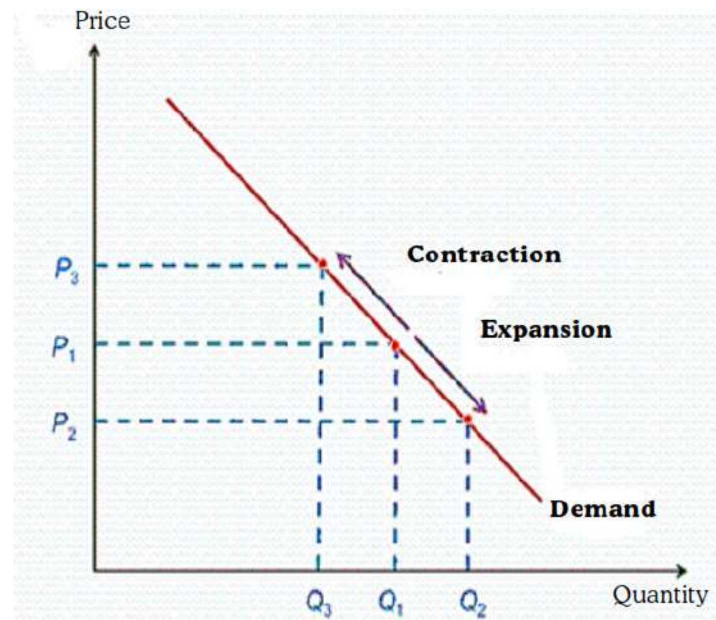
(b) *Decrease in Demand*: Decrease in demand means, "Less demand at same price". Demand can decrease and cause a shift to the left of the demand curve for a number of reasons, including a fall in income, assuming a good is a normal good, a fall in the price of a substitute and a rise in the price of a complement.



Expansion and Contraction of Demand

When the quantity demanded of a commodity increases as a result of the fall in the price, it is called extension (or expansion) in demand and when the quantity demanded decreases as a result of an increase in the price of the commodity, it is called contraction in demand. The following is the diagrammatical presentation of expansion and contraction of demand:



Source: knowledgiate.com

FORMS OF MARKET COMPETITION

A variety of market structures will characterize an economy. Such market structures essentially refer to the degree of competition in a market.

There are other determinants of market structures such as the nature of the goods and products, the number of sellers, number of consumers, the nature of the product or service, economies of scale etc. We will discuss the five basic types of market structures in any economy.

(1) *Perfect Competition*

In a perfect competition market structure, there are a large number of buyers and sellers. All the sellers in the market are small sellers in competition with each other. There is no one big seller with any significant influence on the market. So, all the firms in such a market are price takers.

There are certain assumptions when discussing the perfect competition. This is the reason a perfect competition market is pretty much a theoretical concept. These assumptions are as follows,

- The products on the market are homogeneous, i.e. they are completely identical
- All firms only have the motive of profit maximization
- There is free entry and exit from the market, i.e. there are no barriers
- And there is no concept of consumer preference

(2) *Monopolistic Competition*

This is a more realistic scenario that actually occurs in the real world. In monopolistic competition, there are still a large number of buyers as well as sellers. But they all do not sell homogeneous products. The products are similar but all sellers sell slightly differentiated products.

Now consumers have the preference of choosing one product over another. The sellers can also charge a marginally higher price since they may enjoy some market power. So, the sellers become the price setters to a certain extent.

For example, the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

(3) Oligopoly

In an oligopoly, there are only a few firms in the market. While there is no clarity about the number of firms, 3-5 dominant firms are considered the norm. So, in the case of an oligopoly, the buyers are far greater than the sellers.

The firms in this case either compete with another to collaborate together, They use their market influence to set the prices and in turn maximize their profits. So, the consumers become the price takers. In an oligopoly, there are various barriers to entry into the market, and new firms find it difficult to establish themselves.

(4) Monopoly

In a monopoly type of market structure, there is only one seller, so a single firm will control the entire market. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller. Monopolies are extremely undesirable. Here the consumers lose all their power and market forces become irrelevant. However, a pure monopoly is very rare in reality.

(5) Duopoly

A duopoly is a kind of oligopoly: a market dominated by a small number of firms. In the case of a duopoly, a particular market or industry is dominated by just two firms (this is in contrast to the more widely-known case of a monopoly when just one company dominates).

In very rare cases, this means they are the only two firms in the entire market (this almost never occurs); in practice, it usually means the two duopolistic firms have a great deal of influence, and their actions, as well as their relationship to each other, powerfully shape their industry. Duopolistic markets are imperfectly competitive, so entry barriers are typically significant for those attempting to enter the market, but there are usually still other, smaller businesses persisting alongside the two dominant firms.

ELASTICITY OF SUPPLY

The elasticity of supply establishes a quantitative relationship between the supply of a commodity and it's price. Hence, we can express the numeral change in supply with the change in the price of a commodity using the concept of elasticity. Note that elasticity can also be calculated with respect to the other determinants of supply.

However, the major factor controlling the supply of a commodity is its price. Therefore, we generally talk about the price elasticity of supply. The price elasticity of supply is the ratio of the percentage change in the price to the percentage change in quantity supplied of a commodity.

$E_s = [(\Delta q/q)\times 100] \div [(\Delta p/p)\times 100] = (\Delta q/q) \div (\Delta p/p)$

Δ_q = The change in quantity supplied

q = The quantity supplied

∆p = The change in price

p = The price

Types of Price Elasticity of Supply

1. *Perfectly Inelastic Supply* : A service or commodity has a perfectly inelastic supply if a given quantity of it can be supplied whatever might be the price. The elasticity of supply for such a service or commodity is zero. A perfectly inelastic supply curve is a straight line parallel to the Y-axis. This is representative of the fact that the supply remains the same irrespective of the price.

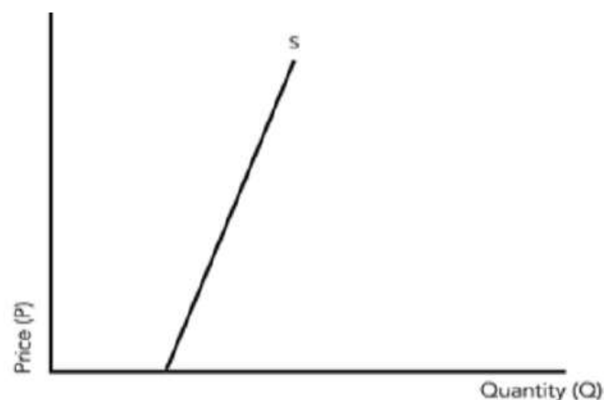
   The supply of exclusive items, like the painting of Mona Lisa, falls into this category. Whatever might be the price on offer, there is no way we can increase its supply.

   (PES = 0), The Quantity Supplied doesn't change as the price changes.

Source: Intelligent Economist

2. *Relatively Less-Elastic Supply* : When the change in supply is relatively less when compared to the change in price, we say that the commodity has a relatively-less elastic supply. In such a case, the price elasticity of supply assumes a value less than 1.

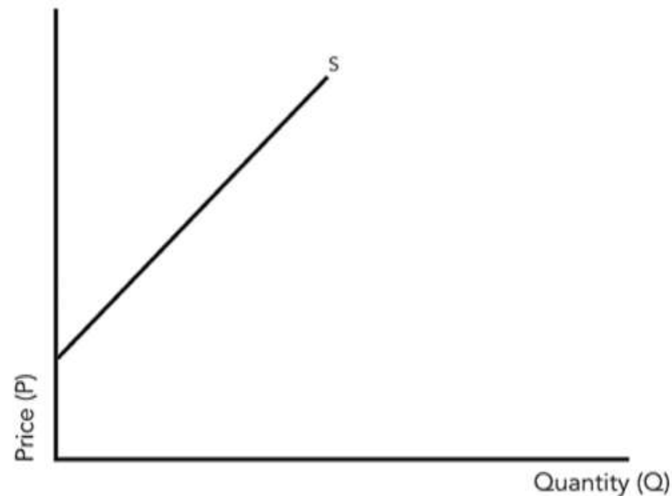
   (0 < PES < 1), Quantity Supplied changes by a lower percentage than a percentage change in price.



Source: Intelligent Economist

3. *Relatively Greater-Elastic Supply* : When the change in supply is relatively more when compared to the change in price, we say that the commodity has a relatively greater-elastic supply. In such a case, the price elasticity of supply assumes a value greater than 1.

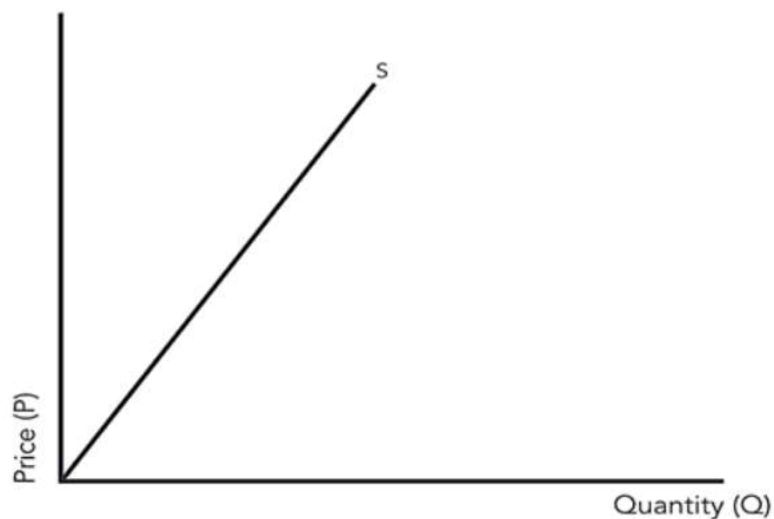
   (PES > 1), The Quantity Supplied changes by a larger percentage than the percentage change in price.



Source: Intelligent Economist

4. *Unitary Elastic Supply* : For a commodity with a unit elasticity of supply, the change in quantity supplied of a commodity is exactly equal to the change in its price. In other words, the change in both price and supply of the commodity is proportionately equal to each other. To point out, the elasticity of supply in such a case is equal to one. Further, a unitary elastic supply curve passes through the origin.

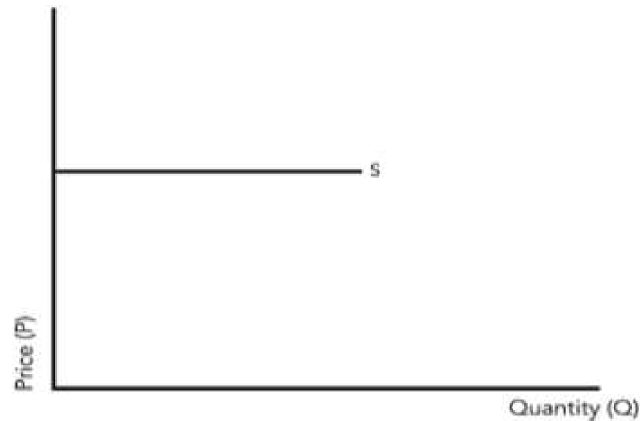
   (PES = 1), Quantity Supplied changes by the same percentage as the change in price.



Source: Intelligent Economist

5. *Perfectly Elastic supply* : A commodity with a perfectly elastic supply has an infinite elasticity. In such a case the supply becomes zero with even a slight fall in the price and becomes infinite with a slight rise in price. This is indicative of the fact that the suppliers of such a commodity are willing to supply any quantity of the commodity at a higher price. A perfectly elastic supply curve is a straight line parallel to the X-axis.

   (PES =), Suppliers will be willing and able to supply any amount at a given price but none at a different price.



Source: Intelligent Economist

Factors influencing the elasticity of supply

1. *Price of the Good* : The supply and elasticity of supply of a good depend upon the price of the good. If the price of a good increases or decreases, the quantity supplied of it will also increase or decrease, respectively. This is the law of supply. Also, the coefficient of price-elasticity of supply (ES) will depend on the price of the good. ES may be greater than, less than, or equal to one, depending on the price.

2. *Probability that the Price would Change in Future* : If the sellers think that the price of the good will increase (or decrease) in near future, then, at any particular price at present, they would want to decrease (or increase) their supply. In this case, the supply curve for the good would shift to the left (or to the right).

3. *Conditions regarding Cost of Production* : If the cost of production of good increases (or decreases), i.e., if its cost curve shifts upwards (or downwards), then the quantity supplied of the good would decrease (or increase) at any particular price, i.e., the supply curve would shift to the left (or to the right).

4. *Nature of the Good* : The supply of a good depends upon the nature of the good, e.g., on the perishability and lumpiness of the good. The more the perishability or lumpiness of the good, the more would be its market localised, and, in a localised market, the supply of a good at any particular price would be relatively small.

5. *Length of Time* : If the price of good rises, then by how much would supply rise, or, how large will be the price-elasticity of supply, would depend on the length of time available for the necessary adjustments (e.g., in the quantities of the factor inputs used) to complete. That is why; the elasticity of supply in the long-period market would be larger than that in the short-period market.

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LESSON 2

NATIONAL INCOME ACCOUNTING AND RELATED CONCEPTS

INTRODUCTION

National income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. On this basis, national income has been defined in a number of ways. In common parlance, national income means the total value of goods and services produced annually in a country.

In other words, the total amount of income accruing to a country from economic activities in a year's time is known as national income. It includes payments made to all resources in the form of wages, interest, rent and profits.

National Income or Net National Income is Gross National Income or Gross National Product less depreciation. It is to be noted that National Income includes Net Factor Income Earned from Abroad also. While computing National Income only finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

METHODS TO MEASURE NATIONAL INCOME

There are three methods of measuring the national income of a country. They yield the same result. These methods are:

(1) The Product Method or Value Added Method.

(2) The Income Method.

(3) The Expenditure Method

(1) The Product Method : The Product method measures the contribution of each producing enterprise in the domestic territory of the country. This method involves the following steps:

(a) Identifying the producing enterprise and classifying them into individual sectors according to their activities.

(b) Estimating net value added by each producing enterprise as well as each industrial sector and adding up the net value added by all the sectors.

Goods and services are counted in gross domestic product (GDP) at their market values. The product approach defines a nation's gross product as that market value of goods and services currently produced within a nation during a one year period of time.

The product approach measuring national income involves adding up the value of all the final goods and services produced in the country during the year. Here we focus on various sectors of the economy and add up all their production during the year. The main sectors whose production value is added up are:

(i) agriculture (ii) manufacturing (iii) construction (iv) transport and communication (v) banking (vi) administration and defence and (vii) distribution of income.

Precautions for Product Method or Value Added Method

(i) *Problem of double counting* : When we add up the value of output of various sectors, we should be careful to avoid double counting. This pitfall can be avoided by either counting the final value of the output or by including the extra value that each firm adds to an item.

(ii) *Value addition in particular year* : While calculating national income, the values of goods added in the particular year in question are added up. The values which had previously been added to the stocks of raw material and goods have to be ignored. GDP thus includes only those goods, and services that are newly produced within the current period.

(iii) *Stock appreciation* : Stock appreciation, if any, must be deducted from value added. This is necessary as there is no real increase in output.

(iv) *Production for self consumption* : The production of goods for self consumption should be counted while measuring national income. In this method, the production of goods for self consumption should be valued at the prevailing market prices.

(2) Expenditure Method : The expenditure approach measures national income as total spending on final goods and services produced within the nation during a year. The expenditure approach to measuring national income is to add up all expenditures made for final goods and services at current market prices by households, firms and government during a year. Total aggregate final expenditure on final output thus is the sum of four broad categories of expenditures:

(i) Consumption (ii) Investment (iii) Government and (iv) Net export.

(i) *Consumption expenditure (C)* : Consumption expenditure is the largest component of national income. It includes expenditure on all goods and services produced and sold to the final consumer during the year.

(ii) *Investment expenditure (I)* : Investment is the use of today's resources to expand tomorrow's production or consumption. Investment expenditure is expenditure incurred by business firms on (a) new plants, (b) adding to the stock of inventories and (c) on newly constructed houses.

(iii) *Government expenditure (G)* : It is the second largest component of national income. It includes all government expenditure on currently produced goods and services but excludes transfer payments while computing national income.

(iv) *Net exports (X - M)* : Net exports are defined as total exports minus total imports. National income calculated from the expenditure side is the sum of final consumption expenditure, expenditure by a business on plants, government spending and net exports.

Precautions for Expenditure Method

(i) The expenditure on second hand goods should not be included as they do not contribute to the current year's production of goods.

(ii) Similarly, expenditure on purchase of old shares and bonds is not included as these also do not represent expenditure on currently produced goods and services.

(iii) Expenditure on transfer payments by government such as unemployment benefit, old age pensions, interest on public debt should also not be included because no productive service is rendered in exchange by recipients of these payments.

(3) Income Method : Income approach is another alternative way of computing national income, This method seeks to measure national income at the phase of distribution. In the production process of an economy, the factors of production are engaged by the enterprises. They are paid money incomes for their participation in the production. The payments received by the factors and paid by the enterprises are wages, rent, interest and profit. National income thus may be defined as the sum of wages, rent, interest and profit received or occurred to the

factors of production in lieu of their services in the production of goods. Briefly, national income is the sum of all income, wages, rents, interest and profit paid to the four factors of production. The four categories of payments are briefly described below:

(i) *Wages* : It is the largest component of national income. It consists of wages and salaries along with fringe benefits and unemployment insurance.

(ii) *Rents* : Rents are the income from properly received by households.

(iii) *Interest* : Interest is the income private businesses pay to households who have lent the business money.

(iv) Profits: Profits are normally divided into two categories (a) profits of incorporated businesses and (b) profits of unincorporated businesses (sole proprietorship, partnerships and producers cooperatives).

Precautions for Income Method

While estimating national income through income method, the following precautions should be undertaken.

(i) Transfer payments such as gifts, donations, scholarships, indirect taxes should not be included in the estimation of national income.

(ii) Illegal money earned through smuggling and gambling should not be included.

(iii) Windfall gains such as prizes won, lotteries etc. are not to be included in the estimation of national income.

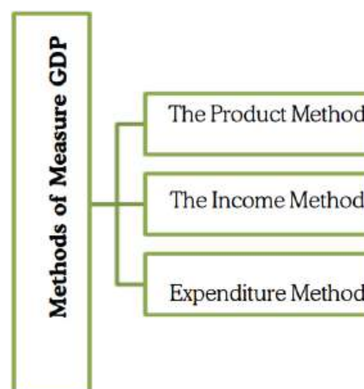
(iv) Receipts from the sale of financial assets such as shares, bonds should not be included in measuring national income as they are not related to the generation of income in the current year's production of goods.

KEY CONCEPTS OF NATIONAL INCOME

Gross Domestic Product (GDP)

GDP is the total value of goods and services produced within the country during a year. This is calculated at market prices and is known as GDP at market prices. Dernberg defines GDP at market price as "the market value of the output of final goods and services produced in the domestic territory of a country during an accounting year."

There are three different ways to measure GDP:



(a) *The Product Method* : In this method, the value of all goods and services produced in different industries during the year is added up. This is also known as the value added method to GDP or GDP at factor cost by industry of origin. The following items are included in India in this: agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services). In other words, it is the sum of gross value added.

(b) *The Income Method* : The people of a country who produce GDP during a year receive income from their work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.

(c) *Expenditure Method* : This method focuses on goods and services produced within the country during one year. GDP by expenditure method includes:

1. Consumer expenditure on services and durable and non-durable goods (C).
2. Investment in fixed capital such as residential and non-residential building, machinery, and inventories (I).
3. Government expenditure on final goods and services (G).
4. Export of goods and services produced by the people of the country (X).
5. Less imports (M). That part of consumption, investment and government expenditure which is spent on imports is subtracted from GDP. Similarly, any imported component, such as raw materials, which are used in the manufacture of export goods, is also excluded.

Thus GDP by expenditure method at market prices = C+ I + G + (X – M), where (X-M) is net export which can be positive or negative.

GDP at Factor Cost

GDP at factor cost is the sum of the net value added by all producers within the country. Since the net value added gets distributed as income to the owners of factors of production, GDP is the sum of domestic factor incomes and fixed capital consumption (or depreciation).

Thus GDP at Factor Cost = Net value added + Depreciation. GDP at factor cost includes:

(a) Compensation of employees i.e., wages, salaries, etc.

(b) Operating surplus which is the business profit of both incorporated and unincorporated firms [Operating Surplus = Gross Value Added at Factor Cost—Compensation of Employees—Depreciation].

(c) Mixed Income of Self- employed.

Conceptually, GDP at factor cost and GDP at market price must be identical/This is because the factor cost (payments to factors) of producing goods must equal the final value of goods and services at market prices. However, the market value of goods and services is different from the earnings of the factors of production.

In GDP at market price, indirect taxes are included and subsidies by the government are excluded.

Therefore, in order to arrive at GDP at factor cost, indirect taxes are subtracted and subsidies are added to GDP at market price.

Thus, GDP at Factor Cost = GDP at Market Price – Indirect Taxes + Subsidies.

(i) *Net Domestic Product (NDP)* : NDP is the value of the net output of the economy during the year. Some of the country's capital equipment wears out or becomes obsolete each year during the production process. The value of this capital consumption is some percentage of gross investment which is deducted from GDP. Thus Net Domestic Product = GDP at Factor Cost – Depreciation.

(ii) *Nominal and Real GDP* : When GDP is measured on the basis of current price, it is called GDP at current prices or nominal GDP. On the other hand, when GDP is calculated on the basis of fixed prices in some year, it is called GDP at constant prices or real GDP.

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of a arise in prices (or inflation).

On the contrary, GDP may increase as a result of a fall in prices in a year but actually it may be less as compared to the last year. In both 5 cases, GDP does not show the real state of the economy. To rectify the underestimation and overestimation of GDP, we need a measure that adjusts for rising and falling prices.

This can be done by measuring GDP at constant prices which is called real GDP. To find out the real GDP, a base year is chosen when the general price level is normal, i.e., it is neither too high nor too low. The prices are set to 100 (or 1) in the base year.

Now the general price level of the year for which real GDP is to be calculated is related to the base year on the basis of the following formula which is called the deflator index:

Real GDP = GDP for the Current Year x Base Year (100) / Current Year Index

GDP Deflator

GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100. Thus,

$$\text{GDP Deflator} = \frac{\text{Nominal (or Current Prices) GDP}}{\text{Real (or Constant Prices) GDP}} \times 100$$

Gross National Product (GNP)

GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country, including net income from abroad.

GNP includes four types of final goods and services:

1. Consumers' goods and services to satisfy the immediate wants of the people;
2. Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;

3. Goods and services produced by the government; and
4. Net exports of goods and services, i.e., the difference between the value of exports and imports of goods and services, known as net income from abroad.

In this concept of GNP, there are certain factors that have to be taken into consideration:

First, GNP is the measure of money, in which all kinds of goods and services produced in a country during one year are measured in terms of money at current prices and then added together.

Second, in estimating GNP of the economy, the market price of only the final products should be taken into account. Many of the products pass through a number of stages before they are ultimately purchased by consumers.

If those products were counted at every stage, they would be included many a time in the national product. Consequently, the GNP would increase too much. To avoid double-counting, therefore, only the final products and not the intermediary goods should be taken into account.

Third, goods and services rendered free of charge are not included in the GNP, because it is not possible to have a correct estimate of their market price. For example, the bringing up of a child by the mother, imparting instructions to his son by a teacher, recitals to his friends by a musician, etc.

Fourth, the transactions which do not arise from the produce of current year or which do not contribute in any way to production are not included in the GNP. The sale and purchase of old goods, and of shares, bonds and assets of existing companies are not included in GNP because these do not make any addition to the national product, and the goods are simply transferred.

Fifth, the payments received under social security, e.g., unemployment insurance allowance, old age pension, and interest on public loans are also not included in GNP, because the recipients do not provide any service in lieu of them. But the depreciation of machines, plants and other capital goods is not deducted from GNP.

Sixth, the profits earned or losses incurred on account of changes in capital assets as a result of fluctuations in market prices are not included in the GNP if they are not responsible for the current production or economic activity.

For example, if the price of a house or a piece of land increases due to inflation, the profit earned by selling it will not be a part of GNP. But if, during the current year, a portion of a house is constructed anew, the increase in the value of the house (after subtracting the cost of the newly constructed portion) will be included in the GNP. Similarly, variations in the value of assets, that can be ascertained beforehand and are insured against flood or fire, are not included in the GNP.

Last, the income earned through illegal activities is not included in the GNP. Although the goods sold in the black market are priced and fulfil the needs of the people, but as they are not useful from the social point of view, the income received from their sale and purchase is always excluded from the GNP.

There are two main reasons for this. One, it is not known whether these things were produced during the current year or the preceding years. Two, many of these goods are foreign made and smuggled and hence not included in the GNP.

Three Approaches to GNP

After having discussed the basic constituents of GNP, it is essential to know how it is estimated. Three approaches are employed for this purpose. One, the income method to GNP; two, the expenditure method to GNP and three, the value added method to GNP. Since gross income equals gross expenditure, GNP estimated by all these methods would be the same with appropriate adjustments.

1. **Income Method to GNP** : The income method to GNP consists of the remuneration paid in terms of money to the factors of production annually in a country.

   Thus GNP is the sum total of the following items:

   (a) Wages and salaries : Under this head are included all forms of wages and salaries earned through productive activities by workers and entrepreneurs. It includes all sums received or deposited during a year by way of all types of contributions like overtime, commission, provident fund, insurance, etc.

   (b) Rents : Total rent includes the rents of land, shop, house, factory, etc. and the estimated rents of all such assets as are used by the owners themselves.

   (c) Interest : Under interest comes the income by way of interest received by the individual of a country from different sources. To this is added, the estimated interest on that private capital which is invested and not borrowed by the businessman in his personal business. But the interest received on governmental loans has to be excluded, because it is a mere transfer of national income.

   (d) Dividends : Dividends earned by the shareholders from companies are included in the GNP.

   (e) Undistributed corporate profits : Profits which are not distributed by companies and are retained by them are included in the GNP.

   (f) Mixed incomes : These include profits of an unincorporated business, self-employed persons and partnerships. They form part of GNP.

   (g) Direct taxes : Taxes levied on individuals, corporations and other businesses are included in the GNP.

   (h) Indirect taxes : The government levies a number of indirect taxes, like excise duties and sales tax. These taxes are included in the price of commodities. But revenue from these goes to the government treasury and not to the factors of production. Therefore, the income due to such taxes is added to the GNP.

   (i) Depreciation : Every corporation makes allowance for expenditure on wearing out and depreciation of machines, plants and other capital equipment. Since this sum also is not a part of the income received by the factors of production, it is, therefore, also included in the GNP.

   (j) Net income earned from abroad : This is the difference between the value of exports of goods and services and the value of imports of goods and services. If this difference is positive, it is added to the GNP and if it is negative, it is deducted from the GNP.

GNP according to the Income Method = Wages and Salaries + Rents + Interest + Dividends + Undistributed Corporate Profits + Mixed Income + Direct Taxes + Indirect Taxes + Depreciation + Net Income from abroad.

2. **Expenditure Method to GNP** : From the expenditure viewpoint, GNP is the sum total of expenditure incurred on goods and services during one year in a country.

   It includes the following items:

   (a) *Private consumption expenditure* : It includes all types of expenditure on personal consumption by the individuals of a country. It comprises expenses on durable goods like watch, bicycle, radio, etc., expenditure on single-used consumers' goods like milk, bread, ghee, clothes, etc., as also the expenditure incurred on services of all kinds like fees for school, doctor, lawyer and transport. All these are taken as final goods.

   (b) *Gross domestic private investment* : Under this the expenditure incurred by private enterprise on new investment and on replacement of old capital. It includes expenditure on house construction, factory- buildings, and all types of machinery, plants and capital equipment.

   In particular, the increase or decrease in inventory is added to or subtracted from it. The inventory includes produced but unsold manufactured and semi-manufactured goods during the year and the stocks of raw materials, which have to be accounted for in GNP. It does not take into account the financial exchange of shares and stocks because their sale and purchase is not real investment. But depreciation is added.

   (c) *Net foreign investment* : It means the difference between exports and imports or export surplus. Every country exports to or imports from certain foreign countries. The imported goods are not produced within the country and hence cannot be included in the national income, but the exported goods are manufactured within the country. Therefore, the difference in value between exports (X) and imports (M), whether positive or negative, is included in the GNP.

   (d) *Government expenditure on goods and services* : The expenditure incurred by the government on goods and services is a part of the GNP. Central, state or local governments spend a lot on their employees, police and army. To run the offices, the governments have also to spend on contingencies which include paper, pen, pencil and various types of stationery, cloth, furniture, cars, etc.

   It also includes the expenditure on government enterprises. But expenditure on transfer payments is not added, because these payments are not made in exchange for goods and services produced during the current year.

   Thus GNP according to the Expenditure Method=Private Consumption Expenditure (C) + Gross Domestic Private Investment (I) + Net Foreign Investment (X-M) + Government Expenditure on Goods and Services (G) = C+ I + (X-M) + G.

3. **Value Added Method to GNP** : Another method of measuring GNP is by value added. In calculating GNP, the money value of final goods and services produced at current prices

during a year is taken into account. This is one of the ways to avoid double counting. But it is difficult to distinguish properly between a final product and an intermediate product.

For instance, raw materials, semi-finished products, fuels and services, etc. are sold as inputs by one industry to the other. They may be final goods for one industry and intermediate for others. So, to avoid duplication, the value of intermediate products used in manufacturing final products must be subtracted from the value of total output of each industry in the economy.

Thus, the difference between the value of material outputs and inputs at each stage of production is called the value added. If all such differences are added up for all industries in the economy, we arrive at the GNP by value added. GNP by value added = Gross value added + net income from abroad.

GNP at Market Prices

When we multiply the total output produced in one year by the market prices prevalent during that year in a country, we get the Gross National Product at market prices. Thus GNP at market prices means the gross value of final goods and services produced annually in a country plus net income from abroad.

GNP at Market Prices = GDP at Market Prices + Net Income from Abroad.

GNP at Factor Cost

GNP at factor cost is the sum of the money value of the income produced by and accruing to the various factors of production in one year in a country. It includes all items mentioned above under income method to GNP less indirect taxes.

GNP at market prices always includes indirect taxes levied by the government on goods which raise their prices. But GNP at factor cost is the income that the factors of production receive in return for their services alone. It is the cost of production.

Thus GNP at market prices is always higher than GNP at factor cost. Therefore, in order to arrive at GNP at factor cost, we deduct indirect taxes from GNP at market prices. Again, it often happens that the cost of production of a commodity to the producer is higher than a price of a similar commodity in the market.

In order to protect such producers, the government helps them by granting monetary help in the form of a subsidy equal to the difference between the market price and the cost of production of the commodity. As a result, the price of the commodity to the producer is reduced and equals the market price of a similar commodity.

For example, if the market price of rice is Rs. 3 per kg but it costs the producers in certain areas Rs. 3.50. The government gives a subsidy of 50 paise per kg to them in order to meet their cost of production. Thus in order to arrive at GNP at factor cost, subsidies are added to GNP at market prices.

GNP at Factor Cost = GNP at Market Prices – Indirect Taxes + Subsidies.

Net National Product (NNP)

NNP includes the value of the total output of consumption goods and investment goods. But the process of production uses up a certain amount of fixed capital. Some fixed equipment wears out, its other components are damaged or destroyed, and still others are rendered obsolete through technological changes.

All this process is termed depreciation or capital consumption allowance. In order to arrive at NNP, we deduct depreciation from GNP. The word 'net' refers to the exclusion of that part of total output which represents depreciation. So NNP = GNP—Depreciation.

NNP at Market Prices

Net National Product at market prices is the net value of final goods and services evaluated at market prices in the course of one year in a country. If we deduct depreciation from GNP at market prices, we get NNP at market prices.

NNP at Market Prices = GNP at Market Prices - Depreciation.

NNP at Factor Cost

Net National Product at factor cost is the net output evaluated at factor prices. It includes income earned by factors of production through participation in the production process such as wages and salaries, rents, profits, etc. It is also called National Income. This measure differs from NNP at market prices in that indirect taxes are deducted and subsidies are added to NNP at market prices in order to arrive at NNP at factor cost. Thus,

NNP at Factor Cost = NNP at Market Prices – Indirect taxes+ Subsidies

= GNP at Market Prices – Depreciation – Indirect taxes + Subsidies.

= National Income.

Normally, NNP at market prices is higher than NNP at factor cost because indirect taxes exceed government subsidies. However, NNP at market prices can be less than NNP at factor cost when government subsidies exceed indirect taxes.

Domestic Income

Income generated (or earned) by factors of production within the country from its own resources is called domestic income or domestic product.

Domestic income includes:

(i) Wages and salaries, (ii) rents, including imputed house rents, (iii) interest, (iv) dividends, (v) undistributed corporate profits, including surpluses of public undertakings, (vi) mixed incomes consisting of profits of unincorporated firms, self-employed persons, partnerships, etc., and (vii) direct taxes.

Since domestic income does not include income earned from abroad, it can also be shown as: Domestic Income = National Income-Net income earned from abroad. Thus the difference between

domestic income f and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income, i.e., National Income = Domestic Income + Net income earned from abroad.

But the net national income earned from abroad may be positive or negative. If exports exceed imports, net income earned from abroad is positive. In this case, national income is greater than domestic income. On the other hand, when imports exceed exports, net income earned from abroad is negative and domestic income is greater than national income.

Private Income

Private income is income obtained by private individuals from any source, productive or otherwise, and the retained income of corporations. It can be arrived at from NNP at Factor Cost by making certain additions and deductions.

The additions include transfer payments such as pensions, unemployment allowances, sickness and other social security benefits, gifts and remittances from abroad, windfall gains from lotteries or from horse racing, and interest on public debt. The deductions include income from government departments as well as surpluses from public undertakings, and employees' contribution to social security schemes like provident funds, life insurance, etc.

Private Income = National Income (or NNP at Factor Cost) + Transfer Payments + Interest on Public Debt — Social Security — Profits and Surpluses of Public Undertakings.

Personal Income

Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in one year. Personal income is never equal to the national income, because the former includes the transfer payments whereas they are not included in national income.

Personal income is derived from national income by deducting undistributed corporate profits, profit taxes, and employees' contributions to social security schemes. These three components are excluded from national income because they do reach individuals.

But business and government transfer payments, and transfer payments from abroad in the form of gifts and remittances, windfall gains, and interest on public debt which are a source of income for individuals are added to national income.

Personal Income = National Income – Undistributed Corporate Profits – Profit Taxes – Social Security Contribution + Transfer Payments + Interest on Public Debt.

Personal income differs from private income in that it is less than the latter because it excludes undistributed corporate profits.

Personal Income = Private Income – Undistributed Corporate Profits – Profit Taxes

Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on

consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus, Disposable Income=Personal Income – Direct Taxes.

But the whole of disposable income is not spent on consumption and a part of it is saved. Therefore, disposable income is divided into consumption expenditure and savings. Thus Disposable Income = Consumption Expenditure + Savings.

If disposable income is to be deduced from national income, we deduct indirect taxes plus subsidies, direct taxes on personal and on business, social security payments, undistributed corporate profits or business savings from it and add transfer payments and net income from abroad to it.

Disposable Income = National Income – Business Savings – Indirect Taxes + Subsidies – Direct Taxes on Persons – Direct Taxes on Business – Social Security Payments + Transfer Payments + Net Income from abroad.

Real Income

Real income is national income expressed in terms of a general level of prices of a particular year taken as a base. National income is the value of goods and services produced as expressed in terms of money at current prices. But it does not indicate the real state of the economy.

It is possible that the net national product of goods and services this year might have been less than that of the last year, but owing to an increase in prices, NNP might be higher this year. On the contrary, it is also possible that NNP might have increased but the price level might have fallen, as a result, national income would appear to be less than that of the last year. In both situations, the national income does not depict the real state of the country. To rectify such a mistake, the concept of real income has been evolved.

In order to find out the real income of a country, a particular year is taken as the base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100. Now the general level of prices of the given year for which the national income (real) is to be determined is assessed in accordance with the prices of the base year. For this purpose, the following formula is employed.

Real NNP = NNP for the Current Year x Base Year Index (=100) / Current Year Index

Per Capita Income

The average income of the people of a country in a particular year is called Per Capita Income for that year. This concept also refers to the measurement of income at current prices and at constant prices. For instance, in order to find out the per capita income for 2018, at current prices, the national income of a country is divided by the population of the country in that year.

$$\text{Per Capita Income for 2018} = \frac{\text{National Income for 2018}}{\text{Population of 2018}}$$

Similarly, for the purpose of arriving at the Real Per Capita Income, this very formula is used.

$$\text{Real Per Capita Income for 2018} = \frac{\text{Real National Income for 2018}}{\text{Population of 2018}}$$

This concept enables us to know the average income and the standard of living of the people. But it is not very reliable, because in every country due to unequal distribution of national income, a major portion of it goes to the richer sections of the society and thus income received by the common man is lower than the per capita income.

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LESSON 3

INDIAN UNION BUDGET

A description of anticipated receipts and expenses, known as the "Annual Financial Statement," must be presented to the Parliament for consideration each fiscal year in accordance with Article 112 of the constitution.

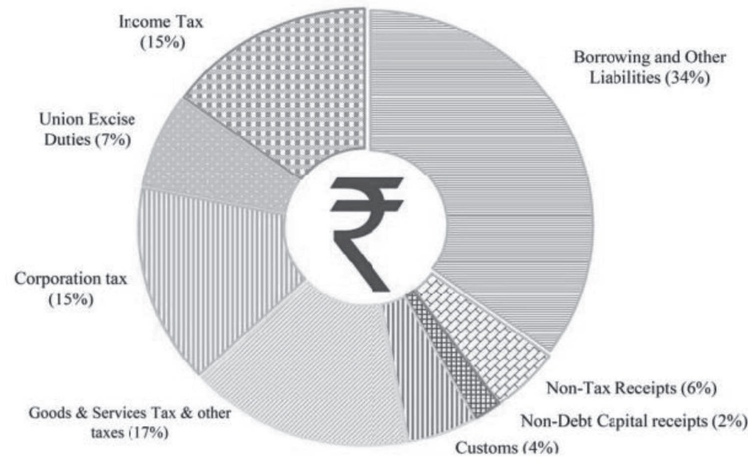
The Indian Union Budget is an annual financial statement presented by the Finance Minister of India in the Parliament. It outlines the government's revenue and expenditure for the upcoming financial year, which begins on April 1st and ends on March 31st of the following year. The Union Budget is an important tool for the government to manage the economy, allocate resources, and implement policies to achieve its economic and social objectives.

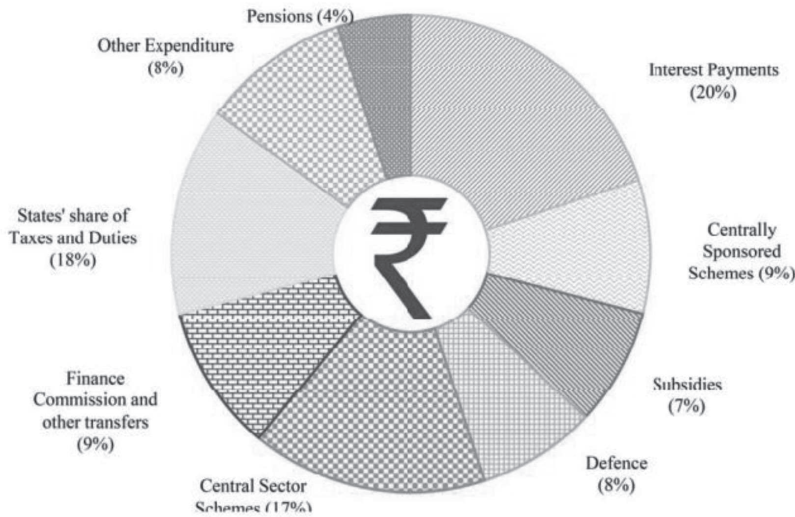
Here are some key aspects of the Indian Union Budget:

1. **Budget Speech** : The finance minister delivers a budget speech in Parliament, highlighting the government's economic policies, fiscal measures, and priorities for the upcoming year. The speech provides an overview of the state of the economy, key challenges, and policy initiatives.
2. **Revenue and Expenditure** : The budget provides details of the government's revenue sources, including taxes, duties, and non-tax revenues, as well as its planned expenditures across various sectors such as infrastructure, healthcare, education, defence, agriculture, and social welfare programs.
3. **Fiscal Deficit** : The budget outlines the government's fiscal deficit target, which is the difference between total revenue and total expenditure. Fiscal deficit management is crucial for maintaining macroeconomic stability and investor confidence.
4. **Taxation** : The budget may introduce changes to the tax regime, including revisions to income tax rates, corporate tax rates, customs duties, excise duties, and other levies. Tax reforms are often aimed at promoting economic growth, incentivizing investments, and improving tax compliance.
5. **Policy Initiatives** : The budget may announce policy measures and reforms to address key economic challenges, promote inclusive growth, enhance infrastructure development, boost investment climate, and improve governance and transparency.
6. **Sectoral Allocations** : The budget allocates funds to different sectors based on government priorities and development needs. Major sectors such as agriculture, healthcare, education, infrastructure, and defence receive significant attention in budget allocations.
7. **Public Debt Management** : The budget outlines the government's borrowing program to finance its expenditure, including both domestic and external borrowings. Effective debt management is essential for maintaining fiscal sustainability and debt sustainability.
8. **Social Welfare Programs** : The budget may include provisions for social welfare schemes and programs aimed at poverty alleviation, rural development, employment generation, healthcare access, and education.
9. **Budget Implementation** : Following the budget announcement, various ministries and departments prepare detailed expenditure plans and undertake budget execution throughout the fiscal year, subject to parliamentary approval and oversight.

Union Budget of a year, also referred to as the annual financial statement of the estimated receipts

and expenditure of the government for that particular year. The followings are the estimates for the year 2023 and 2024 of the sources of various receipts and expenditures.





OBJECTIVES AND SIGNIFICANCE OF BUDGET

One of the key objectives of the Indian Union Budget is to promote economic growth and development. To achieve this, the government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense. The budget also aims to promote social welfare and reduce poverty by increasing investments in social programs and schemes.

Another objective of the Union Budget is to maintain macroeconomic stability by managing inflation and reducing the fiscal deficit. To achieve this, the government may introduce measures such as increasing taxes, reducing subsidies, and rationalizing government expenditure. The government may also take steps to attract foreign investment and promote exports, in order to increase foreign exchange reserves and stabilize the economy.

The Indian Union Budget is also a reflection of the government's policy priorities and political agenda. For instance, in the 2021-22 Union Budget, the government focused on promoting infrastructure development, increasing healthcare spending, and boosting rural and agricultural growth. The government also announced several measures to promote digitalization, innovation, and entrepreneurship, as part of its vision to make India self-reliant and a global manufacturing hub.

The Union Budget has a significant impact on the Indian economy and its various stakeholders. For instance, businesses and industries are affected by changes in tax rates, subsidies, and government policies. Investors and financial markets also closely monitor the budget announcements, as they can affect stock prices, bond yields, and currency exchange rates. Similarly, individual taxpayers are affected by changes in income tax rates, deductions, and exemptions.

The Union Budget is also a platform for the government to announce policy reforms and initiatives. For instance, in recent years, the government has introduced several reforms such as the Goods and Services Tax (GST), Digital India, Make in India, and Atmanirbhar Bharat, which have had a significant impact on the Indian economy and society.

In conclusion, the Indian Union Budget is a crucial instrument of economic governance and policymaking in India. It reflects the government's economic priorities, policy objectives, and political agenda. The budget provides an opportunity for the government to promote economic growth, social welfare, and macroeconomic stability, while also addressing the challenges and opportunities facing the Indian economy. The budget also has a significant impact on various stakeholders, including businesses, investors, financial markets, and individual taxpayers. As such, it is important for the government to manage the budget effectively and transparently, and ensure that its policies and measures are inclusive and sustainable.

Major Components of Union Budget

The Union Budget comprises three major components:

1. **Revenue Budget**
2. **Capital Budget**
3. **Fiscal Policy Statement**

The revenue budget includes the government's revenue and expenditure for the upcoming year, while the capital budget outlines the government's capital expenditure, including investments in infrastructure, and other long-term assets. The fiscal policy statement provides an overview of the government's macroeconomic policies and objectives for the upcoming financial year. Now we will discuss each of the components in detail.

Revenue Budget

The Revenue Budget consists of the revenue receipts of the Government (Tax revenues and non-tax revenues) and the revenue expenditure. Tax revenues comprise proceeds of taxes and other duties

levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend on investments made by the government, and fees and receipts for other services rendered by the government.

The Revenue Budget of India is an essential component of the Union Budget, which lays out the government's revenue and expenditure plans for the upcoming fiscal year. The Revenue Budget is a crucial tool for promoting economic growth and development in India, as it enables the government to allocate resources efficiently and effectively towards critical areas such as education, healthcare, infrastructure, and social welfare programs.

The Revenue Budget comprises two major components**:**

1. **Revenue Receipts**
2. **Revenue Expenditure**

Revenue Receipts refer to the government's revenue inflows from various sources such as taxes, duties, fees, and other levies. Revenue Expenditure refers to the government's expenditure on various heads such as salaries and wages, interest payments, subsidies, pensions, and grants, among others. Revenue receipts includes tax revenue and non-tax revenue.

Tax Revenue

Tax revenue is the most significant source of revenue for the Indian government, which includes both direct and indirect taxes. Direct taxes refer to taxes that are paid directly by individuals and corporations, whereas Indirect taxes refer to taxes that are levied on goods and services. Tax revenue contributes around 70% of the government's total revenue receipts.

The followings are the examples of tax revenue:

1. **Income Tax**: Tax levied on the income earned by individuals and entities.
2. **Corporate Tax**: Tax imposed on the profits earned by companies.
3. **Goods and Services Tax (GST)**: A consumption tax levied on the sale of goods and services.
4. **Customs Duty**: Tax imposed on goods imported into or exported out of the country.
5. **Excise Duty**: Tax levied on the production or sale of certain goods within the country.

Non-Tax Revenue

Non-tax revenue refers to the government's revenue inflows from sources other than taxes. Non-tax revenue contributes around 30% of the government's total revenue receipts. Non-tax revenue includes sources such as:

1. **Interest Receipts**: Interest earned on loans extended by the government.
2. **Dividend and Profits**: Income earned from investments in public sector enterprises.
3. **Fees and Fines**: Revenue generated from fees for government services and fines imposed for violations of regulations.
4. **Revenue from Public Sector Enterprises**: Income earned by the government from its ownership of public sector companies.

The following is the details of the revenue receipt components for the years 2022-2023 (Actuals), 2023-2024 (Budget Estimates), 2023-2024 (Revised Estimates) and 2024-2025 (Budget Estimates)

प्राप्तियां Receipts

(₹ करोड़) (In ₹ crore)

		2022-2023 वास्तविक Actuals	2023-2024 बजट अनुमान Budget Estimates	2023-2024 संशोधित अनुमान Revised Estimates	2024-2025 बजट अनुमान Budget Estimates
राजस्व प्राप्तियां	**REVENUE RECEIPTS**				
1. कर राजस्व	**1. Tax Revenue**				
सकल कर राजस्व	**Gross Tax Revenue**	**3054192**	**3360858**	**3437211**	**3830796**
क. निगम कर	a. Corporation Tax	825834	922675	922675	1042830
ख. आय पर कर	b. Taxes on Income	833260	900575	1022325	1156000
ग. धन कर	c. Wealth Tax	-9	..	..	..
घ. सीमा शुल्क	d. Customs	213372	233100	218680	231310
ङ. केन्द्रीय उत्पाद शुल्क	e. Union Excise Duties	319000	339000	303600	318780
च. सेवा कर	f. Service Tax	431	500	500	100
छ. जीएसटी	g. GST	849133	956600	956600	1067650
-केन्द्रीय जीएसटी	-CGST	718523	811600	811600	917650
-आइजीएसटी	-IGST	4748	..	..	..
-जीएसटी क्षतिपूर्ति उपकर	-GST Compensation Cess	125862	145000	145000	150000
ज. संघ राज्य क्षेत्रों का कर	h. Taxes of Union Territories	8711	8408	8331	9426
	i. Other Taxes	4460	..	4500	4700
घटाइए – एनसीसीएफ/ एनडीआरएफ को अंतरित एनसीसीडी	**Less - NCCD transferred to the NCCF/NDRF**	**8000**	**8780**	**8800**	**9440**
घटाइए राज्यों का हिस्सा -	**Less - State's share**	**948407**	**1021448**	**1097342**	**1219783**
घटाइए –संशोधित अनुमान में पिछले वर्षों के लिए राज्यों के हिस्से का समायोजन	**Less- States' share adjustment for prior years in RE**			**7151**	
1क केन्द्र का निवल कर राजस्व	**1a Centre's Net Tax Revenue**	**2097786**	**2330631**	**2323918**	**2601574**
2. कर-भिन्न राजस्व	**2. Non-Tax Revenue**	**285421**	**301650**	**375795**	**399701**
ब्याज प्राप्तियां	Interest receipts	27852	24820	31778	33107
लाभांश और लाभ	Dividends and Profits	99913	91000	154407	150000
विदेशी अनुदान	External Grants	1887	2135	1442	1044
अन्य कर भिन्न-राजस्व	Other Non Tax Revenue	153577	181382	185642	212640
संघ राज्य क्षेत्रों की प्राप्तियां	Receipts of Union Territories	2191	2313	2526	2910
कुल राजस्व प्राप्तियां (1क+2)	**Total- Revenue Receipts (1a + 2)**	**2383206**	**2632281**	**2699713**	**3001275**
3. पूंजी प्राप्तियां	**3. CAPITAL RECEIPTS**				
क. ऋण भिन्न प्राप्तियां@	**A. Non-debt Receipts@**	**72196**	**84000**	**56000**	**79000**
ख. ऋण प्राप्तियां*	**B. Debt Receipts***	**1739377**	**1798603**	**1761424**	**1681944**
जोड़ पूंजीगत प्राप्तियां (क+ख)	**Total Capital Receipts (A+B)**	**1811573**	**1882603**	**1817424**	**1760944**
4. नकदी शेष का कम आहरण	**4. Draw-Down of Cash Balance**	**-1622**	**-11787**	**-26652**	**3549**
जोड़ प्राप्तियां (1क+2+3)	**Total Receipts (1a+2+3)**	**4194780**	**4514884**	**4517137**	**4762219**

@ इसमें अल्पावधिक ऋण एवं अग्रिम की वसूली शामिल नहीं है।

* प्राप्तियां भुगतान घटाकर हैं।

@ **Excludes recoveries of short term loans and advances.**

* *The receipts are net of payment.*

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag5.pdf

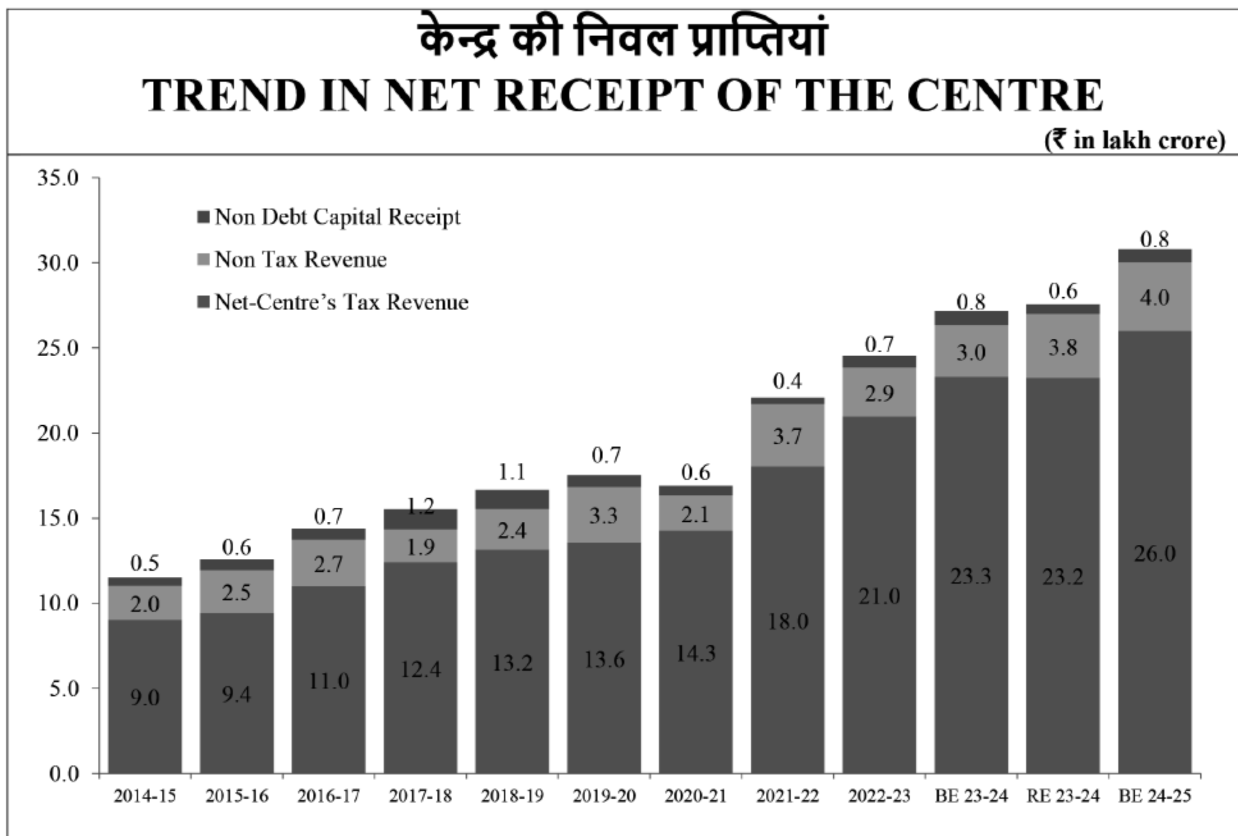
From the above we can see there are three sources of the revenue that includes:

1. Tax Revenue
2. Non-tax Revenue
3. Capital Receipts (non-debt receipts and debt receipts)

The submission of the above three sources is known as total receipts. Tax revenue and non-tax revenue is explained earlier.

Capital Receipts: Though not a part of the Revenue Budget, capital receipts involve borrowing by the government and proceeds from disinvestment. Capital receipts are different from the revenue receipts because they create liabilities or reduce assets of the government.

The following diagram represents the Trend in net receipt of the centre from the year 2014-15 to 2024-25 :



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag5.pdf

From the above we can analyze that the maximum receipt source is tax revenue followed by the non-tax revenue and the lowest contribution is of non-debt capital receipts.

Revenue Expenditure: Revenue expenditure is the government's expenditure on various heads such as salaries and wages, interest payments, subsidies, pensions, and grants, among others. The Revenue Expenditure is broadly classified into two categories:

1. Plan Revenue Expenditure
2. Non-Plan Revenue Expenditure.

The following table shows the trend of revenue expenditure for the years 2022-2023 (Actuals), 2023-2024 (Budget Estimates), 2023-2024 (Revised Estimates) and 2024-2025 (Budget Estimates)

(***In* ₹ *Crore***)

2022-2023 (Actuals)	2023-2024 (Budget Estimates)	2023-2024 (Revised Estimates)	2024-2025 (Budget Estimates)
3453132	3502136	3540239	3654657

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

Plan Revenue Expenditure: Plan Revenue Expenditure refers to the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project, among others. Plan Revenue Expenditure is an essential tool for promoting economic growth and development as it supports the government's socio-economic objectives and promotes inclusive growth.

Non-Plan Revenue Expenditure: Non-Plan Revenue Expenditure includes the government's expenditure on defense, interest payments, and subsidies, among others. Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management. Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Other Revenue Expenditure: Other Revenue Expenditure refers to the government's expenditure on various heads such as pensions, grants, and loans, among others. Pensions are provided to retired government employees as a form of social security. Grants are provided to various organizations and institutions for promoting specific sectors such as education, healthcare, and social welfare. Loans are provided by the government to various organizations and institutions for promoting economic growth and development.

The following are the details of the expenditure on the major items during the years 2022-2023 (Actuals), 2023-2024 (Budget Estimates), 2023-2024 (Revised Estimates) and 2024-2025 (Budget Estimates)

प्रमुख मदों का व्यय Expenditure of Major Items

(₹ करोड़) (In ₹ crore)

		2022-2023 वास्तविक Actuals	2023-2024 बजट अनुमान Budget Estimates	2023-2024 संशोधित अनुमान Revised Estimates	2024-2025 बजट अनुमान Budget Estimates
पेंशन	Pension	241599	234359	238049	239612
रक्षा	Defence	399123	432720	455897	454773
सब्सिडी -	Subsidy -				
उर्वरक	Fertiliser	251339	175100	188894	164000
खाद्य	Food	272802	197350	212332	205250
पेट्रोलियम	Petroleum	6817	2257	12240	11925
कृषि और संबद्ध कार्यकलाप	Agriculture and Allied	125875	144214	140533	146819
वाणिज्य और उद्योग	Commerce and Industry	44363	48169	47350	45958
पूर्वोत्तर का विकास	Development of North East	990	5892	5892	5900
शिक्षा#	Education#	98567	116417	108878	124638
ऊर्जा	Energy	65717	94915	54989	76302
विदेश	External Affairs	16661	18050	29122	22155
वित्त	Finance	11551	13574	23982	87642
स्वास्थ्य	Health	73551	88956	79221	90171
गृह	Home Affairs	120932	134917	133360	139328
ब्याज	Interest	928517	1079971	1055427	1190440
आईटी और दूरसंचार	IT and Telecom	111629	93478	95781	115752
अन्य#	Others#	101108	117008	118020	123136
योजना और सांख्यिकी	Planning and Statistics	4560	6268	4475	6291
ग्रामीण विकास#	Rural Development#	238396	238204	238984	265808
वैज्ञानिक विभाग	Scientific Departments	24041	32225	26651	32169
सामाजिक कल्याण	Social Welfare	40470	55080	46741	56501
कर प्रशासन@	Tax Administration@	207431	194749	193695	203297
जिसमें से जीसटी क्षतिपूर्ति निधि को अंतरण	of which Transfer to GST Compensation Fund	163506	145000	145000	150000
राज्यों को अंतरण	Transfer to States	273393	324641	273985	286787
परिवहन*	Transport*	390508	517034	524941	544039
संघ राज्य क्षेत्र	Union Territories	65907	61118	66676	63541
शहरी विकास	Urban Development	77310	76432	69271	77524
निवल अतिरिक्त संसाधन जिसे समर्पित आरक्षित निधि में अंतरित (+) किया गया/पूरा किया गया (-)*	Net additional resources transferred to (+)/ met from (-) dedicated reserve funds*	...	...	45100	-13990
कुल जोड़	**Grand Total**	**4193157**	**4503097**	**4490486**	**4765768**

कार्यक्रम के परिव्ययों में समर्पित आरक्षित निधियों में/से निवल अंतरण शामिल नहीं हैं – नीचे टिप्पणी देखें (*)

* (+) लोक लेखा में निर्दिष्ट आरक्षित में समेकित निधि से वास्तविक अधिक राशि के अंतरण को दर्शाया गया है, लोक खाते में निर्दिष्ट आरक्षित निधि से पूरा किया गया व्यय दर्शाया गया है, यहां उल्लिखित आरक्षित निधियां उच्चतर और माध्यमिक शिक्षा कोश, कृषि अवसंरचना और विकास निधि तथा केन्द्रीय सड़क तथा अवसंरचना निधि हैं।

@ इसमें प्रतिभूति पर्ची आधारित योजनाओं का भुगतान भी शामिल है।

Programme outlays excluding net transfer to/ from dedicated reserve funds - see note below (*)

* (+) refers to material excess transfers from Consolidated Fund to designated Reserve Fund in Public Account; (-) refers to expenditure met from designated Reserve Fund in Public Account (-). Reserve Funds indicated here are Madhyamik and Uchhatar Shiksha

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

CAPITAL BUDGET

Capital Budget is an important component of the Union Budget. It refers to the government's expenditure on long-term assets, such as infrastructure, machinery, and equipment, which are expected to yield benefits over a period of time. The capital budget is an essential tool for promoting economic growth and development by investing in critical areas such as transportation, energy, water supply, and communication.

The Capital Budget is a critical tool for promoting economic growth and development in India. It enables the government to invest in critical areas such as infrastructure, energy, and education, among others, which are essential for promoting economic development and improving the quality of life of its citizens. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes.

Components of Capital Budget

Capital budget comprises three major components:

1. **Plan Capital Expenditure**
2. **Non-Plan Capital Expenditure**
3. **Public Sector Undertakings (PSUs)**

Plan Capital Expenditure

Plan Capital Expenditure includes the government's expenditure on various Plan schemes and programs such as the National Rural Health Mission, National Rural Employment Guarantee Scheme, and National Highways Development Project. Non-Plan Capital Expenditure includes the government's expenditure on defense, interest payments, and subsidies. Public Sector Undertakings refer to government-owned companies such as Indian Oil, BHEL, and SAIL, among others, in which the government invests to promote their growth and development.

Plan Capital Expenditure is a crucial component of the Capital Budget as it supports the government's socio-economic objectives and promotes inclusive growth. The government allocates resources to various sectors such as agriculture, education, health, infrastructure, and defense, among others, to promote economic development and improve the quality of life of its citizens. For instance, the government may invest in building roads, railways, airports, and ports to improve connectivity and promote trade and commerce. It may also invest in education and healthcare to improve human capital and reduce poverty.

Non-Plan Capital Expenditure is also an important component of the Capital Budget as it includes expenditure on defense, interest payments, and subsidies, among others. Defense expenditure is a critical component of the government's expenditure as it ensures national security and sovereignty. Interest payments refer to the government's expenditure on servicing its debt, which is an essential component of fiscal management. Subsidies are provided by the government to promote specific sectors such as agriculture, energy, and food, among others, and to support vulnerable sections of society.

Public Sector Undertakings (PSUs) are government-owned companies in which the government invests to promote their growth and development. The government may invest in PSUs to promote strategic sectors such as defense, energy, and infrastructure, among others. The government may also invest in PSUs to promote social welfare and support vulnerable sections of society, such as through investments in healthcare, education, and housing.

Following diagrams shows the trend of Government of India's expenditure for the years 2022-2023 (Actuals), 2023-2024 (Budget Estimates), 2023-2024 (Revised Estimates) and 2024-2025 (Budget Estimates).

भारत सरकार का व्यय
Expenditure of Government of India

(₹ करोड़) (In ₹ crore)

		2022-2023 वास्तविक Actuals	2023-2024 बजट अनुमान Budget Estimates	2023-2024 संशोधित अनुमान Revised Estimates	2024-2025 बजट अनुमान Budget Estimates
क. केंद्र का व्यय	**A. Centre's Expenditure**				
I स्थापना व्यय	I Establishment Expenditure	714650	744339	781774	768221
II केंद्रीय क्षेत्र की योजनाएं/परियोजनाएं	II Central Sector Schemes/Projects	1445958	1467880	1446152	1494296
III केंद्रीय क्षेत्र का अन्य व्यय	III Other Central Sector Expenditure	1104555	1301542	1329304	1518830
जिसमें से ब्याज भुगतान	of which Interest Payments	928517	1079971	1055427	1190440
ख. अंतरण	**B. Transfers**				
IV केंद्रीय प्रायोजित योजनाएं	IV Centrally Sponsored Schemes	437556	476105	460614	501788
V वित्त आयोग के अनुदान	V Finance Commission Grants	172760	165480	140429	132378
VI अन्य अनुदान/ऋण/अंतरण	VI Other Grants/Loans/Transfers	317679	347752	332211	350255
कुल जोड़	**Grand Total**	**4193157**	**4503097**	**4490486**	**4765768**

सरकार का प्रभावी पूंजीगत व्यय
Effective Capital Expenditure of Government

(₹ करोड़) (In ₹ crore)

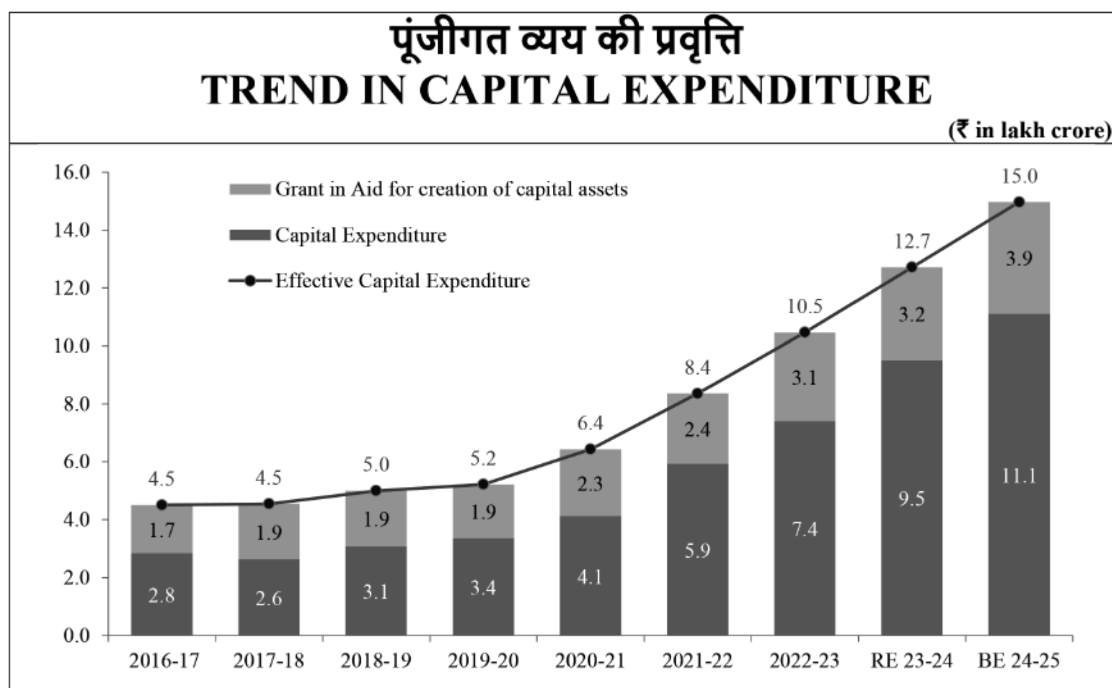
		2022-2023 वास्तविक Actuals	2023-2024 बजट अनुमान Budget Estimates	2023-2024 संशोधित अनुमान Revised Estimates	2024-2025 बजट अनुमान Budget Estimates
पूंजीगत व्यय	Capital Expenditure	740025	1000961	950246	1111111
पूंजी परिसंपत्तियों के सृजन हेतु सहायता अनुदान	Grants in Aid for creation of capital assets[1]	306264	369988	321190	385582
जोड़	**Total**	**1046289**	**1370949**	**1271436**	**1496693**

[1] पूंजीगत आस्तियों के सृजन के अनुदान के उपबंधों में मांग आधारित/पात्रता आधारित मनरेगा के अंतर्गत आबंटन शामिल है, जो मांग के आधार पर अलग-अलग हो सकता है।

[1] Provisions of Grants for creations of capital assets also includes allocations under Demand driven/entitlement based scheme MGNREGS, which would vary based on demand.

Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/budget_at_a_glance.pdf

Below diagram is showing the trend in capital expenditure from the year 2016-17 to 2024-25



Source: https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag6.pdf

In conclusion, the Capital Budget is a crucial component of the Union Budget in India. It comprises three major components: Plan Capital Expenditure, Non-Plan Capital Expenditure, and Public Sector Undertakings (PSUs). The Capital Budget is an essential tool for promoting economic growth and development by investing in critical areas such as infrastructure, energy, and education, among others. The Capital Budget also plays an important role in promoting social welfare and reducing poverty by investing in social programs and schemes. As such, it is important for the government to manage the Capital Budget effectively and transparently and ensure that its policies and measures are inclusive and sustainable.

FISCAL DEFICIT

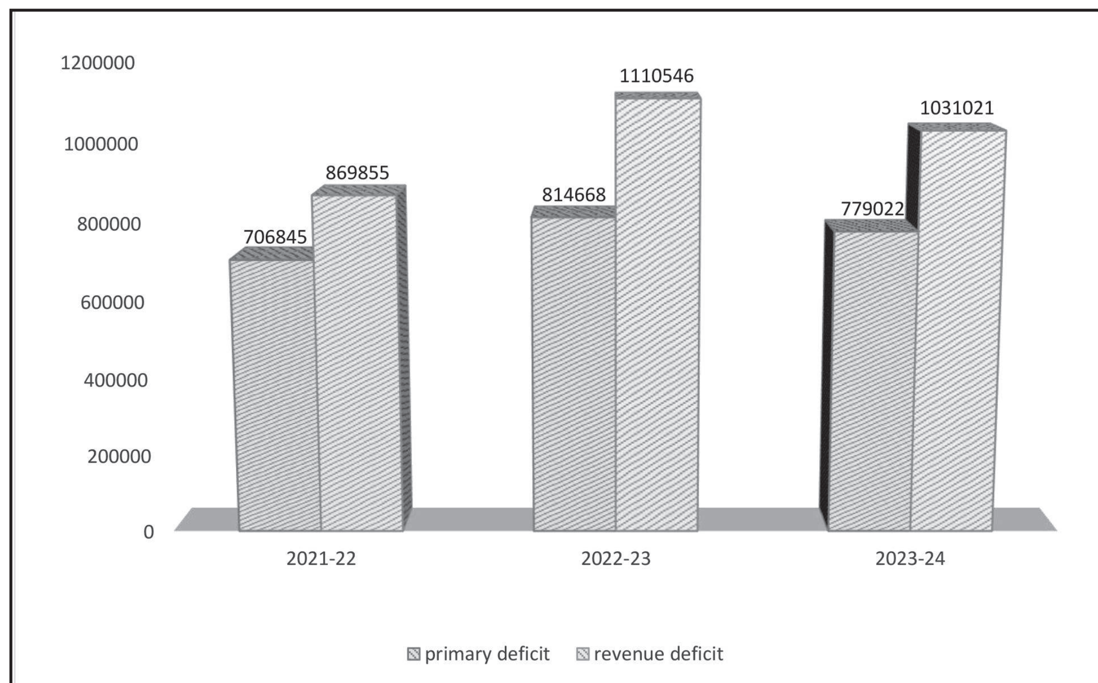
Fiscal deficit is the gap between a government's total expenditure and its total revenue. In the context of India's budget, it refers to the amount of money the government borrows to finance its spending when its revenue falls short of expenses. The fiscal deficit is a crucial component of the budget, as it indicates the government's borrowing requirement and its impact on the economy.

There are several components of fiscal deficit in India's budget. The primary deficit is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding interest payments on past debt. This component reflects the government's ability to finance its expenses from its revenue, excluding the cost of borrowing.

Another component of fiscal deficit is the interest payments on **past debt**. This component indicates the burden of interest payments on the government's borrowing, which can impact the country's future borrowing ability and overall economic growth.

Additionally, the fiscal deficit also includes the **revenue deficit**, which is the difference between the government's revenue from taxes and non-tax sources and its expenses, excluding capital expenses. This component indicates the government's inability to finance its regular expenses from its revenue, excluding investments in long-term projects.

Capital expenses are another significant component of the fiscal deficit. These expenses are investments made by the government in infrastructure, education, healthcare, and other long-term projects. Capital expenses can help boost economic growth, but they also increase the government's borrowing requirement, leading to a higher fiscal deficit.



Social Justice

- Prime Minister to focus on upliftment of four major castes, that is, 'Garib' (Poor), 'Mahilayen' (Women), 'Yuva' (Youth) and 'Annadata'(Farmer).

'Garib Kalyan, Desh ka Kalyan'

- Government assisted 25 crore people out of multi-dimensional poverty in last 10 years.
- DBT of Rs. 34 lakh crore using PM-Jan Dhan accounts led to savings of Rs. 2.7 lakh crore for the Government.
- PM-SVANidhi provided credit assistance to 78 lakh street vendors. 2.3 lakh have received credit for the third time.
- PM-JANMAN Yojana to aid the development of particularly vulnerable tribal groups (PVTG).
- PM-Vishwakarma Yojana provides end-to-end support to artisans and crafts people engaged in 18 trades.

Welfare of 'Annadata'

- PM-KISAN SAMMAN Yojana provided financial assistance to 11.8 crore farmers.
- Under PM Fasal BimaYojana, crop insurance is given to 4 crore farmers
- Electronic National Agriculture Market (e-NAM) integrated 1361 mandis, providing services to 1.8 crore farmers with trading volume of Rs. 3 lakh crore.

Momentum for Nari Shakti

- 30 crore Mudra Yojana loans given to women entrepreneurs.
- Female enrolment in higher education gone up by 28%.
- In STEM courses, girls and women constitute 43% of enrolment, one of the highest in the world.
- Over 70% houses under PM Awas Yojana given to women from rural areas.

PM Awas Yojana (Grameen)

- Despite COVID challenges, the target of three crore houses under PM Awas Yojana (Grameen) will be achieved soon.
- Two crore more houses to be taken up in the next five years.

Rooftop solarization and muft bijli

- 1 crore households to obtain 300 units free electricity every month through rooftop solarization.
- Each household is expected to save Rs.15000 to Rs.18000 annually.

Ayushman Bharat

- Healthcare cover under Ayushman Bharat scheme to be extended to all ASHA workers, Anganwadi Workers and Helpers.

Agriculture and food processing

- Pradhan Mantri Kisan Sampada Yojana has benefitted 38 lakh farmers and generated 10 lakh employment.
- Pradhan Mantri Formalisation of Micro Food Processing Enterprises Yojana has assisted 2.4 lakh SHGs and 60000 individuals with credit linkages.

Research and Innovation for catalyzing growth, employment and development

- A corpus of Rs.1 lakh crore to be established with fifty-year interest free loan to provide long-term financing or refinancing with long tenors and low or nil interest rates.
- A new scheme to be launched for strengthening deep-tech technologies for defence purposes and expediting 'atmanirbharta'.

Infrastructure

- Capital expenditure outlay for Infrastructure development and employment generation to be increased by 11.1 per cent to Rs.11,11,111 crore, that will be 3.4 per cent of the GDP.

Railways

- 3 major economic railway corridor programmes identified under the PM Gati Shakti to be implemented to improve logistics efficiency and reduce cost
  - Energy, mineral and cement corridors
  - Port connectivity corridors
  - High traffic density corridors
- Forty thousand normal rail bogies to be converted to Vande Bharat standards.

Aviation Sector

- Number of airports in the country doubled to 149.
- Five hundred and seventeen new routes are carrying 1.3 crore passengers.
- Indian carriers have placed orders for over 1000 new aircrafts.

Green Energy

- Coal gasification and liquefaction capacity of 100 MT to be set up by 2030.
- Phased mandatory blending of compressed biogas (CBG) in compressed natural gas (CNG) for transport and piped natural gas (PNG) for domestic purposes to be mandated.

Tourism sector

- States to be encouraged to take up comprehensive development of iconic tourist centres including their branding and marketing at global scale.
- Framework for rating of the tourist centres based on quality of facilities and services to be established.
- Long-term interest free loans to be provided to States for financing such development on matching basis.

Investments

- FDI inflow during 2014-23 of USD 596 billion was twice of the inflow during 2005-14.

Reforms in the States for 'Viksit Bharat'

- A provision of Rs.75,000 crore rupees as fifty-year interest free loan is proposed to support milestone-linked reforms by the State Governments.

Revised Estimates (RE) 2023-24

- RE of the total receipts other than borrowings is Rs.27.56 lakh crore, of which the tax receipts are Rs.23.24 lakh crore.
- RE of the total expenditure is Rs.44.90 lakh crore.
- Revenue receipts at Rs.30.03 lakh crore are expected to be higher than the Budget Estimate, reflecting strong growth momentum and formalization in the economy.
- RE of the fiscal deficit is 5.8 per cent of GDP for 2023-24.

Budget Estimates 2024-25

- Total receipts other than borrowings and the total expenditure are estimated at Rs.30.80 and Rs.47.66 lakh crore respectively.
- Tax receipts are estimated at Rs.26.02 lakh crore.
- Scheme of fifty-year interest free loan for capital expenditure to states to be continued this year with total outlay of Rs.1.3 lakh crore.
- Fiscal deficit in 2024-25 is estimated to be 5.1 per cent of GDP
- Gross and net market borrowings through dated securities during 2024-25 are estimated at Rs.14.13 and Rs.11.75 lakh crore respectively.

Direct taxes

- FM proposes to retain same tax rates for direct taxes
- Direct tax collection tripled, return filers increased to 2.4 times, in the last 10 years
- Government to improve tax payer services
  - Outstanding direct tax demands upto Rs 25000 pertaining to the period upto FY 2009-10 withdrawn
  - Outstanding direct tax demands upto Rs 10000 for financial years 2010-11 to 2014-15 withdrawn
  - This will benefit one crore tax payers
- Tax benefits to Start-Ups, investments made by Sovereign wealth funds or pension funds extended to 31.03.2025
- Tax exemption on certain income of IFSC units extended by a year to 31.03.2025 from 31.03.2024

Indirect taxes

- FM proposes to retain same tax rates for indirect taxes and import duties
- GST unified the highly fragmented indirect tax regime in India
  - Average monthly gross GST collection doubled to Rs 1.66 lakh crore this year
  - GST tax base has doubled
  - State SGST revenue buoyancy (including compensation released to states) increased to 1.22 in post-GST period(2017-18 to 2022-23) from 0.72 in the pre-GST period (2012-13 to 2015-16)
  - 94% of industry leaders view transition to GST as largely positive
  - GST led to supply chain optimization
  - GST reduced the compliance burden on trade and industry
  - Lower logistics cost and taxes helped reduce prices of goods and services, benefiting the consumers

Tax rationalization efforts over the years

- No tax liability for income upto Rs 7 lakh, up from Rs 2.2 lakh in FY 2013-14
- Presumptive taxation threshold for retail businesses increased to Rs 3 crore from Rs 2 crore
- Presumptive taxation threshold for professionals increased to Rs 75 lakh from Rs 50 lakh
- Corporate income tax decreased to 22% from 30% for existing domestic companies
- Corporate income tax rate at 15% for new manufacturing companies

Achievements in tax-payer services

- Average processing time of tax returns has reduced to 10 days from 93 days in 2013-14
- Faceless Assessment and Appeal introduced for greater efficiency
- Updated income tax returns, new form 26AS and prefilled tax returns for simplified return filing
- Reforms in customs leading to reduced Import release time
  - Reduction by 47% to 71 hours at Inland Container Depots
  - Reduction by 28% to 44 hours at Air Cargo complexes
  - Reduction by 27% to 85 hours at Sea Ports

Economy-then and now

- In 2014 there was a responsibility to mend the economy and put governance systems in order. The need of the hour was to:
  - Attract investments
  - Build support to the much-needed reforms
  - Give hope to the people
- The government succeeded with a strong belief of 'nation-first'

The previous Union Budgets can be accessed from the following link: *https://www.indiabudget.gov.in/budget2023-24/previous_union_budget.php*

REFERENCES

- *https://www.indiabudget.gov.in/doc/bh1.pdf*
- *https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag5.pdf*
- *https://www.indiabudget.gov.in/doc/Budget_at_Glance/bag6.pdf*

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LESSON 4

INDIAN FINANCIAL MARKETS

INTRODUCTION

Financial markets are the organisations, systems, and venues that permit the buying and selling of financial assets like derivatives, stocks, bonds, currencies, and commodities. Financial markets' primary goal is to make it easier for money to move from savers to borrowers, giving people, businesses, and governments a way to invest and finance their endeavours. Financial markets are vital to the smooth operation of capitalist economies.

The term "Indian financial market" refers to the country's system of institutions, instruments, and rules that play a key role in streamlining the exchange of money between market participants.

FUNCTIONS OF FINANCIAL MARKET

The following are the major functions of Fiancial Market:

Mobilising Funds:

Mobilizing savings is one of the most important of the many different kinds of activities that financial markets provide. Additionally, financial markets invest this savings for profitable purposes, fostering capital and economic growth.

Liquidity of Financial Holdings:

Liquidity is necessary for tradable assets' efficient operation and flow. This is yet another way that the financial market contributes to the operation of a capitalist economy. It not only makes it simple for investors to sell their securities and other assets, but it also makes it simple for them to turn those assets into cash.

Ease of Access:

Since they bring traders to one Place, financial markets also provide efficient trading. As a result, necessary parties don't need to invest any resources – including money and time – in order to locate potential buyers or sellers. It also offers the required trading information, which lessens the work that interested parties must use to complete their trades.

Types of Financial Markets

Stock Markets

Perhaps the most ubiquitous of financial markets are stock markets. These are venues where companies list their shares and they are bought and sold by traders and investors. Stock markets, or equities markets, are used by companies to raise capital via an initial public offering (IPO) and follow-on public offerings (FPOs), with shares subsequently traded among various buyers and sellers in what is known as a secondary market. The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are the two primary stock exchanges in India. These exchanges facilitate the trading of equity shares, preference shares, and other equity-related instruments of publicly listed companies.

Over-the-Counter Markets

An over-the-counter (OTC) market is a decentralized market – meaning it does not have physical locations, and trading is conducted electronically – in which market participants trade securities directly between two parties without a broker. Broadly speaking, OTC markets and the transactions that occur on them are far less regulated, less liquid, and more opaque.

Bond Markets

The Indian bond market consists of both government and corporate bonds. Government securities, including treasury bills and bonds issued by the Reserve Bank of India (RBI) on behalf of the Government of India, form a significant portion of the bond market. Corporate bonds are issued by companies to raise funds for various purposes, such as expansion, working capital, and debt refinancing. The bond market provides investors with fixed-income securities, offering regular interest payments and the return of principal upon maturity.

A bond is a security in which an investor loans money for a defined period at a pre-established interest rate. You may think of a bond as an agreement between the lender and borrower that contains the details of the loan and its payments. Bonds are issued by corporations as well as by municipalities, states, and sovereign governments to finance projects and operations. The bond market sells securities such as notes and bills issued by the United States Treasury, for example. The bond market also is called the debt, credit, or fixed-income market.

Money Markets

Typically, the money markets trade in products with highly liquid short-term maturities (of less than one year) and are characterized by a high degree of safety and a relatively low return in interest. The money market provides a platform for short-term borrowing and lending among financial institutions, corporates, and the government to manage liquidity and meet short-term funding needs. At the wholesale level, the money markets involve large-volume trades between institutions and traders. At the retail level, they include money market mutual funds bought by individual investors and money market accounts opened by bank customers. Money market instruments include treasury bills, commercial paper, certificates of deposit, repurchase agreements (repos), and call money.

Derivatives Markets

A derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Derivatives are secondary securities whose value is solely derived from the value of the primary security that they are linked to. Rather than trading stocks directly, a derivatives market trades in futures and options contracts, and other advanced financial products. The derivatives market enables participants to hedge against price risk, speculate on price movements, and leverage their investment positions. The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) are the major exchanges for trading equity derivatives in India.

Forex Market

The forex (foreign exchange) market is the market in which participants can buy, sell, hedge, and speculate on the exchange rates between currency pairs. The forex market is the most liquid market in the world, as cash is the most liquid of assets. The currency market handles more than $5 trillion in daily transactions, which is more than the futures and equity markets combined. The Reserve Bank of India (RBI) regulates the forex market and intervenes to maintain exchange rate stability and control currency volatility. The forex market serves various participants, including exporters, importers, investors, multinational corporations, and central banks.

Commodities Markets

The Indian commodity market includes exchanges such as the Multi Commodity Exchange (MCX) and the National Commodity & Derivatives Exchange (NCDEX). Commodities markets are venues where

producers and consumers meet to exchange physical commodities such as agricultural products (e.g., corn, livestock, soybeans), energy products (oil, gas, carbon credits), precious metals (gold, silver, platinum), or "soft" commodities (such as cotton, coffee, and sugar). These are known as spot commodity markets, where physical goods are exchanged for money. The commodity market provides a platform for producers, consumers, traders, and investors to hedge against price fluctuations and manage commodity-related risks.

Cryptocurrency Markets

The past several years have seen the introduction and rise of cryptocurrencies such as Bitcoin and Ethereum, decentralized digital assets that are based on blockchain technology. Today, hundreds of cryptocurrency tokens are available and trade globally across a patchwork of independent online crypto exchanges. These exchanges host digital wallets for traders to swap one cryptocurrency for another, or

for fiat monies such as dollars or euros. Because the majority of crypto exchanges are centralized platforms, users are susceptible to hacks or fraud.

These exchanges allow direct peer-to-peer (P2P) trading of digital currencies without the need for an actual exchange authority to facilitate the transactions. Futures and options trading are also available on major cryptocurrencies.

OVERVIEW OF INDIAN FINANCIAL ECOSYSTEM

The financial system of an economy is a crucial element for its economic development. It facilitates the flow of funds from the households (savers) to business organisations (investors), thereby assisting in the creation of wealth for the nation. Mainly, the financial system of a country is concerned with the following:

(a) Allocation and mobilisation of savings.

(b) Provision of funds.

(c) Facilitating the financial transactions.

(d) Developing financial markets.

(e) Provision of legal financial structure.

(f) Provision of financial and advisory services.

(a) **Allocation and mobilization of savings**: The financial system facilitates the efficient allocation of savings by directing funds from savers to borrowers. This process ensures that available capital is channelled towards productive investments, fostering economic growth and development.

(b) **Provision of funds**: Financial institutions such as banks, non-banking financial companies (NBFCs), and capital markets provide funds to individuals, businesses, and governments for various purposes, including consumption, investment, and infrastructure development.

(c) **Facilitating financial transactions**: The financial system enables the smooth execution of financial transactions, including payments, transfers, and settlements. It provides infrastructure, such as payment systems and electronic banking platforms, to facilitate secure and efficient transactions.

(d) **Developing financial markets**: Financial markets, including stock markets, bond markets, and commodity markets, provide platforms for buying and selling financial assets. The financial system fosters the development of these markets, enhancing liquidity, price discovery, and access to capital for investors and issuers.

(e) **Provision of legal financial structure**: The financial system operates within a legal framework established by regulatory authorities. This framework includes laws, regulations, and oversight mechanisms that govern financial institutions, transactions, and market participants, ensuring transparency, accountability, and investor protection.

(f) **Provision of financial and advisory services**: Financial institutions offer a range of services, including banking, insurance, investment management, and financial advisory services. These services cater to the diverse needs of individuals, businesses, and governments, providing assistance in managing finances, mitigating risks, and achieving financial goals.

Components of Financial System

A system that allows money to be transferred between investors and borrowers is referred to as a financial system. An international, regional, or organisational level definition of a financial system is possible. The word "system" in "Financial System" refers to a collection of intricately intertwined economic institutions, agents, processes, markets, transactions, claims, and liabilities. The financial system is made up of five parts, which are described below:

1. **Financial Institutions:**

   Making investors and borrowers meet guarantees the financial system runs well. With the employment of various financial instruments and the assistance of several financial service providers, they directly or indirectly mobilise investor savings through financial markets. They can be divided into four groups: intermediates, non-intermediaries, regulators, and others. They provide services to businesses looking for guidance on a variety of issues, from restructuring to diversification plans. They provide a full range of services to businesses looking to raise capital from the market and manage their financial assets, such as deposits, securities, loans, etc.

2. **Financial Markets:**

   The market where financial assets are created or moved is known as a financial market. A financial transaction entails the creation or transfer of a financial asset as opposed to a real transaction, which involves exchanging money for actual products or services. A claim to the payment of an amount of money in the future and/or a recurring payment in the form of interest or dividend is represented by financial assets or financial instruments. Here are the four elements of the financial market:

   I. *Money Market*: A wholesale debt market for highly liquid, short-term instruments with little risk. In this market, funds are offered for terms ranging from one day to one year. Generally speaking, the government, banks, and financial organisations control this market.

   II. *Capital Market*: The purpose of the capital market is to finance long-term investments. The duration of the transactions in this market will be longer than a year.

   III. *Foreign Exchange Market*: deals with the multicurrency needs that are satisfied through currency exchange. The transfer of funds occurs in this market based on the applicable

exchange rate. One of the most advanced and integrated markets on the planet is this one.

IV. *Credit Market*: Short, medium and long-term loans to businesses and individuals are distributed in the credit market by banks, financial institutions (FIs), and non-banking financial companies (NBFCs).

3. **Financial Instruments:**

This is a crucial part of the financial system. Financial assets, securities, and other kinds of financial instruments are the goods that are traded on a financial market. Since the needs of investors and those looking for credit varied, there are many different securities available on the market. They represent a claim on the future repayment of principal or the regular payment of an amount, such as interest or dividends. Examples include equity shares, bonds, and debentures.

4. **Financial Services:**

It is made up of products and services offered by Asset Management and Liability Management Businesses. They assist in obtaining the necessary cash and ensure that they are invested effectively. They offer their expertise up to the stage of servicing lenders and help to decide the financing combination. They support lending and investing, making and authorising payments and settlements, buying and selling assets, managing risk exposures in financial markets, and borrowing. Leasing firms, mutual fund companies, merchant bankers, portfolio managers, bill discounting and acceptance businesses are a few examples. Many expert services are provided by the financial services industry, including credit rating, venture capital funding, mutual funds, merchant banking, depository services, book building, etc.

5. **Money:**

Money is defined as anything that is accepted as payment for goods and services or as a means of repaying debt. It serves as a store of value and a means of exchange. It makes it simpler to swap various commodities and services for cash.

KEY FACETS AND GROWTH OF FINANCIAL INSTITUTIONS IN INDIA

The significant characteristics of Indian financial system are as under:

1. Plays a pivotal role in accelerating the rate and volume of savings through the provision of different financial instruments and efficient mobilisation of savings.
2. It is playing a significant role in increasing the national output by providing funds to corporate customers to expand their business operations.
3. Safeguarding the interests of the investors by ensuring smooth financial transactions through regulatory bodies like, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) etc.
4. Contributes substantially towards the economic development and raising the standard of living of the people.
5. Promotes development of weaker sections of the society through rural development banks and cooperative societies.

6. Assist corporate customers to make better financial decisions by offering effective financial and advisory services.
7. Facilitates financial deepening and broadening. Financial deepening refers to an increase in financial assets as a percentage of GDP and financial broadening pertains to an increasing number of participants in the financial system.

Banking Sector

The banking sector was developed during the British era. British East India Company set up three banks: Bank of Bengal (1809); Bank of Bombay (1840) and Bank of Madras (1843). These three banks were later merged and called Imperial Bank, which was taken over by State Bank of India (SBI) in 1955. The Reserve Bank of India was established in 1935, followed by the Punjab National Bank, Bank of India, Canara Bank and Indian Bank.

July 19, 1969 was an important date in the history of Indian banking. As it is on this date that 14 major scheduled commercial banks having a deposit of more than INR 50 crore were nationalized. The 14 banks were Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Overseas Bank, Indian Bank, Bank of Baroda, Union Bank, Allahabad Bank, United Bank of India, UCO Bank and Bank of India.

The banking industry handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country. Given their importance in the economy, banks are kept under strict regulation in most of the countries. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

Developments of Indian Banking Sector

The major developments of Indian banking sector is captured in the following table-

Years	Major Developments
1921	• Closed market • State-owned Imperial Bank of India was the only bank existing.
1935	• RBI was established as the central bank of country. • Quasi central banking role of Imperial Bank came to an end.
1936-1955	• Imperial Bank expanded its network to 480 branches. • In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India.
1956-2000	• Nationalisation of 14 large commercial banks in 1969 & 6 more banks in 1980. • Entry of private players such as ICICI intensifying the competition. • Gradual technology upgradation in PSU banks .
2000-2020	• In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted in to a bank

	• In 2009, the government removed the Banking Cash Transaction Tax which had been introduced in 2005.
2020 onwards	• Mega merger of Public Sector Banks – Oriental Bank of Commerce and United Bank of India merged with Punjab National Bank – Syndicate Bank merged with Canara Bank – Allahabad Bank merged with Indian Bank – Andhra Bank and Corporation Bank with Union Bank of India • Technological innovations resulting into marked improvements in efficiency, productivity, quality, inclusion and competitiveness in extension of financial services, especially in the area of digital lending. • Conceptualization of digitalization of Agri-finance jointly by the Reserve Bank of India and Reserve Bank Innovation Hub (RBIH) to enable delivery of Kisan Credit Card (KCC) loans in a fully digital and hassle-free manner. • In November 2022, RBI launched a pilot project on Central Bank Digital Currency (CBDC) • The year 2023 was a significant year for policy reforms and regulatory changes in India's banking sector. The Reserve Bank of India (RBI) played a critical role, with a series of policy rate adjustments aimed at balancing growth and inflation. The repo rate adjustments, which have been kept 6.5% by the Monetary Policy Committee (MPC), were carefully calibrated, reflecting the central bank's commitment to maintaining monetary stability while supporting economic recovery. • Regulatory changes introduced in 2023 had a profound impact on banking operations. The RBI's tightened norms on Non-Performing Assets (NPAs) reflected a stringent stance on asset quality. Moreover, the introduction of new guidelines for digital lending aimed at protecting consumer interests while fostering a healthy digital finance ecosystem. • The year 2023 also witnessed a push towards greater compliance with international banking standards, including Basel III norms. These regulatory measures were pivotal in enhancing the resilience and transparency of the banking system, ensuring a more stable financial environment. • During 2023, the banking sector witnessed an unprecedented surge in online banking services, mobile banking apps, and digital payment solutions. Banks collaborated extensively with fintech companies, leveraging their technology to offer innovative services like instant loans, digital KYC, and AI-driven customer support. • In July 2023, Housing Development Finance Corporation (HDFC) merged with its subsidiary HDFC Bank. • In accordance with the Reserve Bank India (RBI) approval dated March 4, 2024, AU Small Finance Bank (AU SFB), India's largest SFB, announced the amalgamation of Fincare Small Finance Bank (Fincare SFB) with and into AU SFB, effective April 1st, 2024.

Public Sector Banks

Public sector banks are those in which the government holds more than 50% of the total stock. The government formulates all the financial guidelines for public sector banks. The public sector banks operate under the government to inspire trust in the depositors that their money is safe. PSBs play a crucial role in fulfilling the government's objectives related to financial inclusion, economic development, and social welfare. Public sector banks offer a wide range of banking services, including savings and current accounts, loans, credit facilities, and payment services. These banks play a significant role in providing banking services to underserved and remote areas, contributing to financial inclusion and rural development.

India's biggest public sector bank is the State Bank of India. Public sector banks constantly work in the public interest by introducing schemes for customers' benefit. They also charge less for their services than private banks. Besides working in the public interest, nationalised banks in India also earn huge profits.

Private Sector Banks

Private sector banks are those in which a major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well. While the government does not have direct ownership or control over private sector banks, they are subject to regulatory oversight by the Reserve Bank of India (RBI) and other regulatory authorities. Private sector banks offer a wide range of banking and financial services, including savings and current accounts, loans, credit cards, wealth management, investment banking, and insurance products. Private sector banks often emphasize a customer-centric approach, focusing on delivering superior service, personalized solutions, and a seamless banking experience.

Private banks were recognized in the 1990s after the LPG policy came into existence. Amongst the oldest and most famous private banks, Axis Bank and IndusInd Bank are regarded as the oldest private banks in India started in 1993-94 when the government allowed them to launch such banks.

List of Scheduled Public Sector Banks in our country:

S.No.	*Name of the Bank*
1	Bank of Baroda
2	Bank of India
3	Bank of Maharashtra
4	Canara Bank
5	Central Bank of India
6	Indian Bank
7	Indian Overseas Bank
8	Punjab National Bank
9	Punjab & Sind Bank

S.No.	Name of the Bank
10	Union Bank of India
11	UCO Bank
12	State Bank of India

List of Scheduled Private Sector Banks in our country:

Sr. No.	Name of the Bank
1	Axis Bank Ltd.
2	Bandhan Bank Ltd.
3	CSB Bank Ltd.
4	City Union Bank Ltd.
5	DCB Bank Ltd.
6	Dhanlaxmi Bank Ltd
7	Federal Bank Ltd.
8	HDFC Bank Ltd
9	ICICI Bank Ltd.
10	IndusInd Bank Ltd
11	IDFC First Bank Ltd
12	Jammu & Kashmir Bank Ltd.
13	Karnataka Bank Ltd.
14	Karur Vysya Bank Ltd
15	Kotak Mahindra Bank Ltd.
16	Lakshmi Vilas Bank Ltd.
17	Nainital Bank Ltd.
18	RBL Bank Ltd.
19	South Indian Bank Ltd.
20	Tamilnad Mercantile Bank Ltd.
21	YES Bank Ltd.
22	IDBI Bank Ltd.

INDUSTRIAL FINANCE CORPORATION OF INDIA AND SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Industrial Finance Corporation of India

At the time of independence in 1947, the Indian Capital Markets were relatively less developed. The demand for capital was growing rapidly, however, there was a dearth of providers of capital. The commercial banks that existed were not equipped well enough to provide for long term capital needs in any significant manner. Against this backdrop and to bridge the demand supply gap for capital needs of the economy, the Government of India established The Industrial Finance Corporation of India (IFCI) on July 1, 1948 by way of an IFC Act 1948.

IFCI was the first Development Financial Institution of India set up to propel economic growth through the development of infrastructure and industry. Since then, IFCI has contributed significantly to the economy through its incessant support to projects in all the three spheres of growth & development – manufacturing, infrastructure & services and agriculture allied sectors. The Liberalisation of the Indian Economy in 1991 made significant changes in the Indian Capital Markets & Financial System. To aid in raising funds directly through capital markets, the constitution of IFCI was changed from a statutory corporation to a company under the Indian Companies Act, 1956. Subsequently, the name of the company was changed to 'IFCI Limited' with effect from October 1999.

Since its inception 70 years back, IFCI has witnessed and sustained all business economic cycles. IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India. In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI is also enhancing its organizational value through optimising the value of core and non-core assets & investments. Over the years, IFCI played a pivotal role in establishment of various institutes (including some of its subsidiaries & associates) - that are respected in their fields today, namely

Stock Holding Corporation of India Ltd (SHCIL), National Stock Exchange Ltd (NSE), LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI), Management Development Institute (MDI), ICRA Ltd, among many others. With the changes in the markets over a period of time a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries – Stock Holding Corporation of India Ltd, IFCI Venture Capital Fund Ltd, IFCI Factors Ltd, IFCI

Infrastructure Development Ltd, IFCI Financial Services Ltd, MPCON, Management Development Institute and Institute of Leadership Development.

Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.

SIDBI's initiatives have remained aligned to the national goals of poverty alleviation, employment generation, kindling entrepreneurship and fostering competitiveness in MSME sector.

Some of SIDBI's key initiatives over more than the past 25 years of tirelessly promoting the growth of MSMEs, include-

(i) Providing a cumulative assistance of around INR 5.40 lakh crore channelized into MSME segment.

(ii) Directly impacting over 360 lakh persons/enterprises through its branch network of around 80 offices spread across the country as well as through the network of banks / institutions (having more than 1.25 lakh branches) across the country.

(iii) Extending loans, equity and quasi-equity aggregating to INR 13,689 crore benefitting 356 lakh disadvantaged people, mostly women, through its Micro Finance operations.

(iv) Deepening its outreach by nurturing and evolving more than 100 MFIs who have emerged as strong and viable financial intermediaries serving the unserved.

(v) Supporting more than 1.16 lakh budding and existing entrepreneurs by infusing skills and reskilling initiatives.

(vi) Facilitating Institutions Building by adopting a SIDBI Plus approach and creating its Subsidiary and Associate Institutions for providing impetus to the growth of MSME ecosystem.

(vii) Developing a passionate pool of 1000+ professionals with 22% women and 40% belonging to SC/ST and OBCs category, for serving the needs of the dynamic and consistently evolving MSME Sector.

Regional Rural Banks (RRBs)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September,1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, Five Regional Rural Banks were set up on 2nd October, 1975,Gandhi Jayanti. These were set up on the recommendations of The Narshimham committee Working Group during the tenure of Indira Gandhi's Government with a view to include rural areas into the economic

mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2nd October, 1975, Gandhi Jayanti with the forming of the first RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with an authorised capital of Rs 5 crore at its starting. As on 2nd October,1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gour Gramin Bank,which was the first RRB in the Eastern Region of India.

The current structure of RRBs is that Central Government owns 50% , Sponsorship Bank holds 35% and State Government holds 15%.

Regional Rural Banks(RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions. RRBs perform various functions in the following heads:

(a) Providing banking facilities to rural and semi-urban areas.

(b) Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.

(c) Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking,UPI etc.

(d) Small financial banks.

India is eyeing a mega revamp of its regional rural banks (RRBs) and the plan includes consolidation of these lenders for better operational efficiencies in line with the government's big rural focus.

CO-OPERATIVE BANKS

Cooperative bank is an institution established on the cooperative basis and dealing in ordinary banking business. Like other banks, the cooperative banks are founded by collecting funds through shares, accept deposits and grant loans.

History of Cooperative Banking in India

Cooperative movement in India was started primarily for dealing with the problem of rural credit. The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means."

Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks.

Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre-independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

Types of Cooperative Bank

There are 4 types of co-operative banks in India:

1. ***Central Co-Operative Banks*:**

   These banks are organized and operated at the district level and can be of two types:

   (a) Co-operative Banking Union

   (b) Mixed control Co-operative Bank

   At the first, the members of the bank are the co-operative societies only. However, in the second, the members can be co-operative societies as well as individuals. The central co-operative banks lend money mainly to the affiliated primary societies with typical loan tenure lending between 1 to 3 years.

2. ***State Co-Operative Banks*:**

   These banks are organized and operated at the district level and rest at the top of the hierarchy in the co-operative credit structure. With the help of State Co-operative

   Banks (SCBs), the RBI funds the co-operative institutions. These banks also get loans at an interest rate of 1% to 2% lower than the standard bank rate.

3. ***Primary Co-Operative Banks*:**

   These offer credit services in urban and semi-urban regions. Thus, they are not considered as agricultural credit societies. Primary Co-Operative Banks receive concessional refinance services from RBI and IDBI from time to time for them to offer housing loans and other types of loans that can be used by small businesses.

4. ***Land Development Banks*:**

   The land development banks are divided into three tiers which are primary, state, and central. These offer credit services to the farmers for developmental purposes. They used to be regulated by the RBI as well as the state governments. However, this responsibility was recently transferred to the National Bank for Agricultural and Rural Development (NABARD).

NON-BANKING FINANCIAL COMPANIES (NBFCS)

Non-Banking Financial Companies (NBFCs) are an integral part of the financial sector and play a significant role in the Indian economy. With the increasing demand for credit and financial services, the NBFC sector has witnessed rapid growth in recent years.

NBFCs are financial institutions that provide various financial services and products, including loans, insurance, and asset management, but do not have a banking license. Unlike banks, NBFCs do not have the authority to accept deposits from the public. However, they can accept deposits from a select group of individuals, such as directors, shareholders, and relatives.

Types of NBFCs

(i) ***Asset Finance Company (AFC)***

An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as the aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.

(ii) ***Investment Company (IC)***

IC means any company which is a financial institution carrying on as its principal business the acquisition of securities. Investment Companies primarily invest in securities such as stocks, bonds, debentures, and other marketable instruments. These companies mobilize funds from investors and deploy them in various financial assets to generate returns through capital appreciation, dividends, and interest income.

(iii) ***Loan Company (LC)*** **:**

LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company. LC various types of loans, including personal loans, business loans, consumer loans, and microfinance loans, catering to diverse borrowing needs.

(iv) ***Infrastructure Finance Company (IFC)***

Infrastructure Finance Companies specialize in financing infrastructure projects such as roads, highways, ports, airports, power plants, and urban infrastructure. IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of Rs. 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%. IFC provide long-term funding for infrastructure development, supporting the government's initiatives to build critical infrastructure and boost economic growth.

(v) ***Systemically Important Core Investment Company (CIC-ND-SI)***

Such types of NBFCs have assets worth ₹100 Crore and above and deploy at least 90% of its assets to invest in debt instruments, shares or loans in group companies.

(vi) ***Infrastructure Debt Fund***

Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through the issue of Rupee or Dollar denominated bonds of minimum 5 year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

(vii) ***Non-Banking Financial Company Micro Finance Institution (NBFC-MFI)***

NBFC-MFI needs to deploy at least 85% of its assets in the form of micro-finance to be given as loans to those with an annual income of ₹120,000 (in urban areas) and ₹60,000 (in rural areas). These loans need to be sanctioned without collateral; should not exceed ₹50,000 and should not have a loan tenure of less than 24 months. The borrower has the repay the loan in weekly, monthly or fortnightly installments or as agreed.

(viii) ***Non-Banking Financial Company – Factors (NBFC-Factors)***

NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

(ix) ***Mortgage Guarantee Companies (MGC)***

MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is Rs. 100 crore.

(x) ***NBFC- Non-Operative Financial Holding Company (NOFHC)***

Is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

Services offered by NBFCs

NBFCs offer a wide range of financial services, including:

- Personal loans
- Home loans
- Vehicle loans
- Gold loans
- Microfinance
- Leasing and hire-purchase services
- Credit card services
- Insurance services
- Investment and asset management services

Differences between NBFCs and banks?

Although NBFCs lend money and make investments, just like banks do, there are a few distinct differences between them.

- NBFCs cannot accept demand deposits
- NBFCs cannot issue cheques drawn on itself
- Unlike in case of banks, deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs
- NBFCs do not form part of the payment and settlement system

BASICS OF CAPITAL MARKET

The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay(now Mumbai) and Calcutta (now Kolkata). Of the two, Bombay was the chief trading centre wherein bank shares were the major trading stock.

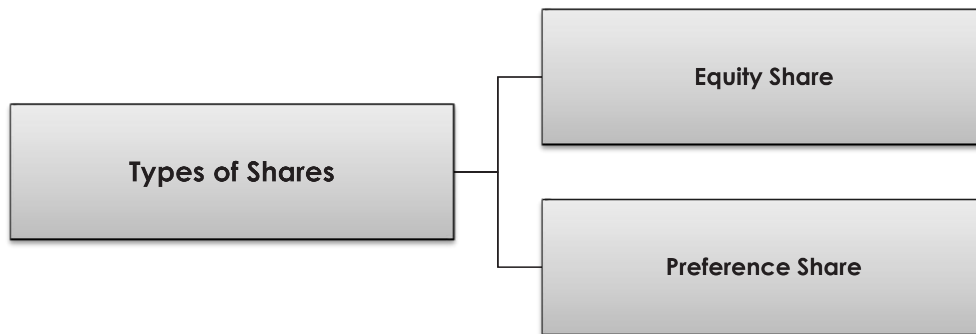
During the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during the period, resulting in a boom in share prices. This boom, the first in the history of the Indian capital market, lasted for half a decade. The first joint stock company was established on 1850. The bubble burst on July 1, 1865, when there was a tremendous slump in share prices.

Trading was at that time limited to a dozen brokers, their trading place was under a banyan tree in front of the Town Hall in Bombay. These stockbrokers organized an informal association in 1875-Native Shares and Stock Brokers Association. Bombay. The stock exchanges in Calcutta and Ahmedabad, also industrial and trading centres; came up later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925.

Indian remained largely inactive till the 1970s. Partial liberalisation of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalisation of the 1990s that provided a lasting impetus. Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price

discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the "taper tantrum" episode in 2013, is a sign of their increasing maturity.

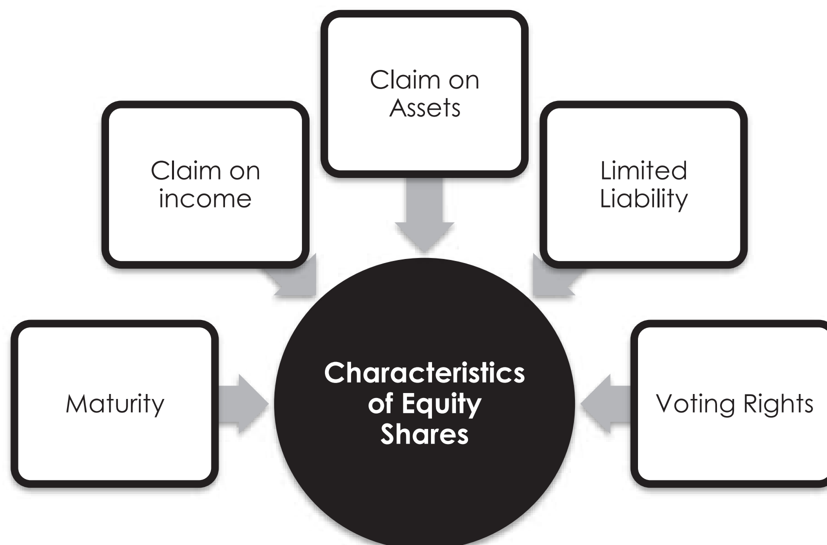
TYPES OF SHARES AND DEBENTURES



Equity Share

Equity shares, also known as ordinary shares or common shares represent the owners' capital in a company. The holders of these shares are the real owners of the company. They have a control over the working of the company. The rate of dividend on these shares depends upon the profits of the company. They may be paid a higher rate of dividend if the profit of the company is high or they may not get anything if the profit of the company is not sufficient. Equity shareholders are paid dividend after paying dividend to the preference shareholders.

Characteristics of Equity Shares



An equity share carries the following characteristic:

1) **Maturity:**

   Equity shares provide permanent capital to the company and cannot be redeemed during the life time of the company. Under the Companies Act, 1956, a company cannot purchase its own shares. Equity shareholders can demand refund of their capital only at the time of liquidation of a company. Even at the time of liquidation, equity capital is paid back after meeting all other prior claims including that of preference shareholders.

2) ***Claim on Income:***

   Equity shareholders have a residual claim on the income of a company. They have a claim on income left after paying dividend to preference shareholders.

3) ***Claim on Assets:***

   Equity shareholders have a residual claim on company's assets. In the event of liquidation of a company, the assets are utilized first to meet the claims of creditors and preference shareholders and if there is any balance left that can be claimed by equity shareholders.

4) ***Voting Rights:***

   Equity shareholders enjoy the benefit of voting rights in the meetings of the company and have a control over the working of the company.

5) ***Limited Liability:***

   Although, equity shareholders are the real owners of the company but their liability is limited to the value of shares they have purchased. For example if a shareholder has purchased 1,000 shares of Rs. 100 each; he is liable to pay only Rs. 1,00,000. This is another distinct feature of equity shares.

Advantages of Equity Shares

Advantages to the Company:

The company enjoys the following advantages by issuing the preference shares:

- Equity shares provide permanent capital to the company so there is no liability to return the money during the life time of company.
- The rate of dividend is not fixed on the equity shares so there is no fixed burden of dividend, i.e., if there are more profits the company distributes dividend at a higher rate and when there are less profits the company distributes dividend at a lower rate.
- There is no charge of equity share capital on assets of the company so all the assets are available for security for raising debt capital.
- Raising capital through equity shares is a cheap and convenient source of finance as compared to other sources of finance like debentures and loans.

Advantages to the Investors:

The following are the advantages of equity shares to the investors:

- As the income of the company increases, the equity shareholders get more dividends because

the rate of dividend is not fixed on these shares. Shareholders get dividend at higher rate in boom period that increases the income of shareholders.

- The equity shareholders have a right of management and control of the company. They use their voting right and elect directors of their choice to manage the affairs of the company.
- The market price of equity shares of the company increases with the increase in profits of the company and result in capital gain to the investors if they sell their shares in the market.
- The equity shareholders are the owners of the company, so they take interest in company's activities.

Disadvantages of Equity Shares

Following are the disadvantages of equity shares to the company and investors:

Disadvantages to the Company:

- Equity dividends are paid to the shareholders out of after-tax profits, these dividends are not tax deductible.
- The equity share capital has the highest specific cost of capital among all the sources.
- The new issue of equity capital may reduce the earning per share because of increase in the number of equity share, and thus may have an adverse effect on the price of the equity share.
- The equity shareholders have right to vote it limits the power of the directors of the company.
- If the company gets its whole capital through equity shares then the equity shareholders are not able to get advantage of trading on equity.
- Equity shares are irredeemable, if a company facing the situation of over-capitalization it is difficult to remove it because it is not possible to decrease the number of equity shares while in case of preference shares, they can be redeemed.

Disadvantages to the Investors:

Following are the disadvantages of equity shares to the investors:

- The rate of dividend is not fixed on the equity shares. If there is less profit, fewer dividends will be given to the shareholders. Sometimes they get no dividend if the company is having no profit.
- The income of equity shareholders is not only irregular but also uncertain. If the company has profit, it is not necessary that the company should announce dividend and then distribute it to the shareholders. The management of company can decide not to distribute any dividend and keep the profits invested in the company.
- In times of recession, the prices of equity shares fall, hence resulting in capital loss to the investors.
- At the time of liquidation the equity shareholders are paid at the last if there is any balance remains after payment of loans, liabilities and payment of preference shareholders. If nothing is left, they get nothing.

PREFERENCE SHARES

Preference share can be defined as "A preference share is a share which carries preferential rights as to the payment of dividend at a fixed rate either free or subject to income tax and as to the payment of capital at the time of liquidation prior to equity shareholders."

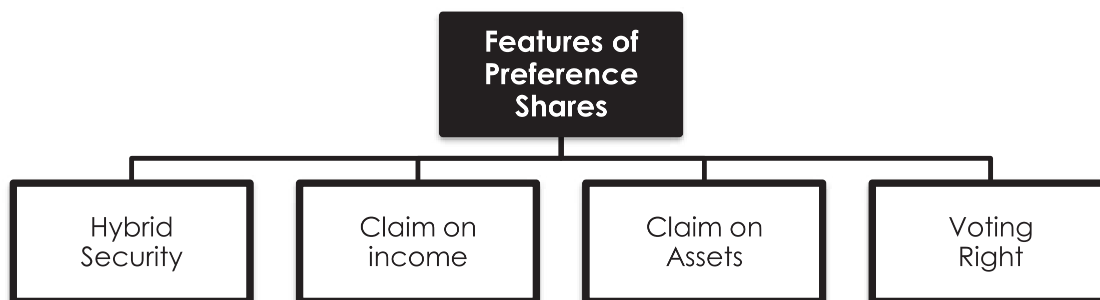
In simple words we can say that preference shares have certain preferences as compared to other types of shares. These preferences are given below:

1) The first preference is for payment of dividend.

2) The second preference for these shares is the repayment of capital at the time of liquidation of the company.

A company can issue preference shares of varying dividend rates at a time viz. 10% Preference Shares, 12% Preference Shares etc. these % are showing the fixed rate of dividend which is payable to the preference shareholders.

Features of Preferences Shares



Preferences shares carry four characteristics / features:

1) *Hybrid Security:*

Preference share is hybrid kind of security, possessing some characteristics of debt and some of equity. Legally, it is part of a company's equity base and preference dividend is not a tax-deductible expense. Preference shares carry a fixed dividend rate and this fixed rate plus the preferred prior claims to income and assets, make it resemble to debt.

2) *Claim on Income:*

A fixed rate of dividend is payable on preference shares. Preference shareholders have prior claim on income (dividend) over equity shareholders. Whenever the company has distributable profits, the dividend is first paid on preference share capital. After paying the fixed rate of dividend they have no right to share extra income. But, if the preference shares are participating shares, then the preference shareholders are entitled to participate in the balance of profits in agreed proportion along with equity shareholders after paying them a reasonable dividend.

3) *Claim of Assets:*

Generally the preference shareholders have no right in the surplus assets of the company. However, a company may issue participating preference shares which entitle its holders a right

to participate even in the surplus assets of the company at the time of liquidation in agreed ratio.

4) ***Voting right:***

Preference shareholders do not have the voting rights to participate in the management of the company like equity shareholders. However they have been given right to vote on resolutions which directly affect the rights attached to preference shares.

Advantages of Preference Shares

Advantage to the company

The company enjoys the following advantages by issuing the preference shares:

- Preference shares required no collateral or mortgage as in the case of debt.
- Preference shares provide a long-term capital for the company.
- The cost of capital of preference shares is less than that of equity shares.
- Redeemable preference shares have the added advantage of repayment of capital whenever there are surplus funds with the company.
- As a fixed rate of dividend is payables on preference shares, so the company has fixed financial commitment.
- Preference shares do not carry voting rights as described in section 87 under normal circumstances and hence there is no dilution of control.

Advantage to the Investors:

The preference shares re advantageous for the investors for the following viewpoints:

- Investors receive regular fixed income in the form of dividend.
- It is a superior security over equity shares in repayment of capital at the time of winding up of the company.
- It provides preferential rights in regard to payment of dividends.
- Although preference shares carry no voting rights, the holders of such shares can vote on matters directly affecting their rights as well as on all resolutions if the dividend due on their shares is remaining unpaid.

Disadvantages of Preference Shares

Disadvantages to the Company

- It is an expensive source of finance as compared to debt.
- If the company is earning return less than the cost of preference share capital, then it will decrease the earning per shares of the equity shareholders.
- Although there is no legal obligation of a company to pay dividend on preference shares, yet frequent delays or non-payment adversely affects the market position of the company and may reduce the market price of the share.

- Preference share dividend is not a deductible expense while calculating tax, interest is a deductible expense. Thus, there is a tax disadvantage to the company.

Disadvantages to the Investors

- As the preference shareholders, ordinarily, do not have any voting rights.
- The rate of dividend on preference shares is usually lower as compared to the equity shares.
- Preference shareholders do not have any charge on the assets of the company while debentures, usually, provide a charge on all the assets of the company.
- In case of winding up of a company, the preference shareholders only get the invested value of their capital. They cannot participate in the surplus.

Types of Preference Shares: The followings are the various types of shares which a company can issue.

1. Cumulative Preference Shares
2. Non-Cumulative Preference Shares
3. Redeemable Preference Shares
4. Participating Preference Shares
5. Non-participating Preference Shares
6. Convertible Preference Shares
7. Non-convertible Preference Shares

1. ***Cumulative Preference Shares:***

   Preference dividend is payable if the company earns an adequate profit. However, cumulative preference shares carry additional features which allow the preference shareholders to claim unpaid dividends of the years in which dividend could not be paid due to insufficient profit.

2. ***Non-Cumulative Preference Shares:***

   The holders of non-cumulative preference shares will get preference dividend if the company earns sufficient profit but they do not have the right to claim unpaid dividend which could not be paid due to insufficient profit.

3. ***Redeemable Preference Shares:***

   Redeemable preference shares are those shares which are redeemed or repaid after the expiry of a stipulated period.

4. ***Participating Preference Shares:***

   Participating preference shareholders are entitled to share the surplus profit and surplus assets of the company in addition to the preference dividend.

5. ***Non-participating Preference Shares:***

   Non-participating preference shareholders are not entitled to share surplus profit and surplus assets like participating preference shareholders.

6. ***Convertible Preference Shares:***

   The holders of convertible preference shares are given an option to convert whole or part of their holding into equity shares after a specific period of time.

7. ***Non-convertible Preference Shares:***

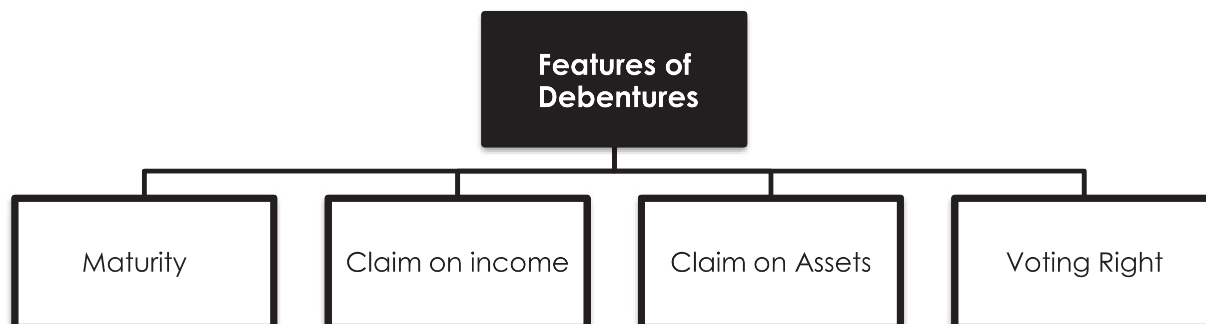
   The holders of non-convertible preference shares do not have the option to convert their holding into equity shares i.e. they remain as preference share till their redemption.

DEBENTURE

The word 'debenture' has been derived from a Latin word 'debere' which means to borrow. Section 2(30) of the Companies Act, 2013 define "debenture" which includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

A debenture holder is a creditor of the company. A fixed rate of interest is paid on debentures. The interest due on debentures is a charge on the profit and loss account of the company. The debentures are generally given a floating charge over the assets of the company.

Features of Debentures



The debenture carries the following features:

1) **Maturity:**

   Although debentures provide long-term funds to a company, they mature after a specific period. Generally, the debentures are to be repaid at a definite time as stipulated in the issue. The company must pay back the principal amount on these debentures on the given date otherwise the debentures holders may force winding up of the company as creditors.

2) **Claim on Income:**

   A fixed rate of interest is payable on debentures. Unlike shares, a company has a legal obligation to pay the interest on due dates irrespective of its level of earnings. Even if a company makes no earnings or incurs loss, it is under an obligation to pay interest to its debenture holders. The default in payment of interest may cause forfeiture of assets or winding up of the company.

3) **Claim on Assets:**

   Even in respect of claim on assets, debenture holders have priority of claim on assets of the

company. They have to be paid first before making any payment to the preference or equity shareholders in the event of liquidation of the company. However, they have a claim for the principal amount and interest due only and do not have any share in the surplus assets of the company, if any.

4) **Voting Rights:**

Since debenture holders are creditors of the company and not its owners, they do not have any control over the management of the company. They do not have any voting right to elect the directors of the company nor any other matters.

Advantages of Debentures

Advantages to the Company

The company enjoys the following advantages by issuing the debentures:

- The rate of interest payable on debentures is, usually, lower than the rate of dividend paid on share.
- The interest on debentures is a tax-deductible expense and hence the effective cost of debentures (debt-capital) is lower as compared to ownership securities where dividend is not a tax-deductible expense.
- Debentures have no voting rights so there can be no dilution of control.
- A company can trade on equity by mixing debentures in its capital structure and thereby increase its earnings per share.
- Debentures provide a hedge against the inflation because the interest payment as well as the principal repayment is fixed in monitory terms.

Advantages to the Investors:

The investors enjoy the following advantages:

- Debentures are the safest source of income for an investor because it provides a fixed, regular and stable income to the debenture holder.
- Debentures are issued against the security, so they are safe.
- The payment date of debentures is fixed at the time of issue of debentures, because of a definite maturity period investors like debentures more than shares.
- The interest of debenture holders is protected by various provisions of the debenture trust deed and the guidelines issued by the Securities and Exchange board of India in this regard.

Disadvantage of Debenture

From the Company's Point of View:

The following are the disadvantages of debentures from Company's point of view:

- The fixed interest charges and repayment of principal amount on maturity are legal obligations of the company.

- Debenture finance reduces the credit standing of the company. Banks and other financial institutions show an unfavorable attitude towards a company whose capitl structure is loaded with debentures.
- The use of debt financing usually increases the risk perception of investors in the firm. This enhanced financial risk increases the cost of equity capital.
- Cost of raising finance through debenture is also high because of high stamp duty.

From the Investors Point of View:

The following are the disadvantages of debentures from Investor's point of view:

- Debentures do not carry any voting rights and hence its holders do not have any controlling power over the management of the company.
- Debenture holders do not have any right to claim on the surplus assets and profits of the company beyond the fixed interest and their principal amount.
- The prices of debentures in the market fluctuate with the changes in the interest rates.
- Uncertainty about redemption also restricts certain investors from investing in such securities.

Types of Debentures

1. Secured Debentures
2. Unsecured Debentures
3. Redeemable Debentures
4. Irredeemable Debentures
5. Fully Convertible Debentures
6. Partly Convertible Debentures
7. Non-Convertible Debentures

Secured Debentures:

These are debentures that are secured against an asset/assets of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

Unsecured Debentures:

These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

Redeemable Debentures:

These debentures are payable at the expiry of their term. Which means at the end of a specified period

they are payable, either in the lump sum or in instalments over a time period. Such debentures can be redeemable at par, premium or at a discount.

Irredeemable Debentures:

Such debentures are perpetual in nature. There is no fixed rate at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long-time interval.

Fully Convertible Debentures:

These shares can be converted to equity shares at the option of the debenture holder. So, if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

Partly Convertible Debentures:

Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

Non-Convertible Debentures:

As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

FINANCIAL ASSISTANCE SCENARIO FOR SMALL AND MEDIUM ENTERPRISES AND STARTUPS

MSMEs are the backbone of the Indian economy, contributing approximately 30% of the country's GDP (Gross Domestic Product), 45% of manufacturing output and providing employment to 11 Cr of India's population. The Government of India has been proactive to ensure that all the benefit of these MSME schemes reaches to the MSMEs in time.

Towards achieving the 'Viksit Bharat' objective, the Ministry of Micro, Small and Medium Enterprises implements various schemes for the benefit of MSME sector across the country in the areas of formalization, technological assistance, infrastructure development, credit support, sustainable practices, skill development and training and market assistance to MSMEs. The schemes/ programmes inter alia include Prime Minister's Employment Generation Programme (PMEGP), MSME Champions Scheme, Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE), Entrepreneurship Skill Development Programme (ESDP), Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), Procurement and Marketing Support Scheme (PMS) and National SC/ST Hub (NSSH).

In the recent past, Government has taken a number of initiatives to promote the MSME sector in the country, which inter alia include the following.

i. Revised criteria for classification of MSMEs to promote investment.

ii. "Udyam Registration" for MSMEs, for Ease of Doing Business w.e.f. 01.07.2020.

iii. Launch of Udyam Assist Platform (UAP) on 11.01.2023 to bring the Informal Micro Enterprises (IMEs) under the formal ambit for availing the benefit under Priority Sector Lending (PSL).

iv. Roll out of Raising and Accelerating MSME Performance (RAMP) programme with an outlay of Rs. 6,000 crore over 5 years.

v. Launch of MSME Champions scheme with the objective to modernize MSMEs' manufacturing processes, reduce wastages, encourage innovativeness, sharpen business competitiveness and facilitate their National and Global reach and excellence. Components under the MSME Champions scheme are MSME-Sustainable (ZED), MSME-Competitive (Lean) and MSME-Innovative. MSME Sustainable (ZED) Certification Scheme encourages MSMEs to improve their processes and systems to enhance quality and also move towards sustainability.

vi. Expanding the network of Technology Centres across the country through 'Technology Centre Systems Programme' and 'Establishment of new Technology Centres / Extension Centres' to provide technology support to MSMEs, support import substitution and imparting high-end skilling.

vii. Launching of an online Portal "Champions" in June, 2020 to cover many aspects of e-governance including redressing grievances and handholding of MSMEs.

viii. Rs. 5 lakh crore Emergency Credit Line Guarantee Scheme for business, including MSMEs.

ix. Rs. 50,000 crore equity infusion through Self Reliant India Fund.

x. No global tenders for procurement up to Rs. 200 crores.

xi. Inclusion of Retail and Wholesale traders as MSMEs on 02.07.2021.

xii. Non-tax benefits extended for 3 years in case of an upward change in status of MSMEs.

xiii. As announced in Budget 2023-24, Rs. 9,000 crore has been infused in the corpus of CGTMSE to enable additional credit of Rs. 2 lakh crore with a reduced cost of credit.

The following are few of the financial assistance schemes for the Small and Medium Enterprises in India :

1. Financial Assistance Scenario for Small and Medium Enterprises in India

There are various schemes launched by the Ministry of Micro, Small & Medium Enterprises, and Government of India for providing financial assistance to SME sector. However, in this section we would restrict our discussion to certain selected schemes.

(a) *Scheme of Fund for Regeneration of Traditional Industries (SFURTI)*

The objectives of the scheme is to organize the traditional industries and artisans into clusters to make them competitive and provide support for their long term sustainability, sustained employment, to enhance marketability of products of such clusters to equip traditional artisans of the associated clusters with the improved skills, to make provision for common facilities and improved tools and equipments for artisans to strengthen the cluster governance systems with the active participation of the stakeholders, and to build up innovated and traditional skills, improved technologies, advanced processes, market intelligence and new models of public-private partnerships, so as to gradually replicate similar models of cluster-based regenerated traditional industries.

Non-Government organizations (NGOs), institutions of the Central and State Governments and semi-Government institutions, field functionaries of State and Central Govt., Panchayati Raj institutions (PRIs), Private sector by forming cluster specific SPVs, Corporates and Social Responsibility (CSR) foundations with expertise to undertake cluster development. The financial assistance provided for any specific project shall be subject to a maximum of Rs 8 (eight) crore to support Soft, Hard and Thematic interventions.

(b) A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE)-

A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE) aids to set up a network of technology centres and to set up incubation centres to accelerate entrepreneurship and to promote startups for innovation in agro-industry. ASPIRE provides financial support to set up Livelihood Business Incubators (LBI) or Technology Business Incubator (TBI).

In case of incubation centres to be set up under PPP mode with NSIC, KVIC or Coir Board or any other Institution/agency of GoI/State Govt., one- time grant of 50% of the cost of Plant & Machinery other than the land and infrastructure or Rs.50.00 lakhs, whichever is less to be provided Assistance towards the training cost of incubates will be met out of the ATI scheme of the Ministry as far as possible for both centres.

Objectives of the Scheme:

(i) Create new jobs and reduce unemployment

(ii) Promote entrepreneurship culture in India

(iii) Grassroots economic development at the district level

(iv) Facilitate innovative business solution for un-met social needs

(v) Promote innovation to further strengthen the competitiveness of MSME sector.

(c) Entrepreneurship and Skill Development Programme (ESDP)

Entrepreneurship Development Programmes are being organized regularly to nurture the talent of youth by enlightening them on various aspects of industrial activity required for setting up MSEs. These EDPs are generally conducted in ITIs , Polytechnics and other technical institutions, where skill is available to motivate them towards self-employment. 20 % of the total targeted of ESDPs are conducted exclusively for weaker sections of the society i.e. (SC/ST/women and PH) with a stipend of Rs.500/- per month per candidate under the Promotional Package for (Micro, Small Enterprises) MSEs. No fee is charged from the candidates under these programmes.

(d) *Schemes of National Small Industries Corporation (NSIC)*

National Small Industries Corporation (NSIC), is an ISO 9001:2015 certified Government of India Enterprise under Ministry of Micro, Small and Medium Enterprises (MSME). NSIC has been working to promote, aid and foster the growth of micro, small and medium enterprises in the country. NSIC operates through countrywide network of offices and Technical Centres in the Country. In addition, NSIC has set up Training cum Incubation Centre managed by professional manpower. NSIC acts as a facilitator

and has devised a number of schemes to support enterprises in their marketing efforts, both domestic and foreign markets.

2. Financial Assistance for Start-Ups

There are numerous schemes launched by Government of India for financing startups. The following are the few finance schemes:

(a) The Venture Capital Assistance Scheme;

(b) Support for International Patent Protection in Electronics & Information Technology (SIP-EIT) and

(c) Stand-Up India for Financing SC/ST and/or Women Entrepreneurs.

(d) Startup India Seed Fund Scheme (SISFS)

(a) ***The Venture Capital Assistance Scheme*****:**

This scheme is run by Ministry of Agriculture and Farmers welfare for Farmers, Producer Groups, Partnership/Proprietary Firms, Self Help Groups, Companies, Agripreneurs, Units in agriexport zones and Agriculture graduates Individually or in groups for setting up agribusiness projects.

Venture Capital Assistance is financial support in the form of an interest free loan provided by SFAC to qualifying projects to meet shortfall in the capital requirement for implementation of the project. The following are the benefits of the Venture Capital Assistance Scheme:

(i) Help in assisting agripreneurs to make investments in setting up agribusiness projects through financial participation.

(ii) Provides financial support for preparation of bankable Detailed Project Reports (DPRs) through Project Development Facility (PDF).

(b) ***Support for International Patent Protection in Electronics & Information Technology (SIP-EIT)*****:**

SIP-EIT is a scheme to provide financial support to MSMEs and Technology Start-up units for international patent filing to encourage innovation and recognize the value and capabilities of global IP along with capturing growth opportunities in ICTE sector.

Eligibility Criteria

1. The Applicant should be registered under the MSME Development Act 2006 of Government of India as amended from time to time as a MSME unit as per the criteria for such registration(the applicant would be required to furnish the proof of such registration).

2. The applicant should be a registered company under the Companies Act of Government of India and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time(this criteria

will be ascertained from the proof of such registration and last audited balance sheet of the applicant)

3. The applicant should be a registered STP Unit and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time(this criteria will be ascertained from the proof of such registration and last audited balance sheet of the applicant).

4. The applicant should be a technology incubation enterprise or a startup located in an incubation centre/ park and registered as a company (a certification from the incubation centre/ park in this case is mandatory) and should fulfill the investment limits in plant and machinery or equipment as defined in the MSME Development Act 2006 of Government of India as amended from time to time(this criteria will be ascertained from the proof of such registration and last audited balance sheet of the applicant).

(c) Stand-Up India for Financing SC/ST and/or Women Entrepreneurs

Stand Up India Scheme facilitate bank loans between 10 lakh and 1 crore to atleast one scheduled caste (SC) or Scehduled Tribe, borrower and atleast one women per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services or the trading sector. In case of non-individual enterprises at least 51% of the shareholding and controlling stake should be held by either an SC/ST or Woman entrepreneur.

Eligibility

1. SC/ST and/or women entrepreneurs above 18 years of age
2. Loans under the scheme is available for only greenfield project. Greenfield& signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector
3. In case of non-individual enterprises,51% of the shareholding and controlling stakes should be held by either SC/ST and/or Women Entrepreneur
4. Borrower should not be in default to any bank or financial institution.

(d) Startup India Seed Fund Scheme (SISFS)

To boost the Startup ecosystem in India, Shri Piyush Goyal, Honourable Cabinet Minister for Railways, Commerce and Industry, Consumer Affairs, Food and Public Distribution launched the Startup India Seed Fund Scheme on 19th April 2021.

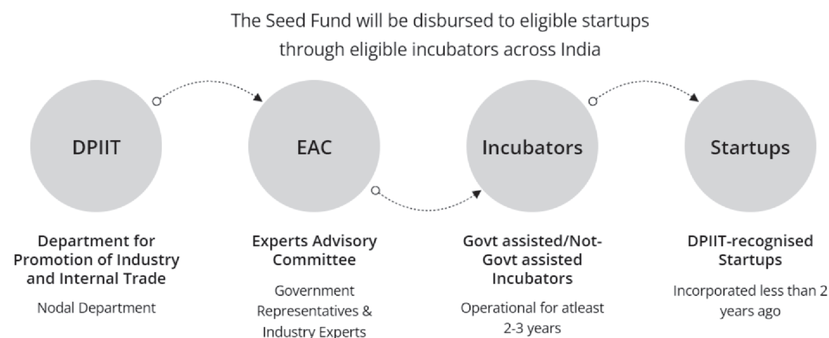
Startup India Seed Fund Scheme (SISFS) aims to provide financial assistance to startups for proof of concept, prototype development, product trials, market entry and commercialization. This would enable startups to graduate to a level where they will be able to raise investments from angel investors or venture capitalists or seek loans from commercial banks or financial institutions.

Process of the SISFS

Department for Promotion of Industry and Internal Trade (DPIIT) has created an Experts Advisory Committee (EAC) to execute and monitor the Startup India Seed Fund Scheme. The EAC will select eligible incubators who will be provided grants of upto Rs. 5 Crores each. In turn, the selected incubators will provide startups with up to Rs. 20 lakhs for validation of Proof of Concept, prototype development, product trials to startups.

Moreover, up to Rs. 50 lakhs shall be provided to the startups for market entry, commercialization, or scaling up through convertible debentures or debt-linked instruments. Detailed guidelines of the Startup India Seed Fund Scheme are available on the Startup India portal.

It is anticipated that the startups that receive support at their early stages shall create significant employment opportunities for everyone.



Key points of the SISFS

- 3600 Startups expected to benefit from SISFS.
- 300 Virtual Incubators to be promoted for supporting startups.
- INR 945 crore corpus divided over 4 years, starting FY2021-22, to be disbursed through eligible incubators.
- Year-round 'Call for Applications' for Incubators and Startups
- Sector-agnostic.
- No mandatory physical incubation
- PAN-India startup programme
- Startups can apply to 3 incubators simultaneously.

RECAPITULATION

- Financial markets create securities products that provide a return for those who have excess funds (Investors/lenders) and make these funds available to those who need additional money (borrowers).

- Bearer Debentures are those which are payable to the bearer thereof. These can be transferred merely by delivery. Interest is paid to the person who produces the interest coupon attached to such debentures.
- Registered Debentures are those which are payable to the persons who appear in the Register of Debenture holders. These can be transferred only by executing a transfer deed. Interest is paid to the registered holder.
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society. When financial markets fail, economic disruption including recession and unemployment can result.
- A mutual fund is an investment security that enables investors to pool their money together into one professionally managed investment. Mutual funds can invest in stocks, bonds, cash or a combination of those assets.
- With the rise in fintech companies, the concept of Buy Now Pay Later (BNPL) has revolutionized the banking ecosystem in India.

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LESSON 5

INDIAN ECONOMY

INTRODUCTION

The Indian economy is one of the largest and fastest-growing economies in the world, characterized by its diverse sectors, significant population, and ongoing economic reforms. India has transitioned from being a primarily agrarian economy to a more diversified one, with significant contributions from sectors such as services, industry, and manufacturing. India has undertaken significant economic reforms since the early 1990s to liberalize its economy, promote private sector participation, attract foreign investment, and enhance competitiveness. Key reforms include the dismantling of the license raj, reduction of trade barriers, privatization of state-owned enterprises, deregulation of industries, and simplification of tax and regulatory frameworks.

Dividing an economy into different sectors helps economists analyse the economic activity within those sectors. A sector is an area of the economy in which businesses share the same or related business activity, product, or service. We can divide the economy into the following three sectors:

- Primary sector companies are directly engaged in activities utilizing natural resources, such as mining and agriculture.
- Secondary sector companies produce goods derived from the products within the primary sector and include manufacturing.
- Tertiary and quaternary sectors represent the services and knowledge-based economy and include retail and information technology.

Now, we will discuss all the three sectors in detail.

PRIMARY (AGRICULTURE AND ALLIED ACTIVITIES)

The primary sector is that which is involved in obtaining raw materials or natural resources from the planet. The kind of economic activities that can exist in a location depend on its characteristics. This industry produces goods that are offered or sold to the general population. Utilising the Earth's natural resources, like water, minerals, vegetation, etc., it is able to carry out its economic activities. Despite its declining share in GDP, agriculture remains a vital sector, employing a significant portion of the population and contributing to food security and rural livelihoods.

There are two categories of primary industries:

Genetic Industry

This industry involved the extraction or gathering of raw materials, which can then be enhanced through labour-intensive manufacture. Agriculture, forestry, fisheries, and livestock management are a few examples of the primary sector's genetic industry. These industries are susceptible to advances in renewable resource technology and science.

Extractive Industry

This category includes the extraction or manufacture of finite raw materials that cannot be replaced or replenished by agriculture. In the extractive industries, stone is quarried, mineral fuels are extracted, and mineral ores are mined.

Primary Sector Classifications

Primary industries include the following:

Farming: Farmers cultivate plants and raise animals that may be utilised to produce food or other items on their property. Agriculture is a primary-sector industry. It is the ability to make raw food using agricultural methods.

Rough materials and textiles are separated from food and fuel to form four distinct product groups. The food category includes egg yolks, milk, vegetables, meats, and oils. Cotton is a raw material used in agriculture to produce clothes.

Mining: The extraction of raw materials from the ground, such as rock, sand, metals, clay, gemstones, and minerals, is known as mining. A mining company's most valuable assets are its reserves and resources. Ore resources are located, the profit potential is assessed, and precious metals are extracted.

Mining is also a significant source of raw materials for the secondary sector, used to manufacture and create various imported goods. Natural gas, petrol, and water are examples of non-renewable resources included in the concept of mining.

Fishing: Fishing is one of the world's most critical primary businesses. You'll be responsible for everything from shipping and promoting fish goods to preserving them and processing them. Industrial fish farming is the fastest-growing food production technology globally, and fish farms presently provide about half of the world's seafood.

Forestry: The forest products business makes a substantial contribution to world economies. For various sectors, forestry is a crucial supplier of raw materials. All forms of forest sector goods help address some of the needs of contemporary civilization while also improving worldwide human well-being.

However, Indian forests are facing a silent crisis. Rising temperatures, erratic rainfall and deforestation are weakening their ability to absorb carbon dioxide (CO2), a vital role in combating global warming. This poses a major threat to the country's ambitious climate goal of creating "an additional carbon sink of 2.5-3 billion tonnes of CO2 equivalent through additional forest and tree cover by 2030", as per its Nationally Determined Contributions, updated in August 2022.

Difference between Primary, Secondary and Tertiary Sectors

Primary	*Secondary*	*Tertiary*
The agricultural and allied sector services are known as the Primary Sector.	The manufacturing sector is known as the Secondary Sector.	The service sector is known as the Tertiary Sector.
Raw materials for goods and services are provided for the Primary Sector.	Secondary sector changes one goods into another by building more from it	This sector provides services to both the primary and secondary sector
The primary sector uses traditional techniques and is mostly unorganised.	The secondary sector uses more reliable methods of production and is organised.	This sector uses modern-day logistics methods to execute its functions and is well organised.

Primary	*Secondary*	*Tertiary*
This sector consists of forestry, agriculture and mining activities.	It involves manufacturing units, large firms, small scale units and multinational organisations.	Insurance trade, Banking and communications come under this sector.
In comparison to other developed nations, India has a large workforce employed.	The employment rate is in balance, as a specific set of skills is needed to find a workforce in this sector	This sector's employment share has developed in the ensuing years.

Major Investments

- In December 2023, NBCC signed an MoU with the National Cooperative Development Cooperation (NCDC) and NABARD for the construction of (1,469-grain storage units) the world's largest grain storage plan in the cooperative sector.
- According to the IVCA-EY monthly PE/VC roundup, first quarter of 2024 recorded investments worth US$ 13.5 billion, 41% higher than fourth quarter of 2023 (US$ 9.6 billion).
- In March 2024, Tata Motors announced of signing a Memorandum of Understanding (MoU) with Tamil Nadu government to set up Rs. 9,000 crore (US$ 1.08 billion) vehicle manufacturing facility in the state. This investment in expected to be invested over five years and will generate approximately 5,000 direct and indirect jobs.
- On the FDI front, according to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US$ 971.52 billion between April 2000-December 2023; this was mainly due to the government's efforts to improve the ease of doing business and relax FDI norms. The total FDI inflow into India from October-December 2023 stood at US$ 17.96 billion, while the FDI equity inflow for the same period was US$ 11.54 billion.
- India also had major FDI inflows during April 2000-December 2023, coming from Mauritius at US$ 170.91 billion with a total share of 26%, followed by Singapore at 23% (US$ 155.61 billion), the USA at 9%, (US$ 63.03 billion), Netherlands at 7%, (US$ 46.03 billion) and Japan at 6%, (US$ 41.47 billion).
- India's Private Equity (PE)/Venture Capital (VC) investment environment is also scaling new heights, with increases in deal size, deal activity, and fundraising, as well as improvements in term sheets and benchmarking practices. Private Equity-Venture Capital (PE-VC) funds invested US$ 13.5 billion (across 292 deals) in India-based companies during the first quarter of 2024. In the first quarter of 2024, there were 29 large deals (deals value at over US$ 100 million) aggregating to US$ 10.1 billion, 53% higher than the fourth quarter of 2023 (US$ 6.6 billion across 25 deals).
- Around 166 SME companies went public in 2023, raising a total of Rs. 4,472 crore (US$ 537 million) through IPOs.
- In October 2023, Tata Motors acquired 27% in digital platform Freight Tiger.
- In October 2023, Bajaj Finance acquired 26% stake in Pennant Technologies for Rs. 267.50 crore (US$ 32.18 million).

- In October 2023, Reliance Retail Ventures Limited (RRVL) announced that a wholly owned subsidiary of the Abu Dhabi Investment Authority (ADIA) will invest Rs. 4,966.80 crore (US$ 596.63 million) into the company.
- In September 2023, Hindalco signed a technology partnership with Italy-based, Metra SpA, to bring the latest aluminium extrusion technology to India for building rail coaches.
- In September 2023, Shree Renuka Sugars inked a share purchase agreement to acquire 100% stake in Anamika Sugar Mills.
- In September 2023, Reliance Retail Ventures acquired a majority stake in Alia Bhatt's Ed-a-Mamma brand.
- In August 2023, Jewellery retailer Titan acquired another 27.18% stake in CaratLane for Rs. 4,621 crore (US$ 556.01 million).
- In August 2023, Qatar Investment Authority (QIA) invested Rs. 8,278 crore (US$ 994.39 million) in Reliance Retail Ventures Limited (RRVL) to get an equity stake of 0.99%.
- In August 2023, the global investment firm Temasek invested Rs. 1,200 crore (US$ 144,15 million) in its electric vehicle subsidiary Mahindra Electric Automobile Ltd (MAEL).
- In August 2023, Brookfield Asset Management entered into an agreement with Reliance Industries (RIL) to invest US$ 20-30 billion over the next decade in Australia's renewable energy sector.
- In August 2023, Walmart paid US$ 1.4 billion to buy out hedge fund Tiger Global's stake in Flipkart.
- In July 2023, Jio Financial partnered with BlackRock to launch an asset management firm with a combined investment of US$ 300 million.
- In July 2023, U.S.-based investment firm, Bain Capital announced that it has entered into an agreement to acquire 90% of Adani Capital and Adani Housing.
- In July 2023, Bikaji Foods International acquires 49% stake in Bhujialalji for Rs. 5.10 crore (US$ 6,21,946.53).
- In July 2023, India's leading telecom firm, Bharti Airtel has acquired additional 20.6% stake in the SD-WAN startup, Lavelle Networks.
- In July 2023, Adani Enterprises acquired approximately 30% ownership in Start Enterprises Pvt Ltd (SEPL), the parent company of Trainman, an online platform for booking train tickets.
- In June 2023, Allcargo Logistics completed acquisition of 30% stake in Gati-Kintetsu Express (GKEPL) for Rs. 406.71 crore (US$ 49.48 million).
- In June 2023, Asian Paints acquires an additional 11% stake in White Teak.
- Private equity investment in real estate remained stable in FY23 at US$ 4.2 billion, of which 22% contribution came from domestic investors. Delhi-NCR market received 32% of the total investment.

Agriculture Sector Union Budget 2023-24

Government of India is committed to the welfare of farmers. This is evident from the fact that in the fiscal year 2013-14, when the Ministry of Cooperation, Department of Animal Husbandry and Dairying, and Department of Fisheries were integral parts of the Ministry of Agriculture and Farmers Welfare, the total budget allocation was a mere Rs. 27662.67 crore. Despite the subsequent separation of these ministries/departments, the total budget allocation for the Ministry of Agriculture and Farmers Welfare has witnessed a substantial increase, reaching Rs 1,25,035.79 crore in the financial year 2023-24.

The details of actual expenditure and amount unutilized from the Budget by the Ministry of Agriculture and Farmers Welfare during 2019-20 to 2022-23 are as follows:

(*Amount: Rs in crore*)

Sl. No.	Year	Revised Estimate	Actual Expenditure	Amount unutilized against RE
1	2019-20	109261.4	101740.2	7521.19
2	2020-21	124060.1	115856	8204.04
3	2021-22	126202.7	122712.1	3490.58
4	2022-23	118256.4	109561	8695.41
	Total	477780.6	449869.3	27911.22

The Government planned to implement a comprehensive range of central sector as well as centrally sponsored schemes and programmes for the welfare of farmers in the country. These schemes encompass entire spectrum of agriculture including credit, insurance, income support, infrastructure, crops including horticulture, seeds, mechanization, marketing, organic and natural farming, farmer collectives, irrigation, extension, procurement of crops from farmers at minimum support prices, digital agriculture etc.

The details of list of Missions / Schemes implemented by the Department of Agriculture & Farmers Welfare can be accessed from the following link: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2003189#:~:text=27662.67%20crore.,the%20financial%20year%202023%2D24.

Current Scenario of Agriculture and allied activities in India

- The government aims to encourage both private and public investment in post-harvest activities.
- The application of Nano-DAP will be extended to cover all agro-climatic zones. A strategic plan under the Atmanirbhar Oilseeds Abhiyaan will be devised to attain self-sufficiency in oilseeds production.
- Additionally, a comprehensive program for the development of the dairy sector will be formulated.
- Efforts will be intensified to implement the Pradhan Mantri Matsya Sampada Yojana, aimed at enhancing aquaculture productivity, doubling exports, and creating more job opportunities.

- There will be an increased allocation of funds for the Blue Revolution, totaling up to Rs.2,352 crore.
- Similarly, the allocation for the PM Formalisation of Micro Food Processing Enterprises scheme will be raised to Rs.880 crore.
- The Ministry of Agriculture and Farmer's Welfare has been allocated a budget of Rs.1.27 lakh crore.
- Direct financial assistance will be provided to 11.8 crore farmers under the PM-KISAN scheme.
- Additionally, crop insurance coverage will be extended to 4 crore farmers through the PM Fasal Bima Yojana.
- Furthermore, the integration of 1,361 mandis under eNAM will support trading volumes amounting to ₹3 lakh crore.

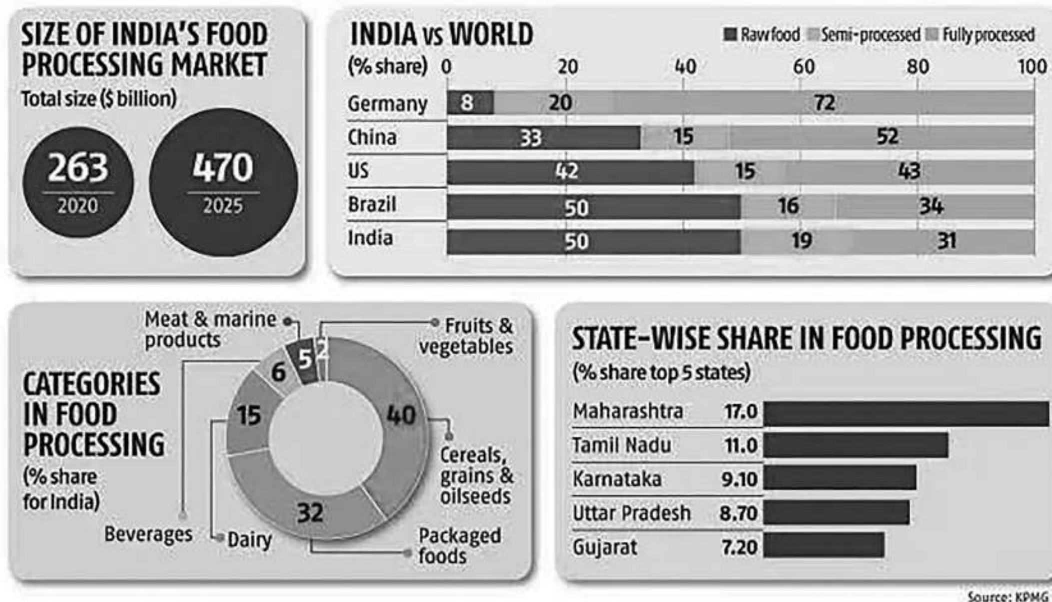
Indian food industry has come a long way since the time of Independence in 1947. From a ship to mouth existence, India has emerged as a food basket for the world. Today, India is the largest country in terms of food production, processing, supply, and consumption. India's food market is ranked 6th in the world, with 70% of sales and 5th in production, consumption, and export. India is today the largest producer of F&V, milk, sugar, pulses, spices, oilseeds etc. During the last two decades, the food consumption pattern has significantly changed and that had led to the growth of a gigantic size food processing industry. Today the size of Indian food retail market is valued over $800 billion with a growth rate of 11% AGCR.

With the rapid growth of the Indian economy, a shift is also being seen in the consumption pattern of the country, from cereals to more varied and nutritious diet of fruits and vegetables, milk, fish, meat and poultry products. All these efforts have considerably enhanced the status of the Food Processing Industries. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India. It contributes around 14 per cent of manufacturing Gross Domestic Product (GDP), 13 per cent of India's exports and six per cent of total industrial investment.

India's Food Processing sector is identified as sunrise sector with projected size $535 billion by 2025-26. India's food ecosystem offers huge opportunities for investments with stimulating growth in the food retail sector, favorable economic policies, and attractive fiscal incentives. The sector, however, needs technologies, investments and global partnerships to unlock its full potential.

The organic food segment in India is expected to grow at a CAGR of 10% during 2015-25 and is estimated to reach Rs. 75,000 crore (US$ 10.73 billion) by 2025 from Rs. 2,700 crore (US$ 386.32 million) in 2015. The processed food market in India is expected to grow to Rs. 3,451,352.5 crore (US$ 470 billion) by 2025, from Rs. 1,931,288.7 crore (US$ 263 billion) in FY20 on the back of government initiatives such as planned infrastructure worth US$ 1 trillion and Pradhan Mantri Kisan Sampada Yojna. The food processing industry employs about 1.77 million people. The sector allows 100% FDI under the automatic route.

The size of India's food market is provided in the diagram below-



SECONDARY (MANUFACTURING)

The secondary sector consists of processing, manufacturing, and construction companies. The secondary sector produces goods from the natural products within the primary sector. The secondary sector includes the following business activities:

1. **Automotive Manufacturing**: This industry involves the production of automobiles, including cars, trucks, and other vehicles. It encompasses various processes such as assembly, painting, and quality control.
2. **Electronics Manufacturing**: Electronics manufacturing involves the production of electronic components and devices such as semiconductors, consumer electronics, and communication equipment. This industry often requires precision engineering and advanced technology.
3. **Metalworking and Metallurgy**: Metalworking encompasses a range of activities, including metal fabrication, forging, casting, and machining. Metallurgy involves the study of metals and their properties, as well as the production of alloys and metallic materials.
4. **Construction and Infrastructure**: The construction industry involves the development of buildings, infrastructure, and other physical structures. This sector includes activities such as residential and commercial construction, civil engineering, and infrastructure projects like roads, bridges, and utilities.
5. **Food Processing and Packaging**: Food processing involves the transformation of raw agricultural products into food products suitable for consumption. This includes activities such as sorting, cleaning, processing, and packaging of food items.
6. **Chemical Manufacturing**: Apart from chemical engineering, chemical manufacturing involves the production of a wide range of chemicals, including industrial chemicals, pharmaceuticals, fertilizers, and specialty chemicals for various applications.

7. **Machinery and Equipment Manufacturing**: This sector involves the production of machinery and equipment used in various industries, such as agricultural machinery, construction equipment, industrial machinery, and manufacturing tools.

8. **Paper and Pulp Industry**: The paper and pulp industry involves the production of paper, cardboard, and other paper-based products. It includes processes such as pulping, papermaking, and paper finishing.

9. **Plastics and Rubber Manufacturing**: Plastics and rubber manufacturing involve the production of plastic and rubber products for various applications, including packaging, automotive parts, consumer goods, and industrial components.

10. **Textile Machinery Manufacturing**: While textiles are already mentioned, textile machinery manufacturing is a crucial industry that produces machinery and equipment used in textile production processes such as spinning, weaving, knitting, dyeing, and finishing.

Major Investments

With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and increasing purchasing power.

India has become one of the most attractive destinations for investments in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- According to HSBC Flash India PMI report, business activity surged in April to its highest level in about 14 years as well as sustained robust demand. The composite index reached 62.2, indicating continuous expansion since August 2021, alongside positive job growth and decreased input inflation, affirming India's status as the fastest-growing major economy.
- As of April 12, 2024, India's foreign exchange reserves stood at US$ 643.162 billion.
- In 2023, India saw a total of US$ 49.8 billion in PE-VC investments.
- Merchandise exports in March 2024 stood at US$ 41.68 billion, with total merchandise exports of US$ 437.06 billion during the period of April 2023 to March 2024.
- India was also named as the 48th most innovative country among the top 50 countries, securing 40th position out of 132 economies in the Global Innovation Index 2023. India rose from 81st position in 2015 to 40th position in 2023. India ranks 3rd position in the global number of scientific publications.
- In March 2024, the gross Goods and Services Tax (GST) stood at second highest monthly revenue collection at Rs.1.78 lakh crore (US$ 21.35 billion), of which CGST is Rs. 34,532 crore (US$ 4.14 billion), SGST is Rs. 43,746 crore (US$ 5.25 billion).
- Between April 2000–December 2023, cumulative FDI equity inflows to India stood at US$ 971.52 billion.
- In February 2024, the overall IIP (Index of Industrial Production) stood at 147.2. The Indices of Industrial Production for the mining, manufacturing and electricity sectors stood at 139.6, 144.5 and 187.1, respectively, in February 2024.

- According to data released by the Ministry of Statistics & Programme Implementation (MoSPI), India's Consumer Price Index (CPI) based retail inflation reached 5.69% in December 2023.
- Foreign Institutional Investors (FII) inflows between April-July (2023-24) were close to Rs. 80,500 crore (US$ 9.67 billion), while Domestic Institutional Investors (DII) sold Rs. 4,500 crore (US$ 540.56 million) in the same period. As per depository data, Foreign Portfolio Investors (FPIs) invested (US$ 8.06 billion) in India during January-April 2024.
- The wheat procurement during RMS 2023-24 (till May) was estimated to be 262 lakh metric tonnes (LMT) and the rice procured in KMS 2023-24 was 385 LMT. The combined stock position of wheat and rice in the Central Pool is over 579 LMT (Wheat 312 LMT and Rice 267 LMT).

Major Government Initiatives

Over the years, the Indian government has introduced many initiatives to strengthen the nation's economy. The Indian government has been effective in developing policies and programmes that are not only beneficial for citizens to improve their financial stability but also for the overall growth of the economy. Over recent decades, India's rapid economic growth has led to a substantial increase in its demand for exports. Besides this, a number of the government's flagship programmes, including Make in India, Start-up India, Digital India, the Smart City Mission, and the Atal Mission for Rejuvenation and Urban Transformation, is aimed at creating immense opportunities in India. In this regard, some of the initiatives taken by the government to improve the economic condition of the country are mentioned below :

- Ministry of Cooperation launched the 'Dairy Sahakar' scheme in Anand, Gujarat.
- Ministry of Civil Aviation launched the Krishi UDAN 2.0 scheme in October 2021. The scheme proposed assistance and incentive for the movement of agri-produce by air transport. The Krishi UDAN 2.0 will be implemented at 53 airports across the country, largely focusing on Northeast and tribal regions, and is expected to benefit farmers, freight forwarders, and airlines.
- In October 2021, the Agricultural and Processed Food Products Export Development Authority (APEDA) signed a Memorandum of Understanding (MoU) with ICAR-Central Citrus Research Institute (ICAR-CCRI), Nagpur, for boosting exports of citrus and its value-added products.
- In October 2021, the Union Ministry of Agriculture and Farmers Welfare announced that 820,600 seed mini-kits will be distributed free of cost in 343 identified districts across 15 major producing states under a special programme. This programme is likely to boost production and productivity by speeding up the seed replacement rate and subsequently, help in increasing farmers' income.
- In September 2021, Prime Minister Mr. Narendra Modi launched 35 crop varieties with special traits such as climate resilience and higher nutrient content.
- Prime Minister of India launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs. 2,021 crore (US$ 284.48 million) to bank accounts of more than 10 million beneficiaries on February 24, 2019. As per the Union Budget 2021-22, Rs. 65,000 crore (US$ 8.9 billion) was allocated to Pradhan Mantri Kisan Samman Nidhi (PM-Kisan).
- The Indian government has initiated Digital Agriculture Mission for 2021-25 for agriculture projects based on new technologies such as artificial intelligence, blockchain, remote sensing and GIS technology, drones, robots, and others.

- In September 2021, the Union Ministry of Agriculture and Farmers' Welfare signed five MoUs with CISCO, Ninjacart, Jio Platforms Limited, ITC Limited, and NCDEX e-Markets Limited. This MoU will have five pilot projects, which will help farmers make decisions on the kind of crops to grow, the variety of seeds to use, and best practices to adopt to maximise yield.
- With a budget of US$ 1.46 billion, the 'Production-Linked Incentive Scheme for Food Processing Industry (PLISFPI)' has been approved to develop global food manufacturing champions commensurate with India's natural resource endowment and to support Indian food brands in international markets.
- Under Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PM FME), an outlay of Rs. 10,000 crore (US$ 1.27 billion) over a period of five years from FY21 to FY25 has been sanctioned.
- In April 2021, the Government of India approved a PLI scheme for the food processing sector with an incentive outlay of Rs. 10,900 crore (US$ 1.48 billion) over a period of six years starting from FY22.
- The Agriculture Export Policy, 2018 was approved by the Government of India in December 2018. The new policy aimed to increase India's agricultural export to US$ 60 billion by 2022 and US$ 100 billion in the next few years with a stable trade policy regime.
- The Government of India is going to provide Rs. 2,000 crore (US$ 306.29 million) for the computerisation of the Primary Agricultural Credit Society (PACS) to ensure cooperatives are benefitted through digital technology.
- The Government of India launched the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) with an investment of Rs. 50,000 crore (US$ 7.7 billion) aimed at the development of irrigation sources for providing a permanent solution to drought.
- Government plans to triple the capacity of the food processing sector in India from the current 10% of agricultural produce and has also committed Rs. 6,000 crore (US$ 729 million) as investments for mega food parks in the country, as a part of the Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters (SAMPADA).
- The Government of India has allowed 100% FDI in the marketing of food products and in food product E-commerce under the automatic route.
- To enhance the income of farmers, the government has taken initiatives across several focus areas. Income support is provided to farmers through PM KISAN Scheme, crop insurance is assured through the Pradhan Mantri Fasal Bima Yojana, and irrigation facilities are ensured under Pradhan Mantri Krishi Sinchai Yojana.
- Access to institutional credit is being provided through Kisan Credit Card and other channels.
- Under the e-NAM initiative, markets across the length and breadth of the nation are now open to farmers, to enable them to get more remunerative prices for their produce. Online, Competitive, Transparent Bidding System with 1.74 crore farmers and 2.39 lakh traders put in place under the National Agriculture Market (e-NAM) Scheme.
- The umbrella scheme Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA) ensures Minimum Support Price (MSP) to farmers for various Kharif and Rabi crops while also keeping a robust procurement mechanism in place.

- As per the Economic Survey 2022-23, Rs. 13,681 crore (US$ 1.6 billion) were sanctioned for Post-Harvest Support and Community Farms under the Agriculture Infrastructure Fund.
- In order to increase the level of food- processing industry and encouraging rural entrepreneurship across the country including rural areas, the Ministry of Food Processing Industries (MoFPI) is implementing the Central Sector Umbrella Scheme Pradhan Mantri Kisan SAMPADA Yojana (PMKSY), Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) and centrally sponsored PM Formalization of Micro Food Processing Enterprises (PMFME) Scheme.
- The PMFME Scheme provides financial, technical and business support for setting up/upgradation of 2 Lakh micro food processing enterprises through credit-linked subsidy during five years from 2020-21 to 2024-25 with an outlay of Rs. 10,000 crore (US$ 1.27 billion).
- Under component schemes of PMKSY, MoFPI mostly provides financial assistance in the form of grants-in-aid to entrepreneurs for the creation of modern infrastructure and setting up of food processing/preservation industries including Cold Chains with associated infrastructure like primary processing facilities, collection centres, pre-conditioning, pre-cooling, ripening, packing, etc.
- As per the Union Budget 2023-24, A new sub-scheme of PM Matsya Sampada Yojana with the targeted investment of Rs. 6,000 crore (US$ 729 million) to be launched to further enable activities of fishermen, fish vendors, and micro & small enterprises, improve value chain efficiencies, and expand the market.
- Digital Public Infrastructure for Agriculture: agriculture will be built as an open source, open standard, and interoperable public good. this will enable inclusive, farmer-centric solutions through relevant information services for crop planning and health, improved access to farm inputs, credit, and insurance, help for crop estimation, market intelligence, and support for the growth of the agri-tech industry and start-ups.
- To enhance the productivity of extra-long staple cotton, Government will adopt a cluster-based and value chain approach through Public Private Partnerships (PPP). This will mean collaboration between farmers, the state and industry for input supplies, extension services, and market linkages.
- Computerisation of 63,000 Primary Agricultural Credit Societies (PACS) with an investment of Rs. 2,516 crore (US$ 305.9 million) initiated.
- Rs. 20 lakh crore (US$ 24.41 billion) agricultural credit targeted at animal husbandry, dairy and fisheries.
- To make India a global hub for 'Shree Anna', the Indian Institute of Millet Research, Hyderabad will be supported as the Centre of Excellence for sharing best practices, research and technologies at the international level.
- In February 2024, the Finance Ministry announced the total expenditure in Interim 2024-25 estimated at Rs. 47,65,768 crore (US$ 571.64 billion) of which total capital expenditure is Rs. 11,11,111 crore (US$ 133.27 billion).
- On January 22, 2024, Prime Minister Mr. Narendra Modi announced the 'Pradhan Mantri Suryodaya Yojana'. Under this scheme, 1 crore households will receive rooftop solar installations.

- On September 17, 2023, Prime Minister Mr. Narendra Modi launched the Central Sector Scheme PM-VISHWAKARMA in New Delhi. The new scheme aims to provide recognition and comprehensive support to traditional artisans & craftsmen who work with their hands and basic tools. This initiative is designed to enhance the quality, scale, and reach of their products, as well as to integrate them with MSME value chains.
- On August 6, 2023, Amrit Bharat Station Scheme was launched to transform and revitalize 1309 railway stations across the nation. This scheme envisages development of stations on a continuous basis with a long-term vision.
- From April 1, 2023, Foreign Trade Policy 2023 was unveiled to create an enabling ecosystem to support the philosophy of 'AtmaNirbhar Bharat' and 'Local goes Global'.
- To enhance India's manufacturing capabilities by increasing investment and production in the sector, the government of India has introduced the Production Linked Incentive Scheme (PLI) for Pharmaceuticals.
- Prime Minister's Development Initiative for North-East Region (PM-DevINE) was announced in the Union Budget 2022-23 with a financial outlay of Rs. 1,500 crore (US$ 182.35 million).
- Prime Minister Mr Narendra Modi has inaugurated a new food security scheme for providing free food grains to Antodaya Ann Yojna (AAY) & Primary Household (PHH) beneficiaries, called Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY) from January 1, 2023.
- The Amrit Bharat Station scheme for Indian Railways envisages the development of stations on a continuous basis with a long-term vision, formulated on December 29, 2022, by the Ministry of Railways.
- On October 7, 2022, the Department for Promotion of Industry and Internal Trade (DPIIT) launched Credit Guarantee Scheme for Start-ups (CGSS) aiming to provide credit guarantees up to a specified limit by start-ups, facilitated by Scheduled Commercial Banks, Non-Banking Financial Companies and Securities and Exchange Board of India (SEBI) registered Alternative Investment Funds (AIFs).
- Telecom Technology Development Fund (TTDF) Scheme was launched in October 2022 by the Universal Service Obligation Fund (USOF), a body under the Department of Telecommunications. The objective is to fund R&D in rural-specific communication technology applications and form synergies among academia, start-ups, research institutes, and the industry to build and develop the telecom ecosystem.
- Home & Cooperation Minister Mr. Amit Shah laid the foundation stone and performed Bhoomi Pujan of Tanot Mandir Complex Project under Border Tourism Development Programme in Jaisalmer in September 2022.
- In August 2022, Mr. Narendra Singh Tomar, Minister of Agriculture and Farmers Welfare inaugurated four new facilities at the Central Arid Zone Research Institute (CAZRI), which has been rendering excellent services for more than 60 years under the Indian Council of Agricultural Research (ICAR).
- In August 2022, a Special Food Processing Fund of Rs. 2,000 crore (US$ 242.72 million) was set up with National Bank for Agriculture and Rural Development (NABARD) to provide affordable credit for investments in setting up Mega Food Parks (MFP) as well as processing units in the MFPs.

- In July 2022, Deendayal Port Authority (DPA) announced plans to develop two Mega Cargo Handling Terminals on a Build-Operate-Transfer (BOT) basis under Public-Private Partnership (PPP) Mode at an estimated cost of Rs. 5,963 crore (US$ 747.64 million).
- In July 2022, the Union Cabinet chaired by Prime Minister Mr. Narendra Modi, approved the signing of the Memorandum of Understanding (MoU) between India & Maldives. This MoU will provide a platform to tap the benefits of information technology for court digitization and can be a potential growth area for IT companies and start-ups in both countries.
- India and Namibia entered a Memorandum of Understanding (MoU) on wildlife conservation and sustainable biodiversity utilization on July 20, 2022, for establishing the cheetah into the historical range in India.
- In July 2022, the Reserve Bank of India (RBI) approved international trade settlements in Indian rupees (Rs.) to promote the growth of global trade with emphasis on exports from India and to support the increasing interest of the global trading community.
- The Agnipath Scheme aims to develop a young and skilled armed force backed by an advanced warfare technology scheme by providing youth with an opportunity to serve Indian Army for a 4-year period. It is introduced by the Government of India on June 14, 2022.
- In June 2022, Prime Minister Mr. Narendra Modi inaugurated and laid the foundation stone of development projects worth Rs. 21,000 crore (US$ 2.63 billion) at Gujarat Gaurav Abhiyan at Vadodara.
- Mr. Rajnath Singh, Minister of Defence, launched 75 newly developed Artificial Intelligence (AI) products/technologies during the first-ever 'AI in Defence' (AIDef) symposium and exhibition organized by the Ministry of Defence in New Delhi on July 11, 2022.
- In June 2022, Prime Minister Mr. Narendra Modi laid the foundation stone of 1,406 projects worth more than Rs. 80,000 crore (US$ 10.01 billion) at the ground-breaking ceremony of the UP Investors Summit in Lucknow. The Projects encompass diverse sectors like Agriculture and Allied industries, IT and Electronics, MSME, Manufacturing, Renewable Energy, Pharma, Tourism, Defence & Aerospace, and Handloom & Textiles.
- The Indian Institute of Spices Research (IISR) under the Indian Council for Agricultural Research (ICAR) inked a Memorandum of Understanding (MoU) with Lysterra LLC, a Russia-based company for the commercialization of bio capsule, an encapsulation technology for bio-fertilization on June 30, 2022.
- As of April 2022, India signed 13 Free Trade Agreements (FTAs) with its trading partners including major trade agreements like the India-UAE Comprehensive Partnership Agreement (CEPA) and the India-Australia Economic Cooperation and Trade Agreement (IndAus ECTA).
- 'Mission Shakti' was applicable with effect from April 1, 2022, aimed at strengthening interventions for women's safety, security, and empowerment.
- The Union Budget of 2022-23 was presented on February 1, 2022, by the Minister for Finance & Corporate Affairs, Ms. Nirmala Sitharaman. The budget had four priorities PM GatiShakti, Inclusive Development, Productivity Enhancement and Investment, and Financing of Investments. In the Union Budget 2022-23, effective capital expenditure is expected to increase by 27% at Rs. 10.68

trillion (US$ 142.93 billion) to boost the economy. This will be 4.1% of the total Gross Domestic Production (GDP).

- Strengthening of Pharmaceutical Industry (SPI) was launched in March 2022 by the Ministry of Chemicals & Fertilisers to provide credit linked capital and interest subsidy for Technology Upgradation of MSME units in pharmaceutical sector, as well as support of up to Rs. 20 crore (US$ 2.4 million) each for common facilities including Research centre, testing labs and ETPs (Effluent Treatment Plant) in Pharma Clusters, to enhance the role of MSMEs.
- Under PM GatiShakti Master Plan, the National Highway Network will develop 25,000 km of new highways network, which will be worth Rs. 20,000 crore (US$ 2.67 billion). In 2022-23. Increased government expenditure is expected to attract private investments, with a production-linked incentive scheme providing excellent opportunities. Consistently proactive, graded, and measured policy support is anticipated to boost the Indian economy.
- In February 2022, The Ministry of Social Justice & Empowerment launched the Scheme for Economic Empowerment of Denotified/Nomadic/SemiNomadic tribal communities (DNTs) (SEED) to provide basic facilities like good quality coaching, and health insurance. livelihoods initiative at a community level and financial assistance for the construction of houses.
- In February 2022, Minister for Finance and Corporate Affairs Ms. Nirmala Sitharaman said that productivity linked incentive (PLI) schemes would be extended to 14 sectors to achieve the mission of AtmaNirbhar Bharat and create 60 lakh jobs with an additional production capacity of Rs. 30 trillion (US$ 401.49 billion) in the next five years.
- In the Union Budget of 2022-23, the government announced funding for the production-linked incentive (PLI) scheme for domestic solar cells and module manufacturing of Rs. 24,000 crore (US$ 3.21 billion).
- In the Union Budget of 2022-23, the government announced a production-linked incentive (PLI) scheme for Bulk Drugs which was an investment of Rs. 2,500 crore (US$ 334.60 million).
- In the Union Budget of 2022, Minister for Finance & Corporate Affairs Ms. Nirmala Sitharaman announced that a scheme for design-led manufacturing in 5G would be launched as part of the PLI scheme.
- In September 2021, Union Cabinet approved major reforms in the telecom sector, which are expected to boost employment, growth, competition, and consumer interests. Key reforms include rationalization of adjusted gross revenue, rationalization of bank guarantees (BGs), and encouragement of spectrum sharing.
- In the Union Budget of 2022-23, the government has allocated Rs. 44,720 crore (US$ 5.98 billion) to Bharat Sanchar Nigam Limited (BSNL) for capital investments in the 4G spectrum.
- Minister for Finance & Corporate Affairs Ms. Nirmala Sitharaman allocated Rs. 650 crore (US$ 86.69 million) for the Deep Ocean mission that seeks to explore vast marine living and non-living resources. Department of Space (DoS) has got Rs. 13,700 crore (US$ 1.83 billion) in 2022-23 for several key space missions like Gaganyaan, Chandrayaan-3, and Aditya L-1 (sun).
- In May 2021, the government approved the production-linked incentive (PLI) scheme for manufacturing advanced chemistry cell (ACC) batteries at an estimated outlay of Rs. 18,100

crore (US$ 2.44 billion); this move is expected to attract domestic and foreign investments worth Rs. 45,000 crore (US$ 6.07 billion).

- Minister for Finance & Corporate Affairs Ms. Nirmala Sitharaman announced in the Union Budget of 2022-23 that the Reserve Bank of India (RBI) would issue Digital Rupee using blockchain and other technologies.
- In the Union Budget of 2022-23, Railway got an investment of Rs. 2.38 trillion (US$ 31.88 billion) and over 400 new high-speed trains were announced. The concept of "One Station, One Product" was also introduced.
- To boost competitiveness, Budget 2022-23 has announced reforming the 16-year-old Special Economic Zone (SEZ) act.
- In June 2021, the RBI (Reserve Bank of India) announced that the investment limit for FPI (foreign portfolio investors) in the State Development Loans (SDLs) and government securities (G-secs) would persist unaffected at 2% and 6%, respectively, in FY22.
- In November 2020, the Government of India announced Rs. 2.65 trillion (US$ 36 billion) stimulus package to generate job opportunities and provide liquidity support to various sectors such as tourism, aviation, construction, and housing. Also, India's cabinet approved the production-linked incentives (PLI) scheme to provide ~Rs. 2 trillion (US$ 27 billion) over five years to create jobs and boost production in the country.
- Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India. Prime Minister of India Mr. Narendra Modi launched the Make in India initiative with an aim to boost the country's manufacturing sector and increase the purchasing power of the average Indian consumer, which would further drive demand and spur development, thus benefiting investors. The Government of India, under its Make in India initiative, is trying to boost the contribution made by the manufacturing sector with an aim to take it to 25% of the GDP from the current 17%. Besides, the government has also come up with the Digital India initiative, which focuses on three core components: the creation of digital infrastructure, delivering services digitally, and increasing digital literacy.
- On January 29, 2022, the National Asset Reconstruction Company Ltd (NARCL) will acquire bad loans worth up to Rs. 50,000 crore (US$ 6.69 billion) about 15 accounts by March 31, 2022. India Debt Resolution Co. Ltd (IDRCL) will control the resolution process. This will clean up India's financial system, help fuel liquidity, and boost the Indian economy.
- National Bank for Financing Infrastructure and Development (NaBFID) is a bank that will provide non-recourse infrastructure financing and is expected to support projects from the first quarter of FY23; it is expected to raise Rs. 4 trillion (US$ 53.58 billion) in the next three years.
- By November 1, 2021, India, and the United Kingdom hope to begin negotiations on a free trade agreement. The proposed FTA between these two countries is likely to unlock business opportunities and generate jobs. Both sides have renewed their commitment to boost trade in a manner that benefits all.
- In August 2021, Prime Minister Mr. Narendra Modi announced an initiative to start a national mission to reach the US$ 400 billion merchandise export target by FY22.

- In August 2021, Prime Minister Mr. Narendra Modi launched a digital payment solution, e-RUPI, a contactless and cashless instrument for digital payments.
- In April 2021, Dr. Ahmed Abdul Rahman AlBanna, Ambassador of the UAE to India and Founding Patron of IFIICC, stated that trilateral trade between India, the UAE and Israel is expected to reach US$ 110 billion by 2030.
- India is expected to attract investment of around US$ 100 billion in developing the oil and gas infrastructure during 2019-23.
- The Government of India is expected to increase public health spending to 2.5% of the GDP by 2025.

Union Budget 2023-24 for The Manufacturing Sector

The budget highlighted the importance of manufacturing in the country. A total of 18,73,323 crore rupees have been allocated for the manufacturing sector which is 35.4 percent higher than the previous year's allocation. Additionally, measures have been taken to boost India's exports, such as the introduction of the Trade Infrastructure For Export Scheme (TIES) which aims to promote Indian exports and the setting up of the National Traders Welfare Board which will provide assistance to small and medium scale enterprises. Additionally, measures have been taken to promote the Make in India campaign through the introduction of the National Action Plan for Promotion of Manufacturing.

In the Union Budget 2023-24:

- Startups incorporated within a time-period and meeting other conditions can deduct up to 100% of their profits; the end of this period has been extended from March 31, 2023 to March 31, 2024. In addition, the period within which losses of startups may be carried forward has been extended from seven to ten years.
- As per the Union Budget 2023 – 24, the income tax rate for new co-operative societies engaged in manufacturing activities has been lowered from 22% to 15% (plus 10% surcharge).
- The upper limit on turnover for MSMEs to be eligible for presumptive taxation has been raised from Rs. 2 crore (US$ 2,43,044) to Rs. 3 crore (US$ 3,64,528). The upper limit on gross receipts for professionals eligible for presumptive taxation has been raised from Rs. 50 lakh (US$ 60,754) to Rs. 75 lakh (US$ 91,132).
- Expenditure on fertilizer subsidy is estimated at Rs. 1,75,100 crore (US$ 21.2 billion) in 2023-24. This is a decrease of Rs. 50,120 crore (US$ 6.09 billion) (22.3%) from the revised estimate of 2022-23. Fertilizer subsidy for 2022-23 was increased substantially in response to a sharp increase in international prices of raw materials used in the manufacturing of fertilizers.
- The Centre will facilitate one crore farmers to adopt natural farming. For this, 10,000 Bio-Input Resource Centres were planned to be set-up, thereby, creating a national-level distributed micro-fertilizer and pesticide manufacturing network.
- To avoid cascading of taxes on blended compressed natural gas, excise duty on GST-paid compressed bio-gas contained in it has been exempted from excise duty. Customs duty exemption has been extended to import of capital goods and machinery required for manufacture of lithium-ion cells for batteries used in electric vehicles.

- To further deepen domestic value addition in manufacture of mobile phones, the finance minister announced relief in customs duty on import of certain parts and inputs like camera lens. The concessional duty on lithium-ion cells for batteries will continue for another year. Basic customs duty on parts of open cells of TV panels has been reduced to 2.5%. The Budget also proposes changes in the basic customs duty to rectify inversion of duty structure and encourage manufacturing of electrical kitchen chimneys.
- Basic customs duty on seeds used in the manufacture of Lab Grown Diamonds has also been reduced.

TERTIARY (SERVICES)

Tertiary Sector, also known as the service sector, is one of the three sectors of the economy. The tertiary sector of the economy is responsible for providing services to both businesses and final consumers. Service sector includes transportation, distribution, and sale of commodities from a producer to a customer, as in wholesaling and retailing, or providing of a service.

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

Market of Services Sector

The services sector is not only the dominant sector in India's GDP but has also attracted significant foreign investment, has contributed significantly to exports and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. To enhance India's commercial services exports, share in the global services market from 3.3% and permit a multi-fold expansion in the GDP, the government is also making significant efforts in this direction. India's IT and business services market is projected to reach US$ 19.93 billion by 2025.

The share of the services sector accounted for 57% of the total GVA in FY24 (April-September) as per advance estimates. The services category ranked first in FDI inflows, as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT). India is a unique emerging market in the globe due to its unique skills and competitive advantage created by knowledge-based services. The Indian services industry, which is supported by numerous government initiatives like smart Cities, clean India, and digital India is fostering an environment that is strengthening the services sector. The sector has the potential to open up a multi-trillion-dollar opportunity that might stimulate symbiotic growth for all nations. Service providers in India continued to signal positive demand trends in June, which underpinned a stronger increase in new business volumes and further job creation.

India's service exports stood at US$ 163.94 billion, whereas imports stood at US$ 88.89 billion in (April-September) 2023-24. The services trade surplus for 2023-24 (April-September) was expected to be US$ 75.05 billion.

CURRENT SCENARIO OF SERVICE SECTOR IN INDIA

- The Indian services sector was the largest recipient of FDI inflows worth US$ 106.70 billion between April 2000-September 2023.
- According to the Ministry of Commerce and Industry, the service sector received US$ 3.85 billion in FDI equity inflows in FY24* (April-September).
- According to RBI's Scheduled Banks' Statement, deposits of all scheduled banks collectively surged by a whopping Rs.1.75 lakh crore (US$ 2,110.87 billion) as of December 1st, 2023.
- The hospital industry in India is expected to reach US$ 197 billion by 2025, growing at a CAGR of 16%-17%.
- India's telephone subscriber base stood at 1,179.21 million as of August 2023.
- The country's total broadband subscriber base stood at 876.53 million, as of August 2023. Teledensity (defined as the number of telephone connections for every 100 individuals) in India stood at 84.69%, as of August 2023.
- At the end of August 2023, the top five service providers controlled 98.35% of the total broadband subscribers. These service providers were Reliance Jio Infocom Ltd stood at 455.33 million, followed by Bharti Airtel (253.86 million), Vodafone Idea 125.55 million, BSNL (25.12 million) and Atria Convergence (2.19 million).
- Since the launch of the Startup India initiative in 2016, DPIIT has recognized 1,17,254 entities as startups as of 31st December 2023.
- By 2023, the fintech sector in India was expected to be US$ 1 trillion in Assets Under Management (AUM) and US$ 200 billion in revenue. The sector is estimated to reach US$ 150 billion by 2025.
- India took the lead with the fintech adoption rate of 87%, substantially higher than the world average of 64%.
- The healthcare industry is growing at a CAGR of 16% and the total public and private spending on healthcare is 4% of GDP. India's healthcare industry is expected to grow to US$ 50 billion in size by 2025.
- The IT-BPM sector holds the potential to grow between 10-15% per annum. The IT and fintech segments provide over US$ 155 billion in gross value to the economy annually.
- The IT and business services market will grow at a CAGR of 8.3% between 2021-26, reaching a US$ 20.5 billion valuation by the end of 2026.
- By October 2021, the Health Ministry's eSanjeevani telemedicine service, crossed 14 million (1.4 crore) teleconsultations since its launch, enabling patient-to-doctor consultations, from the confines of their home, and doctor-to-doctor consultations.
- The Indian healthcare industry is expected to shift to digitally enabled remote consultations via teleconsultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025.
- In December 2020, the 'IGnITE' programme was initiated by Siemens, BMZ and MSDE to encourage high-quality training and technical education. 'IGnITE' aims to develop highly trained technicians, with an emphasis on getting them ready for the industry and future, based

on the German Dual Vocational Educational Training (DVET) model. By 2024, this programme aims to upskill ~40,000 employees.

GOVERNMENT INITIATIVES

- Centre has formulated an 'Action Plan for Champion Sectors in Services' to give focused attention to 12 identified Champion Services Sectors.
- India's tourism and hospitality sector may earn US$ 50.9 billion as visitor exports by 2028.
- As per University Grants Commission (UGC) statistics of 2023, there are a total of 1,074 universities in the country, including 460 state universities, 128 deemed to be universities (a status of autonomy granted to high-performing institutes and universities by the Department of Higher Education), 56 central universities (established by the Department of Higher Education), and 430 private universities.
- The Government of India has adopted a few initiatives in the recent past, some of these are as follows: As of November 9, 2022, the number of bank accounts opened under the government's 'Pradhan Mantri Jan Dhan Yojana (PMJDY)' scheme reached 47.39 crore and deposits in Jan Dhan bank accounts totalled Rs. 1.76 lakh crore (US$ 21.59 billion).
- In October 2021, the government launched a production-linked incentive (PLI) scheme to boost manufacturing of telecom and networking products in India. The scheme is expected to attract an investment of ~Rs. 3,345 crore (US$ 446.22 million) over the next four years and generate additional employment for >40,000 individuals.
- In October 2021, the government launched phase II of the Mahatma Gandhi National Fellowship to empower students and boost skill development. The Mahatma Gandhi National Fellowship (MGNF) is an opportunity for young, dynamic individuals to contribute to enhancing skill development and promote economic development.

  The two-year Fellowship seeks to combine classroom sessions (Academic Module) at host IIMs with an intensive field immersion at the district level (District Immersion) to create credible plans and identify barriers in raising employment and economic output, and promoting livelihoods in rural areas.

  MGNF is a Certificate Programme in Public Policy and Management offered by IIMs. It has been designed at the initiative of the Ministry of Skill Development and Entrepreneurship (MSDE), Government of India (GoI), and implemented in collaboration with State Skill Development Missions (SSDMs).
- In October 2021, the PM Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) was launched by the government, to strengthen the critical healthcare network across India in the next four to five years. More than 1.64 lakh Ayushman Arogya Mandirs operationalised under NHM (National Health Mission).

  PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) was launched by Hon'ble Prime Minister of India with an outlay of Rs.64,180 crore. The measures under the PM-ABHIM focus on developing capacities of health systems and institutions across the continuum of care at all levels, primary, secondary and tertiary, to prepare health systems in responding effectively to the current and future pandemics /disasters.Under PM-ABHIM provision have been made for

construction and strengthening of 730 Integrated Public Health Labs (IPHLs), 3382 Block Public Health Units (BPHU) and 602 Critical Care Blocks (CCBs) during the scheme period.

- Health cover under Ayushman Bharat scheme to be extended to all ASHA, Angawadi workers and helpers in the Interim Union Budget 2024-25.
- The Indian government is planning to introduce a credit incentive programme worth Rs. 50,000 crore (US$ 6.8 billion) to boost healthcare infrastructure in the country. The programme will allow companies to access funds to ramp up hospital capacity or medical supplies with the government acting as a guarantor.
- Under the Union Budget 2021-22, the government allocated Rs. 7,000 crore (US$ 963.97 million) to the BharatNet programme to boost digital connectivity across India.
- The FDI limit for insurance companies has been raised from 49% to 74% and 100% for insurance intermediates.
- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US$ 100 billion by 2025. Under the policy, it aims to meet the requirement for incremental human resources by upskilling and training >100,000 people by 2024.

List of Government Schemes Proposed in Interim Union Budget 2024

Viksit Bharat by 2047

The government is working towards achieving the goal of Viksit Bharat by 2047. Viksit Bharat 2047 means making India a developed entity by 2047 by encompassing various areas of development, such as economy, environment, good governance and social progress. The government proposed a 50-year interest-free loan of Rs.75,000 crore to support the milestone-linked reforms by the State Governments, which will help to achieve Viksit Bharat 2047 goal.

Rooftop Solarisation Scheme

The government will launch a new Rooftop Solar Scheme or PM Suryodaya Yojana, which aims to achieve 300 units of free electricity per month to one crore households through rooftop solarisation. Below are the benefits expected from this scheme:

- Savings up to Rs.15,000 - Rs.18,000 annually from free solar electricity for households and selling the surplus electricity to the distribution companies
- Charging of EVs (Electric Vehicles)
- Entrepreneurship opportunities for vendors supplying and installing solar panels
- Employment opportunities for the youth having technical skills in the maintenance, manufacturing and installation of solar panels

Housing for Middle Class

The government will launch a scheme to help deserving people belonging to middle-class families living in rented houses, slums, chawls and unauthorised colonies to build or buy their own houses.

Cervical Cancer Vaccination

In the Budget 2024, the government proposed to encourage vaccination for girls in the age group between 9 to 14 years for the prevention of cervical cancer.

Atmanirbhar Oil Seeds Abhiyan

The government will formulate a strategy to achieve 'Atmanirbharta' for oil seeds, such as groundnut, mustard, soybean, sesame and sunflower. This scheme, or Abhiyan, will cover the widespread adoption of modern farming techniques, research for high-yielding varieties, value addition, procurement, market linkages and crop insurance.

Dairy Development

The government will formulate a comprehensive programme for supporting dairy farmers. The programme will control foot and mouth disease. It will be built based on the success of the existing schemes, such as the National Livestock Mission, Rashtriya Gokul Mission and Infrastructure Development Funds for Dairy Processing and Animal Husbandry.

Corpus for Research and Innovation

The government will set up a Rs.1 lakh crore corpus with a 50-year interest-free loan. This corpus will provide long-term financing or refinancing with long tenors and nil or low-interest rates to encourage the private sector to scale up innovation and research in sunrise domains significantly.

Scheme for Bio-Manufacturing and Bio-Foundry

The government will launch a new scheme of bio-manufacturing and bio-foundry to promote green growth. This scheme will provide environmental friendly alternatives, such as bioplastics, biodegradable polymers, bio-agri-inputs and bio-pharmaceuticals. It will also help transform today's consumptive manufacturing paradigm into regenerative principles.

Blue Economy 2.0

The government will launch a scheme for adaptation and restoration measures, coastal aquaculture and mariculture with an integrated and multi-sectorial approach to promote climate-resilient activities for blue economy 2.0.

Changes in Existing Government Schemes

PM Awas Yojana (Grameen)

The government plans to provide two crore more houses in the next five years to meet the requirements arising from the increase in families under the PM Awas Yojana (Grameen). The government is close to achieving the two crore house target under this scheme despite the challenges due to COVID-19.

Maternal and Child Health Care

The government will bring various maternal and childcare schemes under one comprehensive programme to boost its implementation. There will be an expedition in the upgradation of Anganwadi centres under the 'Saksham Anganwadi and Poshan 2.0' for early childhood care, improved nutrition delivery and development. The government will also roll out the newly designed U-WIN platform for managing immunisation and expeditiously intensifying efforts of the 'Mission Indradhanush' throughout the country.

Ayushman Bharat

Healthcare cover under the Ayushman Bharat scheme will be extended to all Anganwadi workers, helpers, and ASHA workers.

Nano DAP

The application of Nano DAP on various crops will be extended after the successful adoption of Nano Urea on various crops in all agro-climatic zones.

PM Matsya Sampada Yojana

The establishment of the Department for Fisheries has resulted in a doubling of inland and aquaculture production and seafood export. The government will implement the following under the Pradhan Mantri Matsya Sampada Yojana (PMMSY):

- Enhance aquaculture productivity from the existing 3 tons to 5 tons per hectare
- Double exports to Rs.1 lakh crore
- Generate 55 lakh employment opportunities in the near future
- Set up five integrated aquaparks

Lakhpati Didi

The government has enhanced the target for Lakhpati Didi from two crore to three crore based on the success of nearly one crore women. Eighty-three lakh Self Help Groups (SHGs) with nine crore women are transforming the rural socio-economic landscape with self-reliance and empowerment, due to which nearly one crore women have become Lakhpati Didi.

Agricultural and Industrial Policies of India

(A) Agricultural Polices

Agricultural policy of a country is mostly designed by the Government for raising agricultural production and productivity and also for raising the level of income and standard of living of farmers within a definite time frame. This policy is formulated for all round and comprehensive development of the agricultural sector.

In India, the main objectives of agricultural policy are to remove the major problems of agricultural sector related to improper and inefficient uses of natural resources, predominance of low-value agriculture, poor cost-benefit ratio of the sectoral activities and insignificant progress of cooperative farming and other self-help institutions.

The agricultural development policies during five-year plans are as under:

(1) Five-year plan (1951-56) :

The highest priority was accorded to increase of agricultural production. Nearly one third or 31 per cent of total plan funds were allocated to agriculture sector. River valley projects were taken up. Irrigational facilities and fertilizer plants were established. Consequently, production of food-grains increased by 36 per cent in a short span of five years.

(2) Second five-year plan (1956-61) :

It focused on industrial growth and only 20 per cent of plan allocation was devoted to

agriculture. Still food-grains production exceeded the target due to extension of irrigation facilities and use of chemical fertilizers.

(3) Third Five Years Plan (1961-66) :

The priorities were on self-sufficiency in food grains, meeting the raw material needs of industries and increase in ex-ports. During this period, Green Revolution programme was started on a small scale. But this plan failed to meet the target due to Chinese aggression (1962), Indo-Pak war (1965) and severe and prolonged drought during 1965-66. There were a great crisis of food that forced the Prime Minister L. B. Shatri to appeal to people to observe fast once a week. During next three annual plans (1966-69) agriculture recorded 6-9 per cent annual growth under the impact of Green Revolution. The production of food grain touched 94 million tonnes.

(4) Fourth Five Years Plan (1969-74) :

It aimed at 5 per cent annual growth in food grains. High Yielding Variety (HYV) of seeds, fertilizer use, new agriculture techniques and irrigation facilities provided to expand area of Green Revolution. The production of wheat increased sharply but growth in rice, oilseeds and coarse grains were nominal resulting in only 3 per cent annual growth against the target of 5 per cent.

(5) Fifth Five Years Plan (1974-79) :

It emphasised on self-sufficiency in food production and poverty eradication. Stress was laid on the extension of irrigation, expansion in cultivated area under HYV seeds and grant of loans and subsidies to farmers. Dry farming was propagated. This plan achieved its target successfully with 4.6 per cent growth. Almost all food grains except pulses witnessed increase in production.

(6) Sixth Five Years Plan (1980-85) :

It emphasised on land reforms, use of HYV seeds, chemical fertilisers and groundwater resources and improving post harvest technology as well as marketing and storage facilities. The annual growth rate was 6 per cent, highest ever during plan periods. The food-grain production reached 152 million tonnes.

(7) Seventh Five Year Plan (1985-90) :

During this period, the highest growth in foodgrain, pulses and coarse cereals was recorded showing over all annual growth rate of 4 per cent. The areas of Green Revolution were expanded during the period.

(8) Eight Five Year Plan (1992-97) :

This witnessed a tendency of stagnation in foodgrain production while oilseed registered a rapid growth.

(9) Ninth Five Year Plan (1997-02) :

The ninth five year plan witnessed a mixed success. There were fluctuations in the foodgrain production. During this plan period National Agricultural Policy, 2000, was framed and several measures were announced including, watershed management, development of horticulture, agricultural credits and insurance scheme for crops.

(10) Tenth Five Year Plan (2002-07) :

In the Tenth Plan (2002-2007) focus was placed on (i) sustainable management of water and land resources, (ii) development of rural infrastructure to support agriculture, (iii) dissemination of agriculture technology, (iv) credit flow to agriculture sector, and (v) agricultural marketing reforms. The New Agricultural Policy the Government of India has announced (28th July 2000) a new National Agricultural policy, 2000, in the light of changes arising out of economic liberalization and globalization. The main aims of the policy were:

(i) achieving more than 4 per cent per annum growth rate in agriculture sector,

(ii) growth based on efficient use of resources and conservation of soil, water and biodiversity,

(iii) growth with equity in region and among the farmers,

(iv) growth that caters to domestic market and maximizes benefits from exports of agricultural products, and

(v) technologically, environmentally, and economically sustainable growth.

(11) Eleventh Five Year Plan (2007-12) :

The 11th Five Year Plan (2007–12) emphasised 'Inclusive growth' to achieve a target growth of 4 per cent per annum in GDP from agriculture and allied services. Globally, studies indicate that a higher GDP in agriculture is more effective in alleviating poverty in comparison with higher GDP in other sectors.

To achieve 'Inclusive growth', the 11th plan aimed at the following:

(i) Improving accessibility of technology to farmers to increase production and ensure optimum use of natural resources.

(ii) Attracting higher public investments and ensuring efficacy of such investments.

(iii) Promoting diversification for higher value crops and livestock.

(iv) Addressing issues pertaining to food security.

(v) Decentralising decision making to come up with customised solutions to specific local problems and to improve the accessibility of land, credit, skills and scale to the poor.

One of the major accomplishments of Eleventh Five Year Plan was launching of National Food Security Mission (NFSM) launched in 2007 and introduction of Rashtriya Krishi Vikas Yojana (RKVY) in financial year 2008.

National Food Security Mission (NFSM) : In 2007, the Government of India launched the National Food Security Mission (NFSM) initiative to improve the country's overall crop production, especially thatof rice, wheat and pulses. The primary objective of NFSM is to introducetechnological components that include farm machines/implements as well asimproved variants of seeds, soil ameliorants, plant nutrients and plant protectionmeasures.

The government aimed to increase production of rice, wheat and pulses by 10 million tons, eight million tons and two millon tons, respectively, by end 2012. It had allocated Rs 4,883

crore (US$ 915.7 million) to NFSM, of which Rs 3,381 crore (US$ 634 million) was spent until 31 March 2011. Through NFSM, 25 million tonnes of additional food grain was produced in the 11th Five Year Plan.

The following are the major achievements of the initiative:

Rashtriya Krishi Vikas Yojana (RKVY): In FY08, the government introduced Rashtriya Krishi Vikas Yojana (RKVY), with an outlay of Rs 25,000 crore (US$ 4.7 billion), to encourage states to increase public investment in agriculture and allied services. The programme enables adoption of national priorities as sub schemes, thereby providing flexibility in project selection and implementation to state governments. Various sub schemes under RKVY are as follows:

(a) Green revolution in the Eastern region.

(b) Combining development of 60,000 pulses villages in rain fed areas.

(c) Encouraging the use of palm oil.

(d) Initiative on vegetable clusters.

(e) Nutri cereals.

(f) National Mission for Protein Supplements initiative.

(g) Accelerated Fodder Development Programme.

(h) Rain fed Area Development Programme.

(i) Saffron Mission.

(12) Twelfth Five Year Plan (2012-17)

Agriculture sector grew by an average 1.6 percent per annum in first four years as against the targeted 4 percent annual growth due to lower production. However, Government of India took several steps for increasing investment in agriculture sector such as enhanced institutional credit to farmers, promotion of scientific warehousing infrastructure for increasing shelf life of agriculture produce, setting up of agri- tech infrastructure fund for making farming competitive and profitable, developing commercial organic farming.

However, it was realized that action is required on numerous fronts including provision of basic support services such as technology and irrigation infrastructure, access to credit, good and reliable seeds and improved post-harvest technology. The latter is particularly important since the bulk of the acceleration in growth will come from diversification towards horticulture, animal husbandry and fisheries.

The greatest potential for improving productivity was identified in the rain-fed areas, which accounted for 55 per cent of net sown area and where most of the poor live. Land productivity was low in these areas, but a combination of effective water management combined with better seeds, promotion of soil health and critical on farm investments combined with public sector efforts to improve infrastructure was expected to make a big difference.

Drawbacks of agricultural planning in India

1. **Self-Complacency:**

   The First 5-Year Plan wisely gave a top priority to agriculture, but the Second 5-Year Plan failed to give agriculture a proper place. It appears, the success of the First 5-year Plan, which was primarily due to a series of favourable Monsoons created a sense of self-complacency.

2. **Quick-Yielding Projects not given sufficient importance:**

   Projects having a long gestation period were given undue importance and those with a short fruition lag were not given sufficient importance. Minor irrigation works did not receive the attention they deserved. More attention was given to expansion of irrigation potential and less to maintenance of existing works so that increase in irrigation potential was neutralized by loss of irrigation potential.

3. **Unproductive Expenditure:**

   Unnecessarily large sums were provided for unproductive expenditure.

4. **Inadequate Provision for Rural Credit:**

   The annual credit requirements of the Indian farmers have been estimated at Rs. 10, 000-12,000 mn. whereas the provision is not even for Rs. 3500 mn. Without adequate credit facilities agriculture cannot progress.

5. **No Provision for Agricultural Inputs:**

   There has had been co-ordinated provision for the simultaneous production of agricultural inputs like fertilizers, pesticides, cement, etc.

6. **New Farming Techniques Not Enforced:**

   In agricultural planning in India, no concrete steps were taken for the adoption of new agricultural technique and for standardizing farming practices.

7. **Lack of Suitable Price Policy:**

   Unless farm output programmes are backed by a suitable agricultural price policy providing price support and incentives to the growers, things might go wrong and they have actually gone wrong in India.

8. **Morale Neglected:**

   India is passing through a crisis of confidence. The planners did not provide for any concrete measure to keep up the morale of the people.

9. **Unrealistic Planning:**

   The failure to achieve targets indicates the unrealistic element in agricultural planning in India. The physical targets have proved ,to be “paper targets” treating irrigated area from all sources alike and to put all types of food grains superior and inferior together and above all to split up minutely the total allotment: under, different headings assigned to different authorities, are a few, instances of unrealistic planning.

10. Delay in Land Reforms:

Land reforms have not been implemented and whichever implemented have been delayed much.

(B) Industrial Policies

Industrial policy is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity.

(1) Industrial Policy Resolution 1948

After having attained independence, the Government of India declared its first Industrial Policy on 6th April, 1948.

Salient Features of Industrial Policy, 1948

Under this policy, the large industries were classified in four categories viz. Strategic Industries, Basic / Key industries, Important Industries and other industries which respectively referred to Public Sector; Public-cum-Private Sector; Controlled Private Sector and Private & Cooperative sector.

(i) Strategic Industries (Public Sector) :

This category included three industries in which Central Government had monopoly. These included Arms and ammunitions; Atomic energy and Rail transport.

(ii) Basic / Key Industries (Public-cum-Private Sector) :

Six industries viz. coal, Iron and Steel, Aircraft manufacturing, Ship-building, Manufacture of telephone, telegraph and wireless apparatus, and Mineral oil were designated as "Key Industries" or "Basic Industries". It was decided that the new industries in this category will henceforth only beset-up by the Central Government. However, the existing private sector enterprises were allowed to continue.

(iii) Important Industries (Controlled Private Sector) :

Eighteen industries were kept in the "Important Industries" category. Such important industries included heavy chemicals, sugar, cotton textile and woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc. These industries will continue to remain under private sector however, the central government, in consultation with the state government, will have general control over them.

(iv) Other Industries (Private and Co-operative Sector) :

All other industries which were not included in the above mentioned three categories were left open for the private sector. However, government couldimpose controls on these industries also if any of them was not working satisfactorily.

(2) The Industries (Development and Regulation) Act, 1951

Industries (Development and Regulation) Act, 1951 was passed by parliament in Oct, 1991 to control and regulate industrial development in the country. Its objectives were:

- The regulation of industrial investment and production according to planned priorities and targets
- The protection of small entrepreneurs against the competition from larger industries
- Prevention of monopoly and concentration of ownership industries
- Balanced regional development with the view to reduce the disparity level of development of different regions of the country

Provisions of the Act

The act laid down two provisions:

- **Restrictive provisions:** Under this category, all the measures were designed to curb the unfair practices adopted by industries
  - Registration and licensing of industrial undertakings
  - Enquiry of listed industries
  - Cancelation of registration license
- **Reformative provisions:**
  - Direct regulation and control by government
  - Control on price, distribution and supply
  - Constructive measures

3. **Industry Policy Resolution (IPR), 1956**

Industrial Policy Resolution, 1956 replaced the IPR, 1948. It stressed on:

- Speeding up the pace of industrialization, particularly heavy industries.
- Expansion of public sector and growth of co-operative sector.
- State to take up the responsibility of setting up new industrial set up and development of transport facilities.
- Prevent private monopolies and concentration of economic process in hands of few number of individuals.

4. **New Industrial Policy of India, 1991**

The new Industrial Policy was announced in July, 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy-

1. **Strengthening of Private Sector**
   - Abolition of licensing system for large number of industries
   - Greater role of private sector envisaged
   - Contraction in field of operations for public sector

2. **Dismantling of controls**
3. **Dispersing Industries**
   - Policy to shift industries away from big, congested cities to rural and backward areas
   - Incentives were brought to attract industries to village and backward regions.
   - Favoured agro-based industries near the farming areas.
4. **Limiting role of public sector**
   - Policy pointed out the grey area which were not fit for PSUs and needs to be vacated by them
5. **Liberalization of foreign investments**
   - Foreign investment in the form of FDI allowed up to 50% with automatic approval
   - Foreign investment in export promotion activities
6. **Foreign technology had been made easy by allowing automatic approvals for technology related agreements**
7. **Promotion of Small Scale Industries (SSI)**
   - It ensured adequate supply of credit these industries based on their needs
   - To enable modernization and technical up gradation, the policy allows equity participation by other non-SSI undertakings in SSI sector
   - Limited partnership was allowed to enhance the supply of risk capital to the SSI sector
   - It ensured the speedy payment towards the sale of products by SSI sector
8. **Domestic Regulatory Reforms**
   - Reduced the number of reserves industries
   - Security and Industries of strategic concern were reserved for public sector.
9. **Abolition of Industrial Licensing:**

   It abolished industrial licensing system for all industries except few such as security and strategic concerns, social concerns, related to safety and manufacture of hazardous industries.
10. **Industry-I (NITI Aayog):**

    The Industry-I Vertical focuses on the continuous growth of trade and industry by developing new policies. The Vertical envisages holistic development of the industrial and mineral sector in India, encouraging optimum mineral exploitation, decreasing the import of various minerals, and strengthening the supply chain by means of value addition. The Vertical also plays a crucial role in enabling active engagement of the States and relevant stakeholders in achieving milestones for the industrial and economic development of India. It aims to bring together

innovation, technology, and efficient management at the core of policy formulation and implementation

Core functions of Industry-I

- The Vertical deals with policies related to revenue, commerce, corporate affairs, industry and internal trade, and mines and minerals.
- It actively engages with DPIIT, Department of Commerce, Department of Revenue, Ministry of Mines, and Ministry of Corporate Affairs for effective policy formulation.
- The Vertical collaborates with research organisations and development partners for studies and development initiatives in the areas of industry, trade and commerce, revenue, corporate affairs and mines and minerals.
- Analyzing and providing comments on the schemes and proposals of various Ministries/Departments of the Government of India on matters related to industry, trade and commerce, corporate affairs, revenue, and mines and minerals.
- Providing suitable policy suggestions/inputs to various government Departments/Ministries for promoting the overall agenda of industrial growth.

BALANCE OF PAYMENTS

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit.

Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

A country's trade balance equals the value of its exports minus its imports.

The formula is

X - M = TB,

where:

X = Exports

M = Imports

TB = Trade Balance

Structure of Balance of Payments

There are three main components that form the basis of the structure of balance of payments. The financial account, capital account, and current account.

Current Account

The current account is useful for monitoring inflow and outflow of goods and services. Thus, this account covers all the payments and receipts that are made with respect to manufactured goods and raw materials. Furthermore, it also includes receipts from tourism, engineering, business services, transportation, etc.

Capital Account

The capital transactions that occur between the countries are monitored under the capital account. Thus, capital transactions include the sale and purchase of assets like properties. Furthermore, the capital account also includes the flow of taxes, sales and purchases of fixed assets for a migrant moving in or out of the country. The three major elements of the capital account are investments, foreign exchange reserves, and loans and borrowings.

Financial Account

The flow of funds to and from foreign countries via various investments in real estate, FDI, business ventures, etc. are monitored through the financial account. Also, this account measures the variation in foreign ownership. When you analyze this, you can understand whether a country us acquiring more or selling more.

Key Featurs of India's BoP in Q1: 2023-24

(i) India's current account deficit (CAD) narrowed to US$ 9.2 billion (1.1 per cent of GDP) in Q1:2023-24 from US$ 17.9 billion (2.1 per cent of GDP) in Q1:2022-23 but it was higher than US$ 1.3 billion (0.2 per cent of GDP) in the preceding quarter.1

(ii) The widening of CAD on a quarter-on-quarter basis was primarily on account of a higher trade deficit coupled with a lower surplus in net services and decline in private transfer receipts.

(iii) Net services receipts decreased sequentially, primarily due to a decline in exports of computer, travel and business services, though remained higher on a year-on-year (y-o-y) basis.

(iv) Private transfer receipts, mainly representing remittances by Indians employed overseas, moderated to US$ 27.1 billion in Q1:2023-24 from US$ 28.6 billion in Q4:2022-23 but witnessed an increase on a y-o-y basis.

(v) Net outgo on the income account, primarily reflecting payments of investment income, declined to US$ 10.6 billion in Q1:2023-24 from US$ 12.6 billion in Q4:2022-23, though higher than a year ago.

(vi) In the financial account, net foreign direct investment decreased to US$ 5.1 billion from US$ 13.4 billion a year ago.

(vii) Net foreign portfolio investment recorded inflows of US$ 15.7 billion as against net outflows of US$ 14.6 billion in Q1:2022-23.

(viii) Net external commercial borrowings to India recorded an inflow of US$ 5.6 billion in Q1:2023-24 as against an outflow of US$ 2.9 billion a year ago.

(ix) Non-resident deposits recorded net inflows of US$ 2.2 billion as compared with US$ 0.3 billion in Q1:2022-23.

(x) There was an accretion of US$ 24.4 billion to the foreign exchange reserves (on a BoP basis) in Q1:2023-24 as compared with US$ 4.6 billion in Q1:2022-23

Key Features of India's BoP in Q2:2023-24

- India's current account balance recorded a deficit of US$ 8.3 billion (1.0 per cent of GDP) in Q2:2023-24, lower than US$ 9.2 billion (1.1 per cent of GDP) in Q1:2023-24 and US$ 30.9 billion (3.8 per cent of GDP) a year ago [i.e., Q2:2022-23]1.
- Underlying the lower current account deficit on a year-on-year (y-o-y) basis in Q2:2023-24 was the narrowing of merchandise trade deficit to US$ 61.0 billion from US$ 78.3 billion in Q2:2022-23.
- Services exports grew by 4.2 per cent on a y-o-y basis on the back of rising exports of software, business and travel services. Net services receipts increased both sequentially and on a y-o-y basis.
- Net outgo on the primary income account, primarily reflecting payments of investment income, increased to US$ 12.2 billion from US$ 11.8 billion a year ago.
- Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to US$ 28.1 billion, an increase of 2.6 per cent from their level during the corresponding period a year ago.
- In the financial account, net foreign direct investment witnessed an outflow of US$ 0.3 billion as against an inflow of US$ 6.2 billion in Q2:2022-23.
- Foreign portfolio investment recorded net inflow of US$ 4.9 billion, lower than US$ 6.5 billion during Q2:2022-23.
- External commercial borrowings to India recorded net outflow of US$ 1.8 billion in Q2:2023-24 as compared with net outflow of US$ 0.5 billion in Q2:2022-23.
- Non-resident deposits recorded net inflow of US$ 3.2 billion as compared with net inflow of US$ 2.5 billion in Q2:2022-23.
- There was an accretion of foreign exchange reserves (on a BoP basis) to the tune of US$ 2.5 billion in Q2:2023-24 as against a depletion of US$ 30.4 billion in Q2:2022-23 (Table 1).

Key Features of India's BoP in Q3:2023-24

- India's current account balance recorded a deficit of US$ 10.5 billion (1.2 per cent of GDP) in Q3:2023-24, lower than US$ 11.4 billion (1.3 per cent of GDP) in Q2:2023-241 and US$ 16.8 billion (2.0 per cent of GDP) a year ago [i.e., Q3:2022-23]2.
- The merchandise trade deficit at US$ 71.6 billion was marginally higher than US$ 71.3 billion during Q3:2022-23.
- Services exports grew by 5.2 per cent on a y-o-y basis on the back of rising exports of software,

business and travel services. Net services receipts increased both sequentially and from a year ago that helped cushion the current account deficit.

- Net outgo on the primary income account, primarily reflecting payments of investment income, increased to US$ 13.2 billion from US$ 12.7 billion a year ago.
- Private transfer receipts, mainly representing remittances by Indians employed overseas, amounted to US$ 31.4 billion, an increase of 2.1 per cent over their level during the corresponding period a year ago.
- In the financial account, foreign direct investment recorded a net inflow of US$ 4.2 billion as compared with a net inflow of US$ 2.0 billion in Q3:2022-23.
- Foreign portfolio investment recorded a net inflow of US$ 12.0 billion, higher than US$ 4.6 billion during Q3:2022-23.
- External commercial borrowings to India recorded a net outflow of US$ 2.6 billion in Q3:2023-24 as compared with a net outflow of US$ 2.5 billion a year ago.
- Non-resident deposits recorded a higher net inflow of US$ 3.9 billion than US$ 2.6 billion a year ago.
- There was an accretion of foreign exchange reserves (on a BoP basis) to the tune of US$ 6.0 billion in Q3:2023-24 as compared with an accretion of US$ 11.1 billion a year ago.

As an example to understand various components comprising Balance of Payments, please refer the table below-

Major Items of India's Balance of Payments												
(US$ billion)												
	October-December 2022			**October-December 2023 P**			**April-December 2022**			**April-December 2023 P**		
	Credit	*Debit*	*Net*	*Credit*	*Debit*	*Net*	*Credit*	*Debit*	*Net*	*Credit*	*Debit*	*Net*
A. Current Account	227.5	244.3	-16.8	235.9	246.4	-10.5	683.9	749.5	-65.6	689.1	720.1	-31.0
1. Goods	105.6	176.9	-71.3	106.7	178.3	-71.6	340.3	553.0	-212.7	319.9	512.7	-192.8
Of which:												
POL	22.7	52.0	-29.3	20.2	46.0	-25.8	73.6	158.6	-85.1	61.9	130.2	-68.3
2. Services	83.4	44.7	38.7	87.8	42.8	45.0	239.5	135.3	104.2	251.7	131.6	120.1
3. Primary Income	7.6	20.3	-12.7	10.0	23.2	-13.2	20.1	53.5	-33.3	30.7	66.1	-35.4
4. Secondary Income	30.9	2.4	28.5	31.5	2.2	29.3	84.0	7.8	76.2	86.8	9.7	77.1
B. Capital Account and Financial Account	176.3	158.5	17.8	215.4	204.1	11.3	549.5	482.5	67.1	603.2	571.4	31.7
Of which:												

Change in Reserve (Increase (-)/Decrease (+))	0	11.1	-11.1	0	6.0	-6.0	14.7	0	14.7	0	32.9	-32.9
C. Errors & Omissions (-) (A+B)	0	1.0	-1.0	0	0.8	-0.8	0	1.4	-1.4	0	0.7	-0.7
P: Preliminary												
Note: Total of sub-components may not tally with aggregate due to rounding off.												

Source: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57567

Favourable and Unfavourable Balance of Trade

The balance of trade or Net Exports is the difference between the monetary value of exports and imports of output in an economy over a certain period of time. It is the relationship between a nation's imports and exports. A favorable balance of trade is known as a trade surplus and consists of exporting more than is imported; an unfavorable balance of trade is known as a trade deficit or, informally, a trade gap.

1. ***Favourable Balance of Trade*:**

   When there is an excess of exports over imports, it is called favourable balance of trade. In 1976-77 in India the imports were of value of INR 5073 crore while exports were of value of INR 5142 crore. Thus, balance of trade was +INR 69 crore. Further, it assists in strengthening the economy of a country.

2. ***Unfavourable Balance of Trade*:**

   When there is excess of imports over exports, it is called an unfavourable balance of trade. Generally, in India balance of trade remains unfavourable. Further, it create problems for an economy.

India Trade Balance

Year	*Billions of US $*	*% of GDP*
2022	$-124.91B	-3.66%
2021	$-83.13B	-2.64%
2020	$-10.52B	-0.39%
2019	$-73.07B	-2.58%
2018	$-101.67B	-3.76%
2017	$-83.76B	-3.16%
2016	$-40.53B	-1.77%
2015	$-48.31B	-2.30%
2014	$-60.89B	-2.99%

Year	Billions of US $	% of GDP
2013	$-55.38B	-2.98%
2012	$-122.91B	-6.72%
2011	$-119.28B	-6.54%
2010	$-74.62B	-4.45%
2009	$-73.43B	-5.47%
2008	$-62.02B	-5.17%
2007	$-49.73B	-4.09%
2006	$-29.98B	-3.19%
2005	$-22.90B	-2.79%
2004	$-12.66B	-1.79%
2003	$-4.23B	-0.70%
2002	$-5.05B	-0.98%
2001	$-4.25B	-0.88%
2000	$-4.25B	-0.91%
1999	$-8.77B	-1.91%
1998	$-7.01B	-1.66%
1997	$-5.15B	-1.24%
1996	$-4.55B	-1.16%
1995	$-4.25B	-1.18%
1994	$-0.99B	-0.30%
1993	$0.05B	0.02%
1992	$-2.15B	-0.75%
1991	$0.00B	0.00%
1990	$-4.49B	-1.40%
1989	$-3.36B	-1.14%
1988	$-4.21B	-1.42%
1987	$-3.84B	-1.38%
1986	$-4.55B	-1.83%
1985	$-5.56B	-2.39%
1984	$-3.06B	-1.44%
1983	$-4.40B	-2.02%

Year	*Billions of US $*	*% of GDP*
1982	$-4.33B	-2.16%
1981	$-5.10B	-2.64%
1980	$-5.79B	-3.11%
1979	$-2.17B	-1.42%
1978	$-0.38B	-0.27%
1977	$0.14B	0.12%
1976	$0.59B	0.57%
1975	$-0.98B	-1.00%
1974	$-1.18B	-1.19%
1973	$-0.44B	-0.51%
1972	$0.23B	0.32%
1971	$-0.23B	-0.34%
1970	$-0.06B	-0.10%
1969	$-0.19B	-0.32%
1968	$-0.48B	-0.90%
1967	$-0.96B	-1.91%
1966	$-1.16B	-2.53%
1965	$-1.13B	-1.90%
1964	$-1.11B	-1.96%
1963	$-0.79B	-1.63%
1962	$-0.79B	-1.86%
1961	$-0.65B	-1.65%
1960	$-0.88B	-2.37%

Source: https://www.macrotrends.net/global-metrics/countries/IND/india/trade-balance-deficit

Foreign Investments in India: Types and Flows

Any investment that is made in India with the source of funding that is from outside of India is a foreign investment. By this definition, the investments that are made by Foreign Corporates, Foreign Nationals, as well as Non-Resident Indians would fall into the category of Foreign Investment.

Types of Foreign Investments

Funds from foreign country could be invested in shares, properties, ownership / management or collaboration. Based on this, Foreign Investments are classified as below:

- **Foreign Direct Investment (FDI)**
- **Foreign Portfolio Investment (FPI)**
- **Foreign Institutional Investment (FII)**

Details on each of the foreign investment type can be found below :

Foreign Direct Investment (FDI)

FDI is an investment made by a company or individual who us an entity in one country, in the form of controlling ownership in business interests in another country. FDI could be in the form of either establishing business operations or by entering into joint ventures by mergers and acquisitions, building new facilities etc. A major monetary source, Foreign Direct Investment (FDI) in India is a key driver of the country's economic growth. Since the economic liberalization of 1991, foreign investments into the country has improved considerably. FDI norms and policies have been regularly eased over the years in order to attract and promote FDI in India. India is a favourable investment destination for foreign investors given its relatively lower wages and special investment privileges in the form of tax exemptions etc.

FDI offers advantages to both the investor and the foreign host country.

Benefits for businesses:

- Market diversification
- Tax incentives
- Lower labor costs
- Preferential tariffs
- Subsidies

Benefits for the host country:

- Economic stimulation
- Development of human capital
- Increase in employment.
- Access to management expertise, skills, and technology

Foreign Portfolio Investment (FPI)

Foreign Portfolio Investment (FPI) is an investment by foreign entities and non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The intention is to ensure a controlling interest in India at an investment that is lower than FDI, with flexibility for entry and exit. FPIs generally participate through the stock markets and gets in and out of a particular stock at much faster frequencies. Short term view is associated often with lower stake in companies.

Foreign Institutional Investment (FII)

Foreign Institutional Investment (FII) is an investment by foreign entities in securities, real property and other investment assets. Investors include mutual fund companies, hedge fund companies etc. The

intention is not to take controlling interest, but to diversify portfolio ensuring hedging and to gain high returns with quick entry and exit. As defined by the European Union Foreign Institutional Investment is an investment in a foreign stock market by the specialized financial intermediaries managing savings collectively on behalf of investors, especially small investors, towards specific objectives in term of risk, return and maturity of claims.

FII is an institution like a mutual fund, insurance company, pension fund etc. According to SEBI, "an FII is an institution established or incorporated outside India which proposes to make investments in India in securities". FII is an institution who is registered under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995. FIIs comprised of a pension fund, a mutual fund, investment trust, insurance company or a reinsurance company.

Following are the few types of FIIs investing in India:

- Hedge Funds
- Foreign Mutual Funds
- Sovereign Wealth Funds
- Pension Funds
- Trusts
- Asset management Companies
- Endowments, University Funds, etc.

Differences between FDI and FII

Basis for Comparison	***FDI***	***FII***
Meaning	When a company situated in one country makes an investment in a company situated abroad, it is known as FDI.	FII is when foreign companies make investments in the stock market of a country.
Entry and Exit	Difficult	Easy
What it brings?	Long term capital	Long/Short term capital
Transfer of	Funds, resources, technology, strategies, know-how etc.	Funds only.
Economic Growth	Yes	No
Consequences	Increase in country's Gross Domestic Product (GDP).	Increase in capital of the country.
Target	Specific Company	No such target, investment flows into the financial market.
Control over a company	Yes	No

Source: keydifferences.com

Difference between FDI and FPI

Basis for Comparison	***FDI***	***FPI***
Meaning	FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country.	When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI.
Role of investors	Active	Passive
Degree of control	High	Very less
Term	Long term	Short term
Management of Projects	Efficient	Comparatively less efficient.
Investment in	Physical assets	Financial assets
Entry and exit	Difficult	Relatively easy.
Results in	Transfer of funds, technology and other resources.	Capital inflows

Source: keydifferences.com

OVERVIEW OF MSME SECTOR

- The Micro Small and Medium Enterprises (MSMEs) sector is a major contributor to the socio-economic development of the country. In India, the sector has gained significant importance due to its contribution to Gross Domestic Product (GDP) of the country and exports.
- The MSMEs are further categorized based on investment in equipment and annual turnover as per the below criteria:

Classification	*Micro*	*Small*	*Medium*
Manufacturing & Services	Investment < Rs. 1cr. and Turnover < Rs.5 cr.	Investment <Rs.10 cr. and Turnover < Rs.50 cr.	Investment <Rs.20 cr. and Turnover < Rs. 100 cr.
Services Enterprise	Investment <Rs.10 lac	Investment <Rs.2 cr.	Investment <Rs.5 cr.

RECAPITULATION

- Economic Survey 2022-23 Projects A Baseline GDP Growth of 6.5 Percent in Real Terms in FY24.
- India has emerged as the fastest-growing major economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years, backed by its robust democracy and strong partnerships.

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B : BUSINESS ENVIRONMENT

LESSON 6

ENTREPRENEURSHIP SCENARIO

The growth and transformation of entrepreneurship in India began in the early times when the 'barter system' was a common means of exchange. However, before proceeding, let us understand what entrepreneurship is and who entrepreneurs are. Entrepreneurs are those individuals or groups who create new businesses and job opportunities. Entrepreneurship is the ability of an entrepreneur to run and operate a business with goal-oriented objectives.

Before exploring entrepreneurship, it will be of substantial academic interests to go through some definitions of entrepreneur.

According to Oxford Dictionary, an entrepreneur is "A person who sets up a business or businesses, taking on financial risks in the hope of profit".

According to the International Encyclopaedia, an entrepreneur is "An individual who bears the risk of operating a business in the face of uncertainty about the future conditions".

Schumpeter's Definition – "The entrepreneur, in an advanced economy is an individual who introduces something new in the economy – a method of production not yet tested by experience in the branch of manufacturing, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like".

Adam Smith's definition – "The entrepreneur is an individual, who forms an organization for commercial purpose. She/he is a proprietary capitalist, a supplier of capital, and at the same time a manager who intervenes between the labour and the consumer. "Entrepreneur is an employer, master, merchant but explicitly considered as a capitalist".

Peter F. Drucker's Views on Entrepreneurs – "An entrepreneur is the one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or different service".

The term entrepreneur is a French word, and is derived from the French word "enterprendre". It means "to undertake". It is commonly used to describe an individual who organizes and operates a business or businesses, taking on financial risk to do so.

Types of Entrepreneurs

The various types of entrepreneurs are as under:

1. **Innovative Entrepreneurs** – These entrepreneurs have the ability to think of newer, better, and more economical ideas for business organization and management. They are the business leaders and contributors to the economic development of a country.

2. **Imitating Entrepreneurs** – These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own. In our country also, a large number of such entrepreneurs are found in every field of business activity. The development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are imitating entrepreneurs.

3. **Fabian Entrepreneurs** – Fabian entrepreneurs are those individuals who do not show initiative in visualising and implementing new ideas and innovations. On the contrary, they like to wait for some development, which would motivate them to initiate unless there is an imminent threat to their very existence.

4. **Drone Entrepreneurs** – Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination to gain market leadership. In other words, drone entrepreneurs are 'die-hard conservatives' and even ready to suffer the loss of business.
5. **Social Entrepreneurs** – Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment, and enterprise development. Dr. Mohammed Yunus of Bangladesh who started Gramin Bank is a case of social entrepreneur.
6. **Agricultural Entrepreneur** – The entrepreneurs who undertake agricultural pursuits are called Agricultural Entrepreneurs. They cover a wide spectrum of agricultural activities like cultivation, marketing of agricultural produce, irrigation, mechanization, and technology.
7. **Trading Entrepreneur** – As the name itself suggests, the trading entrepreneur undertakes the trading activities. He/she procures the finished products from the manufacturers and sells these to the customers directly or through a retailer. These serve as the middlemen as wholesalers, dealers, and retailers between the manufacturers and customers.
8. **Manufacturing Entrepreneur** – The manufacturing entrepreneurs manufacture products. They identify the needs of the customers and, then, explore the resources and technology to be used to manufacture the products to satisfy the customers' needs.
9. **Women Entrepreneurs** – Women entrepreneurship is defined as the enterprises owned and controlled by a woman/women having a minimum financial stake of 51 per cent of the capital and giving at least 51 per cent of employment generated in the enterprises to women.
10. **Inventors and Challenger Entrepreneurs** – Inventor entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities and Challenger entrepreneurs plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.
11. **Life-Timer Entrepreneurs** – These entrepreneurs take business as an integral part of their life. Usually, family enterprises and businesses that mainly depend on the exercise of personal skill fall into this type/category of entrepreneurs.

At this juncture, it will be of immense academic interests to comprehend the definitions of entrepreneurship.

According to Peter F. Drucker "Entrepreneurship is defined as a systematic innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation".

According to Ricardo Cantillon "Entrepreneurship entails bearing the risk of buying at a certain price and selling at uncertain prices."

In the words of Joseph A. Schumpeter "Entrepreneurship is any kind of innovative function that could have a bearing on the welfare of an entrepreneur."

According to Robert K. Lamb "Entrepreneurship is that form of social decision making performed by economic innovators."

As per A.H.Cole "Entrepreneurship is the purposeful activity of an individual or a group of associated

individuals, undertaken to initiate, maintain or aggrandize profit by production or distribution of economic goods and services."

The concept of Entrepreneurship has also been defined as "a special skill or ability to mobilize the factors of production – Land, labour and capital and use them to produce new goods and services".

Entrepreneurship can also be described as a process of action, which an entrepreneur undertakes to establish his/her enterprise.

Types of Entrepreneurship

1. **Small business entrepreneurship**: Small business entrepreneurship is defined as an independent or solely owned company that is limited in size and revenue, depending on the industry. These companies primarily operate within a local community or region and focus on serving their nearby customers through personalized service and a deep understanding of the local market dynamics.

   The best feature they have is to exhibit adaptability and their ability to respond quickly to local market shifts and customer preferences. One might not expect revolutionary innovations from these businesses but they brought up novel approaches within their niche or community.

   Small businesses often struggle with the economy due to limited access to large audiences, making it challenging to scale their operations and increase their market approach compared to larger corporations or big brands within their niche. Also, there is a continuous threat of global economic fluctuations, which can significantly impact their stability and growth.

   Small businesses create Social Stability, while they might not be major innovators, but they contribute to enhancing community well-being and a considerable percentage of job creation. The examples of small business entrepreneurship are local bakeries, salons, single-location restaurants, local grocery shops etc.

2. **Scalable Start-up Entrepreneurship**: Scalable start-up entrepreneurship can be defined as a profitable business model that has the potential for significant growth and expansion, with innovative technology or a unique approach to a market need, allowing them to quickly scale and dominate sectors, often transforming or creating entirely new industries.

   Unique, innovative products or services and advanced technology are their best features. These core values distinguished them in the market with new and improvised solutions. These innovations can range from revolutionary software to groundbreaking products, providing solutions that meet unaddressed needs.

   It is often noticed that scalable startups need a substantial initial investment to develop their product and services, to manage rapid scaling, marketing, research and development, and to ensure that they have the infrastructure and resources ready to grow quickly and sustainably.

   Having a highly skilled team with the right approach to drive innovation and technology which ensures to bring out problem-solving products or services is the biggest challenge they face during their initial stage. Along with this, dealing with multiple regulatory and legal issues as they expand in different geographical markets can create complexities in their scalable business.

   Scalable startups have the potential to disrupt existing markets by introducing lower prices and more choices for consumers. This directly benefits society by enhancing purchasing power and

economic stability. As these startups grow, they create new jobs, contributing to economic growth and providing employment opportunities to the people.

3. **Large Companies or Big Business Entrepreneurship**: Large Companies or Big Business Entrepreneurship can be defined as a commercial entity that has substantial market influence, extensive resources, and operates in multiple locations. These entities have huge annual revenue and a large number of employees to undertake large-scale projects, influence market trends, and drive significant economic growth.

   Large companies usually have a global presence, operating across multiple countries, depending on the nature of their business. They emphasize on steady growth over a certain period of time rather than leading an overnight revolution.

   Large companies are often at risk of disruption from newer, more innovative players that can move quickly to exploit emerging trends and technologies. The best example to understand this concept is how OYO Rooms, founded in 2013 shook up the hospitality industry and challenged major hotel chains like Taj, Oberoi, and ITC Hotels.

   On the other side, these big corporations often set new industry standards, pushing the envelope of what's possible and encouraging industry-wide innovation contributing to a huge impact on society. Along with this, large firms have the resources to address major societal challenges through their entrepreneurial projects. For example, they can invest in sustainable technologies or healthcare innovations that have far-reaching societal impacts.

4. **Social Entrepreneurship** : In the broad sense, social entrepreneurship refers to innovative activity with a social objective in either the 'for-profit sector', such as in social-purpose commercial ventures or in the 'non-profit sector', or across sectors, such as hybrid structural forms which blend for profit and non-profit approaches.

   Under the narrow definition, Social Entrepreneurship refers to the phenomenon of applying business expertise and market-based skills in the non-profit sector, such as when non-profit organizations develop innovative approaches to earn income and reinvest that capital for the betterment of society.

   They explore new ideas, to make an impact as a socially aware organization. Not only do they have an idea that must be implemented, but also they know how to implement it and are realistic in their vision of implementing it. While traditional businesses often secure funding based on their innovative ideas and potential for profit, social enterprises must convince investors of the value of their social impact. Also, scaling a social enterprise can be challenging as it does not have a sustainable profit outcome.

   Social entrepreneurship plays a critical role in driving social change, offering new avenues for addressing social issues by combining innovation, resourcefulness, and opportunity to create solutions that are sustainable, impactful, and capable of scaling to benefit society at large.

In a nutshell, the concept of entrepreneurship can be understood as follows:

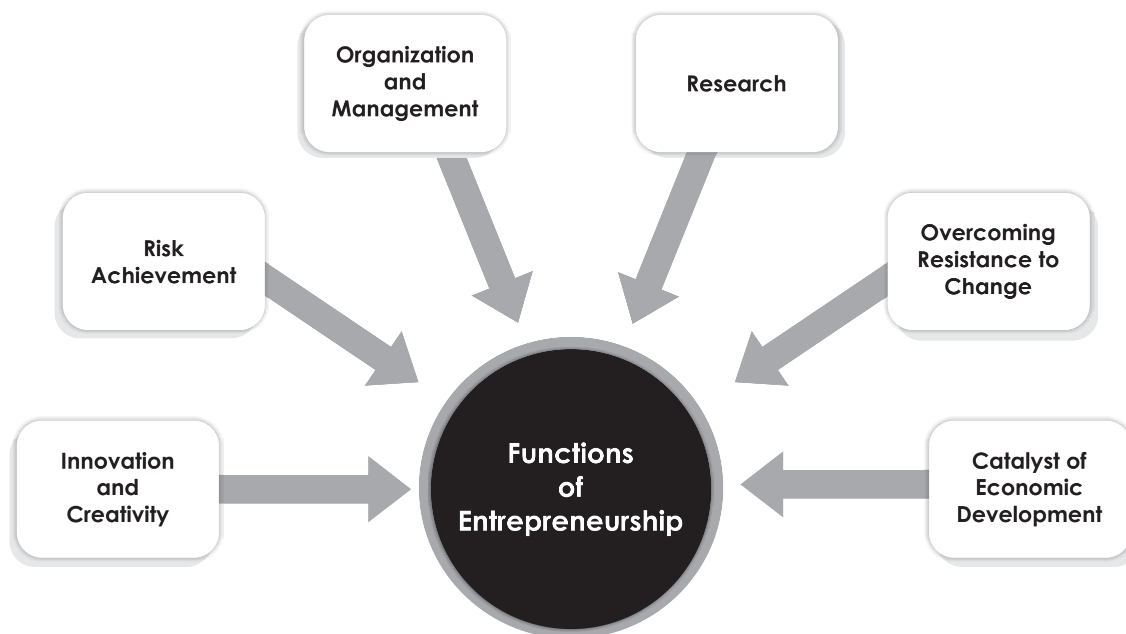
1. Entrepreneurship involves decision-making, innovation, implementation, forecasting of the future, independency, and success.

2. Entrepreneurship is a discipline with a knowledge base theory and is an outcome of complex socio-economic, psychological, technological, legal, and other factors.

3. It is a dynamic and risky process.
4. It involves a fusion of capital, technology, and human talent.
5. Entrepreneurship is equally applicable to big and small businesses and to economic and non-economic activities.
6. Different entrepreneurs might have some common traits but all of them will have some different and unique qualities.
7. It is the purposeful and organized search for change, conducted after a systematic analysis of opportunities in the business environment.
8. Entrepreneurship is a philosophy and is the way one thinks, one acts, and therefore it can exist in any situation, be it business or government or in the field of education, science, and technology.
9. Entrepreneurship is a creative activity.
10. It is the ability to create and build something from practically nothing.
11. It is a knack of sensing opportunity where others see chaos and confusion.
12. Entrepreneurship is the attitude of the mind to seek opportunities, take calculated risks, and derive benefits by setting up a venture.

Functions of Entrepreneurship

The various functions of entrepreneurship are Innovation and creativity, risk-taking and achievement and organization and management, catalyst of economic development, overcoming resistance to change and market research. The functions of entrepreneurship have been provided in the diagram below -



Source: Taxmann.com

A brief description of the functions of entrepreneurship are as under:

1. **Innovation and Creativity** : Innovation generally refers to changing processes or creating more effective processes, products, and ideas. For businesses, this could mean implementing new ideas, creating dynamic products, or improving your existing services. Creativity is defined as "the tendency to generate or recognize ideas, alternatives, or possibilities that may be useful in solving problems and communicating with others. Creativity and innovation have always been recognized as a sure path to success. Entrepreneurs think outside of the box and explore new areas for cost-effective business solutions.

2. **Financial Risk taking and Achievement** : It is a process in which the entrepreneur establishes new job opportunities and firms, new Creative and growing organization which is associated with risk, new opportunities, and achievement. It results in introducing a new product or service to society. In general, entrepreneurs accept four types of risks namely financial risk, job risk, social and family risk, and mental and health risk, which are as follows:

   a) *Financial Risk* : Most entrepreneurs begin by using their own savings and personal effects and if they fail, they have the fear of losing it. They take the risk of failure.

   b) *Job Risk* : Entrepreneurs, not only follow the ideas as working situations but also consider the current risks of giving up the job and starting a venture. Several entrepreneurs have a history of having a good job, but gave it up, as they thought that they were not cut out for a job.

   c) *Social and Family Risk* : The beginning of an entrepreneurial job needs a high energy which is time-consuming. Because of these undertakings, he/she may confront some social and family damages like family and marital problems resulting on account of absence from home and not being able to give adequate time to family.

   d) *Mental Health Risk* : Perhaps the biggest risk that an entrepreneur takes is, the risk of mental health. The risk of money, home, spouse, child, and friends could be adjusted but mental tensions, stress, anxiety, and other mental factors have many destructive influences because of the beginning and continuing of entrepreneurial activity. This can even lead to depression when faced with failure.

3. **Organization and Management**: The entrepreneurial organization is a simple organizational form that includes, one large operational unit, with one or a few individuals in top management. Entrepreneurial management means the skills necessary to successfully develop and manage a business enterprise. A small business start-up under an owner-manager is an example of an entrepreneurial organization.

   Here, the owner-manager generally maintains strict control over business operations. This includes directing the enterprise's core management functions. According to Mintzberg, these include interpersonal roles, informational roles, and decision-making roles. The smaller the organization, the more concentrated these roles are in the hands of the owner-manager.

4. **Market Research**: An entrepreneur is a practical dreamer and does a lot of groundwork before taking a leap in his/her ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analysing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then

choosing the best alternative. It is then that he/she applies the ideas in practice. The selection of an idea, thus, involves the application of research methodology.

5. **Overcoming Resistance to Change** : New innovations are generally opposed by people because it makes them change their existing behaviour patterns. An entrepreneur always first tries new ideas at his/her level. It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. His/her willpower, enthusiasm, and energy help him/her overcome society's resistance to change.

6. **Catalyst of Economic Development** : An entrepreneur plays an important role in accelerating the pace of economic development of a country, by discovering new uses of available resources and maximizing their utilization. Today, when India is a fast developing economy, the contribution of entrepreneurs has increased multiple-fold.

Stages of Entrepreneurial Process

Following are the steps involved in the entrepreneurial process:

1. *Market Research for a New Idea*: An entrepreneurial process begins with Market Research for a new Idea. Gathering, analyzing, and interpreting information about a market, including details about the target market, competition, and consumer preferences is a crucial factor before working a new innovative idea wherein the entrepreneur identifies and evaluates the business opportunities for him/her.

2. *Outlining Business Model*: The identification and evaluation of opportunities for a newly made Idea is a difficult task. Therefore, it is crucial to create a structure for a business model on how a company creates, delivers, and captures value. Once the outlining is done, the next step is to evaluate it.

3. *Detailed analysis of promising Idea*: An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions such as, whether the opportunity is worthy of investing, its attractiveness, proposed solutions feasibility, chances of competitive advantage, and various risks associated with it, etc. Above all, an entrepreneur must analyze his/her personal skills and capabilities to ensure realization of entrepreneurial goals.

4. *Selection of the most promising Idea*: Once the analysis is done at both the macro and micro level, then the entrepreneur selects the best possible option amongst the chosen few, on the basis of the key factors identified by him/her before idea generation.

5. *Assembling the Resource and Personnel*: The next step in the process is resourcing, wherein, the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for their new venture and the personnel to carry out the business activities.

6. *Determining the size of unit*: On the basis of the ability to manage resources, the entrepreneur determines the initial size of the business and the possibilities of expansion.

7. *Deciding the location of the Business and Planning Layout*: This is a significant decision. Entrepreneurs should ideally decide a location where there are Tax holidays and cheap labour and materials are available in abundance.

8. *Sound Financial Planning*: Once the funds are raised and the employees are hired, the business location and layout have been finalized, then efforts are made to do sound financial planning with the available financial resources in order to put it to optimum use.

9. *Launching the Enterprise*: Launching the enterprise by an entrepreneur can be a daunting adventure as the entrepreneur needs to stay focused and should always be open to suggestions. If he/she is a mission-driven entrepreneur, it must be remembered that building a truly great company is a marathon, not a sprint.

10. *Managing the Company*: Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy, which is required to solve the operational problems, as and when they arise.

11. *Harvesting*: The final step in the entrepreneurial process is harvesting, wherein, an entrepreneur decides on the future prospects of the business, such as its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is taken.

Entrepreneurship Scenario in India

The evolution of entrepreneurship in India may be studied under three periods, i.e., Medieval Age, Modern and Pre-independence era and Post-independence era.

i) *Medieval Age*: To discuss the growth or development of entrepreneurship in India, you must understand that India has one of the oldest and most civilized business histories. During the Harappan civilizations around 2700 BC, there was an internal and external trade culture. Also, due to this, most foreign countries recognize Indian entrepreneurial skills.

   Moreover, the increase in trade occurred during the era of Mughal rule. The popularity of Indian products, arts, crafts, Vedic tools, foods, and much more attracted attention from different parts of the world. The Arab mainland, western colonial counties and African countries were the major parties involved in the trade.

   At the same time, different countries like UK, France and Portugal expanded their colonies in different parts of the world. However, a significant entrepreneurial change occurred when the East India Company started its business from the Bay of Bengal and later occupied parts of Bengal. It indirectly linked the entire Indian state into one business ecosystem.

   There were some major downsides to the colonial mindset of England. However, it also played some good aspects in developing entrepreneurship in India.

ii) *Modern and Pre-independence era*: This was the era of industrialization in India, where some of India's best entrepreneurs rise. The major events changed the face of entrepreneurship in India.

   a) The first cotton textile mill was revolutionized in 1854 by an Indian entrepreneur, Kawasji Dover. It was one of India's boldest steps in the modern development of entrepreneurship development.

   b) Jamsetji Tata founded the company Tata Group in the year 1868. With the foundation of the Tata Group, he has created a bar for entrepreneurship development in India.

   c) 1874 Cotton Mill by JRD Tata, TISCO by Dorabji Tata, 1932 Tata Airlines, Tata Steel Plant, and

more were high-rate businesses in India. At the same time, it has also played a major role in various independence initiative

iii) *Post-independence era*: Entrepreneurship in India, along with the national economy, was ground-breaking after independence. There was not much left in the Indian economy at that time. However, the government took major steps to support India's development which is as follows:

– Prime Minister Nehru adopted the economic structure line of the Soviet Union. It gave a major push to the New Industrial Policy of 1956. Similarly, this policy liberalized the bar and standards set by the British government, which were the ultimate impediment to industrial development.

– Economic reforms were carried out in the initial phase of governance. Also, prominent economists adopted the Mahalanobis model, which primarily aims to support entrepreneurs.

However, it may seem that most of the top entrepreneurs were already in business. But the reality was different. Economic policies were not giving much support to the entrepreneurs, due to which there was rough growth. However, the transformation of entrepreneurship began in 1990.

Transformation of Entrepreneurship in India

The major transformation of entrepreneurship in India began with the 'Economic Policy Reform' in 1991. The policy was further expanded in 2022. The New Economic Policy of 1991 was a huge turning point. This policy has included three major aspects, which are as follows-

Aspects	Role
Liberalization	Providing some provisions in different parts of the industry to boosts the private sector, including banks and the stock market
Privatization	Disinvestment of Public Firms to reduce the burden and promote the national entrepreneurs for good business
Globalization	Welcoming FDIs, and FPI Creating SEZ and Economic Corridor for foreign companies

These were the most important of all the major aspects involved in the new economic policy. However, all of them played an important role in developing entrepreneurship in India. Some of the benefits that this policy replaced are as follows-

a) It gives a green signal to private banks and non-Indian banks to operate without any disruption. It was the only reason for the huge circulation of money in the economy. And finally, it increased loans and supported new entrepreneurs.

b) Due to the policy, foreign companies can find the best option to invest their money. This boosted huge FDI and FPI in India and helped in understanding new and advanced technology.

c) Rise of India as a tech hub in the startup world where Indian tech people were the best choice for US, UK, France and other country projects. At the same time, it also revolutionized the world of technology.

GOVERNMENT INITIATIVES TO FOSTER ENTREPRENEURSHIP

The Indian government has launched several initiatives and programs to foster entrepreneurship, promote innovation, and support the growth of startups. These initiatives aim to create a conducive ecosystem for entrepreneurs, provide them with resources, mentorship, and funding, and facilitate ease of doing business.

Few of the initiatives taken by the Government of India to strengthen entrepreneurship in India are as under:

1. **Make in India** : Businesses from across the globe, and not merely the Americas, consider Make in India as a breakthrough policy of the new India. The 'Make in India' programme was launched in September 2014 soon after the Modi Government came to power with the aim of transforming India into a global manufacturing hub and boosting entrepreneurship in the country.

   Initiatives such as online business registration, single-window clearance, and digitization of government services aim to simplify procedures and reduce the burden of compliance on entrepreneurs. Make in India encourages entrepreneurship and manufacturing growth through sector-specific policies, incentives, and initiatives such as the National Manufacturing Policy, Automotive Mission Plan, Electronics Manufacturing Policies, and Textile Policy, provide targeted support and incentives to promote entrepreneurship and investment in key sectors.

   As a national programme, the Make in India initiatives is aimed at transforming India into a global manufacturing hub, and contained a raft of proposals to attract investments from both local and foreign corporate houses in 25 key areas it has identified, such as:

   (a) Automobile
   (b) Automobile components
   (c) Aviation
   (d) Biotechnology
   (e) Chemicals
   (f) Construction
   (g) Defence Manufacturing
   (h) Electrical Machinery
   (i) Electronic Systems
   (j) Food Processing
   (k) IT and BPM
   (l) Leather
   (m) Media and Entertainment
   (n) Mining
   (o) Oil and Gas
   (p) Pharmaceuticals
   (q) Ports and Shipping
   (r) Railways
   (s) Renewable Energy
   (t) Roads and Highways
   (u) Space
   (v) Textile and Garments
   (w) Thermal Power
   (x) Tourism and Hospitality
   (y) Wellness

   With this scheme, the government has increased the FDI limit in various industries to attract foreign investment and participation.

   It has established an investor facilitation centre to assist foreign businesses to locate partners and sites, while a slew of measures have been initiated for domestic companies, which were

revealed after Modi Government unveiled the 'Stand Up India' initiative in his Independence Day address in 2015.

2. **Stand Up India** : The key elements of the Stand-Up India scheme are as under:

   (i) *Title of the Scheme* : Stand-Up India Scheme for financing SC/ST and /or Women Entrepreneurs.

   (ii) *Objective* : The objective of the Stand-Up India scheme is to facilitate bank loans between INR 10 Lakh and INR 1 crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, agri-allied activities or the trading sector in case of non-individual enterprises at least 51% of the shareholding and controlling stake should be either an SC/ST or woman entrepreneur.

   (iii) *Eligibility* : Eligibility under Stand Up India scheme are -

      (a) SC/ST and /or woman entrepreneurs, above 18 years of age.

      (b) Loans under the scheme is available for only greenfield project. GreenField signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.

      (c) In case of non-individual enterprises,51% of the shareholding and controlling stakes should be held by either SC/ST and/or women entrepreneur.

      (d) Borrower should not be in default to any bank or financial institution.

   (iv) *Nature of loan* : Composite loan (inclusive of term loan and working capital) between INR 10 Lakh upto INR 100 Lakh.

   (v) *Purpose of loan* : For setting up a new enterprise in manufacturing, services, agri-allied activities or the trading sector by SC/ST women entrepreneur.

   (vi) *Size of loan* : Composite loan of 85% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 85% of the project cost would not apply if the borrower's contribution along with convergence support from any other schemes exceeds 15% of the project cost.

   (vii) *Interest rate* : The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).

   (viii) *Security*: Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India (CGFSIL) as decided by the banks.

   (ix) *Repayment* : The loan is repayable in 7 years with a maximum moratorium period of 18 months.

   (x) *Working capital* : For drawal of working capital upto INR 10 Lakh, the same may be sanctioned by way of overdraft. Working capital limit above INR 10 Lakh to be sanctioned by way of cash credit limit.

   (xi) *Margin Money* : The scheme envisages 15% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn

upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

For more details, please visit: https://www.standupmitra.in/

3. **Startup India** : Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and to increase the employment rate in India. Benefits of Start-up India Scheme are Simplification of Work, Finance support, Government tenders, Networking opportunities. Startup India was launched by Prime Minister Shri. Narendra Modi on 16th January 2016.

Benefits of Startup India

(a) *Financial benefits* - Most of the start-ups are patent based. It means they produce or provide unique goods or services. In order to register their patents, they have to incur a heavy cost which is known as the patent cost.

Under this scheme, the government provides 80% rebate on the patent costs. Moreover, the process of patent registration and related is faster for them. Also, the government pays the fees of the facilitator to obtain the patent.

(b) *Income Tax Benefits* - Start-ups enjoy a good amount of benefits under the Income Tax head. The government exempts their 3 years income tax post the incorporation year. But they can avail it only after getting a certificate from the Inter-Ministerial Board. Also, they can claim exemption from tax on capital gains if they invest money in specified funds.

(c) *Registration Benefits* - Everyone believes that incorporation and registration of business are far more difficult than running it. It is because of the long and complex steps of registration. Under the Start-up India scheme, an application is there to facilitate registration. A single meeting is arranged at the Start-up India hub. Also, there is a single doubt and problem-solving window for them.

(d) *Government Tenders* - Everyone seeks to acquire Government tenders because of high payments and large projects. But it is not easy to acquire the government tenders. Under this scheme, the start-ups get priority in getting government tenders. Also, they are not required to have any prior experience.

(e) *Huge Networking Opportunities* - Networking Opportunities means the opportunity to meet with various startup stakeholders at a particular place and time. The government provides this opportunity by conducting 2 startups fests annually (both at the domestic as well as international level). Startup India scheme also provides Intellectual Property awareness workshop and awareness.

Some vital points pertaining to the Start Up India:

(a) *Startup India Hub* : Startup India Hub is a one-stop platform for all stakeholders in the Startup ecosystem to interact amongst each other, exchange knowledge and form succesful partnerships in a highly dynamic environment.

(b) *Investors adding value to the Startups* : Investors particularly venture capitalists (VCs) add value to startups in a lot of ways:

(i) *Stakeholder Management* : Investors manage the company board and leadership to facilitate smooth operations of the startup. In addition, their functional experience and domain knowledge of working and investing with startups imparts vision and direction to the company.

(ii) *Raising Funds* : Investors are best guides for the startup to raise subsequent rounds of funding on the basis of stage, maturity, sector focus etc. and aid in networking and connection for the founders to pitch their business to other investors.

(iii) *Recruiting Talent* : Sourcing high-quality and best-fit human capital is critical for startups, especially when it comes to recruiting senior executives to manage and drive business goals. VCs, with their extensive network can help bridge the talent gap by recruiting the right set of people at the right time.

(iv) *Marketing* : VCs assist with marketing strategy for your product/service.

(v) *M&A Activity* : VCs have their eyes and ears open to merger and acquisition opportunities in the local entrepreneurial ecosystem to enable greater value addition to the business through inorganic growth.

(vi) *Organizational Restructuring* : As a young startup matures to an established company, VCs help with the right organizational structuring and introduce processes to increase capital efficiency, lower costs and scale efficiently.

(c) Investors investing in Startups: Investing in startups is a risky proposition, but the low requirement for overhead capital combined with high upside potential, makes it lucrative for investors to put their bets on startups.

(d) Foreign company registering in registering under Startup India hub: Any entity having atleast one registered office in India is welcome to register on the hub as location preferences, for the time being are only created for Indian states.

Registration of the Start-up can be done only from following types of companies-

1. Partnership Firm
2. Limited Liability Partnership Firm
3. Private Limited Company.

States' Startup Ranking

The States' Startup Ranking is a yearly capacity building exercise created and released by DPIIT that evaluates all of India's states and UTs on their efforts to build an ecosystem conducive to startup growth. It intends to provide a platform for State governments to prioritize and update or reform new or existing policies and mandates to assist the growth of early-stage startups. The objectives of this initiative are to acknowledge the efforts of states that are creating policies and taking initiatives in startup development through the creation of a conducive space for innovators and job-creation, simplification of documentation procedures, the setting up long term structures to act as a startup interface with states etc.

The framework's first three editions effectively allowed state governments to learn from one another while acquiring deeper insights on how to maximize the effectiveness of state-driven

initiatives. Following in similar footsteps, the States' Startup Ranking 2022 follows an updated evaluation methodology that prioritizes a dynamic and sustainable approach to how state startup policies and initiatives should be implemented. The framework seeks to improve national connectivity, foster a supportive environment for startups, and promote innovation and youth entrepreneurship.

To promote sustainability and equal access, new reform areas were identified focusing on the below mentioned-

- ❖ Institutional support for entrepreneurship and innovation
- ❖ Institutional support for entrepreneurship and innovation
- ❖ Equitable access to resources, funding and market incubation
- ❖ Mentorship support
- ❖ Enabling capacity building
- ❖ Future readiness and focus on sustainability

A total of 25 action points are used to map a combination of absolute, relative, and feedback-based grading in order to give a comprehensive picture of the state's or support UT's distinctive startup environment.

4. Skill India

The contents of National Skill Development Corporation to be included at the end of the contents covered under the aforesaid point.

National Skill Development Corporation

National Skill Development Corporation (NSDC) is a not-for-profit public limited company incorporated on July 31, 2008 under section 25 of the Companies Act, 1956 (corresponding to section 8 of the Companies Act, 2013). NSDC was set up by Ministry of Finance as Public Private Partnership (PPP) model. The Government of India through Ministry of Skill Development & Entrepreneurship (MSDE) holds 49% of the share capital of NSDC, while the private sector has a balance 51% of the share capital.

NSDC aims to promote skill development by catalyzing creation of large, quality and for-profit vocational institutions. Further, the organisation provides funding to build scalable and profitable vocational training initiatives. Its mandate is also to enable a support system which focuses on quality assurance, information systems and train the trainer academies either directly or through partnerships. NSDC acts as a catalyst in skill development by providing funding to enterprises, companies and organizations that provide skill training. It also develops appropriate models to enhance, support and coordinate private sector initiatives. The differentiated focus on 21 sectors under NSDC's purview and its understanding of their viability will make every sector attractive to private investment.

The details of various schemes and initiatives are provided below-

(a) *Pradhan Mantri Kaushal Kendra* : Vocational training needs to be made aspirational to transform India into the skill capital of the world. In line with the same, Ministry of Skill Development and Entrepreneurship (MSDE) intends to establish visible and aspirational

Model Training Centres (MTCs) in every district of the country. NSDC is the implementation agency for the project.

The model training centres envisage to:

- Create benchmark institutions that demonstrate aspirational value for competency-based skill development training.
- Focus on elements of quality, sustainability and Connection with stakeholders in skills delivery process.
- Transform from a Mandate-driven footloose model to a sustainable institutional model.

Funding Support

Capital Expenditure

NSDC will provide a concessional secured loan funding per centre, up to 75% of the project investment, to cover expenditure only related to:

- Training infrastructure including purchase of plant, machinery & equipment
- Training aid and other associated items
- Civil work including setting up prefabricated structures and retrofit existing structures

Operations Support

The sustainability of the centres will be assured against dedicated training numbers under Pradhan Mantri Kaushal Vikas Yojna (PMKVY) or its successor schemes (any other scheme under MSDE or NSDC). Each PMKK will be assured a training mandate for three years, under the PMKVY scheme, as per common norms, subject to capacity and utilization of the centre.

Pradhan Mantri Kaushal Vikas Yojana (4.0)

As it is a known fact that skilling plays a crucial role in enhancing individual productivity leading to an increase in employment and income of the workforce. The increase in productivity and employment in turn has a ripple effect on the economy resulting in enhanced competitiveness. With the ever changing nature of job market, the shelf life of skills has shortened building a case for continuous lifelong learning. For that reason, skilling, reskilling, and upskilling are crucial pillars for a growth oriented economy. Further, studies have also identified that upskilling would lead to a substantial boost in the Indian GDP.

India is strategically placed with a young population having an average median age of 28 years which provides a window of opportunity to make India the "Skill Capital" of the World. Skilling is poised to be the key driver for 'Amrit Kaal' envisioning a New India with inclusive welfare, technology enabled development, climate action through energy transitions, galloping towards a multi-trillion dollars' economy.

Ministry of Skill Development and Entrepreneurship was established in 2014 with an overall objective to promote skilling and entrepreneurship development in India. In 2015, MSDE launched its flagship scheme, Pradhan Mantri Kaushal Vikas Yojana (PMKVY), to encourage

and promote skill development in the country by providing free short-duration skill training and incentivizing youth for skill certification.

Between 2015 – 2022, three versions of the scheme have been implemented with varied approach and strategy. Cumulatively, more than 1.37 crore youths have been trained across various sectors.

Based on the challenges faced in implementing earlier phases of PMKVY and the learnings gathered, the next phase of PMKVY, i.e., PMKVY 4.0 under the umbrella scheme of the 'Skill India Programme' is being implemented between FY 2022-2026.

PMKVY 4.0 is being realigned with a core focus on making the existing skill ecosystem more flexible, swift, and geared to meet the current challenges and emerging needs through process simplification.

The journey of PMKVY so far is exhibited in the table below-

Years	Developments
2014	Ministry of Skill Development established
2015	PMKVY 1.0: 19.86 lakh candidates trained
2016	PMKVY 2.0: 1.10 crore candidates trained
2020	PMKVY 3.0: 7.37 lakh candidates trained
2021	Customised Crash Course Programme for Covid Warriors. 1.20 lakh candidates trained
2022	Skill Hub Initiative: Utilizing infrastructure in educational institutions. 1.97 lakh trained
2022-2026	PMKVY 4.0

Source: Ministry of Skill Development and Entrepreneurship

Objectives of PMKVY 4.0

1. Promote an enabling ecosystem for the youths to get skilled and choose a career path aligned with their abilities and aspirations.
2. Enable delivery of skill training in a market-oriented and demand driven manner by making the existing skilling ecosystem more flexible, swift, and geared to meet the emerging demand along with emphasis on improving the employability of candidates.
3. Process simplification of the skill ecosystem by leveraging technology and digitalization.
4. Enhance access to skilling by setting up a network of skill development infrastructure in remote parts of the country to cater to the needs of difficult geographies such as hilly terrain, LWE-effected areas, border areas, etc. by designing special projects.

5. Improve inclusivity by ensuring that SC, ST, women, and other marginalized communities can undertake skill training and eventually access gainful wage and self-employment.
6. Provide opportunity for lifelong skilling through the crucial pillars of upskilling and reskilling to address the dynamic needs of the ever-changing market.
7. Quality training delivery through trained pedagogy, standardized assessments, and industry relevant curriculum.
8. Facilitate to enhance employability of candidates through training in transferable skills and incentives for employment generation.
9. Provide candidate-centric training with emphasis on industry relevant skills.

Types of Training under PMKVY 4.0

The three types of training will be offered under PMKVY 4.0:

i) *Short-Term Training (STT)*: NSQF aligned courses ranging between 300 – 600 hours will be provided under STT. Courses of higher duration based on industry/sectoral demand can also be offered. Training to be delivered through accredited and affiliated training centres. On-Job Training (OJT) will be an inherent component under STT as mandated by NCVET, and the duration of OJT will depend on the job role.

ii) *Recognition of Prior Learning (RPL)*: Candidates with prior learning experience or skills will be certified with due assessment. This shall enable youths to obtain industry relevant skill certification. Emphasis will be on upskilling and interested candidates will have to undergo coursework for certification at a higher level based on assessment.

iii) *Special Projects*: Special Projects are project-based short-term skilling initiatives that primarily meet the skilling needs of marginalized and vulnerable groups, difficult geographies and specialized training courses which are likely to be offered outside of regular short-term skilling programmes. Also, these projects can have focus on new-age job roles with future skills. These projects can avail certain exemptions granted with the approval of the Executive Committee, and they can also be residential or non-residential.

(b) *International Skill Training* : A country's ability and potential for growth is determined by the size of its youth population. Youth today need to be harnessed, motivated, skilled and streamlined to bring rapid progress for a country.

India has a relative advantage at present over other countries in terms of distribution of youth population even when compared to large, fast-growing Asian economies such as China and Indonesia, the two major countries other than India which determine the demographic features of Asia.

National Policy on Skill Development and Entrepreneurship 2015

The objective of the National Policy on Skill Development and Entrepreneurship, 2015 is to meet the challenge of skilling at scale with speed and standard (quality). It aims to provide an umbrella framework to all skilling activities being carried out within the country, to align them to common standards and link the skilling with demand centres. In addition to laying

down the objectives and expected outcomes, the effort also involves to identify the various institutional frameworks which can act as the vehicle to reach the expected outcomes. The national policy will also provide clarity and coherence on how skill development efforts across the country can be aligned within the existing institutional arrangements. This policy will link skills development to improved employability and productivity.

The Vision, Mission and Objectives of the National Policy on Skill Development and Entrepreneurship 2015 are-

Vision : "To create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure Sustainable livelihoods for all citizens in the country."

Mission : The mission is to

Create a demand for skilling across the country; Correct and align skilling with required competencies;

Connect the supply of skilled human resources with sectoral demands; Certify and assess in alignment with global and national standards; and

Catalyse an ecosystem wherein productive and innovative entrepreneurship germinates, sustains and grows leading to creation of a more dynamic entrepreneurial economy and more formal wage employment.

Objectives : The core objective of the Policy is to empower the individual, by enabling her/him to realize their full potential through a process of lifelong learning where competencies are accumulated via instruments such as credible certifications, credit accumulation and transfer, etc. As individuals grow, the society and nation also benefit from their productivity and growth. This will involve:

i. Make quality vocational training aspirational for both youth and employers whereby youth sees it as a matter of choice and employer acknowledges the productivity linked to skilled workforce by paying the requisite premium.

ii. Ensure both vertical and horizontal pathways to skilled workforce for further growth by providing seamless integration of skill training with formal education.

iii. Focus on an outcome-based approach towards quality skilling that on one hand results in increased employability and better livelihoods for individuals, and on the other hand translates into improved productivity across primary, secondary and tertiary sectors.

iv. Increase the capacity and quality of training infrastructure and trainers to ensure equitable and easy access to every citizen.

v. Address human resource needs by aligning supply of skilled workers with sectoral requirements of industry and the country's strategic priorities including flagship programmes like Make in India.

vi. Establish an IT based information system for aggregating demand and supply of skilled workforce which can help in matching and connecting supply with demand.

vii. Promote national standards in the skilling space through active involvement of employers in setting occupational standards, helping develop curriculum, providing apprenticeship opportunities, participating in assessments, and providing gainful employment to skilled workforce with adequate compensation.

viii. Operationalize a well-defined quality assurance framework aligned with global standards to facilitate mobility of labour.

ix. Leverage modern technology to ensure scale, access and outreach, in addition to ease of delivering content and monitoring results.

x. Recognise the value of on-the-job training, by making apprenticeships in actual work environments an integral part of all skill development efforts.

xi. Ensure that the skilling needs of the socially and geographically disadvantaged and marginalized groups (like the SCs, STs, OBCs, minorities, differently abled persons etc.) are appropriately taken care of.

xii. Promote increased participation of women in the workforce through appropriate skilling and gender mainstreaming of training. xiii. Promote commitment and ownership of all stakeholders towards skill development and create an effective coordination mechanism.

The core objective of the entrepreneurship framework is to coordinate and strengthen factors essential for growth of entrepreneurship across the country. This would include:

i. Promote entrepreneurship culture and make it aspirational

ii. Encourage entrepreneurship as a viable career option through advocacy.

iii. Enhance support for potential entrepreneurs through mentorship and networks.

iv. Integrate entrepreneurship education in the formal education system

v. Foster innovation-driven and social entrepreneurship to address the needs of the population at the bottom of the pyramid.

vi. Ensure ease of doing business by reducing entry and exit barriers.

vii. Facilitate access to finance through credit and market linkages.

viii. Promote entrepreneurship amongst women.

ix. Broaden the base of entrepreneurial supply by meeting specific needs of both socially and geographically disadvantaged sections of the society including SCs, STs, OBCs, minorities, differently-abled persons.

Pre-Departure Orientation Training (PDOT)

Given the need to orient potential migrant workers with regards to language, culture, do's and don'ts in the destination country, the emigration process and welfare measures, PDOT program has been launched. Ministry of External Affairs (MEA) in collaboration with Ministry of Skill Development and Entrepreneurship (MSDE) is conducting the PDOT program. NSDC is the implementing agency for this program.

A longer variant of PDOT i.e. 160 hours was offered at all IISCs which consisted of country orientation, language and digital literacy.

A shorter variant of PDOT program i.e. 1 Day (ongoing) is offered to all migrant workers who are likely to depart soon and register for the training through registered recruitment agents.

PDOT program is delivered by trainers who have undergone Training of Trainers (ToT) program organized by MEA. So far, 52 trainers from existing IISCs and NSDC Training Partners have undergone the PDOT (ToT).

(c) *Technical Intern Training Program* : The program promotes international collaboration through the transfer of skills, technology, and knowledge among the participating countries thereby, contributing towards the human resource development. It offers training to the workers for a specific period (3 – 5 years) in Japan's industrial society.

The objective is to ensure that the most competent youth is selected and sent to Japan to participate in TITP.

Ministry of Skill Development & Entrepreneurship (MSDE), Government of India and the Ministry of Justice, Ministry of Foreign Affairs and Ministry of Health, Labour and Welfare of Japan signed a Memorandum of Cooperation initiating the Technical Intern Training Program (TITP) in India in October 2017.

5. Investment in physical infrastructure

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development.

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI in construction development (townships, housing, built-up infrastructure and construction development projects) and construction (infrastructure) activity sectors stood at US$ 26.17 billion and US$ 26.30 billion, respectively, between April 2000-December 2021. In FY21, infrastructure activities accounted for 13% share of the total FDI inflows of US$ 81.72 billion.

Major initiatives of the Government of India (Union Budget 2022):

1. Under PM GatiShakti the seven engines that have been identified that will drive PM GatiShakti are Roads, Railways, Airports, Ports, Mass Transport, Waterways and Logistics Infrastructure. The projects pertaining to these 7 engines in the National Infrastructure Pipeline will be aligned with PM GatiShakti framework.
2. Road Transport
   (a) National Highways Network to be expanded by 25000 Km in 2022-23.
   (b) Rs 20000 Crore to be mobilized for National Highways Network expansion.
3. Multimodal Logistics Parks- Contracts to be awarded through PPP mode in 2022-23 for implementation of Multimodal Logistics Parks at four locations.
4. Railways-

(a) One Station One Product concept to help local businesses & supply chains.

(b) 2000 Km of railway network to be brought under Kavach, the indigenous world class technology and capacity augmentation in 2022-23.

(c) 400 new generation Vande Bharat Trains to be manufactured during the next three years.

(d) 100 PM GatiShakti Cargo terminals for multimodal logistics to be developed during the next three years.

5. Prime Minister's Development Initiative for North-East Region (PM-DevINE)

   (a) New scheme PM-DevINE launched to fund infrastructure and social development projects in the North-East.

   (b) An initial allocation of Rs. 1,500 crore made to enable livelihood activities for youth and women under the scheme.

6. Vibrant Village Programmes

   Vibrant Villages Programme for development of Border villages with sparse population, limited connectivity and infrastructure on the northern border.

7. Mobilising Resources

   Data Centres and Energy Storage Systems to be given infrastructure status.

8. Sovereign Green Bonds to be issued for mobilizing resources for green infrastructure.

Major initiatives of the Government of India (Union Budget 2023):

- PM Awas Yojana expenditure increased by 66% to Rs.79,000 crore.
- Capital outlay for Railways at Rs.2.4 lakh crore, the highest allocation ever since 2013–14.
- Public agencies to use the Urban Infrastructure Development Fund (UIDF), which will be administered by the national Housing Bank, to build urban infrastructure in Tier 2 and Tier 3 cities. The UIDF will be established through the use of the priority Sector Lending shortfall.
- Investments totalling Rs.75,000 crores (Rs.15,000 crores from private sources) in 100 vital transportation infrastructure projects to provide last and first mile connectivity for the coal, ports, food grain, steel, and fertiliser grains sectors.
- The creation of the New Infrastructure Finance Secretariat to increase opportunities for private infrastructure investment.
- Government will establish an Urban Infrastructure Development Fund, similar to the Rural Infrastructure Development Fund, which will be run by NHB.
- A one-year extension of the 50-year interest-free loan to state governments in order to encourage them to adopt complementary policies and encourage infrastructure investment.
- Prompting states and local governments to implement urban planning changes and initiatives aimed at transforming their cities into "sustainable cities of tomorrow."

- Convert all cities and towns to a machine-hole system by allowing them to completely mechanically desludge their septic tanks and sewers.

Major initiatives of the Government of India (Interim Union Budget 2024):

- The finance minister Nirmala Sitharaman announced that the outlay for infrastructure development will be increased to 11.11 lakh sector.
- When compared to last year, the outlay has seen an 11.1% increase.
- More cities will get Namo Bharat and Metro Rail infrastructure projects.
- Charging infrastructure will be supported by the government to promote the e-vehicle ecosystem.

BOTTLENECKS IN ENTREPRENEURIAL GROWTH

1. Inefficient time management

Most entrepreneurs think on infinite time scales, as though they have plenty of time to achieve their goals. Time is the most valuable resource, yet most entrepreneurial leaders don't use it effectively. It is very important to analyze the business flow metrics and identify time-wasting processes. Comparing the performance with industry standards to find out the problem areas is a major challenge. Leveraging technology tools such as automation and machine learning wherever possible is very important in contemporary times.

McKinsey & Co. reported that the next era of supply chain management will hinge on autonomous vehicles and a network of smart programs that can optimize efficiency. Organisational efficiency can be increased by implementing software solutions that break through bottlenecks and boost productivity.

2. Lack of money

Inadequate funds – Less funding and the resources obtained by these funds -- can hinder expansion. When it comes to resolving bottlenecks, money matters a lot. It helps in the purchase of software programs and hire consultants who reduce the obstacles to growth and profitability. As the company expands, there is a need to scale up the technology, invest in sales enablement and direct resources to a number of other critical areas. Money is needed to achieve all of that.

Fortunately, there are a number of capital sources out there. In addition to venture capital funding, one can apply for a loan backed by the Small Business Administration. Loans repaid in less than seven years typically incur a less than 10 percent interest rate, and these loans can be used to purchase new technology or building your team with supply chain experts.

3. Too much noise

Building and running a start-up can become too complex when the entrepreneur is trying to cut through the noise generated through social media, marketing, apps and vendors. It's enough to make entrepreneurs think they need to chase down the "next big thing" and clamour for the media limelight.

But limelight doesn't guarantee success. Many companies that drew huge amounts of press and venture funding have ultimately failed. The better path is to focus on the work and

trust that attention will come. Put out a great product, and be rigorous about clearing ones path to growth. The accolades will follow, but they matter only if one can scale and thrive sustainably.

4. **A small (or nonexistent) network**

Being a first-time entrepreneur, with a near-nonexistent industry, developing contacts is one of the biggest challenges to overcome. A strong network is crucial to a company's growth. But strong networks aren't built through viral campaigns or flashy marketing. They develop over years through resilience, relationship-building and cultivation of a community around the idea. In Japan and China, sustainable strong networks are an integral part of the value chain and supply chain

To build a supportive network around one's own business, the type of reach an entrepreneurship wants to have is critical. Is the brand primarily local? Thereafter, a blue print needs to be put down, roots have to be made, through partnerships and sponsorships with influencers in the region.

If the entrepreneur wants to have global appeal, there is a need to attend conferences and reach out internationally to learn how to move into other markets. The entrepreneur must become relevant to the rest of the world.

5. **Growing too much too soon**

With the objective of growing production, the problems also compound at the same rate. Figuring out how to scale requires frequent testing and a willingness to pivot -- the entrepreneur doesn't want to miss out on strategic opportunities. For instance, there's nothing wrong with starting small and growing slowly. It's better to take that approach than to overinvest in a lacklustre strategy. One needs to pay attention and switch gears when that's needed.

When Groupon, a US based start-up started the concept of online couponing in 2008, it was a tremendous hit. But Groupon focused too much on customer acquisition and not enough on customer retention. So when the company rushed to scale, it hadn't dealt with its preexisting issues. Within months of filing its IPO in 2011, Groupon's share price plunged from $20 to $9.

As common as these issues are, startup founders are actually the biggest bottlenecks in their own businesses. They believe they have to do everything themselves, and they try to charge through problems on their way to growth. Hence, there is a strong need to create strong internal bonds and decentralisation systems.

6. **Skill Shortages**

The shortage of skilled workforce and technical expertise in specialized domains hampers the growth and competitiveness of startups, especially in technology-driven sectors. There is a need for comprehensive skill development programs to bridge the skill gap and enhance the employability of the workforce.

7. **Policy Uncertainty**

Frequent changes in government policies, regulatory frameworks, and taxation norms can create uncertainty and instability for entrepreneurs, making it challenging to plan and invest for the long term. Transparent and predictable policy environments are essential for fostering entrepreneurial confidence and investment.

NEED FOR ENTREPRENEURSHIP IN INDIA

The entrepreneurs are considered 'change agents' in the process of industrial and economic development of an economy. The premium mobile role that entrepreneurs play in promoting industrial and economic development of an economy is well adduced across the countries.

In a sense, entrepreneurs are the 'spark plugs' who transform the economic scene of an economy. The developed countries have more entrepreneurial development as compared to underdeveloped countries.

Thus, the need for entrepreneurs in India may be captured in the following points:

1. Entrepreneurs promote capital formation by mobilising the idle saving of the people.
2. They create immediate and large-scale employment by establishing small-scale enterprises. Thus, they reduce the unemployment problem in the country, i.e., the root cause of all socio-economic problems.
3. They promote balanced regional development by establishing small-scale enterprises in rural, remote and less developed regions.
4. They help reduce the concentration of economic power.
5. They promote the equitable redistribution of wealth, income and even political power in the interest of the country.
6. They encourage effective resource mobilization of capital and skill which might otherwise remain unutilized and idle.
7. They, by establishing industries, induce backward and forward linkages which stimulate the process of economic development in the country.
8. Entrepreneurship fosters a culture of risk-taking, creativity, and innovation, challenging traditional norms and mindset towards employment and career choices.
9. Last but no means the least; they also promote country's export business, i.e. an important ingredient to economic development.

Thus, the significance of entrepreneurship for India may be recapitulated under the following points:

1. Economic Development by Entrepreneurs: It shows the importance of entrepreneurship in the best possible way. New products and services produced by entrepreneurs can fuel the economic development of the companies concerned. This is also true for areas that need to support new business.

   For example, the boom of IT industries during the 1990s. The industry grew rapidly and it helped many other businesses. Businesses have grown in related sectors, such as call centre operations, network repair firms and hardware suppliers.

2. Contribution of Entrepreneurs to National Profit: Entrepreneurial projects help create fresh wealth. Established companies may remain confined to existing markets and reach a threshold in terms of profits. Better goods, services or technology from businesses enable the development of new markets and the creation of new wealth.

Entrepreneurial projects help create new capital. Better goods, services or technology from businesses enable the development of new markets and the creation of new wealth. Also, higher income in the form of increased jobs and higher tax revenue and expenditure leads to better national income. So, this importance of entrepreneurship helps in generating the national income of a country. The government will use these proceeds to invest in the country.

3. Social Change by Entrepreneurs: This importance of entrepreneurship breaks with tradition and reduces reliance on outdated systems by providing unique products and services. This will improve the quality of life. Such as the smartphone industry continues to grow, tech entrepreneurship will have a huge, long-term impact on the planet.

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LESSON 7

BUSINESS ENVIRONMENT

BUSINESS ENVIRONMENT

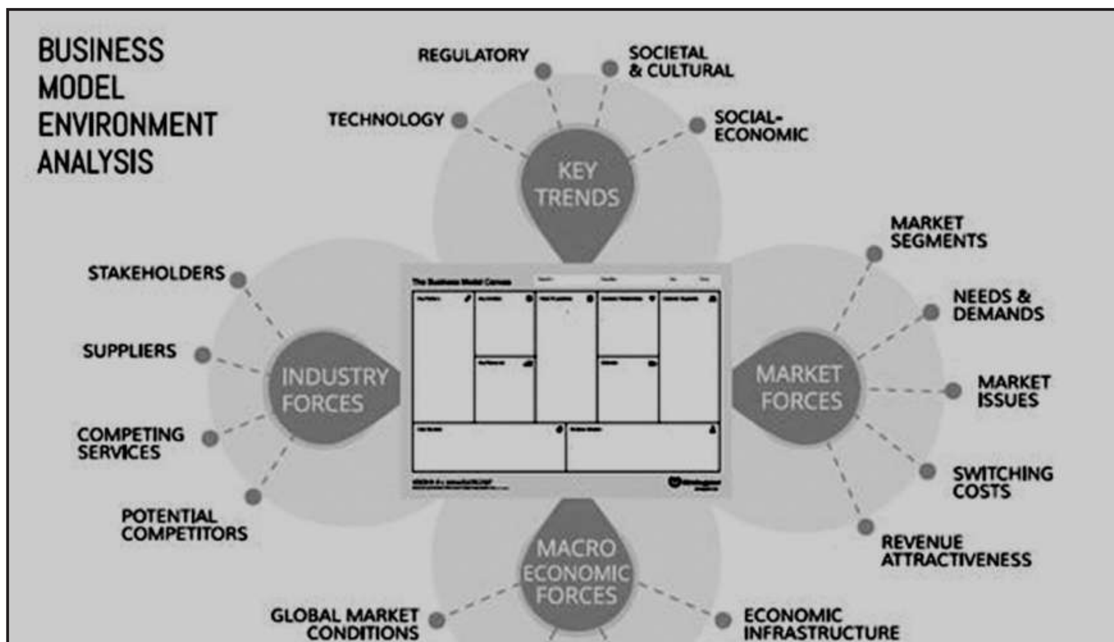
Concept

The term "business environment" refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments. These elements have a direct or indirect impact on how a firm operates and performs its functions. These factors taken together have an impact on the environment and situation of businesses or corporate entities.

External factors include economic conditions, technological advancements, legal and regulatory frameworks, socio-cultural trends, and the competitive landscape, among others. Internal factors refer to elements within the company's control, such as organizational structure, resources, culture, and operational processes. Understanding the business environment is essential for businesses to anticipate changes, identify opportunities, and mitigate risks effectively, ultimately shaping their strategies for sustainable growth and success.

Business environment enhances overall performance, growth, and profitability of the business by assisting in the identification of business prospects, utilising helpful resources, and assisting in planning. Business environments come in a variety of forms, including macro and micro environments.

The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment. So let's begin by learning about the business environment's basics and its significance.



Now let us look at some of the definitions of business environment.

According to Barry M. Richman and Melvgn Copen, Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country.

According to Keith Davis, Business environment is the aggregate of all conditions, events and influences that surround and affect business.

Bayord O. Wheeler defines business environment as, the total of all things external to firms and industries which affect their organisation and operation.

According to Arthtur M. Weimer, Business environment encompasses the climate or set of conditions, economic, social, political, or institutional in which business operations are conducted.

According to Glueck and Jauch, The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government.

IMPORTANCE OF BUSINESS ENVIRONMENT

For any organisation, the business environment offers both possibilities and threats. A good manager of a business not only recognises and assesses the environment, but also responds to these outside factors. If we take into account the following details, we can clearly see how important the business environment is:

1. **Enables to Identify Business Opportunities:**

   Not all changes are bad. If recognised and assessed, they may contribute to a company's success. Finding a change and utilising it as a tool to address a population or business's challenges is crucial.

   For instance, the Indian need for ticket booking bothered Mr. Phanindra Sama. He used to drive a long way to his travel agency to make his reservation, but even then, he wasn't sure if his seat was guaranteed. In response to the issue, he recognised a chance to create an app and joined forces with another person to create the online ticketing platform known as "redBus."

2. **Helps in Tapping Useful Resources:**

   Utilizing the beneficial resources needed for the firm requires careful examination of the business environment. It aids the business in managing these resources and transforming them into products and services.

3. **Coping with Changes:**

   The company needs to be aware of the constant changes in the business environment, including shifts in customer demands, new fashion trends, new government regulations, and technical advancements. The firm can implement a response to deal with those changes if it is aware of these predictable developments.

For instance, Nokia failed to adapt to the change by not incorporating Android OS into its smartphones at a time when the market for Android OS was booming and consumers were choosing Android devices for its user-friendly interface and apps. They lost a great deal of market value by failing to adapt.

4. **Assistance in Planning:**

   This is yet another facet of how crucial the corporate environment is. Planning only refers to the future tasks that must be completed. It is up to the business to select what plan it needs to develop in order to address the future, solve the problem, or take advantage of the opportunity when the business environment offers a problem or an opportunity. The business can incorporate plans to combat the modifications for a secure future after assessing the developments that have been offered.

5. **Helps in Improving Performance:**

   Businesses that are actively monitoring their surroundings not only adapt to the changes but also thrive in them. Adapting to external influences enables a company to increase performance and remain competitive.

6. **Risk Management:**

   The business environment is dynamic and often unpredictable. By monitoring external factors such as economic fluctuations, regulatory changes, and technological advancements, businesses can anticipate risks and take proactive measures to minimize their impact.

7. **Compliance and Governance:**

   Businesses operate within a complex regulatory environment. Understanding and complying with relevant laws, regulations, and industry standards are essential for avoiding legal issues, reputational damage, and financial penalties.

Features influencing business environment

1. **External influences**:

   Every firm is impacted by a variety of external circumstances, both directly and indirectly, as was previously said. These elements can include people, governmental rules, environmental issues, as well as other enterprises and organizations.

2. **Overarching Factors**:

   Regardless of the presence of the firm, these are aspects of society and the economy. They have an impact on all institutions. These are things like politics, the law, technology, and other things. Regardless of size or market, all businesses are impacted by general factors.

3. **Specific Factors:**

   These are the elements that directly affect the firm, including clients, the target market, rivals, suppliers, etc. Every company has a unique set of unique elements that make up its environment.

4. **The Interrelation of Factors**:

   The majority of elements that influence a business also influence one another. These are variables that are internal and external, particular and general.

5. **Uncertain Future**:

   A corporate environment's future is extremely elusive to forecast. It can swiftly change because there are so many different forces at work. Although some firms are capable of making accurate predictions for the near future, the factors influencing it are unstable.

6. **Constantly Changing**:

   The corporate environment nowadays is extremely dynamic due to the rapid changes in technology and various societal variables. This makes it very challenging to define a corporate environment. Complex Effects. The effects that the various internal and external factors have on businesses are quite complex. They may seem like a small factor at the time but have a larger impact overall, or vice versa.

7. **Highly Relative**:

   The factors that are beneficial towards one business may be the doom of another. The relationship between factors that affect a business and the particular businesses is highly relative. But there are also factors that affect similar businesses in an equal manner.

Business Environment Factors

It takes constant attention to operational planning, modifications, and other variables to manage business environments. There are a number of internal and external elements at play that might affect business decisions.

Below is a list of the six key factors that affect business environments.

1. **Technological Factors**

   If a corporation doesn't keep up with the most recent technological advancements, its revenues may drastically fall as it evolves its business strategy.

   For instance, brands will lose money if firms switch to eCommerce models but are forced to continue accepting offline orders. Another example is a business that creates GPS navigation systems for cars. If they continue to just serve automotive firms and don't diversify into mobile devices and other industries, the brand may experience a decline in revenue.

   Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.

2. **Political and Legal Factors**

   Political and legal factors influence how a business operates in that region and whether or not it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant. Some policies that affect companies range from taxation, import restrictions, intellectual property laws, employment laws, and tariffs.

3. Demographics

Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them. Customers cannot take full advantage of offerings if their needs are not met and their pain points are not addressed.

Age, gender, geography, country, marital status, economic level, educational attainment, and race are a few demographic factors that have an effect on business operations. A mobile company targeting only a particular segment of the population with a plan, such as those in the college level with special offers, is an example of demography in action. Another illustration is when they make a different offer to businesses and other professionals. All age groups now use communications technology, and the technology environment has transformed.

4. Competitive Factors

Businesses can research their rivals, discover the newest market trends, and maintain an advantage. They may keep expanding and not worry about losing money if they stay current in the market and offer their customers the greatest services. Market and competitive intelligence might provide understanding of their operations. It teaches how to implement the best marketing tactics, as well as how to improve products and processes.

5. Social Factors

Where customers live influences their decision to spend money on a company that sells specific goods/services. If a business wants to succeed with the crowd, it must understand where the people are coming from. Social factors include current events, societies, and local communities.

Businesses consider social movements and factors to make products more appealing to customers. They have to cater to customers' specific preferences, values, and ideals to stay relevant.

For example, a company that sells products for women must be able to connect with other women's emotional or financial values. It should focus on customer satisfaction and make lives easier for female buyers.

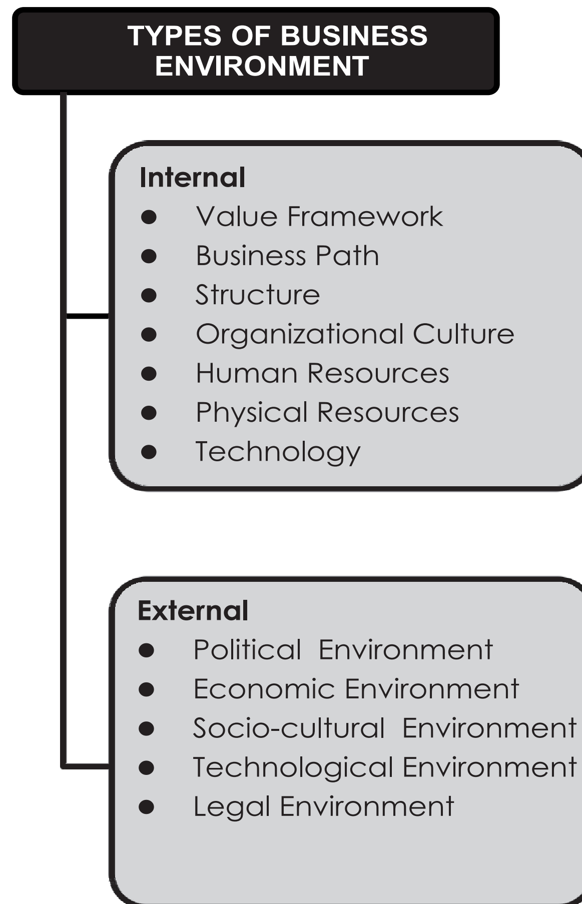
6. Global Factors

How a company handles both domestic and foreign concerns is influenced by global variables. Because social and cultural standards are influenced by external influences, company leaders must create staff training programmes that are appropriate. Business organisations strive to create a wide range of goods and services. This is impossible without awareness of global issues. The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.

Types of Business Environment

There are two types of Business Environment that we will be looking into, internal and external factors.

These types define the business environment in its most understandable manner.



A. Internal Environment

An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment. The main internal elements that influence the business environment are listed below.

1. Value Framework

This is basically the business' functional process and how the value in a business is judged. The value framework of a business defines the manner in which its employees will perform their roles. And, how their work culture will be regulated.

2. Business Path

Every company has a reason to exist and a purpose to serve. These two factors along with how the business sees itself in the future constitute the business path. These define the changes that will be enforced into the business framework.

3. Structure

The hierarchical or non-hierarchical structure of a business that defines each employee's and management's role is one of the central aspects of the internal business environment. There are various business structures such as matrix, bureaucratic, functional, etc.

4. Organizational Culture

Although undefinable in exact terms, every business has a unique culture that it adheres to. This includes the treatment of employees, resources, clients, etc.

5. Human Resources

A relatively recent idea that has taken over the business world is human resources. Human resources is responsible for managing personnel on a micro level while firms get bigger every day. As a result, it is crucial in establishing the business environment.

6. Physical Resources

Every business needs resources to function, and how these resources are managed has a significant impact on the environment inside the company..

7. Technology

A corporate environment is constantly defined by technology, both internally and externally. It is dependent on both the technology being used by the business on the inside and the technology being utilised by its rivals on the outside.

B. External Environment

A socio-economic entity is a business. As a result, society's numerous facets are fundamental to the success or failure of every organisation as well as to the environment it operates in. PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.

1. Political Environment

From the political climate of the business' geography to the international relations it holds, every aspect of politics affects a business. Many countries have laws that facilitate some businesses, others have laws that restrict businesses. The condition of local politics and its relation to other countries highly affect the business condition.

The main components of Political Environment are:

- The Constitution of the Country.
- Political organization including the philosophy of political parties, ideology of the government, nature and extent of bureaucracy, influence of primary groups etc.
- Political stability including the structure of Military and police force, election system, Law and order situation etc.
- Image of the country and its leaders.
- Foreign policy alignment or non-alignment.
- Law Governing Business

The economy is constantly impacted by political developments, hence the political environment frequently has an indirect impact on the economic environment. Business regulation laws are a byproduct of the political system in place. The political environment also includes media, social and religious organizations, as well as a variety of lobbying groups, in addition to government and legislative actions. They collectively have a

significant impact on how a nation conducts business.

The political system, the government's policies, and its stance towards the business community and unionism are all parts of the political environment. All of these factors have an impact on the commercial enterprises' tactics. Business and related activities are greatly influenced by the stability of the government.

It conveys a message of power and assurance to investors and different interest groups. The political party's philosophy also has an impact on the corporate organisation and how it conducts business. The Coca-Cola, a popular cold beverage today, had to stop operations in India in the late 1970s. Once more, trade union actions have an impact on how businesses are run. In India, the majority of work unions are connected to different political parties. The operations of the firm are also negatively impacted by strikes, lockouts, and other labour conflicts.

Trade unions are now demonstrating a high level of maturity and have begun positively influencing the success of the business organisation and its operations through employee involvement in management as a result of the highly competitive business climate.

2. Economic Environment

The current economic condition in most countries is highly volatile. And this is relevant to every business large and small. However, the presence of the open market has been highly beneficial towards businesses as well. Since the global economy is volatile most big business has to be careful of its impact at all times.

The main components of Economic Environment are:

- Economic system i.e., capitalist, socialist and mixed economic system.
- Economic policies such as, monetary policy, fiscal policy, supply side policy etc.
- Economic indices such as, Gross Domestic Product, Consumer Price index, Per Capita Income etc.
- Financial markets such as, share market, money market, capital market etc.
- Industrial infrastructure etc.

Examples of Economic Environment

1. **Demand/supply:** An increase in the supply and demand of goods can cause inflation. Likewise, a decrease in supply and demand can lead to a depression. Inflation, recessions, and boon periods influence consumer habits and business performance.
2. **Exchange rate:** The exchange rate influences the sales of goods on the global level.
3. **Interest rate:** Interest rates can affect borrowing costs, dictating business opportunities to finance projects.

3. Socio-cultural Environment

Every society has its unique requirements and choices. These shape regional business personas and are one of the primary external factors for all businesses worldwide. For example, let's see the current trend towards a western lifestyle throughout the world. This has led to a rise in demand for western food and fashion.

The main components of social and cultural environment are:

- Demographic Forces: includes Size, Composition and Mobility of Population.
- Social Institutions and Groups.
- Caste Structure and Family Organisation.
- Educational System and Literacy Rate.
- Customs, beliefs, values and life styles.
- Tastes and Preferences of People.
- Entrepreneurial Spirit.

The social environment primarily influences the organization's strategic management process with regard to decision-making about products and markets as well as mission and objective formulation. The social environment of business comprises societal elements like norms, values, and beliefs, as well as socioeconomic issues like poverty, illiteracy, and life expectancy rates.

The social structure and ideals that a society upholds have a significant impact on how commercial firms operate. For instance, during holiday seasons, there is a rise in demand for fresh flowers, fruits, sweets, and clothing. The consumers are becoming more aware of the quality of the items as a result of the rise in literacy rates.

Examples of socio-cultural environment

1. *Family structure* - Nuclear families have other needs likened to joint families. This impacts firms like housing, food and education.
2. *Social class* - Upper-class clients demand luxury products, while lower classes demand cheap needs. Firms segment according to other income groups.

4. Technological Environment

Technology is one of the primary drivers in today's world. Businesses that are unable to match up to the current technological progress are having a hard time establishing their existence. And the businesses that are using tech to their advantage are moving ahead of their competitors. IT itself has become a leading business in the past few decades.

The main components of Technological Environment are:

- Rate of Technological change and Diffusion.
- New approaches to the production of goods and services.
- Use of New processes and equipment.
- Transfer of Foreign Technology.
- Impact of Technology on cost, quality and value chain.

Technology has an impact on a company's ultimate goods through altering the sourcing, manufacture, and distribution of its raw materials. When applied properly, technology can significantly alter a company's productivity. One field where technology keeps driving competitiveness to the edge is the computer industry.

Different countries' technological settings have an impact on how products are designed. For instance, electrical equipment are designed for 110 volts in the USA and many other nations. However, if they are intended for India, they must be 220 volts. The speed of technical change is extremely quick in the contemporary, competitive era.

As a result, a firm must occasionally adopt new technologies in order to thrive and expand in the market. It should be mentioned that most major industrial groups regularly engage in scientific research to improve and innovate their products and services. In actuality, no company today can afford to continue using outdated technology.

Examples of the technological environment

1. New technology
2. Production strategies
3. Information and communication technology (ICT), such as the internet, mobile apps, smartphones and social media
4. Innovation
5. Augmented reality (AR)
6. Machine learning and artificial intelligence
7. E-commerce technology

9. Robotics
10. Automation
11. Data management practices
11. Research and development

5. Legal Environment

There are laws for businesses in every country in the world and every business has to abide by these laws. So, regulations are a primary factor that every business needs to consider in its external environment. But there are also regulations that help businesses thrive.

Example: A cigarette-selling company compulsorily has to put the slogan "smoking is injurious to health" on every packaging

The main components of Legal Environment are:

- Current Legislations.
- International Legislations.
- Regulatory bodies and processes.
- Tax Regulations.
- Competitive Regulations.
- Industry Specific Regulations.
- Government Regulations.

A partial list of the legislations that concern the business enterprises in India include:

i. Companies Act, 2013

ii. Foreign Exchange Management Act, 1999
iii. The Factories Act, 1948
iv. Industrial Disputes Act, 1972
v. Payment of Gratuity Act, 1972
vi. Industries (Development and Regulation) Act, 1951
vii. Prevention of Food Adulteration Act, 1954
viii. Essential Commodities Act, 1955
ix. The Standards of Weights and Measures Act, 1956
x. Trade Marks Act, 1999
xi. Copyright Act, 1957
xii. The Patents Act, 1970
xiii. Bureau of Indian Standards Act, 1986
xiv. Consumer Protection Act, 2019
xv. Environment Protection Act, 1986
xvi. The Geographical Indications of Goods (Registration and Protection) Act, 1999
xvii. Competition Act, 2002
xviii. SEBI Regulations
xix. Sale of Goods Act, 1930

Besides, the above legislations, the following are also part of the legal environment of business:

i. Provisions of the Constitution:

The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state governments also influence the operation of business enterprises.

ii. Judicial Decisions:

The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the courts in different matters relating to trade and industry also influence the business activities.

Different Types of the Legal Environment

a) *Domestic Legal Environment:*

1. The domestic legal environment encompasses the laws and regulations governing business activities within a specific country.
2. It comprises legislation passed by the government, court decisions, administrative orders, and policies issued by government authorities.

3. This legal system significantly influences businesses, shaping aspects ranging from company formation to the sale of goods and services.

4. Examples of laws and regulations in the domestic legal environment include labor laws, environmental regulations, tax codes, intellectual property laws, antitrust regulations, and consumer protection laws.

b) *Social Legal Environment:*

1. The social legal environment involves the regulatory framework and legal structures governing societal interactions and behaviours.

2. It comprises a diverse set of laws grounded in cultural, ethical, and social values, reflecting the prevailing norms of a given community or nation.

3. This legal environment extends to personal rights, civil liberties, discrimination, family matters, and various other social issues.

4. Its role is crucial in maintaining order, justice, and fairness within society, influencing individual behaviour, and shaping institutional practices.

c) *Economic Legal Environment:*

1. The economic legal environment constitutes the system of laws and regulations governing economic activities.

2. It includes laws related to business formation, operation, contract, property, and employment.

3. Sector-specific regulations within industries such as finance, energy, and healthcare are incorporated into the regulatory structure.

4. This legal environment plays a vital role in shaping the economy and promoting economic growth.

d) *Technological Legal Environment:*

1. The technological legal environment constitutes the body of laws and regulations governing the development, use, and commercialization of new technologies.

2. It includes laws about intellectual property, data privacy, and security, as well as regulations specific to technologies like artificial intelligence, autonomous vehicles, and drones.

e) *Political Legal Environment:*

1. The political-legal environment involves the interaction between the political and legal systems in a particular society or country, significantly impacting business operations.

2. It comprises government structures, policies, regulations, and the broader legal framework set by the governing body with respect to the country's benefit.

3. Changes in government, shifts in policies, and alterations in legal regulations can profoundly affect businesses, shaping their strategies, decision-making processes, and overall viability.

4. A thorough understanding and assessment of the political-legal environment are crucial for businesses to anticipate and adapt to challenges and opportunities within a specific jurisdiction.

6. Environmental Environment

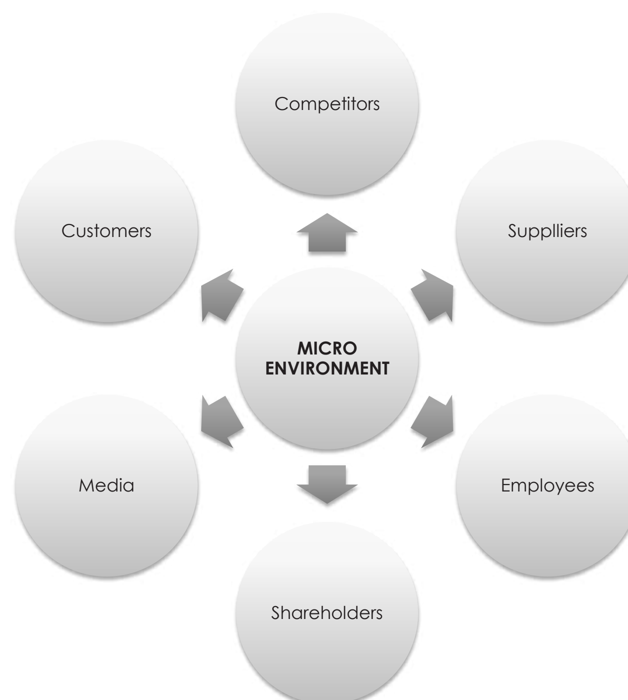
The world is currently facing an environmental crisis. As a result, all businesses are expected to adhere to a process that harms the environment in the least way possible. Also, certain environmental conditions in areas affect businesses. For instance, a cold season might bring down the agricultural business, but it will boost tourism.

The main components under natural environment are:

- Climatic Conditions.
- Agriculture, Commercial, and other Natural Resources.
- Ecological System.
- Levels of Pollution.

MICRO ENVIRONMENT :

The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located. The forces that surround the company are all included in the micro environment. These elements are particular to the company at question. The short-term performance of a corporation may be impacted as a result.



ELEMENTS OF MICRO ENVIRONMENT

Because some aspects of the micro environment are specific to the company, they are closely tied to the business and do not have the same effects on other businesses in the same sector.

As a result, the environment that the company deals with in its particular domains, such as the industry or strategic group, can be described as the micro environment.

1. **Customer**

   The customer is king in business. Every business strives to provide the highest quality goods and services at the most competitive costs. Customers are enticed with additional freebies and discounts. In every market area, keeping track of client feedback and understanding their needs is becoming more and more crucial. With such a tactical approach, any company may win over the hearts of their clients and generate financial profits as a result. In other words, the majority of companies operate largely to fulfill the demands and desires of their clients. The goal of the business is to please customers while making money.

2. **Competitors**

   Any business faces intense rivalry due to the enormous number of rivals in the same industry. As a result, you need to have a strategy for dealing with the opposition. It will let you gain control of monopolies and prosper in any business segment. To differentiate your product from others on the market, it needs not only have the USP but also the UPB. An essential aspect of the competitive environment that any organization must comprehend is the need to stand out from the crowd. Regardless of how large a company is, monopolies do not exist in the commercial world.

3. **Employees**

   Before conquering the market, it is essential to win the workplace. Any organization's workforce has a significant impact on both the micro and macro business settings. The number of workers has a direct impact on output rate. They so determine the success or failure of any organisation directly. Every successful company strives to consistently improve and train each employee's skills. Additionally, an organisation never stops praising talent that inspires and motivates workers. The market is much larger than the sum of its consumers. Therefore, the company needs engage the best employees to assess the market's current size, development potential, and attractiveness.

4. **Shareholder**

   Any firm, whether little or huge, needs money and capital to establish themselves and develop. Investors called shareholders to donate money to the business. Shareholders now own the company's shares, i.e., they invest in the firm, and in exchange, the corporation distributes profits to its shareholders. Thus, the appropriate equation between any organisation and its shareholders is established.

   Shareholders are the owners of the corporation in addition to being investors. They are, in a sense, the owners of the company because they have equity in it. This suggests that they have some influence over how a company is run.

5. **Suppliers**

   A supplier is a business that offers the raw materials and other inputs needed for the mass

production of goods. Any successful business has a close, mutually beneficial connection with its suppliers. As a result, both entities profit from the positive and cooperative connection. The situation where a company runs out of raw materials and the entire manufacturing and supply process is delayed can also be used to understand it.

6. **Media**

The media is an effective tool for promoting any brand's goods and services. The direct consumer contact concept is practical. Consequently, maintaining a cordial relationship with the media is equally essential. Any unfavourable comments or press coverage could severely harm the brand's reputation in addition to causing financial losses. In order to use the power of the media for the promotion and growth of a business, organisations recruit experts like PR managers. If you were to own a business, for instance, you would require media in order to promote your name and sell your products.

EASE OF DOING BUSINESS INDEX BY WORLD BANK FOR INDIA AND DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE (DPIIT) FOR STATES

On September 25, 2014, Prime Minister Narendra Modi unveiled an initiative to encourage both domestic and foreign businesses to produce their goods in India. The primary goal is to increase the manufacturing sector's share of the GDP to 25% by 2025. It focuses on 25 economic areas, including information technology (IT), business process management (BPM), automobiles, and others, with the main goals of fostering innovation, increasing skill development, and protecting intellectual property.

The Make in India campaign's guiding principles aim to make doing business in India simpler. Each pillar has a unique approach of helping India move up the EODB rankings.

Firstly, as part of the new procedures, the government has started a number of reforms aimed at attracting FDI, encouraging business, and easing the burden of outmoded rules and regulations on the business climate.

Secondly, each nation's infrastructure is essential for its sound development. Along with the construction of infrastructure and the creation of smart cities equipped with technology and high-speed communication, the government is also focusing on the training of trained labour for various industries.

Thirdly, the Make in India campaign is focusing on 25 sectors for which it has issued a variety of policies, including eliminating limitations on construction and enabling 100% FDI in the railways and pharmaceutical industries.

Fourthly, the government adopted a new mindset with the launch of the Make in India campaign that aims to change the way it engages with the business community. Its principal objective is to assist in the nation's economic development.

Through its Ease of Doing Business Index (EDBI), the World Bank evaluates the policies implemented by nations around the world each year to reduce the regulatory burden. The index uses ten different factors to measure various business rules that are significant to domestic businesses and to the competitiveness of the country.

Doing Business evaluates aspects of labour market laws that are published in a different area and are not factored into the ranking. EDBI is regarded as a trustworthy source of data on an economy's business environment. The goal of EDBI rankings is to contrast the economic climates of various nations.

Rankings for the ease of doing business have an impact on the reputation of the countries, which leads them to implement significant legislative reforms.

In light of India's improved ranking in the World Bank's Ease of Doing Business (EODB) Index, which rose from 130th in 2016 to 63rd in 2019 out of 190 economies, reforms undertaken by the government to improve the business environment in the nation, such as removing regulatory burdens, reducing delays, introducing the Goods and Services Tax (GST), and promoting paperless transactions, among others, have received widespread recognition. Additionally, State Governments are carrying out their own annual Business Reform Action Plans (BRAPs) as part of the Make in India drive to raise their rankings on the ease of doing business, which show their desire to reform and draw in investments.

Some specific indicators and their rankings for India in 2019 were as follows:

- Starting a Business: Rank 136
- Dealing with Construction Permits: Rank 27
- Getting Electricity: Rank 22
- Registering Property: Rank 154
- Getting Credit: Rank 25
- Protecting Minority Investors: Rank 7
- Paying Taxes: Rank 115
- Trading across Borders: Rank 68
- Enforcing Contracts: Rank 163
- Resolving Insolvency: Rank 52

From the 14th rank for the period between 2018-22, India now stands at 10th rank in terms of business environment for the period 2023-27

Department for Promotion of Industry and Internal Trade (DPIIT) is spearheading the exercise for improving overall business regulatory environment in the country by streamlining the existing regulations and processes and eliminating unnecessary requirements and procedures.

DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014. Under Business Reforms Action Plan (BRAP), all States/UTs in the country are ranked on the basis of reforms implemented by them on designated parameters. This exercise has helped in improving business environment across States. The BRAP Portal (www.eodb.dipp.gov.in) has been launched to track implementation of reforms on a real–time basis.Till date four editions of Business Reforms Action Plans have been completed. The fifth edition is underway.

A 213 point District Reforms Plan has also been prepared and shared with States and UTs for implementation of reforms by all the districts. It is spread across 8 areas: Starting a Business, Urban Local Body Services, Land Reform Enabler, Land Administration and Property Registration Enablers, Obtaining Approval for Construction, Paying Taxes, Miscellaneous and Grievance Redressal/ Paperless Courts and Law & Order.

DPIIT is the Nodal Department for coordination with Ministries/Departments and States/UTs to reduce compliance burden on citizens and business activities. The objective of this exercise is to improve

Ease of Doing Business and Ease of Living by Simplifying, Rationalizing, Digitizing and Decriminalizing Government to Business and Citizen Interfaces across Ministries/Departments and States/UTs.

The key focus areas of the exercise are:

(i) Rationalization/Auto-renewal of licenses / certificates/permissions

(ii) Risk-based/Third-party Inspections and Audits

(iii) Standardized and simplified return filing

(iv) Rationalized maintenance of registers

(v) Minimize/eliminate display requirements

(vi) Digitization and simplification of manual forms and records

Reforms for Ease of Doing Business and Ease of Living

Regulatory burden on a business has a significant impact on its performance. Regulations impose both time and cost for compliance and, thus, affect competitiveness of business. Regulations, however, are an important tool for ensuring that markets work effectively and do not meet failure due to trust deficit in products or among various players.

Regulations bring in the minimum threshold of acceptability and thereby make markets work.

In view of these conflicting aspects, there is a requirement to ensure that, while necessary regulations are put in place, their implementation remains efficient and effective. The time and costs imposed by the regulations should be minimum. Low regulatory burden means that entrepreneurs can devote their time on productive activities. It also leads to lower costs as the requirement of engaging regulatory experts is reduced. There are several ways in which delivery of government services can be improved.

Citizens are paramount to all initiatives of the Government of India. It is also felt that reduction in compliance burden on citizens will lead to the overall objective of Ease of Living in the country.

Government of India is spearheading the exercise for improving overall business regulatory environment and reducing compliance burden for businesses and citizens Tension category, has made it simpler to obtain electricity connection. Process of getting a new commercial electricity connection streamlined by reducing procedures and made online. Cost to obtain electricity connection reduced over years.

DPIIT has started a cohesive communication campaign whereby information is shared with the stakeholders through social media such as Twitter, Instagram and Facebook.

Ministries and Departments have been advised to make a separate tab for 'Ease of Doing Business' on their websites. The focus is to spread awareness among professionals about reforms implemented in recent past through extensive outreach campaign and at the same time, to list out new reforms to be implemented so as to broaden the reform agenda. The Monitoring and Evaluation mechanism has also been initiated for systematic feedback from the stakeholders on regular basis.

State and District-level Ease of Doing Business Reforms

India is one of the few countries which have a sub-national ranking. DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014. Under the reform action plan, all States/UTs in the country are ranked on the basis of reforms undertaken by them on designated parameters. Till date four editions of State Reform Action Plans have been completed.

The fifth edition (301- point State Reform Action Plan 2020), which is underway, covers recommendations for reforms on regulatory processes, policies, practices and procedures classified into 15 Reform Areas. In order to handhold States/UTs in implementation of reforms, 10 Capacity Building Webinars on the best practices, 12 video conferences and regional workshops have been conducted. Further, a set of FAQs have been prepared and shared with the States/UTs to help them in understanding reform requirements, objective and other key points.

The aim of this exercise was to create conducive business environment by streamlining regulatory structures and creating an investor-friendly business climate by cutting down red tape. The BRAP also sought to lay out the first of a series of recommendations targeted at increasing transparency and improving the efficiency and effectiveness of various government regulatory functions and services for business in India with a view to create an investor-friendly business climate by cutting down red tape.

Various Reforms undertaken by the States

Over the years, States/UTs have introduced several reforms as part of the BRAP to improve their business regulatory environment and attract investments.

Rankings of the States and Union Territories on the basis of the implementation of the Business Reform Action Plan (BRAP) are given in Annexure. Some of the reforms undertaken by the States over the last few years to improve their business regulatory environment and attract investments are as follows:

Reforms	States implementing reforms	Best Practices
Single window clearance systems	Andhra Pradesh, Maharashtra, Rajasthan, Gujarat, Haryana, Jharkhand, Chhattisgarh, Madhya Pradesh, Telangana, Punjab and Uttarakhand	● Andhra Pradesh and Telangana have the best single window mechanism ● Telangana government has enacted the Telangana State Industrial Project Approval and Self Certification System (TS-iPass) Act,2014" ● Punjab government has implemented the one stop clearance system which provides one stop office for all new and expansion projects
Tax reforms	All the states and Union Territories	In July 2017, Indian states and UTs have implemented the State/Union Goods and Services Tax (SGST/UTGST) subsuming various state level indirect taxes such as VAT, CST, Entry tax, etc. making the compliance easier for businesses.
Construction permits	Chhattisgarh, Uttarakhand, Andhra Pradesh, Haryana, Gujarat, Madhya Pradesh, Rajasthan, Telangana and Maharashtra	● Online applications and uploading of building plans for obtaining automated construction permit approval. ● Majority of the States and UTs have defined clear timelines for construction permits

Reforms	States implementing reforms	Best Practices
Environment and labour reforms	Andhra Pradesh, Karnataka, Uttar Pradesh, Chhattisgarh, Gujarat, Madhya Pradesh, Bihar, West Bengal Haryana, Jharkhand, Odisha, Punjab, Rajasthan, Tamil Nadu, Maharashtra, Telangana and Uttarakhand	● Gujarat government launched an online egovernance system known as XGN. ● Jharkhand government has implemented a single simplified online integrated return for all the 14 applicable labour laws.
Inspection reforms	Andhra Pradesh, Rajasthan, Haryana, Telangana, Jharkhand, Chhattisgarh, Uttarakhand, Madhya Pradesh, Odisha, Karnataka, Punjab, Punjab, Gujarat and Uttar Pradesh	● Jharkhand government has implemented an online inspection and compliance monitoring mechanism. ● Computerised allocation of units of inspectors for joint synchronized inspection
Judicial proceedings	Rajasthan, Chhattisgarh, Gujarat, Jharkhand, Andhra Pradesh, Madhya Pradesh, Maharashtra, Telangana and Haryana	● Chhattisgarh government has constituted a judicial bench and commercial/district courts in each district for speedy resolution of disputes. ● Every commercial dispute greater than Rs. 1 crore fall under the jurisdiction of commercial court.

The important features of India's performance in 2019 are:

- The World Bank has recognized India as one of the top 10 improvers for the third consecutive year.
- Recovery rate under resolving insolvency has improved significantly from 26.5% to 71.6%.
- The time taken for resolving insolvency has also come down significantly from 4.3 years to 1.6 years.
- India continues to maintain its first position among South Asian countries. It was 6th in 2014.

TRADE AND AUXILIARIES TO TRADE

Buying and selling of goods and services with the aim of earning profits is known as Trade. It is one of the most essential parts of commerce. It enables to make the goods available to the consumers or users. These days goods are manufactured on a large scale and it is very difficult for the producers to reach the consumers by themselves. Middlemen serve as a link between the producers and consumers by making the goods available to them. In the absence of trade, both producers and consumers will have to search for each other, and it would not be possible to carry on business on a large scale. Trade can be carried out on small scale, like in the case of Hawkers and small shops, or large scale, like Departmental stores.

Trade may be classified on the basis of the geographical area into two bases:

a) **Internal Trade**: Internal trade is concerned with buying and selling of goods and services within the geographical boundaries of a nation. It is also known as home trade or domestic trade. Here, both buyers and sellers belong to the same country. Internal trade may be further classified into two parts- Wholesale trade and Retail trade.

i) *Wholesale trade:* Wholesale trade involves buying and selling of goods in large quantities or in bulk. Wholesaler buys goods directly from the manufacturer in large quantities and sells them in relatively less quantities to retailers. Wholesaler serves as an important link between manufacturers and retailers, and maintain large stock of goods.

ii) *Retail Trade*: It involves buying goods in small quantities from the wholesalers and selling them to the final for final consumption is known as retail trade. A retailer serves a link between the wholesaler, manufacturers and consumers. They maintain direct contact with the customers and provide feedback to the wholesalers about the likings and disliking of the customers.

b) External Trade: External or foreign trade consists of the exchange of goods and services between persons or organizations operating in two or more countries. It is also known as foreign trade or international trade. External trade is further divided in three parts:

i) *Import trade*: When goods are purchased from another country, it is known as import trade. For example, India imports crude oil from the Middle-east countries.

ii) *Export Trade*: When goods are sold to other country, it is known as export trade. For example, India exports cereals, spices and other products to USA.

iii) *Entrepot trade*: When goods are imported from a country for purpose of exporting it to another country, it is known as entrepot. For example, India imports many commodities from European countries to export them to Nepal.

Auxiliaries to Trade

Commerce, the intricate web of economic activities that involves the exchange of goods and services, forms the backbone of any modern society. To keep this wheel turning smoothly, a range of support services and processes come into play, collectively known as "Auxiliaries to Trade."

These auxiliaries are like the invisible hands that facilitate the flow of goods and services, ensuring efficiency, transparency, and reliability in the marketplace. Auxiliaries to trade encompass diverse services and activities that do not directly involve producing or exchanging goods but play a pivotal role in facilitating trade transactions. These services act as intermediaries, smoothing out the complexities of commerce and enabling businesses to focus on their core activities.

In the vast commerce landscape, auxiliaries to trade are essential pillars supporting the structure of global economic activities. From ensuring the safe passage of goods across continents to providing financial stability and fostering brand recognition, these auxiliaries play a critical role in shaping the business world.

The interplay between these services creates a harmonious ecosystem where trade can thrive, benefiting businesses and consumers. The concept of auxiliaries to trade can be best understood by categorizing them into several key components:

i) *Transportation and Logistics*: Efficient transportation and logistics are essential for moving goods from manufacturers to consumers. This includes various modes of transportation like road, rail, air, and sea. Additionally, logistics services involve warehousing, packaging, and distribution. Without these auxiliaries, the global supply chain would grind to a halt. For example, companies like FedEx, UPS, and DHL provide critical logistical support to ensure packages reach their destinations swiftly and securely.

ii) *Insurance*: Risk is an inherent part of trade, and insurance is a safety net. Marine insurance, cargo insurance, and liability insurance protect businesses from potential losses due to accidents, theft, damage, or unforeseen events while transporting goods.

iii) *Banking and Finance*: Financial institutions play a vital role in trade by providing letters of credit, trade finance, and currency exchange services. Letters of credit ensure payment to the exporter upon meeting specified conditions, minimizing risk for both parties.

iv) *Communication and Information Services*: In the digital age, communication and information services are indispensable auxiliaries. Effective communication between buyers, sellers, and intermediaries ensures smooth trade transactions. Online platforms like Alibaba and Amazon have revolutionized trade by connecting buyers and sellers worldwide.

v) *Advertising and Marketing*: Creating awareness about products and services is crucial for trade success. Advertising and marketing agencies help businesses reach their target audiences, influencing purchasing decisions. Brands like Coca-Cola and Apple owe a significant portion of their success to effective advertising strategies.

vi) *Legal and Regulatory Support*: Navigating the complex legal and regulatory landscape is essential for international trade. Legal experts provide guidance on contracts, intellectual property rights, import/export regulations, and dispute resolution. Law firms like Baker McKenzie specialize in international trade law.

vii) *Market Research and Analysis*: Understanding market trends and consumer preferences is essential for making informed business decisions. Market research firms collect and analyze data to provide insights into potential opportunities and threats. Nielsen and MarketResearch.com are examples of companies offering such services.

Significance of Auxiliaries to Trade

The auxiliaries to trade perform multifaceted functions that contribute to the efficient functioning of the global economy. Their significance can be highlighted through the following points:

i) *Risk Management*: Trade involves inherent risks, from damage during transportation to fluctuating currency values. Insurance and financial services mitigate these risks, giving businesses the confidence to engage in international trade without fearing substantial losses.

ii) *Efficiency and Speed*: Transportation and logistics services ensure that goods reach their destinations promptly and efficiently. This efficiency is vital for perishable goods, such as fruits and vegetables, and industries with just-in-time manufacturing processes.

iii) *Global Connectivity*: Communication and information services bridge the geographical gap between buyers and sellers, enabling them to interact and transact regardless of physical location. This global connectivity expands market reach and opportunities for businesses.

iv) *Legal Compliance*: International trade involves navigating complex regulations and legal requirements. Legal and regulatory support ensures that businesses remain compliant with international laws, avoiding legal disputes and barriers to trade.

v) *Informed Decision*-Making: Market research and analysis provide valuable insights that guide businesses in making informed decisions. Understanding consumer behavior and market trends enables companies to tailor their products and strategies accordingly.

vi) *Sustainable Growth*: Advertising and marketing services contribute to brand building and consumer awareness. This, in turn, drives demand for products and services, fostering sustainable business growth.

Examples of Auxiliaries to Trade

Example 1: The Role of Logistics and Transportation

Consider a multinational electronics company that manufactures smartphones in Asia and sells them in North America. The company relies on an intricate network of transportation and logistics providers to ensure timely delivery and minimize costs. Ships carry bulk shipments across oceans, while cargo planes expedite high-demand deliveries. Additionally, warehousing and distribution centres are strategically located to efficiently reach local markets. The company's success relies on the quality of its products and the seamless coordination of transportation services.

Example 2: International Trade Financing

A small artisanal coffee producer in South America receives an order from a European distributor. However, the producer faces cash flow challenges due to the time gap between shipping and payment receipt. In this scenario, a bank can provide trade financing by offering a letter of credit. This financial instrument ensures that the producer receives payment upon meeting the specified conditions, alleviating non-payment risk and enabling the producer to fulfill the order without financial strain.

Example 3: Market Research and Branding

A fashion retailer aiming to expand its presence in a new market leverages market research services to understand local preferences and trends. Armed with this knowledge, the retailer tailors its product offerings to suit the local taste, ensuring higher chances of success. Additionally, an advertising agency assists in creating a culturally relevant marketing campaign that resonates with the target audience, boosting brand visibility and engagement.

RECAPITULATION

- The term "business environment" refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments
- The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment.
- Utilizing the beneficial resources needed for the firm requires careful examination of the business environment.
- Features influencing business environment are External influences, Overarching Factors, Specific Factors, The Interrelation of Factors, Uncertain Future,Constantly Changing, Highly Relative.
- Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.
- Political and legal factors influence how a business operates in that region and whether or not

it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant

- Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them
- Businesses can research their rivals, discover the newest market trends, and maintain an advantage
- Social factors include current events, societies, and local communities. Businesses consider social movements and factors to make products more appealing to customers.
- The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.
- Types of Business Environment is Internal and External Environment.
- An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment.
- PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.
- The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located.
- DPIIT, in consultation with the State Governments, started a comprehensive reform exercise in States and UTs in December 2014
- From the 14th rank for the period between 2018-22, India now stands at 10th rank in terms of business environment for the period 2023-27.
- A 213 point District Reforms Plan has also been prepared and shared with States and UTs for implementation of reforms by all the districts. It is spread across 8 areas: Starting a Business, Urban Local Body Services, Land Reform Enabler, Land Administration and Property Registration Enablers, Obtaining Approval for Construction, Paying Taxes, Miscellaneous and Grievance Redressal/ Paperless Courts and Law & Order.
- DPIIT is the Nodal Department for coordination with Ministries/Departments and States/UTs to reduce compliance burden on citizens and business activities.

SELF TEST QUESTIONS

(*These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation*.)

Ques1. What are the 5 common types of business environments?

Ques 2. Why is creating a business environment important?

Ques 3. What is the impact of a business environment on an organisation?

Ques 4. What are the top tools used for business environment analysis?

Ques 5. Identify the importance of understanding Business Environment in the following Case:

Maruti Udyog became the leader in the small car market because it was the first to recognize the need

for small cars in an environment of rising petrol prices and a large middle class population of India.

Ques 6. Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom Creations Ltd. He launches a new product in an e-learning for senior Secondary School students in Commerce stream, which already has n established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also. Identify and quote the lines from above para which highlight the significance of understanding business environment.

Ques 7. The court passed an order that all schools must have water purifier for the school children as 1. Society in general is more concerned about quality of life. 2. Innovative techniques are being developed to manufacture water purifier at competitive rates. 3. Incomes are rising and children at home are also drinking purified water. The government is also showing positive attitude towards the water purifier business. Identify the different dimensions of business environment by quoting from the above details

Ques 8. Which component of business environment requires that advertisements of baby food must necessarily inform the potential buyers that mother's milk is the best? Discuss

Ques 9. Fill in the blanks in these below-mentioned statements.

a) India adopted the policies of global integration after the economic crisis of _____.

b) _____ is responsible for eradicating 'License Raj' from India.

c) Multi-lateral trade agreements help in promoting _____.

d) The elements of ____ are commonly referred to as LPG.

Answers:

a) 1991

b) Liberalization

c) Globalization

d) Global integration

Ques 10. Multiple Choice Questions

1. ____________ consists of economic conditions, economic policies, industrial policies, and economic systems.
   - Business Environment
   - Economic Environment
   - Natural Environment
   - None of the above

   Ans. b)

2. The External Environment of business is
   - Physical
   - Demographic

- Economic
- All of these

Ans. d)

3. In any market, ____ is king and they are the organizations most important micro economic factor.
   a. Customer
   b. Supplier
   c. Employee
   d. Competitor

   Ans: A

4. Which of these is NOT A PART OF Business Environment?
   a. Finance
   b. Technology
   c. Government
   d. Planning
   e. Media

   Ans: "D"

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LESSON 8

KEY GOVERNMENT INSTITUTIONS

KEY GOVERNMENT INSTITUTIONS

NITI AAYOG

Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

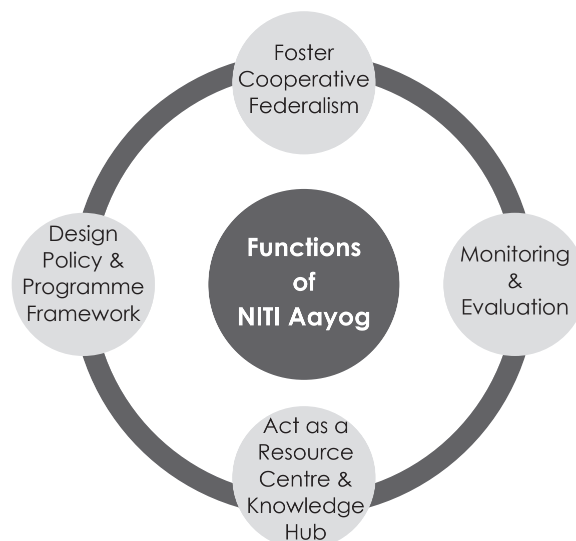
Features

NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide

strategic policy vision for the government, and deal with contingent issues.

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Design Policy & Programme Framework
2. Foster Cooperative Federalism
3. Monitoring & Evaluation
4. Think Tank and Knowledge & Innovation Hub



NITI Aaayog is based on the 7 pillars of effective governance – **(1) Pro-People (2) Pro-Activity (3) Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.**

SDG (Sustainable Development Goal) Vertical

Vision and Mission

The SDG Vertical, in collaboration with Union Ministries and States/ UTs, is the nodal agency for coordinating and monitoring the Sustainable Development Goals. Through the approach of cooperative and competitive federalism, the Vertical works towards accelerated adoption, implementation, and monitoring of the SDG framework and related initiatives at the national and sub-national levels.

The Vertical works closely with key stakeholders–including the Government, civil society, private sector, academia, think tanks, research organisations, and multilateral organisations–to fast-track the achievement of SDGs in the country.

Core Functions

Progress Monitoring

Monitoring progress achieved under the SDG framework at the global, national, and sub-national levels is the core function of the Vertical. NITI Aayog prepares and presents India's Voluntary National Review (VNR) at the High-Level Political Forum (HLPF) on Sustainable Development at the United

Nations. For national and sub-national progress monitoring, the Vertical has developed the SDG India Index and Dashboard, the official and principal SDG progress monitoring tool of the country.

SDG Localisation

The States and UTs play a pivotal role in the achievement of SDG targets at the national level. The Vertical works closely with the State/UT Governments and supports them in a range of initiatives for SDG localisation – including the State and District Indicator Frameworks, review mechanisms, and capacity building.

Private Sector Engagement

The targets under the SDG framework are not meant to be achieved by Government action alone. It requires commitment and solid action by the private sector. The Vertical drives initiatives to improve the participation of the private sector in SDG efforts. Key collaborative outputs in this area include SDG Investor Map and private sector integration for SDGs.

SDG Costing and Financing

Estimating the cost to achieve the SDGs and developing and implementing the tools to attract SDG-related finance and investments are key requirements for the timely achievement of the ambitious targets under the SDG framework. The initiatives of the SDG Vertical in this area include SDG costing exercise for key SDGs and an online platform to facilitate SDG-linked investments.

Multidimensional Poverty Measurement and Reduction

The SDG framework specifically targets ending poverty in all its forms, thereby raising the stakes on accelerated multidimensional poverty reduction. The Vertical steers the development of India's national Multidimensional Poverty Index (MPI) and the reform action plan to reduce multidimensional poverty.

The different verticals of NITI provide the requisite coordination and support framework for NITI to carry out its mandate. The list of verticals is as below:

1. Administration
2. Agriculture and allied sectors
3. Data Management and Analysis, and Frontier Techniques
4. E-Mobility
5. Energy
6. Education
7. Economics and Finance Cell
8. Governance and Research
9. Governing Council Secretariat and Coordination
10. Health and Family Welfare
11. Industry-I
12. Industry-II

13. Infrastructure Connectivity
14. Managing Urbanisation
15. MSME
16. Natural Resources and Environment, and Island Development
17. NGO Darpan
18. Project Appraisal and Management Division
19. Public-Private Partnerships
20. Rural Development
21. Science and Technology
22. Social Development Division
23. Skill Development, Labour and Employment
24. State Finances and Coordination
25. Sustainable Development Goals
26. Tourism and Culture
27. Water and Land Resources
28. Women and Child Development

PROJECT SATH-E

Project SATH-E, 'Sustainable Action for Transforming Human Capital-Education', was launched in 2017 to identify and build three 'role model' States for the school education sector. After an elaborate selection process, Jharkhand, Odisha and Madhya Pradesh were chosen.

The first phase of SATH-E was completed in March 2020. Significant strides were made in learning enhancement programmes (remediation), governance reforms, teacher training, recruitment, assessment and accountability, school consolidation, IT-enabled monitoring of schools, coaching of academic coordinators (BRCs/CRCs), among others.

A few of the achievements are as follows:

1. Learning enhancement programme/remedial teaching with workbook support for approximately 2.3 crore students implemented.
2. Academic monitoring of schools and students streamlined, with nearly 1.5 lakh inspections carried out every month.
3. Comprehensive rewards and recognition programmes, including external certifications, initiated.
4. Assessment reforms, including spot testing and learning tracking formats, introduced.
5. Multiple rounds of teacher training undertaken.
6. In Madhya Pradesh, 30% of the students moved from lower-level foundational literacy, numeracy

learning cohorts to the highest learning level for grades 3–8 in two years of the 'Dakshta Unnayan' learning enhancement programme.

7. In Odisha, average improvement of 10–15% observed in learning outcomes due to the 'Ujjwal-Utthan' learning enhancement programme.
8. In Jharkhand, 12% improvement across most competencies was recorded through the 'GyanSetu' learning enhancement programme.
9. With the onset of the Covid-19 pandemic, SATH-E adapted itself as 'Digi-SATH' to provide undeterred support via digital mediums.
10. Under the Digi-SATH initiative, MP's 'Hamara Ghar Hamara Vidyalaya' and 'Digi-LEP' (or 'Digital Learning Enhancement Programme'), Odisha's 'Shiksha Sanjog' and 'Shiksha Sampark', and Jharkhand's 'Hamara Doordarshan Hamara Vidyalaya' have been providing online educationand teacher training.

MINISTRY OF CORPORATE AFFAIRS

The Ministry is primarily concerned with the administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law. The Ministry is also responsible for administering the Competition Act, 2002 to prevent practices having an adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India(ICAI), Institute of Company Secretaries of India(ICSI) and the Institute of Cost Accountants of India (ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

The affiliated offices of Ministry of Corporate Affairs are as under:

(i) *Serious Fraud Investigation Office* : The Government in the backdrop of major failure of non-banking financial institutions, phenomenon of vanishing companies, plantation companies and the recent stock market scam had decided to set up Serious Fraud Investigation Office (SFIO), a multi-disciplinary organization to investigate corporate frauds. The Organization has been established and it has started functioning since 1st October, 2003.

(ii) *Competition Commission of India* : The Competition Commission of India (CCI) was established under the Competition Act, 2002 for the administration, implementation and enforcement of the Act, and was duly constituted in March 2009. The following are the objectives of the Commission.

   1. To prevent practices having adverse effect on competition
   2. To promote and sustain competition in markets
   3. To protect the interests of consumers and
   4. To ensure freedom of trade.

Consequent upon a challenge to certain provisions of the Act and the observations of the Hon'ble Supreme Court, the Act was amended by the Competition (Amendment) Act, 2007. The Monopolies and Restrictive Trade Practices Act, 1969 [MRTP Act] repealed and is replaced by the Competition Act, 2002, with effect from 01st September, 2009 [Notification Dated 28th August, 2009].

(iii) *Indian Institute Of Corporate Affairs* : IICA has been established by the Indian Ministry of Corporate Affairs for capacity building and training in various subjects and matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability through environmental sensitivity and social responsibility, e-Governance and enforcement etc.

One of the wings of IICA, the ICLS Academy, has the responsibility for conducting the Induction & Advanced Training for Probationary Officers (POs) belonging to the Indian Corporate Law Service recruited through the Common Exam of Civil Services Examination conducted by UPSC.

The Institute has been designed with an eye on the future to provide a platform for dialogue, interaction and partnership between governments, corporate, investors, civil society, professionals, academicians and other stakeholders in the emerging 21st century.

For Data & Reports of the Ministry of Corporate Affairs, please refer: https://www.mca.gov.in/content/ mca/global/en/data-and-reports/reports/annual-reports/companies-2013.html

SECURITIES AND EXCHANGE BOARD OF INDIA

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmadabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto."

Functions of SEBI

SEBI has the following functions

1. Protective Function
2. Regulatory Function
3. Development Function

The aforesaid functions of SEBI are discussed briefly as under:

Protective Function : The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

a. *Prohibits insider trading* : Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.

b. *Check price rigging* : Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.

c. *Promoting fair practices* : SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.

d. *Financial education provider* : SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

Regulatory Function : Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.

b. Regulating the process of taking over of a company.

c. Conducting inquiries and audit of stock exchanges.

d. Regulates the working of stock brokers, merchant brokers.

Developmental Function : Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.
2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
3. By making the underwriting an optional system in order to reduce cost of issue.

For Annual Reports and Statistics of SEBI, please refer: https://www.sebi.gov.in/reports-and-statistics.html

Powers of SEBI

Securities and Exchange Board of India has the following three powers:

Quasi-Judicial : With this authority, SEBI can conduct hearings and pass ruling judgements in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market. SEBI PACL case is an example of this power.

Quasi-Legislative : Powers under this segment allow SEBI to draft rules and regulations for the protection

of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements). It aims at consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. This type of regulation formulated by SEBI aims to keep any malpractice and fraudulent trading activities at bay.

Quasi-Executive : SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents as well if it finds traces of any suspicious activity.

RESERVE BANK OF INDIA (RBI)

The Reserve Bank of India 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. The Central Office is where the Governor sits and where policies are formulated.

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:

"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."

Main Functions of RBI

Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability while keeping in mind the objective of growth.

Regulator and supervisor of the financial system

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

Issuer of currency

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public an adequate quantity of supplies of currency notes and coins of good quality.

Developmental role

- Performs a wide range of promotional functions to support national objectives.

Regulator and Supervisor of Payment and Settlement Systems

- Introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large.
- Objective: maintain public confidence in payment and settlement system

Related Functions

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

Other Significant Facts

- Has 27 regional offices, most of them in state capitals and 04 Sub-offices.
- Deposit Insurance and Credit Guarantee Corporation of India (DICGC), Bharatiya Reserve Bank

  Note : Mudran Private Limited (BRBNMPL), Reserve Bank Information Technology Private Limited (ReBIT), Indian Financial Technology and Allied Services (IFTAS) are fully owned subsidiaries of Reserve Bank of India.
- Has six training establishments- Three, namely, RBI Academy, College of Agricultural
- Banking and Reserve Bank of India Staff College are part of the Reserve Bank.

Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (IBBI)

The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends 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.

It is a unique regulator: regulates a profession as well as processes. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. It has been tasked to promote the development of, and regulate, the working and practices of, insolvency professionals, insolvency professional agencies and information utilities and other institutions, in furtherance of the purposes of the Code. It has also been designated as the ‘Authority’ under the Companies (Registered Valuers and Valuation Rules), 2017 for regulation and development of the profession of valuers in the country.

NATIONAL COMPANY LAW TRIBUNAL (NCLT)

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f. 01st June 2016. In the first phase the Ministry of Corporate Affairs has set up eleven Benches, one Principal Bench at New Delhi and ten other Benches at New Delhi, Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai.These Benches are headed by the President Chief Justice (Retd.) Ramalingam Sudhakar and comprises of sixteen Judicial Members and nine Technical Members at different locations. Subsequently, more Benchesat Cuttack, Jaipur, Kochi, Amravati, and Indore have been setup and new members have joined.

NATIONAL COMPANY LAW APPELLATE TRIBUNAL (NCLAT)

National Company Law Appellate Tribunal (NCLAT) was constituted under Section 410 of the Companies Act, 2013 for hearing appeals against the orders of National Company Law Tribunal(s) (NCLT), with effect from 1st June, 2016.

NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by NCLT(s) under Section 61 of the Insolvency and Bankruptcy Code, 2016 (IBC), with effect from 1st December, 2016. NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.

NCLAT is also the Appellate Tribunal to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India (CCI) – as per the amendment brought to Section 410 of the Companies Act, 2013 by Section 172 of the Finance Act, 2017, with effect from 26th May, 2017.

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