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Insights into Editorial: GST’s Rajya Sabha impasse

01 June 2016

Article Link

Italy is bracing up to curtail the power of its upper House. In this regard, it has passed a bill to bring in reforms and further, a referendum in October will lead to the constitutional overhaul. This portends more stable governments in the future.

Why this was necessary?

Italy has been a parliamentary democracy since World War II. But not even once did it elect a government that could last a full term of five years. It has had 63 different governments so far. One source of this instability is the nature of its bicameral legislature. Bicameral legislature had given rise to revolving-door governments and frequent charges of horse-trading.

Indian scenario:

The problem of the upper House of bicameral legislatures holding up crucial reform is also being experienced in India. India’s upper House is council of states whose members are elected indirectly by state legislatures. The Rajya Sabha represents the states. Its role is to provide checks and balances in lawmaking, to provide reason and deliberation, and to function beyond considerations of party politics.

Recent controversy:

Impasse over GST bill has brought back discussions surrounding the role of Rajya Sabha to the fore. The GST journey is already 16 years old. The roll-out of GST requires a constitutional amendment, and hence passage in both Houses. It has cleared the lower House. But now, it is stuck in the Rajya Sabha where it needs 164 votes. The GST is not a ‘money bill’, hence needs assent of both Houses.

Way ahead:

Of the three technical objections raised regarding the GST bill in the Rajya Sabha, two have been sorted out. These relate to eliminating the 1% additional tax, and evolving an autonomous dispute resolution scheme. The only sticking point is whether to put an upper numerical limit in the law on the applicable tax rate.

- This can surely be incorporated in the rules that will be framed or in some appropriate manner. The Rajya Sabha should now develop an informal convention that a policy which has been thoroughly discussed, has broad and bipartisan support, and has passed with a majority in the lower House, should not be held up.
As far as the GST bill is concerned, members of the Rajya Sabha should not be constrained by their party whip. An unnecessary impasse should be avoided.

All about Rajya Sabha:

Background:
The Upper House of the Indian Parliament traces its direct history to the first bicameral legislature introduced in British India in 1919 as a consequence of the Montagu-Chelmsford reforms. It was then called as the Council of states. Members were then elected by a narrow and elite group. No direct election was conducted.

Why we need Upper house?

- The Rajya Sabha is more immune to electoral interests. If a legislation that originates from the Lok Sabha is driven by popular will and brute majority, then Rajya Sabha can subject it to the broader test of rationality, practicality, relevance and reasonableness.
- It gives the constituent States of the Union a say in running the country’s affairs. Members of Rajya Sabha are directly elected by state legislatures and not by the people.
- Since it has continuity, it can carry out some administrative functions even when the lower house is dissolved.
- It provides space for experts. Governments in the past have taken advantage of the Upper House to hire lateral talent. Individuals of repute who were either talented or had private sector experience were inducted so they could bring fresh ideas and knowledge in various ministries that desperately needed them.

Why we do not need Upper house?

- Sometimes deliberations in Rajya Sabha can slow down legislation or eventually kill it. The Rajya Sabha’s delay and intransigence can also become counter-productive.
- With our polity becoming increasingly fragmented, regions and states are well represented in the Lower House by various parties. The fear of states not having enough representation in Parliament is not true anymore.
- The Upper House has become a paradise for party fund-raisers, losers in elections, crony capitalists, journalists, retired CEOs and civil servants.
- It has become a platform for parties to further their political agenda than to debate and improve legislation. Important legislations that are passed in the Lok Sabha are scuttled in Rajya Sabha for political reasons.
• It has also increased the financial burden of the exchequer. Savings from elimination of the Upper House can be more gainfully deployed for either building infrastructure or enhancing social development or other meaningful projects.

What reforms are needed?

• Members of Rajya Sabha should be directly elected by the citizens of a state. This will reduce cronyism and patronage appointments.

• It is also necessary to ensure that large states do not dominate the proceeding in the house. Hence, all states should be equally represented.

• The members of the Rajya Sabha elected from a particular state should put the interest of the state above that of the party. And the state legislature that elects them should question them about their performance.

Conclusion:

India needs to abolish certain institutions, reform others and create new ones for governance to improve. However, it is virtually impossible to abolish the Rajya Sabha without adopting a new Indian Constitution. The bicameral nature of the Indian Parliament is likely to be interpreted as a “basic structure” of the Indian Constitution, rendering it incapable of being amended. Thus, it is much more practical to try and reform the Rajya Sabha than seeking to abolish it.

Insights into Editorial: NHRC a toothless tiger: Panel chief

02 June 2016

Article Link

National Human Rights Commission (NHRC) chairman Justice H L Dattu recently said the rights watchdog needed some teeth to enforce its orders on remedial measures in cases relating to violations. He said NHRC is a toothless tiger.

Why he said so?

It is because NHRC investigates human rights violation cases, sometimes in remote areas, with very limited resources. The evidence collected is put to forensic judicial adjudication by its chairman and members, who are former judges. But at the end, when NHRC arrives at a finding, it can only recommend remedial measures or direct the state concerned to pay compensation.
Why governments should seriously consider the recommendations made by NHRC?

It is because NHRC’s orders are passed by persons who had long training and experience as judges of the Supreme Court and high courts. Directives are issued by them after sifting chaff from grain, which they are judicially trained to do.

Problems with the current act:

- NHRC’s recommendations do not percolate to the ground level as the NHRC does not have the backing of the Protection of Human Rights Act to penalise authorities which do not implement its orders.
- The Act does not extend to Jammu and Kashmir and hence the commission has to keep its eyes closed to human rights violations there.
- The Act does not categorically empower the NHRC to act when human rights violations through private parties take place.
- The Act requires that three of the five members of a human rights commission must be former judges but does not specify whether these judges should have a proven record of human rights activism or expertise or qualifications in the area. Regarding the other two members, the Act is vague, saying simply: “persons having knowledge and experience of human rights.”
- Under the Act, human rights commissions cannot investigate an event if the complaint was made more than one year after the incident. Therefore, a large number of genuine grievances go unaddressed.
- The powers of the National Human Rights Commission relating to violations of human rights by the armed forces have been restricted to simply seeking a report from the Government, (without being allowed to summons witnesses), and then issuing recommendations.

Other practical limitations:

- Non-filling of vacancies: Most human rights commissions are functioning with less than the prescribed Members. This limits the capacity of commissions to deal promptly with complaints, especially as all are facing successive increases in the number of complaints.
- Non-availability of funds: Scarcity of resources – or rather, resources not being used for human rights related functions – is another big problem. Large chunks of the budget of commissions go in office expenses, leaving disproportionately small amounts for other crucial areas such as research and rights awareness programmes.
Too many complaints: NHRC is deluged with too many complaints. Hence, in recent days, NHRC is finding it difficult to address the increasing number of complaints.

Bureaucratic style of functioning: As human rights commissions primarily draw their staff from government departments – either on deputation or reemployment after retirement – the internal atmosphere is usually just like any other government office. Strict hierarchies are maintained, which often makes it difficult for complainants to obtain documents or information about the status of their case.

What can be done?

- The effectiveness of commissions will be greatly enhanced if their decisions are immediately made enforceable by the government. This will save considerable time and energy as commissions will no longer need to either send reminders to government departments to implement the recommendations or alternatively to approach High Courts through a cumbersome judicial process to make the government take action.

- A large number of human rights violations occur in areas where there is insurgency and internal conflict. Not allowing NHRC to independently investigate complaints against the military and security forces only compounds the problems and furthers cultures of impunity. It is essential that commission is able to summons witnesses and documents.

- As non-judicial member positions are increasingly being filled by ex-bureaucrats, credence is given to the contention that NHRC is more an extension of the government, rather than independent agency exercising oversight. If it is to play a meaningful role in society, it must include civil society human rights activists as members. Many activists have the knowledge and on-the-ground experience of contemporary trends in the human rights movement to be an asset to the Commission.

- NHRC needs to develop an independent cadre of staff with appropriate experience. The present arrangement of having to reply on those on deputation from different government departments is not satisfactory as experience has shown that most have little knowledge and understanding of human rights issues. This problem can be rectified by employing specially recruited and qualified staff to help clear the heavy inflow of complaints.

- A culture of human rights ought to be promoted through education. Human rights education in India is extremely important, given the fact that society is witness to numerous violations and abuse of powers and that the ability of the people to fight these injustices is limited. The
strategy for inculcating human rights culture among the people needs to be based on a number of factors: social, legal, political, judicial, and institutional.

Way ahead:
The subject of human rights commissions has invited much academic attention in recent years, besides assessment by U.N. bodies. It has also attracted civil society scrutiny following independent assessments of the work of several commissions by numerous international NGOs.

- An important point to be noted is that Human Rights Commissions are not the panacea for all problems related to the subject in a society. They tend to be effective only under a given set of circumstances, but most importantly, a lot depends on the level of funding, functional independence, and institutional autonomy guaranteed to the HRC.
- Also, the composition of the HRC matters, to a large extent, in determining the kind of focus and activism it will promote. However, HRCs are important institutional approaches that can ensure the protection and promotion of human rights.
- The effectiveness or otherwise of human rights commissions does not directly depend upon the existing human rights structure in any society. What is important is how a particular commission locates itself in a society and is able to confront the issues before it.

Conclusion:
It is nearly 15 years since the National Human Rights Commission (NHRC) was established in India through the adoption of the Protection of Human Rights Act, 1993, by Parliament. Over the years, more than 15 State Human Rights Commissions (SHRCs) have come up. The effort to improve the promotion and protection of human rights in India pre-dates the establishment of the NHRC. Now is a good time to examine not only the functioning and effectiveness of the NHRC and the SHRCs but also to identify the central challenges relating to human rights in the future and work towards tackling them. It is important that Human Rights Commissions (HRCs) succeed in their efforts to promote and protect human rights. The legitimacy and credibility of these commissions rest on their ability to address the problems relating to human rights in a society. It is for Parliament to decide whether to confer NHRC with some kind of contempt powers to make authorities implement its recommendations.

All about NHRC:

NHRC:
It is a statutory body established in 1993.
Composition:

- It consists of a Chairman and 4 members. Chairman should be a retired Chief Justice of India. Members should be either sitting or retired judges of the Supreme Court or a serving or retired Chief Justice of a High Court and 2 persons having practical knowledge in this field.
- Ex officio members are the chairmen of National Commission for Scheduled Caste, National Commission for Scheduled Tribes, National Commission for Minorities and National Commission for Women.

Appointment:

- The chairman and members are appointed on the recommendation of a 6 member committee consisting of Prime Minister, Speaker of the Lok Sabha, Deputy Chairman of the Rajya Sabha, leaders of opposition in both the houses of parliament and Union Home Minister.
- Term: Term of the chairman and members is 5 years or 70 years whichever is earlier. After retirement they are not eligible for further reappointment.
- Removal: President has to refer the matter to Supreme Court and if after enquiry Supreme Court holds it right then they can be removed by the President.

Other facts:

- Its recommendations are just advisory and not binding in nature.
- The commission is not empowered to enquire into matters which were committed one year before.
- It submits Annual report to the Central government and to the concerned state governments.

Insights into Editorial: Why go it alone?

03 June 2016

Article Link

India’s neighbourhood policy, in recent years, has managed to make more friends in the region in a surprisingly short span of time. Few projects including Salma Dam in Afghanistan and Chabahar port in Iran show India’s renewed interests in the region.

The new government’s priorities and strategic objectives are essentially five-fold:
1. Prioritizing an integrated neighbourhood; “Neighbourhood First.”
2. Leveraging international partnerships to promote India’s domestic development.
4. Dissuading Pakistan from supporting terrorism.
5. Advancing Indian representation and leadership on matters of global governance.

However, there is considerable scepticism within the strategic community regarding India’s material and political wherewithal to stay the course vis-à-vis these long-term projects, especially in the context of India’s not-so-impressive record when it comes to delivering on strategically important projects in the region and beyond.

Main problems in this regard:

- India lacks the financial resources to invest in crucial projects in a sustained manner due to budget constraints and compulsions of domestic priorities.
- There is also a problem of severe attention deficit resulting from an inability to commit diplomatic and political capital to pursue key strategic objectives.
- Many of India’s strategic initiatives in the region, Chabahar for instance, often get portrayed in competitive terms, thereby getting into the cross hairs of adversarial/insecure neighbours.
- The problem is compounded by the fact that India has traditionally displayed a self-imposed “unilateral bias” in addressing key challenges in the neighbourhood and near abroad.

How can these problems be addressed?

- By adopting a grand strategic approach in addressing key strategic challenges. There should be a clear rationale guiding India’s strategic engagements.
- By moving from a unilateral approach to tackling problems to a multilateral approach.
- By creating a regional/global consensus on key challenges.

What needs to be done now?

- India should partner with Japan or European countries in Chabahar port development. This would save us some money, enable us to complete the project on time, and ensure more security and acceptability to the project.
- If India’s Afghan policy is to be meaningful and sustainable, it needs to do two things: get like-minded countries on board India’s reconstruction efforts in Afghanistan, and support and engage in the Afghan reconciliation and peace-building process.
Indian reactions to China’s One Belt, One Road (OBOR) project need not be either dismissive or worried, nor should we dismiss it as a “Chinese national project” and look the other way. Our objective should be to see how we can utilise the many economic, infrastructural and other opportunities opened up by OBOR.

**Conclusion:**

It is important for India’s strategic planners to recognise that when it comes to dealing with key regional challenges and opportunities, unilateralism is not the way. We need to create alliances and coalitions to confront challenges and better utilise opportunities, and in today’s “loose multipolar” world, our alliance behaviour should be guided by clear strategic objectives rather than traditional friendships alone.

**Insights into Editorial: Let us count the ways India surpasses China**

**04 June 2016**

**Article Link**

As China, Russia and Brazil slow down, India is barreling ahead. India is emerging as one of the brighter spots among all the emerging markets today, especially when compared to China.

**Indian economy: challenges:**

- Notoriously slow bureaucracies.
- Lack of good infrastructure.
- Too much regulation and corruption.
- Reliable data measuring India’s economy are fuzzy.
- Most businesses are tiny and unregulated.
- Many people are employed off the books.
- India also uses wholesale, not final, prices to deflate nominal GDP.

**However, India has following advantages over China:**

- China’s one-child policy, while now relaxed, will result in fewer entrants into the labour force for decades. That could choke growth: Younger people tend to be more geographically mobile and flexible in terms of occupation and ability to learn new skills. By contrast, India has had few constraints on population growth. The dependency ratio—the number of children and seniors relative to the working-age population—will continue to fall in India as it rises in China.
English language usage is widespread in India compared to China. It also acts as a unifying force in a country with hundreds of languages and dialects.

India also inherited a free press and a legal system from the UK. As a result, India’s rule of law is vastly better than the Communist party-dominated courts of China, complete with show trials and forgone convictions.

India has historically had more of a free-market orientation than other large, developing countries, notably Russia and China. State-controlled enterprises in India account for only 13% of GDP compared with 29% in China.

Also, the pharmaceutical and technology sectors in India never suffered the burdensome regulations that bogged down the steel and airline industries.

Also helpful is the Indian natural bent toward technology. Its booming information-technology sector relies more on new technologies such as satellite transmission, and is able to leapfrog Indian-regulated utilities and the crumbling infrastructure.

American and European firms outsource many back-office and even legal and medical services to India. Outsourcing revenue is now $95 billion a year and accounts for a fifth of Indian exports. India’s lower wages and English-speaking ability are the attractions.

Many Indians have strong entrepreneurial inclinations, and the economic growth they can spark is vital to reducing high poverty rates and corruption as economic power shifts from politicians to entrepreneurs.

The rupee has been relatively free of government intervention. The Reserve Bank of India, the central bank, is largely independent of government influence, while the People’s Bank of China is completely government controlled.

In contrast to China’s 36% consumer spending component of GDP in 2014, India’s consumers are responsible for 59% of the economy, despite an equally high savings rate. This is a better balance in a world where exports and capital spending are no longer the easy route to economic growth for developing countries.

Problems with Chinese economy:

China is burdened with government-controlled banks and other inefficient, state-owned enterprises that still produce half the country’s output and employ a quarter of the workforce.
• China is moving slowly to open its financial and currency markets to foreigners. The yuan, however, remains tightly controlled. It’s allowed to appreciate in good times but is held stable whenever the economy is weak.

Way ahead:
Many reforms in India are still needed. Bribe demands are routine, the bureaucracy is byzantine and the infrastructure is backward. All of this impedes entrepreneurial activity.
• India also has a culture that penalizes risk-taking. Business is concentrated among long-existing and well-connected conglomerates with close ties to the government, much like the state-owned enterprises in China and the chaebols in South Korea.
• When it comes to the cost of starting a business, India is off the charts—ranked 173rd out of 189 countries, according to the World Bank—compared with the US, Germany, the UK and even China. Only China tops India for the amount of time it takes to start a company. India also ranked 130th for the ease of doing business, behind the notoriously difficult Russia (51st) and Brazil (116th). Even China, at No. 84, ranks higher.
• Opening the economy to entrepreneurs remains a long-run challenge for India, as does the education of hundreds of millions of students. About 90% of children enter school but more than half drop out before completing high school. Cheating on tests and bribing teachers for passing grades is rampant.

Conclusion:
For India to maintain its position, it needs to address its challenges before economic growth can explode. With improved education, faster deregulation and other reforms, India’s many advantages could translate into higher productivity and faster economic growth than in China.

Insights into Editorial: Missing the wetlands for the water
06 June 2016
Article Link
Environment Ministry has come up with new draft wetland conservation rules. With this, the government is all set to change the rules on wetlands.

What are wetlands?
Wetlands are ecosystems located at the interface of land and water and wherein water plays a dominant role in controlling plant and animal life and associated ecosystem processes.
Identification of wetlands:

The Ramsar Convention rules are the loftiest form of wetland identification that the world follows. Ramsar has specific criteria for choosing a wetland as a Ramsar site, which distinguishes it as possessing ‘international importance’.

- An important distinguishing marker is that Ramsar wetlands should support significant populations of birds, fish, or other non-avian animals.
- **India is one of the 169 signatories to the Ramsar Convention on Wetlands**, signed in Ramsar, Iran, in 1971. The convention provides the framework for national action and international cooperation for the conservation and wise use of wetlands and their resources.
- There are **2,241 Ramsar sites across the world, including 26 spread across India** from Wular Lake in Jammu and Kashmir to Ashtamudi Wetland in Kerala, and from Deepor Beel in Assam to Nal Sarovar in Gujarat.

What’s there in the new draft?

- It seeks to give **power to the States to decide what they must do with their wetlands**. This includes deciding which wetlands should be protected and what activities should be allowed or regulated, while making affable calls for ‘sustainability’ and ‘ecosystem services’.
- The draft **restricts activities like reclamation of wetlands, and conversion for non-wetland uses**, any diversion or impediment to natural water inflows and outflows of the wetland and any activity having or likely to have an adverse impact on ecological character of the wetland.
- According to the draft Rules, the power to identify and notify wetlands would be vested in the Chief Minister, who as chief executive of the state government as well as of the state wetland authority, will propose and notify wetlands after accepting or rejecting recommendations.

Contentious clauses in the new draft:

- The **draft does away with the Central Wetlands Regulatory Authority**, which had suo moto cognisance of wetlands and their protection.
- The draft rules contain **no ecological criteria for recognising wetlands**, such as biodiversity, reefs, mangroves, and wetland complexes.
The draft has deleted **sections on the protection of wetlands**, and **interpretation of harmful activities which require regulation**, which found reference in the 2010 rules.

It has also removed the **list of prohibited activities which was in the previous one** and has completely shifted the entire burden of wetlands protections from the Centre to the respective states.

**What’s left out?**

- What comprises a wetland is an important question that the Draft Rules leave unanswered. However, the 2010 rules outline criteria for wetland identification including genetic diversity, outstanding natural beauty, wildlife habitats, corals, coral reefs, mangroves, heritage areas, and so on.

- A detailed list of prohibited activities in the Wetlands (Conservation and Management) Rules 2010, like setting up of new industries and expansion of existing industries, solid waste dumping, manufacturing or handling or storage or disposal of hazardous substances, discharge of untreated waste and effluents from industries, cities, towns and other human settlements, any construction of permanent nature is left out.

- The rules have **no mention of how communities or people can ensure conservation of wetlands**. They have no provisions for carrying out environment impact assessment (EIA) for projects on wetlands either.

- According to 2010 Rules, wetlands were to be notified within a year of the Rules coming into force, and there were deadlines for each process along the way. However, the new draft does away with the **time-bound process** for notification.

- There are also **no provisions for wetland complexes** in the new rules.

**Other concerns associated:**

- While the new draft calls for sustainability, this is a difficult concept to enforce, particularly with regard to water.

- Regulation of activities in the draft rules do not make any obvious connection with existing groundwater legislations because these two aspects are still seen as separate.

- The 2016 Draft Wetland Rules also call for wise use of wetlands. ‘Wise use’ is a concept used by the Ramsar Convention, and is open to interpretation. It could mean optimum use of resources for human purpose. It could mean not using a wetland so that we eventually strengthen future water security. It could also mean just leaving the wetland and its catchment area as is for flood control, carbon sequestration, and water recharge functions.
Conclusion:
Wetlands are seriously threatened by reclamation and degradation as a result of drainage and landfills, pollution (domestic and industrial effluents, disposal of solid waste) resulting in loss of biodiversity and disruption of the wetland systems. Hence, it is imperative that the Draft Wetlands Rules, 2016 be looked at with a hard, if not cynical, eye.

Insights into Editorial: Post-legislative scrutiny to improve quality of laws
07 June 2016

Article Link

With over 2,500 Acts just at the central level, India has one of the highest numbers of laws on its statute books. However, when it comes to implementation India has been consistently poor.

Reasons for poor performance:
- Design issues.
- Capacity constraints.
- High level of corruption.
- Absence of post legislative scrutiny or review of the laws.

Why have ex-post law reviews?
Since there is no requirement for an ex-post evaluation of laws, policy-makers and bureaucrats have no systematic evidence about the efficacy and performance of a law. They mostly use anecdotes and evidence provided by non-official sources such as corporates or NGOs and advocacy groups to argue for or against an amendment in a law.

Benefits associated:
- These reviews can be designed to assess whether the objectives and the anticipated effects of a piece of legislation have actually taken place on the ground.
- They can also identify any unintended effects that may have arisen from the legislation.
- Another benefit would be the systematic collection of data that would be a pre-requisite of any evaluation of this kind.

Examples from other countries:
- In the 1990s, many European countries as well as the US, Australia and Canada developed “better regulation” policies, which included ex-ante and ex-post evaluation of legislation.
- Among European countries, the UK required laws to be reviewed within three to five years of enactment. These reviews are conducted by existing Departmental Select Committees on
the basis of a memoranda provided by a government department. All Acts passed since 2005
are reviewed with a few exceptions such as budgets, very technical acts and trivial acts.

- In Germany, ex-post evaluation is systematic and based on a standardized methodology set
  out in guidelines for public administrators.
- France requires mandatory periodic evaluation of legislation, which is enshrined within the
  law itself.
- In the US, each standing committee, except Committee on Appropriation, is required to
  review and study, on a continuing basis, the application, administration, execution, and
  effectiveness of the laws dealing with the subject matter over which the committee has
  jurisdiction.
- In Australia, most laws have to be reviewed within two years and they expire after 10 years.
- In Canada, a most laws have review and sunset clauses.

**Way ahead:**
The Law Commission or an expert committee could first decide, with inputs from government
and non-government stakeholders, the scope of post-legislative scrutiny by defining its
boundaries, the types of legislation that require scrutiny, benchmarks of a successful legislation,
the procedure for scrutiny, the body that should undertake the scrutiny and the time-period of the
scrutiny. India could then incorporate within its legislation, a provision for systematic review of
the law.

**Conclusion:**
According to a 2006 report of the UK Law Commission on Post Legislative Scrutiny, “the
purpose of the review is to discover whether a law is working out in practice as it was intended
and if not, to understand the reason and address it quickly and cost-effectively.” Various
governments have taken small steps in the direction of designing better laws such as making pre-
legislative scrutiny of Bills mandatory through public feedback and identifying laws that need to
be repealed but there is little discussion yet regarding the need for post-legislative review of laws.
Therefore, it is high time for the government to come up with regular post-legislative evaluations.
This should translate them into better laws. The present government’s promise of delivering
“good governance” could also get a boost if it adopted post-legislative evaluation as a policy tool.
Insights into Editorial: The way to financial inclusion

08 June 2016

Article Link

India’s ambitious programme to ensure universal coverage of all households by financial institutions, which was started in mid-2000s, is being fulfilled by the Prime Minister’s Jan Dhan Yojana (PMJDY). PMJDY intends all households to have at least one savings account at a financial institution.

About PMJDY:

The primary aim of this scheme is to provide poor people access to bank accounts.

- The scheme covers both urban and rural areas of India. All bank accounts will be linked to a debit card which would be issued under the Ru-Pay scheme. Rupay is India’s own unique domestic card network owned by National Payments Corporation of India and has been created as an alternative to Visa and Mastercard.
- Under this scheme, every individual who opens a bank account becomes eligible to receive an accident insurance cover of up-to Rs 1 Lakh for his entire family.
- Life Insurance coverage is also available under PMJDY. Only one person in the family will be covered and in case of the person having multiple cards/accounts, the benefit will be allowed only under one card i.e. one person per family will get a single cover of Rs 30,000.
- The scheme also provides incentives to business and banking correspondents who serve as link for the last mile between savings account holders and the bank by fixing a minimum monthly remuneration of Rs 5000.

Criticisms:

So far, more than 22 crore bank accounts have been opened under the scheme, utilizing a network of more than one lakh business correspondents (BCs). However, it is widely believed that many accounts were opened in response to political pressure on banks to achieve programme targets. Others may have been opened to avail of the insurance benefits that the accounts enabled or under the expectation that government transfers would require a savings account. As a consequence, duplicate accounts with zero balances represent a high percentage of the total accounts.

What can be done to improve the situation?

Business Correspondents (BCs) can play a proactive role here. The government should effectively utilize their services to achieve the programme objectives.
Who is a Business Correspondent (BC)?

They are bank representatives who help villagers to open bank accounts and also help in banking transactions.

Why are they important?

- They lower the costs of serving the poor. They address many of the behavioural constraints believed to adversely affect savings.
- BCs, who reside in the vicinity of their clients and are often from the same community, can more easily address constraints specific to regions.
- Many of the poor who live in small villages at some distance from the larger villages and small towns in which bank branches are located can now access banking services with the help of BCs.

Way ahead:

Significant increases in financial savings are only likely to occur if the government also addresses some of the factors that cause households to borrow heavily from the informal sector.

- Various surveys suggest that, even now, moneylenders represent the major source of loans for rural households, accounting for 35% of total loans, with family members accounting for 26% of loans and commercial banks for just 10%. And the primary reason for borrowing is ill-health: 38% of loans (48% of the loans from moneylenders) are for health-related expenses.
- Though BCs have increased savings for poor households, this increase is not primarily held in savings accounts. There is also evidence that BCs better serve households who reside in the larger villages of the Gram Panchayats, and that coverage increases with village size.
- The government should try and address these problems as early as possible.

Conclusion:

The architects of the PMJDY first need to acknowledge its current flaws, both in design and implementation. Second, policy makers need to determine what causes bankers to behave in the manner they do and incentivise them to act differently. Third, policy makers need to engage in building awareness and financial capability for low income households.
Insights into Editorial: The rights of the terminally ill

09 June 2016

Article Link

Addressing the contentious issue of mercy killing, the government has come up with a draft Bill on passive euthanasia which will give a patient the right to withhold from medical treatment in case they are terminally ill.

- The Union Health Ministry has drafted and put up ‘The Medical Treatment of Terminally Ill Patients (Protection of Patients and Medical Practitioners) Bill’ in the public domain for consultation with stakeholders.

Key facts:

- According to the Bill, “every competent patient, including minors aged above 16 years, has a right to take a decision and express the desire to the medical practitioner attending on her or him.”

- The Bill goes on to say that such a decision will be binding on the medical practitioner. He or she has to inform the spouse, parents or any other close relative of the patient and desist from carrying out the decision for a period of three days after informing them.

- The Bill provides protection to patients and doctors from any liability for withholding or withdrawing medical treatment and states that palliative care (pain management) can continue.

- The Medical Council of India has been given the authority to formulate guidelines from time to time for the guidance of medical practitioners and might review and modify the guidelines periodically.

- In case any patient is not competent enough to take a decision then his or her next of kin, including spouse, parents or sibling, can approach the High Court, which will have to take a decision within a period of one month.

Background:

The government first attempted to formulate a law in 2006, based on a report of the Law Commission. However, the ministry had at that time decided not to take any action. The Supreme Court had laid down comprehensive guidelines in the Aruna Shanbaug case to process passive euthanasia. Active euthanasia is different from the passive form and involves injecting the patient with a lethal substance causing death in a painless manner.
Why is it difficult to regulate euthanasia?

There are two perspectives on the issue.

- The first is the legal - the state has an understandable interest in maintaining its monopoly on the right to—in crude terms—end a citizen’s life. This is foundational to its legitimacy and authority.
- There are other practical concerns as well. Euthanasia is difficult to regulate and laws allowing it can be vulnerable to malicious intent. At the very least, moral pressure could be exerted on the terminally ill to choose this option.
- There is also a broader ethical and theological perspective. India’s Constitution draws upon Western liberal ideals and the constitutions wherein they are enshrined.

Issues associated with the bill:

- **Clause 9:** In Clause 9, it says that relatives, medical personnel and the like can apply to the relevant high court for “withholding or withdrawing medical treatment of a competent patient who has not taken an informed decision”. This is dangerous. The bill defines informed decision in subjective terms pertaining to an individual’s understanding of the nature of their illness and the forms and consequences of treatment. As long as the individual is competent, it must not be left to anyone else to judge the merit of their understanding in something as fundamental as their life. This has the potential for misuse and is antithetical to an individual’s fundamental rights.
- **Living will:** There is a general disappointment over the concept of ‘living will’. As per the idea, it is defined as an advance document in which a person states their desire to have or not to have extraordinary life-prolonging measures used when recovery is not possible from their terminal condition, putting the doctors in a fix.
- **Court’s faith misplaced:** The Bill demonstrates that the Supreme Court’s faith is misplaced. The draft Bill negates the basic common law rights of a patient to autonomy over her own body and the determination of what treatment she is willing to undergo. The government has thus denied the patient’s fundamental right to life and liberty.
- **Distinction:** The Bill creates an irrational distinction between patients who are competent at the time at which a decision has to be made about refusing or withdrawing life-sustaining treatment, and those who are incompetent at such time, even though they might have expressed their decision earlier in the form of an advance directive. Clause 3 of the Bill states that the decision of the former category of patients to refuse such treatment is binding
on their medical practitioners. The time at which the decision was made to refuse or request the withdrawal of treatment cannot be a rationale for distinguishing between these categories of patients, so long as such decisions were taken freely, fully informed, and not altered fundamentally since. Apart from being an infringement of the right to life under Article 21, the classification stands the risk of being struck down as unreasonable and therefore a violation of the right to equality under Article 14.

- **Drafting errors:** Other problems include drafting errors. The definition of “terminal illness” seems to include even mental health issues.

- **Choice of High Court:** The choice of the High Court as a forum to obtain permission for the withdrawal of treatment from incompetent patients imposes an unrealistic burden on medical practitioners as well as relatives and does not take into account the fact that High Courts are unlikely to be able to deliver swift judgment in such cases.

**What is euthanasia?**

Euthanasia is a medical term meaning ‘easy death’. It is the act of deliberate or voluntary end of someone’s life to prevent any further suffering or pain to the person.

**Active and Passive euthanasia:**

- Active euthanasia involves a doctor injecting a lethal medicine to trigger a patient’s cardiac arrest.

- In passive euthanasia, doctors, with the consent of relatives, withdraw the life support system of a person being kept alive with the help of machines.

**Should Euthanasia be legal?**

**Arguments For Euthanasia:**

- It provides a way to relieve extreme pain.

- It provides a way of relief when a person’s quality of life is low.

- Frees up medical funds to help other people.

- It is another case of freedom of choice.

**Arguments Against Euthanasia:**

- Euthanasia devalues human life.

- Euthanasia can become a means of health care cost containment.

- Physicians and other medical care people should not be involved in directly causing death.
There is a “slippery slope” effect that has occurred where euthanasia has been first been legalized for only the terminally ill and later laws are changed to allow it for other people or to be done non-voluntarily.

Supreme Court’s views on this matter:

Previously in 2011, in Aruna Shanbaug case the Court had ruled in favour of passive euthanasia and the law ministry had opined that the SC’s “directions should be followed”.

- In its landmark 2011 verdict that was notable for its progressive, humane and sensitive treatment of the complex interplay of individual dignity and social ethics, the Supreme Court laid down a broad legal framework.
- It ruled out any backing for active euthanasia, or the taking of a specific step such as injecting the patient with a lethal substance, to put an end to a patient’s suffering, as that would be clearly illegal.
- It allowed ‘passive euthanasia’, or the withdrawal of life support, subject to safeguards and fair procedure.
- It made it mandatory that every instance should get the approval of a High Court Bench, based on consultation with a panel of medical experts.

Conclusion:

Although the ethical and philosophical arguments for passive euthanasia apply equally to active euthanasia, the government has made the correct decision in addressing only the former at the moment. By doing so, it has curtailed the potential for misuse of the proposed legislation. A revised bill would be a significant step towards allowing suffering individuals a measure of human dignity.

Insights into Editorial: Bad loans: of desperate times and desperate measures

10 June 2016

Article Link

With over Rs.5.8 trillion worth bad loans lying with listed banks in India, it was felt that government’s intervention was much needed to solve the issue. In this regard, finance minister Arun Jaitley recently said that the government is planning to set up a stressed asset fund in association with banks that could provide equity or debt capital to stressed companies.
How is it different from an Asset Reconstruction Company (ARC)?

Unlike with ARCs, assets here would remain on the books of the banks. Whereas, ARC transfers the acquired assets to one or more trusts at the price at which the financial assets were acquired from the originator.

Details about the new stressed asset fund:

Much clarity is not yet available regarding the plan except that banks will not be the majority owners in such a fund.

Why setting up a new ARC would make a little difference?

Experiences so far say that setting up yet another ARC is pointless. There are a number of existing ARCs in the market, and many large global funds are planning to enter the segment. Among these, many are bank-sponsored ARCs. They have done little good because the banks and the ARCs have failed to agree on the price at which assets are to be sold. Besides, the recovery track record of ARCs has been modest at best.

Are there any alternatives?

1. **Vulture Fund or Special situations fund:**

Such kind of funds buys equity or debt securities of distressed firms. However, this would be counter-productive and a conflict of interest. If such a fund were to operate independent of its bank sponsors, it would look to invest in distress assets at throw-away valuations. The bank sponsors would want to do the opposite and get the best possible valuations.

On the flip side, hypothetically, the bank sponsored fund could invest in assets at lower-than-justified prices and benefit from the upside that eventually comes from a turnaround in the stressed asset. This could be a conflict of interest if the management of the fund and the bank are not completely ring-fenced.

2. **A fund which specialises in providing working capital and short-term finance to these companies:**

Though there is no bar on banks lending to assets that have been classified as non-performing assets (NPAs), Bankers, however, fear they will be questioned about extending financing to defaulters and stay away from such lending. Hence, this option looks feasible. A third-party fund can come in and lend to these stressed companies to help tide them over. But, there are existing non-banking finance companies (NBFCs) that have the capacity to do this should they choose to.
3. **Bad Bank:**
There is also the option of setting up a bad bank like structure. However, experts have unanimously opposed this idea. Even the RBI governor has cautioned against it and the previous experience of IDBI’s stressed asset stabilisation fund suggests it does not work. Setting up a bad bank would be a massive moral hazard.

4. **Take a long route:**
This option makes most sense but also involves the most pain. That is to take the long road towards resolving the stressed asset problem. This pile of Rs.5.8 trillion in bad loans has been created over years. Some of it is because of circumstances like stalling of infrastructure projects and falling commodity prices. Some of these will slowly come back to life as the cycle turns. Then there are the bad loans created out of poor lending decisions. Experts suggest, let the banks take the pain for those.

**Conclusion:**
Government has proposed to infuse Rs70000 in PSU banks. However, given the situation, this amount is grossly inadequate. Government will have to find a way to increase the capital it provides to state-owned banks. An upfront capital infusion, along with reforms to ensure its proper usage, is the best way to reduce the pain of the bad loan clean-up.

*Insights into Editorial: Cracking the payments bank puzzle*

11 June 2016

**Article Link**
The Reserve Bank of India (RBI), in 2015, gave its approval in principle for 11 entities to set up payments banks. RBI has selected entities with experience in different sectors and with different capabilities so that different models could be tried. This move has generated much excitement across the country. Universal financial inclusion is a driving motivation behind RBI’s issuance of these payments bank licences.

*What are payment banks?*
Payment banks are non-full service banks, whose main objective is to accelerate financial inclusion. These banks have to use the word ‘Payment Bank’ in its name which will differentiate it from other banks.
Key facts:

- **Capital requirement**: The minimum paid-up equity capital for payments banks is Rs. 100 crore.
- The payments bank should have a **leverage ratio of not less than 3%**, i.e., its outside liabilities should not exceed 33.33 times its net worth (paid-up capital and reserves).
- **Promoter’s contribution**: The promoter’s minimum initial contribution to the paid-up equity capital of such payments bank shall at least be 40% for the first five years from the commencement of its business.
- **Foreign shareholding**: The foreign shareholding in the payments bank would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
- Apart from amounts maintained as **Cash Reserve Ratio (CRR)** with the Reserve Bank on its outside demand and time liabilities, it will be required to invest minimum 75% of its “demand deposit balances” in **Statutory Liquidity Ratio (SLR)** eligible Government securities/treasury bills with maturity up to one year and hold maximum 25% in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.

What are the scopes of activities of Payment Banks?

- Payments banks will mainly deal in **remittance services and accept deposits of up to Rs 1 lakh**.
- They will **not lend to customers** and will have to **deploy their funds in government papers and bank deposits**.
- The **promoter’s minimum initial contribution to equity capital will have to be at least 40% for the first five years**.
- They can **accept demand deposits**.
- Payments bank will initially be restricted to holding a **maximum balance of Rs. 100,000** per individual customer.
- They can **issue ATM/debit cards but not credit cards**.
- They can **carry out payments and remittance services through various channels**.
- Distribution of **non-risk sharing simple financial products** like mutual fund units and insurance products, etc. is allowed.
Challenges before these banks:

- The success of these new entities will depend to a great extent on their ability to go beyond serving the well-banked smartphone-carrying consumers, who have been the focus of digital payments in India so far.
- Payments banks will need to creatively reach the low-income and financially underserved—the so-called base of pyramid (BOP) consumers.
- However, developing a model that is both effective in reaching the BOP consumer and commercially profitable, is far from easy. It will require a paradigm shift.
- Income at the BOP tends to be more irregular and unpredictable, often cobbled together from various sources. Savings are limited, often taking the form of small amounts saved daily that need to be banked quickly to prevent them from being spent.
- Formal credit histories are virtually non-existent. There is heavy reliance on informal networks like friends and family for financing big-ticket needs.
- Leveraging technology to reduce cost-to-serve will of course be important, but much more will be needed.

What needs to be done to reach BOP consumers?

- The financial products currently available to BOP consumers often look suspiciously like hand-me-downs and do not match their distinct income, expenditure and savings patterns. Hence, payment banks will need to deepen their understanding of the unique needs of BOP consumers and develop products and customer experiences tailored to these needs.
- Payment Banks will need to develop new products that are better suited to the financial lives of BOP consumers, for example, daily micro-saving products and micro-loans that rely on non-traditional data.
- They will need to develop partnerships with other financial institutions to meet the full scope of customer needs. They will need to embed within their organization the ethos of providing a respectful and positive customer experience to BOP customers to earn their trust and loyalty.
- Technology is, of course, going to be key to keeping costs low. The use of Aadhaar-linked authentication, know-your-customer and e-sign and the proliferation of mobile/online payment systems hold special promise for reducing the cost of delivery.
Since Smartphone penetration is low and digital literacy is a major challenge among the BOP, payments banks will need to rely on physical agent networks, at least in the foreseeable future, to serve this segment.

Currently, banks largely rely on Business Correspondents (BCs) who are dedicated to the financial services business. To achieve scale and keep costs manageable, players will need to harness the potential of varied agent models—ranging from dedicated ‘wealth advisors’ at one end of the spectrum to ‘lite’ BC agents who just focus on a few simple transactions while doing core businesses at the other.

Players will also need to harness the potential of the neighbourhood store, by making it worth their while to accept digital payments. They will need to rely heavily on small-ticket transactions for revenues, given limitations to their net interest income.

**Conclusion:**

Payment banks will have to learn as they go along and adapt themselves to the eco-system inhabited by the small-income groups and small enterprises.

**Insights into Editorial: One institution at a time**

**13 June 2016**

**Article Link**

The National Green Tribunal, enacted by Parliament in 2010, seems to have caught the attention of the new government because of its unusual effectiveness. NGT has in the short term since its establishment strongly influenced environmental litigation in India. Unlike its predecessor the National Environment Appellate Authority, its five benches have wide ranging powers to adjudicate upon any dispute that involves questions of importance to the environment. This power coupled with technical expertise has exponentially strengthened the environmental protection regime in the country. In a number of decisions, the Tribunal has proved its efficiency in resolving environmental disputes.

**Recent decisions:**

- Fine on the Art of Living Foundation as environmental compensation for holding a World Cultural Festival on the eco-sensitive floodplains of the Yamuna river.
- The Kochi circuit bench of the NGT banned all diesel vehicles more than 10 years old from operating in six cities in Kerala.
• Ban on diesel cars in the Delhi region last year. It is expected to extend this to 15 major Indian cities with the worst air quality levels later this year.
• The NGT has also passed various prohibitory orders against sand mining in riverbeds that is being done without environmental clearance.
• It has imposed a no-construction zone of 75 metres around lakes and stormwater drains in Bengaluru.

All you need to know about NGT:
The NGT was established on October 18, 2010 under the National Green Tribunal Act 2010, passed by the Central Government. The stated objective of the Central Government was to provide a specialized forum for effective and speedy disposal of cases pertaining to environment protection, conservation of forests and for seeking compensation for damages caused to people or property due to violation of environmental laws or conditions specified while granting permissions.

Structure:
The Principal Bench of the NGT has been established in the National Capital – New Delhi, with regional benches in Pune (Western Zone Bench), Bhopal (Central Zone Bench), Chennai (Southern Bench) and Kolkata (Eastern Bench).
• Each Bench has a specified geographical jurisdiction covering several States in a region.
  There is also a mechanism for circuit benches.
• The Chairperson of the NGT is a retired Judge of the Supreme Court, Head Quartered in Delhi. Other Judicial members are retired Judges of High Courts.
• Each bench of the NGT will comprise of at least one Judicial Member and one Expert Member.
• Expert members should have a professional qualification and a minimum of 15 years experience in the field of environment/forest conservation and related subjects.

Powers:
The NGT has the power to hear all civil cases relating to environmental issues and questions that are linked to the implementation of laws listed in Schedule I of the NGT Act. These include the following:
• The Water (Prevention and Control of Pollution) Act, 1974.
• The Forest (Conservation) Act, 1980.
- The Air (Prevention and Control of Pollution) Act, 1981.
- The Biological Diversity Act, 2002.

**Principles of Justice adopted by NGT:**

- The NGT is **not bound by the procedure laid down under the Code of Civil Procedure, 1908**, but shall be guided by **principles of natural justice**.
- NGT is also **not bound by the rules of evidence as enshrined in the Indian Evidence Act, 1872**. Thus, it will be relatively easier for conservation groups to present facts and issues before the NGT, including pointing out technical flaws in a project, or proposing alternatives that could minimize environmental damage but which have not been considered.
- While passing Orders/decisions/awards, the NGT will apply the principles of sustainable development, the precautionary principle and the polluter pays principles.

**Review and Appeal:**

Orders can be appealed to the **Supreme Court within 90 days**.

**What is the difference between a Court and a Tribunal?**

The Supreme Court has answered this question by holding that “Every Court may be a tribunal but every tribunal necessarily may not be a court”. A High court for instance, where a PIL would be filed, may have wide ranging powers covering all enacted laws (including the power of contempt) but the NGT has only been vested with powers under the seven laws related to the Environment.

**Problems with the NGT act:**

The NGT has **not been vested with powers to hear any matter relating to the Wildlife (Protection) Act, 1972, the Indian Forest Act, 1927 and various laws enacted by States relating to forests, tree preservation** etc. Therefore, specific and substantial issues related to these laws cannot be raised before the NGT.

**What needs to be done to strengthen the NGT Act?**

- To ensure appropriate responses to environmental litigations, the government should lay down **guidelines for the effective exercise of powers by the NGT**. The decisions of the Tribunal and expert groups should be respected and implemented by all other government departments.
There should also be **stringent guidelines in place for the appointment of expert members** to the Tribunal based on the suggestions of different environmental groups, legal experts, judges, and academics. The entire process should be transparent and amenable to public scrutiny and review by judicial bodies and experts from different backgrounds, including scientists, technicians, judges and NGOs.

In order to be able to entertain petitions and prevent frivolous environmental litigations, the National Green Tribunal should be **equipped with all the resources required for scrutinizing and reviewing petitions and investigating the intentions of petitioners who seek its attention**.

Its function should be more transparent than the Supreme Court’s in environmental cases. More importantly, the **procedures of PIL should be institutionalized with guidelines in place** for emphasizing the conditions under which the tribunal can entertain or reject a petition seeking its attention.

Given the present composition of the NGT, it is very difficult on its part to monitor its directions in each and every case. In order to implement NGT’s directions effectively, it is necessary to **make the implementation process more efficient through the marshalling of agencies responsible for the control of pollution**, such as local government bodies and pollution control boards.

The legal framework also needs to be comprehensive and suitably designed for objective interpretation of environmental laws and policies. There is a plethora of legislations on environmental issues in India but many of them date back to the pre-independence era and do not correspond to the policies or realities of the post-independence period. As a result, they need to be reviewed and consolidated.

Many areas of environmental concern, including noise pollution and radioactive waste proliferation, are inadequately covered under existing legislations and need to be addressed by updated legislation. Environmental impact assessment and industrial zoning must also be provided with adequate legal support.

**Conclusion:**

The National Green Tribunal could play a particularly significant role in the context of these proposed reforms regarding the structure of environmental governance and the emergence of active environmental groups in the country. The advantage of such a system is that it permits direct access to environmental justice, allows for more relevant and greater expertise, sets up
alternative dispute resolution mechanisms and offers a path for the evolution of environmental jurisprudence.

Insights into Editorial: Understanding bitcoins and blockchain

14 June 2016

Article Link

With countries like China and India trying to regulate the sale of bitcoins and their issuance through blockchain, more people including netizens seem to have become interested in the technology. However, not many including bankers are aware of the technology and their implications on the society. The technology is very new and is still underfunded.

What are Blockchains?

Blockchains are a new data structure that is secure, cryptography-based, and distributed across a network. The technology supports cryptocurrencies such as Bitcoin, and the transfer of any data or digital asset. Spearheaded by Bitcoin, blockchains achieve consensus among distributed nodes, allowing the transfer of digital goods without the need for centralized authorisation of transactions. The present blockchain ecosystem is like the early Internet, a permissionless innovation environment in which email, the World Wide Web, Napster, Skype, and Uber were built.

- The technology allows transactions to be simultaneously anonymous and secure, peer-to-peer, instant and frictionless. It does this by distributing trust from powerful intermediaries to a large global network, which through mass collaboration, clever code and cryptography, enables a tamper-proof public ledger of every transaction that’s ever happened on the network.

- A block is the “current” part of a blockchain which records some or all of the recent transactions, and once completed, goes into the blockchain as permanent database. Each time a block gets completed, a new block is generated. Blocks are linked to each other (like a chain) in proper linear, chronological order with every block containing a hash of the previous block.

How is it different from current payment systems?

Blockchain technology allows for instant recognition of the exact size of the block by all transacting parties in the chain since the block is simultaneously updated on all their databases, and has unique security features that do not allow tampering with the definition of the block.
In addition, each block’s movements across the chain have the ability to be verified by all parties in the chain since the block carries with it the digital imprint, or ‘signature’, of wherever it has been. Therefore it creates instant trust without having to rely on a series of trustworthy banks to clear cheques. Here, various parties transacting regard their reputation as being more important than reneging on it. Unlike traditional banking system, cash transactions here are undertaken immediately.

Benefits of blockchain technology:

- As a public ledger system, blockchain records and validate each and every transaction made, which makes it secure and reliable.
- All the transactions made are authorized by miners, which makes the transactions immutable and prevent it from the threat of hacking.
- Blockchain technology discards the need of any third-party or central authority for peer-to-peer transactions.
- It allows decentralization of the technology.
- Some telecom firms in places such as India and Kenya are already using their networks to help people settle cash transactions, but these are proprietary and meant largely for poor and underbanked areas with considerable mobile penetration.

Concerns associated:

- Blockchain is still a (relatively) new technology and is not without its problems. For a start, there are ongoing concerns about privacy in the settlement and storage of securities – blockchain providers are working hard to address.
Banks are also at threat with blockchain, since more and more firms (using their IT service providers from India and elsewhere) will build systems that can create and exchange ‘blocks’ with one another completely legally, without ever having to use the banks as a financial intermediary.
Applications of this technology:
There are applications for blockchain outside financial services as well. A ‘block’ could be defined as anything—a unit of services, products, raw materials—the list is endless.

**What is bitcoin?**

It is an attempt by a firm, using blockchain technology, to create a set of shares in a trading entity that had an initial set value and fixed number (much like the face value and number of shares offered in an initial public offering), in the hope that these shares would become the medium of exchange through which people trade goods and services.

Since the number of shares is fixed, demand for them goes up over a period of time as more and more people use the shares to settle their transactions; so, the bet is that each bitcoin’s value goes up stratospherically since there will never ever be any more bitcoins issued.

**Is it legal?**

This is legal since it hasn’t yet been regulated by many countries.

**Way ahead:**

Sovereign governments don’t like allowing companies to issue their own coin and will eventually regulate such systems.
Bitcoin transaction:

Bitcoin transactions are sent from and to electronic bitcoin wallets, and are digitally signed for security. Everyone on the network knows about a transaction, and the history of a transaction can be traced back to the point where the bitcoins were produced.
Advantages of Bitcoins:

- Freedom in Payment.
- Allowing users to be in control of their transactions help keep Bitcoin safe for the network.
- With the block chain, all finalized transactions are available for everyone to see, however personal information is hidden.
- Bitcoin protocol cannot be manipulated by any person, organization, or government. This is due to Bitcoin being cryptographically secure.
- Currently there are either no fees, or very low fees within Bitcoin payments.
- Due to the fact that Bitcoin transactions cannot be reversed, do not carry with them personal information, and are secure, merchants are protected from potential losses that might occur from fraud.

Disadvantages:

- Lack of Awareness & Understanding.
- Bitcoin has volatility mainly due to the fact that there is a limited amount of coins and the demand for them increases by each passing day.
- Bitcoin is still at its infancy stage with incomplete features that are in development.

Insights into Editorial: Why women want prohibition

15 June 2016

Article Link

Nitin Kumar’s strong advocacy of alcohol prohibition in his home state of Bihar, addressing it as a social evil, has an almost Gandhian ring to it. However, according to many, the drive behind the chief minister’s imposition of the ban on alcohol has a more crafty political will behind it. The move has carved out a unique constituency that owes its allegiance to the Chief Minister: The women vote bank.

Majority view:

However, many people have not welcomed this move. They have always advocated for regulation rather than prohibition as the solution to the liquor problem. They argue that the problem should be tackled at the individual level through de-addiction and counseling and states should regulate alcohol rather than impose blanket bans.

Facts at Glance:

- Alcohol is a subject in the State list under the seventh schedule of the Indian Constitution.
• **Article 47 of the Directive Principle** in the Constitution of India states that “The state shall undertake rules to bring about prohibition of the consumption except for medicinal purposes of intoxicating drinks and of drugs which are injurious to health.”

**Why women demand prohibition as a political solution?**

It is because, in the first place, the liquor problem has become a *political issue*. Often, especially in the deprived classes, drinking among men translates into *domestic violence*. Few studies also show that domestic violence has declined since the imposition of prohibition and men are doing other things to earn their livelihood.

**How this move affects states’ revenue?**

The sale of alcohol contributes to the economy of the state through the tax directly and through the tourism, indirectly. The State Excise in India is mainly imposed on the sale of liquor, which is commonly known as **Liquor tax**. The states like Karnataka, Andhra Pradesh and Punjab earn a large portion of their revenue from the State Excise. Because of the ban in consumption of alcohol in dry states, they are regarded as a poor contributor.

**Why total prohibition is good?**

• Prohibition of alcohol limits and/or prevents alcohol addiction. This particular addiction can easily ruin people’s lives, including their jobs, their friends, their families, and obviously themselves too.

• Alcohol, especially in large quantities, can damage people’s kidneys and livers, and can eventually lead to death.

• Some religions (such as Islam, Mormonism, and some Pentecostal Christians) express for the consumption of alcohol.

• Some argue that there is a direct correlation between alcohol consumption and an increase in crime. Violent crimes, assault, and disorderly conduct are most common with persons who are intoxicated.

• Prohibition reduces the causalities and damages through drunk driving.

• Alcohol can be a very expensive habit.

**Why prohibition is not so good?**

• Firstly, there are serious doubts about the governments’ political will and administrative ability to prevent total sale and consumption of liquor.

• Ban may also lead to smuggling of illicit liquor and production of spurious liquor.
• It also spawns massive corruption. Prohibition may not automatically result in wise and healthy spending patterns.

• Blanket bans could adversely affect tourism, hospitality and other businesses, besides being an unfair intrusion into personal choices of a large section of people who can afford liquor and consume moderately.

• Alcohol addiction is considered a victimless crime, since it primarily affects the alcoholics. While it does affect the people around alcoholics, it does not directly affect them. People can always keep their distance from or leave alcoholics, if they choose.

• Criminal organizations will mostly profit from prohibition and, that in return, will promote other illegal activities.

• In most cultures and religions, social drinking is an acceptable practice.

• Also, people should have the freedom of choice to decide to drink alcohol or not, as long as that freedom does not infringe on the freedoms of other people. Therefore, a law prohibiting alcohol would remove the freedom of choice.

**Why a total prohibition is better than regulation?**

Many politicians whose political and/or business interests are served through increase in liquor sales would rather use their power to increase such sales rather than think about regulation. In such a scenario, counselling and de-addiction as alternatives to prohibition ends up depoliticising the issue and directly helps the liquor lobby’s agenda.

• In few states, the legal/illegal binary is blurred as licensed liquor shops set up well-knit networks to smuggle liquor outside their premises in blatant contravention of the law. They do not adhere to timings or dry day restrictions; they regularly sell to under-age persons and use minors for smuggling activities.

• Also, the excise department has neither the will nor the way to act effectively against erring license holders. Apart from other things like a severe lack of humanpower and resources, the excise department has been drilled over decades to increase revenue by meeting sales targets.

**Conclusion:**

It is evident that the problem is complex and there can be no easy solutions, especially one that fits all. Alcohol addiction and its ill-effects may affect the poor more, but the middle and upper-middle classes cannot claim to be immune to its debilitating consequences either. Hence, it would be some relief if local people, especially women, had a say in the closure of erring liquor shops.
Liquor is not a moral issue but a political one and therefore, more power to the women of Bihar who have shown the way, and hopefully, more politicians will take the cue from Nitish Kumar.

Insights into Editorial: NOFN project yet to fulfil promise for rural India

According to the latest figures, as of 2 May 2016, the OFC (optic fibre cable) pipe laid in India is 139,582 km, optical fibre laid is 111,726 km. OFC pipe is laid in around 61,000 gram panchayats and optical fibre in 50,500 gram panchayats. This shows that the National Optic Fibre Network (NOFN) project is on its way to achieve its stated objectives.

National Optical Fibre Network (NOFN):
The NOFN project was approved by Cabinet in 2011 and deadline to connect all panchayats was fixed by end of 2013 then deferred to September 2015 by UPA government. The Narendra Modi-led government re-examined project status and set target to complete roll out in 50,000 village panchayats by March 31, 2015, and another 1 lakh by March 2016 and the rest by end of 2016.

Key facts:

- It is a project to provide broadband connectivity to 250,000 Gram panchayats of India at a cost of Rs.20,000 crore.
- The project provides internet access using existing optical fiber and extending it to the Gram panchayats. Connectivity gap between Gram Panchayats and Blocks will be filled.
- The project was intended to enable the government of India to provide e-services and e-applications nationally.
- A special purpose vehicle Bharat Broadband Network Limited (BBNL) was created as a Public Sector Undertaking (PSU) under the Companies Act of 1956 for the execution of the project.
- The project will be funded by the Universal Service Obligation Fund (USOF) and was estimated to be completed in 2 years.
- The project envisaged signing a tripartite MoU for free Right of Way (RoW) among the Union Government, State Government and Bharat Broadband Network Limited (BBNL).
- All the Service Providers like Telecom Service Providers (TSPs), ISPs, Cable TV operators etc. will be given non-discriminatory access to the National Optic Fibre Network and can
launch various services in rural areas. Various categories of applications like e-health, e-education and e-governance etc. can also be provided by these operators.

**Universal Service Obligation Fund:**

USOF, established in 2002, provides effective subsidies to ensure telegraph services are provided to everyone across India, especially in the rural and remote areas. It is headed by the USOF Administrator who reports to the Secretary, Department of Telecommunications (DoT).

- Funds come from the Universal Service Levy (USL) of 5% charged from all the telecom operators on their Adjusted Gross Revenue (AGR) which are then deposited into the Consolidated Fund of India, and require prior parliamentary approval to be dispatched.
- The USOF works through a bidding process, where funds are given to the enterprise quoting the lowest bid. However, the funds for NOFN were made an exception to this process since BBNL was the sole party involved in the implementation having been specifically created for it.

**Concerns:**

While much has been said about the connectivity, little is said about how many kilometres of this optic fibre is actually functional or how many gram panchayats are actually utilizing this connectivity to access the Internet or how connected gram panchayats will distribute the facility to other village-level institutions and households. Incidentally, after almost four years, even the pilot locations are not fully functional.

- Various independent surveys have shown that despite having Wi-Fi towers set up, fibres in many villages were not operational. Added to this is the lack of awareness about NOFN among the villagers.

**Significance of this project:**

Penetration of optical fibre is extremely important in a country like ours. One of the reasons why a major part of India remains marginalized is because there is no access to the Internet—and, therefore, no information.

- It is also because of lack of access to an operational optic fibre network that people do not receive their entitlements, their grievances do not reach the authorities, and they find it tough to make the most of entrepreneurial and business opportunities.
- Also, NOFN is a matter of mass connectivity and a massive amount of public money is involved. If a project like NOFN were to become a reality, it could reduce the need for several social welfare schemes.
Challenges:
The main challenge is getting this project done through a sustainable framework. Starting with the end user and the PSPs, affordable connectivity would require regulation on pricing and ensuring availability of certain essential content, including those provided by the government.

What needs to be done?
An expert panel set to expedite roll out of broadband in rural areas has suggested revamp of national optical fibre network (NOFN) initiative, increasing the scope of the project that will entail three fold increase in cost to Rs.72,778 crore from about Rs.20,000 crore approved earlier.

- The committee has estimated the total cost of the revised project at Rs.72,778 crore, which is three fold higher than Rs.20,000 crore approved earlier.
- The report stresses on involvement of States, besides private players, for speedier implementation of the project that has fallen far behind its planned schedule.
- The Committee has also re-worked the timelines for implementation, stating that the project can be commissioned by December 2017.
- Seven States have proposed to come up with their own model to roll out broadband network under BharatNet programme.

Conclusion:
Broadband access to every citizen is a key pillar of Digital India. The issue is more significant for the rural population. While the government is making a large amount of information available online, especially since the Digital India initiative, it has to ensure that this information is actually accessible to the people. Connectivity can bridge this gap and provide access to not just the Internet but also to food, health, education, jobs, rights and opportunities. This is the reason why progress or the lack of it on NOFN is a matter of national concern.

Insights into Editorial: Weakening the watchdog

Article Link
17 June 2016

Appointing MLAs as Parliamentary Secretaries has been usual in the past. Along with Delhi government, several other states have been following this. However, with President of India recently declining assent to Delhi govt’s bill on appointment of parliamentary secretaries, the issue has come to the fore once again.
Background:
The Delhi government had in March last year appointed 21 of its MLAs as parliamentary secretaries in various ministries to speed up public work.

- Following criticism by members of the opposition, who called it unconstitutional, the government passed a bill which intended to provide security cover for those legislators appointed as parliamentary secretaries.
- Through the bill, the Delhi government had sought an amendment to the Delhi Members of Legislative Assembly (Removal of Disqualification) Act, 1997. The bill aims to exclude the post of parliamentary secretary from the office of profit and exempt the post from disqualification provisions.
- The bill was forwarded by lieutenant governor Najeeb Jung to the centre, which in turn was sent to the President with its comments.

What’s the issue now?
At the time of their appointment, the government had said that parliamentary secretaries will not receive any remuneration or perks from the government. But later on, they were allowed use of government transport for official purposes and space in minister’s office. Hence, few people criticized this move and called it unconstitutional.

Who is a parliamentary secretary?
A Parliament Secretary is similar to a Minister of State who assists a Minister in his or her duties.

Why President did not give his assent to the Bill?
The President takes note of Section 15 of the government of NCT of Delhi Act, 1991. It says a person shall not remain an MLA if he or she holds any office of profit under the Centre or government of a state or UT. Also, according to the president, parliamentary secretaries come under the purview of ‘office of profit’ criteria. Besides, the Lt Governor had said the office of parliamentary secretary is defined as an “office of profit if one looks at the statutes of Delhi” and that as per the GNCT Act, the city can have only one parliamentary secretary attached to the office of the Chief Minister.

Constitutional provisions:
Experts argue that the post of parliamentary secretary is in contradiction to Article 164 (1A) of the Constitution which provides for limiting the number of Ministers in the State Cabinets to 15% of the total number of members of the State Legislative Assembly. But, the number
of Cabinet Ministers in Delhi cannot exceed 10% of the total 70 seats — that is seven — as per Article 239AA of Constitution.

**Why appointing MLAs as Parliamentary Secretaries is not a good move?**

- The idea of modern republics is that no particular organ of state should have a concentration of powers. Different institutions act as a check on the actions of others. However, this move weakens the power of legislative bodies by governments, and thus *weakens the principle of separation powers*.
- The idea is that every legislator should be able to carry out legislative duties without any obligation to the government of the day. The latest move is in contradiction with this principle.
- This move raises questions over the ability of the Assembly to exercise its oversight role over the government. An argument has been made that these parliamentary secretaries will be able to aid the government in being more responsive to citizens’ needs. That argument, however, misses the point of separation of powers. The role of legislators is not to help the government do its job better, but to ensure that it functions in a proper manner. That is, the legislator exercises the role of a watchdog over the government on behalf of citizens and not as an agent of the government.

**How Delhi government defends its move?**

The Delhi government has based its defence on exemptions. The Constitution specifies that *state Legislative Assemblies have the power to enact laws and keep certain offices out of the preview of Office of Profit*. The Delhi government argues that as Parliamentary Secretaries are not eligible for any remuneration or perks from the government the post should be exempt from the office of profit.

**How is ‘Office of Profit’ defined?**

The concept of office of profit finds place in *Articles 102 and 191 of the Constitution*, which state that an MP or MLA will be disqualified if he or she occupies such an office. The Constitution also recognises that there may be other cases where exceptions may be required and allows Parliament and State legislatures to make exemptions by passing a law. In several cases, courts have examined this issue and concluded that the key question is whether occupation of such office will make a legislator beholden to the executive.
In general, a person is considered to hold an office of profit if four conditions are met:

1. He holds an office.
2. The office is one of profit, that is, it carries some benefits.
3. The office is under the control of the Central or the State government.
4. The office is not that of a Minister or exempted by an Act of Parliament or State legislature.

**Can MLAs be disqualified even if they haven’t received remuneration?**

In the *Jaya Bachchan vs Union Of India* case, the Supreme Court in May 2006 had dismissed actress-turned-politician Jaya Bachchan’s petition challenging her disqualification as Rajya Sabha MP by President A P J Abdul Kalam on the recommendation of the Election Commission for holding an office of profit.

It said that the law on this issue is settled since 1954 and what is material is not whether the person actually received any remuneration or pecuniary gains, but whether the office he or she holds is itself of profit.

**Similar cases:**

Because a Parliament Secretary often holds the rank of Minister of State, the Calcutta High Court, in June 2015, quashed the appointment of 24 Parliamentary Secretaries in West Bengal dubbing it unconstitutional.

- Similar action was taken by the Bombay High Court in 2009 for the appointment of two Parliamentary Secretaries in Goa and by the Himachal Pradesh High Court in 2005 for the appointment of eight Chief Parliamentary Secretaries and four Parliamentary Secretaries in the State.

- In May 2015, the Hyderabad High Court stayed the appointment of Parliamentary Secretaries in Telangana. The matter is sub judice in Punjab and Haryana.

**What happens if this bill is not approved?**

The President’s decision is a major setback to the Kejriwal government and leaves the AAP MLAs a few steps from possible disqualification. In the event of disqualification of the AAP MLAs, by-election to nearly one-third of the seats currently held by the ruling party will be necessitated. Such a development will follow only after the EC completes its proceedings on a petition seeking the disqualification of the MLAs.

**What can be done now?**

The legislator can escape disqualification only if the office is declared -by law made by Parliament, state legislature or UT -as a post that does not attract loss of membership. The fate of
the MLAs will now be decided by the Election Commission that is considering a petition seeking their disqualification.

**Conclusion:**

The role of legislators is critical in a democracy. They are elected by citizens, and have the task of ensuring that the government is acting in the best interests of the public. In this, they are expected to exercise their independent judgements on what constitutes public and national interest. They act as a bulwark against autocratic actions of the executive. Therefore, it is imperative that their independence is protected. Actions that impinge on such independence, such as excessive appointments to executive positions, the anti-defection law and MPLADS, should be reversed. Otherwise, there is a risk of a slow erosion of the institution of legislatures, which could put at risk the very existence of our republic. Our Supreme Court has recognised separation of powers as part of the basic structure of the Constitution, and can therefore strike down even amendments to the Constitution that infringe upon this principle.

**Insights into Editorial:** The culling fields

**18 June 2016**

**Article Link**

The Ministry of Environment, Forest and Climate Change recently permitted three States, Uttarakhand, Bihar, and Himachal Pradesh, to declare earlier protected wild animal species as “vermin” under the Wildlife Protection Act of 1972, thereby allowing private shooters and others to kill these species with few safeguards and no risk of prosecution. Similarly, two other states, Maharashtra and Telangana, issued orders.

- The species — nilgai antelope in Bihar and Maharashtra, the rhesus macaque in Himachal Pradesh, and wild pig in all States except Himachal Pradesh — were listed for culling because the animals, whose populations are allegedly increasing, damage crops.

**Criticisms:**

Not many are happy with these decisions. These decisions raise questions about whether it is right to kill wildlife that damage crops. More pertinent is whether the problem has been framed and assessed correctly, and culling the appropriate solution in the first place.
Why wildlife species were listed for culling?
The government notes that over 500 people were killed by animals across India last year. Human injuries and deaths due to wildlife is a serious issue. Also, many standing crops were destroyed by animals. Hence, it has permitted culling of these animals.

Declaring animals as vermin:
Wildlife laws divide species into ‘schedules’ ranked from I to V. Schedule I members are the best protected, in theory, with severe punishments meted out to those who hunt them. Wild boars, nilgai and rhesus monkeys are Schedule II and III members — also protected, but can be hunted under specific conditions. Crows and fruit bat fall in Schedule 5, the vermin category.

- **Section 11(1)a of the Wildlife Protection Act (WPA) authorizes chief wildlife warden to permit hunting** of any problem wild animal only if it cannot be captured, tranquillized or translocated.

- For wild animals in Schedule II, III or IV, chief wildlife warden or authorized officers can permit their hunting in a specified area if they have become dangerous to humans or property (including standing crops on any land).

- Section 62 of Act empowers Centre to declare wild animals other than Schedule I & II to be vermin for specified area and period.

Why culling is not a good idea?

- Removal through capture or killing may not prevent recurrence of conflicts and may even exacerbate them. Himachal Pradesh, for instance, killed hundreds of rhesus macaques in 2007 with conflicts recurring within two years, sterilised over 96,000 macaques since 2007 while conflicts continued to increase.

- Few recent studies show that a large proportion of man-animal conflicts are a result of accidental encounters with species such as elephants and bears.

- When animals are hunted, some will be shot several times causing tremendous pain, but many others escape with one gunshot or flesh wound, and die later slowly and in unimaginable agony from blood loss, gangrene, starvation or dehydration. When mother animals are killed, orphaned babies are left behind to starve.

- Provisions to allow wild animals to be killed can also be easily misused and contribute to the illegal wildlife trade. There is already a huge black market for nilgai body parts such as skin, teeth, nails and meat in Uttar Pradesh and wild boar are often used for meat.
In parts of India, wildlife species such as wild pig, elephants, macaques, and nilgai occasionally damage crops or property. However, no reliable estimates of economic loss nationwide are available.

Following list of reasons that scientists’ offer show us why the animal isn’t the problem:

**Habitat loss**: Deforestation and lowered green cover in cities has been driving animals into crop fields and human dwellings in search of food.

**Fall in predator population**: Fall in population of predators such as tigers and leopards leads to a consequential rise in population of herbivores such as nilgai and deer.

**Drought**: If natural calamities such as drought affect human beings, so is the case with animals in the forest. Drought dries up availability of food for foraging driving wild animals into nearby crop fields and human dwellings in search of food.

**Humans feeding animals**: this is one of the major problems these days. Tourists often offer foods to animals roadside. This habit makes them chase tourists expecting the same from all tourists.

**What are the alternatives available?**

- Since human safety is the main concern, it is more appropriate to first adopt measures to reduce human injuries and fatalities due to wildlife. Effective measures for this include deploying animal early warning systems, providing timely public information on presence and movements of species such as elephants to local people to facilitate precautionary measures, and attending to health and safety needs that reduce the risk of wildlife encounters.

- Housing improvements and provision of amenities such as lighting, indoor toilets, and rural public bus services help reduce accidental human deaths.

- Improving livestock corrals can reduce livestock losses and carnivore incursion into villages, while better garbage disposal and avoiding deliberate or accidental feeding of animals reduces risks associated with wild animals like monkeys.

- Crop damage by wildlife may occur when animals enter crop fields because of habitat alteration and fragmentation, because crops are edible, or because the fields lie along movement routes to forest patches or water sources. For this, site-specific scientific information is needed which helps design targeted mitigation with participation of affected people. This includes supporting local communities to install — and, more important, maintain on a sustained basis — bio-fencing and power fencing around vulnerable areas.
Crop insurance for wildlife damage, which the Environment Ministry recently recommended can be included in the National Crop/Agricultural Insurance Programme. An insurance approach recognises wildlife as a part of the shared countryside and as a risk to be offset rather than viewing wildlife as antagonists belonging to the State that one wishes away.

Use modern technology such as mobile phones for SMS alerts, customised apps, automated wildlife detection and warning systems, and participatory measures for wildlife tracking and rapid response to monitor and reduce conflicts, save crops, property, and human lives may also be helpful.

Solutions such as adequate fencing, noisemakers, and repelling animals naturally from farms through the use of chili plants or other such means can be tried. In Africa, for example, the planting of chili plants around crops was found to be successful in addressing conflict with elephants.

**Way ahead:**

A better approach to conflict management requires integration of scientific evidence, ecology and behaviour of particular species, and landscape and socio-economic context. Without this, the response of State authorities, often based on political compulsions and public perception, even if legitimate, may end up being inappropriate and confused in relation to the problem.

Also, **it is the duty of every Indian citizen under Article 51A (G) of our nation’s constitution to protect wildlife and to have compassion for living creatures.** To save these animals, town and project planning must include forest protection, and solutions must be found to conflict by engaging with farmers, animal protection experts and scientists in implementing humane, real solutions.

**Conclusion:**

Merely removing problem animals will not make problem locations disappear. Servicing human needs, enhancing local amenities, and adopting science-based and sustained interventions will provide more lasting solutions. A moratorium on culling will thus help redirect attention to where it is really needed and be in the best long-term interests of people and wildlife. India is already suffering from serious effects of climate change, including a warming climate, changing rainfall patterns, and droughts—all factors which hurt farmers first. Without healthy forests for our wildlife to live in, animals, and humans, suffer. It’s time to put down the guns and plant trees and work toward other effective solutions that help everyone involved instead.
Insights into Editorial: Chinks in the new aviation policy armour

20 June 2016

Article Link

The Union Cabinet recently cleared the Civil Aviation Policy in order to boost the domestic aviation sector and provide passenger-friendly fares. This new policy aims at providing various benefits to domestic airline passengers.

The Policy aims at:

- **India to become 3rd largest civil aviation market by 2022** from 9th.
- **Domestic ticketing to grow** from 8 crore in 2015 to 30 crore by 2022.
- **Airports having scheduled commercial flights to increase** from 77 in 2016 to 127 by 2019.
- **Cargo volumes to increase** by 4 times to 10 million tonnes by 2027.
- **Enhancing ease of doing business** through deregulation, simplified procedures and e-governance.
- **Promoting ‘Make In India’** in Civil Aviation Sector.
- **Ensuring availability of quality certified 3.3 lakh skilled personnel** by 2025.

What’s there in the new policy:

- **Capping of fare**: Rs 1,200 for 30 minutes and Rs 2,500 for hour-long flights.
- **A single window for all aviation related transactions**, complaints, etc.
- **5/20 rule scrapped**. Under the new rules, airlines must still have 20 planes before they can fly internationally, but no longer need to have operated for five years.
- Start-up airlines can now fly abroad after operating at least 20 planes or 20 per cent of their total flying capacity, whichever is higher, on domestic routes.
- **Restoration of air strips** at a maximum cost of Rs 50 crore through Airports Authority of India (AAI).
- India will have an **open-sky policy** for countries beyond the 5,000-km radius from Delhi on a reciprocal basis. This means that airlines from European or Saarc countries will have unlimited access, in terms of number of flights and seats, to Indian airports, leading to increased flight frequencies with these countries.
- **Permission for Indian carriers to get into code-sharing agreement with foreign carriers** for any destination within India.
More focus on ease-of-doing business as government plans to liberalise regime of regional flights.

The government will look to develop about 350 dilapidated or underused airstrips across India into “no frills airports”.

Four heli-hubs to be developed. Helicopter Emergency Medical Services to be facilitated

Development of greenfield and brownfield airports by State government, private sector or in PPP mode to be encouraged.

The earlier proposed 2% cess on all regional flights has been done away with. The cess was proposed to collect funds to improve regional infrastructure.

**Shortcomings in the new policy:**

The policy has touched almost every aspect of civil aviation, but gives no direction for professionalising the Directorate General of Civil Aviation (DGCA) and Bureau of Civil Aviation Security (BACS), crucial entities that govern aviation safety and security in the country. Though measures have been announced to strengthen both these entities and bridge the deficit, the policy is silent on how to radically transform these organisations to meet modern-day challenges and to be process-driven to deliver world-class service.

The NCAP is also silent on the formation of an independent Civil Aviation Authority (CAA). The policy also does not say what the government is doing with Air India and the way forward for the airline.

Airports Authority of India (AAI) is another entity that needs complete transformation, yet NCAP falls short of addressing that. There is little clarity on the way forward for the AAI or about its listing in the stock exchanges. According to analysts, this is a big negative as India’s massive airport infrastructure development plans requires a strong entity to see the execution through. Analysts feel that the AAI focuses heavily on capital expenses.

The policy is silent on long-term plans for airport development. Industry observers expected directions on the hiving off Air Navigation Services (ANS) from the AAI and making it an independent, professional body.

Doing away with 5/20 rule in international flying and relaxation to just 20 aircraft without any domestic flying criteria will not help new carriers like Vistara and AirAsia India significantly as they cannot fast-track expansion owing to a resource crunch.
• The NCAP gives **no direction on removing the negative fiscal regime on Indian airlines** which includes sales tax on ATF and other taxation measures. These have not been effectively addressed.

• The policy has **not given any direction for improvement in regulatory and policy-making competence**. There has been no direction on improving institutional capability in the Ministry of Civil Aviation.

• The policy also **doesn’t provide the civil aviation sector with the institutional infrastructure** required for long-term growth. The helicopter industry will structurally change with the announced measures, but its success is dependent almost entirely on DGCA, BCAS and infrastructure development.

**Conclusion:**
Making the first-ever integrated aviation policy was tough. The road ahead will be tougher as we implement it. The policy is well-intentioned, but private capital is unlikely to flow to loss-making projects. What the government should do is to clear the way for entrepreneurs to move into the civil aviation sector removing all manner of hurdles. Steps should be taken to minimise anti-competitive practices among individual airlines. The government has gone a few steps forward but there is still a long way to go to remove all shortcomings. India needed an aviation policy which is strategically aligned and supportive of PM’s bold and inspiring vision for the Indian economy.

**Insights into Editorial: Women in the workplace: Not yet a better balance**

21 June 2016

**Article Link**

The position of women has steadily improved in India over the last 25 years. Employment gender gap, especially, has improved over the last 25 years. Conducive environment for women to balance work along with household responsibilities is being created almost everywhere. Today, there is more ambition and confidence amongst women, perhaps also helped by greater participation of men in household responsibilities, as well as greater organizational focus.

• To the extent that education is an indicator of the increasing role of women in economic growth, we have seen improvement. The gross enrolment ratio (GER) of girls in elementary education has improved dramatically, from 66% in 1991 to 97% in 2014.
The GER of girls in higher education has also increased from 7.5% in 2002–03 to close to 20% in 2012–13. Women account for 51% of all post-graduates in India today.

**Concerns:**

However, not everything is ok with the present state. There are few concerns which are yet to be addressed. India is still lagging behind in many areas compared to other developing and developed countries. Statistics reveal that improvement in education hasn’t completely chipped away at the gender disparity in employment.

- The World Economic Forum Global Gender Gap Report 2015 ranked India at 139 out of 145 countries on the economic participation and opportunity gap. India’s overall female labour force participation (FLFP) rate remains low and has, in fact, dropped from 35% in 1991 to 27% in 2014. As per World Bank data, the world average is around 50% and South Asia is at 31%.

- According to a 2015 International Monetary Fund (IMF) working paper, in urban India, the recent FLFP rate is even lower at less than 20%; within this, segments such as graduates are around 30%, which although higher than the national average, have seen a decline since the 1990s.

- Another study notes that women account for only 24% of senior management roles globally. In India, women held 19% of senior manager roles, but only 14% did so at the executive level. India is ranked among the worst of 48 countries in terms of female leadership.

**Major challenges:**

- The right to safety and to choose the life they want is the biggest challenge even today.
- Women who get paid for their work earn less than their male colleagues, even when doing the same work, which economists call the gender wage gap.
- Female unemployment has been on the rise in some states of India.
- Lack of infrastructure, transportation, and child care facilities have also held women back.

**What can be done to improve the participation of women?**

- Diversity targets have to be set. They help elevate the issue, thereby pushing organizations to identify women with high potential and ensure that they are provided opportunities to accelerate.
- Another positive move is the increasing openness of organizations to extend paid maternity leave beyond the grossly insufficient three months mandated by law.
In advanced economies, more women will work if they have access to parental leave and affordable child care.

Flexible work arrangements help women to juggle their many responsibilities and to achieve a better work-life balance.

It’s also important to allay negative perceptions associated with utilizing flex options, by making them more broad-based and encouraging their use for both men and women.

Organizations need to proactively coach employees on biases that unconsciously play out through body language, day-to-day behaviour and word choices. These often go undetected and stand in the way of hiring and retaining the best talent in the organization.

Affinity groups and their mission continue to be as relevant as ever. At the same time, the methods must evolve. They need to be a platform for proactive solutions, be more inclusive, and must bring male colleagues to the table, as peers, thought leaders and co-beneficiaries of the mission.

Conclusion:
These measures are a much needed improvement over the past 25 years. However, to translate these to sustained improvement, there needs to be a deep organizational belief in the benefit of increasing women’s representation in the workplace, as well as supportive day-to-day actions and behaviours. Without these, the effect of all policy measures will remain superficial and even counter-productive. A widely covered IMF estimate points out that shrinking the gender differences in employment could expand India’s gross domestic product (GDP) by 27%.

Unlocking this potential definitely requires an increase and shift in the composition of overall employment opportunities as well as questioning of societal strictures. As the country commends itself on world-leading economic growth and aspires towards a $20 trillion economy, organizations need to take women along to make this goal a reality. Societal change will be the largest needle mover, but a constant push through the government, organizations and individuals is critical to bend societal norms for the better.
The government has unveiled another round of economic policy reforms by liberalising the foreign direct investment norms in nine key sectors ranging from defence to aviation, pharmaceuticals to retail trade. This is the second such easing of norms since November.

- The new measures are expected to pave the way to attracting more foreign investment since they target sectors which have been relative laggards in attracting FDI.

**Highlights:**

- In defence, foreign investment beyond 49% (and upto 100%) has been permitted through the government approval route, in cases resulting in access to modern technology in the country. The condition of access to ‘state-of-art’ technology in the country has been done away with, as many foreign investors had complained about the ambiguity regarding that term. FDI limit also has been made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act, 1959.

- 100% FDI has been permitted under government approval route for trading, including through e-commerce, in respect of food products manufactured or produced in India, bringing into effect the proposal made in the Budget 2016-17.

- To promote the development of pharmaceutical sector, the government has permitted up to 74% FDI under automatic route in existing pharmaceutical ventures. The government approval route will continue beyond 74% FDI and upto 100% in such brown-field pharma.

- 100% FDI has been permitted in India-based airlines. However, a foreign carrier can only own upto 49% stake in the venture, and the rest can come from a private investors including those based overseas. This is expected to bring in more funds into domestic airlines. To boost airport development and modernisation, 100% FDI in existing airport projects has been allowed without government permission, from 74% permitted so far.

- Entities undertaking single brand retail trading have been relaxed from local sourcing norms up to 3 years. Entities engaged in of single brand retail trading of products having ‘state-of-art’ and ‘cutting edge’ technology have been relaxed from local sourcing norms up to 5 years.
What’s good about this move?

- The policy changes are promising. A 100% FDI allowance for trading, including e-commerce in food products that are made in India, can be expected to enthuse the major players in this sector.
- Relaxation in FDI in aviation is likely to go well with the recently unveiled civil aviation policy. Foreign carriers would no longer have to look for an Indian partner to set up a domestic airline and could join hands with private investors abroad. Though equity holding of foreign airlines is still limited to 49%, a foreign airline can join hands with its sovereign fund or private investors and set up a 100 per cent foreign-owned airline in India.
- Defence, a sector which has yet to receive FDI, is also likely to benefit. The government decision to liberalise conditions allowing 100% FDI in the defence sector may result in at least some foreign entities setting up subsidiaries in India.
- New policy will be a significant step forward in ensuring that OEM [original equipment manufacturer] subsidiary-driven manufacturing plans take off. It will result in greater comfort for OEMs to establish high-technology manufacturing-driven subsidiaries.

Why this would make a little difference?

- The sectors targeted in the latest round account for just 11% of the total FDI received by India. Compare that to the top five sectors — services, construction, computer software and hardware, telecom and automobiles — that account for a 45% FDI share.
- These measures are more incremental than game-changing. In defence, for instance, existing policies already allow for FDI up to 49% under the automatic route and above that contingent on government approval on a case-by-case basis. The change, now, is the removal of the “access to state-of-the-art technology” clause for the latter.
- Other major sectors like pharmaceuticals and broadcasting have seen similar changes revolving around tilting the balance in favour of investment under the automatic route.
- The notable exception is the significant hike in the FDI cap in domestic airlines from 49% to 100%. But this is balanced by retaining the prior cap as far as foreign airlines are concerned.
- Also, investment by foreign airlines is still capped at 49% — so it remains to be seen whether other investors such as private equities and the like would have the risk appetite to make such investments.
What else is needed?

For both measures and message to be truly effective, a number of structural issues must be addressed. Take defence, for instance. It is a massively capital-intensive sector, one where project gestation periods can extend to decades. The investment risk level is commensurately high with no guaranteed pay-off at the end of it. In such circumstances, liberalizing FDI is not enough if risk levels for foreign investors remain unsustainably high. The centre must have a clear, long-term defence acquisition road map, allowing private sector companies to plan ahead and manage risk effectively.

Look at pharmaceuticals. Over the past few years, expanding price control has been the department of pharmaceuticals’ signal achievement. This is counterproductive for both domestic players and their potential foreign investors, particularly given the high costs and, again, long cycles of research and development projects. This is not to say that the sector can or should be entirely unregulated—low-priced Indian generics are essential both domestically and globally—but there are other means such as bulk government purchases that would serve better.

Way ahead:

Apart from focusing on the unexplored sectors, the government should be complimented for aggressively bringing in more and more activities under the automatic route, which reduces bureaucratic discretion and promises policy certainty.

Conclusion:

It is true that given the series of changes under the current regime, there is now just a small negative list where FDI is not allowed. However, opening the door to investments is just the first step. It is more a statement of intent, an invitation for investors and companies around the world. To truly achieve its aim of opening up — to increase employment and create jobs for the millions streaming into the labour force every year — the government will have to do more. India continues to enjoy a lowly rank in the ease of doing business. Retaining the investments that come in as a result of these measures will be the key challenge.
elections earlier this year, political buzz around the next round of elections has already started. Five assembly elections will be held in the next two years.

Problems associated with frequent elections:

- Frequent elections affect policymaking and governance as the government is trapped in short-term thinking.
- It also destabilises duly-elected governments and imposes a heavy burden on the exchequer.
- It also puts pressure on political parties, especially smaller ones, as elections are becoming increasingly expensive.
- The Model Code of Conduct (MCC) which comes into force with the announcement of poll dates, prevents government from announcing any new schemes, make any new appointments, transfers and postings without the approval of election commission. This brings normal work of the government to a standstill.
- It also increases the cost of management to the election commission.

What’s the solution?

Holding simultaneous elections for state assemblies and Parliament is the best solution. This idea has also received support from PM Modi and the parliamentary standing committee of Law and Justice. Besides, the Law Commission in its report on electoral reforms in 1999 had suggested simultaneous Lok Sabha and state assembly elections to improve governance and stability.

Why holding simultaneous elections is a good idea?

- This will help save public money and will also be a big relief for political parties that are always in campaign mode.
- It will allow political parties to focus more on policy and governance.

Concerns:

Lok Sabha and assembly elections were held simultaneously until the mid-1960s, but the premature dissolution of state assemblies in subsequent years disturbed the cycle. In several instances, the Lok Sabha also suffered the same fate. Therefore, some stakeholders fear that even if elections are brought in sync, the cycle might once again get interrupted. There is also the possibility of dismissal of state governments and premature dissolution of assemblies.

Way ahead:

Although it may not be immediately possible to move towards simultaneous elections, it is still worth debating and finding ways to eventually do so. The problem of premature dissolution has
diminished significantly after the passage of the anti-defection law and the Supreme Court’s landmark *Bommai* judgement.

- For the Lok Sabha, as suggested by the Law Commission and others, rules for the conduct of business can be modified so that a no-confidence motion against the government can only be moved with a confidence motion for an alternative formation. This will increase stability and allow the house to complete its term. The same can be done for state assemblies as well.
- Next best alternative is to conduct elections for assemblies in two phases—one with the Lok Sabha and the other midway through the Lok Sabha’s term. This will significantly reduce the time and energy spent on polls.

**Previous experiences:**

After the Constitution came into being in 1950, elections to the Lok Sabha and all state assemblies were held simultaneously in 1952, 1957, 1962 and 1967 and all the newly elected legislative bodies were constituted between March and April in each of these years.

- In the first three elections, it was virtually one-party rule with the Congress Party holding sway over the voters almost everywhere. However in 1967, the electorate dislodged the Congress in a few states and voted in unstable coalitions. A couple of these governments collapsed ahead of time in the late 1960s, thus marginally disrupting the arrangement of simultaneous elections to the Lok Sabha and all the state assemblies.
- However, the real damage was done in 1970, when early dissolution of the Fourth Lok Sabha took place. Since then, the arrangement of simultaneous elections has come to an end and over a period of time, the country has got into a vicious cycle of elections which has begun to hurt governance in a big way.

**Conclusion:**

The proposal will not only have economic benefits but will free up precious political space for policy discussions. It will also help in taking forward the process of economic reforms as decisions will not always be hostage to assembly elections. However, there are multiple issues that will need to be addressed if the country intends to move in this direction. The concerns and suggestions of different stakeholders will have to be debated in order to build political consensus around the idea.
According to QS Higher Education System Strength Rankings released recently, India ranks 24th in higher education system strength out of the 50 countries evaluated. India’s performance compared to countries such as the US, the UK, Germany, China, South Korea and Japan which have figured in the top 10, is not so impressive. University Grants Commission (UGC) is being blamed for India’s poor performance.

**Background:**
The University Grants Commission (UGC) of India is a statutory body set up in 1956, and is charged with coordination, determination and maintenance of standards of higher education.

- Previously, UGC was formed in 1946 to oversee the work of the three Central Universities of Aligarh, Banaras and, Delhi. In 1947, a Committee was entrusted with the responsibility of dealing with all the then existing Universities.
- After independence, the University Education Commission was set up in 1948 under the Chairmanship of S. Radhakrishnan and it recommended that the UGC be reconstituted on the general model of the University Grants Commission of the United Kingdom.
- The UGC was however, formally established in November 1956, by an Act of Parliament as a statutory body of the Government of India.

**Important functions performed by the commission:**

- It provides recognition to universities in India.
- It oversees distribution of grants to universities and colleges in India.
- It provides scholarships/fellowships to beneficiaries.
- It monitors conformity to its regulations by universities and colleges.

**Is UGC a failure?**

Since its inception, the University Grants Commission (UGC) has been witness to a spectacular growth in higher education. The number of universities has multiplied 40 times over, and student
enrolment has increased a hundred fold. However, the UGC has been a silent spectator to the languishing quality of education in many of these institutions.

- Few recent policies including increase in teaching hours of the faculty and its subsequent cancellation, the implementation of the choice-based credit semester system in Delhi University, and the decision to discontinue UGC non-NET scholarship for MPhil and PhD students and its abandonment after protests, have been unpopular.
- Also, UGC is understaffed. This affects the commission while disbursing grants and fellowships thereby affecting quality standards.
- Its policies also suffer from two diametrically opposite issues—under-regulation and over-regulation. While it lets smaller substandard institutions slip by as deemed universities, it also instigates witch-hunts against reputed deemed universities.
- Hence, it is argued that UGC has not only failed to fulfill its mandate but also has not been able to deal with emerging diverse complexities.

**Allegations on UGC:**

- Constituted by all kinds of members other than academics, UGC operates in an ad hoc working structure with no coordination due to lack of knowledge about regional offices, bureaus, disciplines and activities.
- It is unable to adopt new measures for enhancing student mobility and internationalisation in higher education.
- Measures for reinvigorating the teaching environment in universities and colleges and measures for enhancing quality research and ushering in a climate of innovation in higher education are also not taken into account.
- It has also deviated from its core goal of being a watchdog for ensuring excellence in education and is accused of indulging in favouritism.

**Alternative arrangement as suggested by expert committee:**

The expert committee has suggested an alternative arrangement for a pruned UGC. It says, the UGC could be revamped, made considerably leaner and thinner, and could be the nodal point for administration of the proposed National Higher Education Fellowship Programme, without any other promotional or regulatory function.

**Way ahead:**

It is doubtful if scrapping UGC or any institution is the remedy needed for India’s higher education system. The Higher Education and Research Bill, 2011, introduced in the UPA regime,
was discarded for non-consultation with states, violation of institutional autonomy and so forth. Unless a foolproof system is made addressing these issues, the new proposal would be akin to renaming a scheme or creating a new institution on the ruins of an old one to earn the government extra brownie points for the next elections.

**Conclusion:**

Though it can’t be blamed for all the problems with the higher education system, its decisions have an important bearing on the entire student population of the country. Therefore, when policies made by the UGC to keep pace with the changing dynamics of higher education are ill-considered, as well as lacking in research and consultation with stakeholders, there is reason to worry.
is being constrained by it. Some of the constraints involve imposing many rules on Britain’s business and shelling out billions of pounds in the form of EU fees without much gain in return.

What’s U.K.’s history with the EU?

European Union was originally formed with six nations in 1957. Today, it is a gigantic transnational entity of 28 countries, including the U.K., which joined only in 1973. Though part of EU, Britain has traditionally had a ‘eurosceptic’ stand. It continues to use the Pound as its currency, while most EU nations have moved to Euro. Neither does it participate in the Schengen border-free zone, which allows passport-free travel in EU.

How Brexit will affect Britain’s economy?

In the short run, uncertainty about Britain’s future relationship with the EU, its largest trading partner, could push the UK into a recession. Huge market volatility is already being seen.

- With Cameron all set to resign, Britain’s prospects of negotiating a favorable deal with the EU could be weakened. The EU may decide to strike a hard bargain to discourage other countries from leaving the EU.
- Also, the UK’s new leader might not be willing to accept the kind of restrictions that come with a Norway-style deal. And that could create serious problems for businesses based in the UK.
- Critics say the economic effects could be large. The UK government has estimated that exiting the EU could cause the British economy to be between 3.8 and 7.5% smaller by 2030 — depending on how well negotiations for access to the European market ultimately go.

How it will affect migrants?

One of the most important and controversial achievements of the EU was the establishment of the principle of free movement among EU countries. A citizen of one EU country has an unfettered right to live and work anywhere in the EU. Both Britons and foreigners have taken advantage of this opportunity.

- Currently there are about 1.2 million Brits living in other EU countries, while about 3 million non-British EU nationals live in Britain. Thanks to EU rules, they were able to move across the English Channel with a minimum of paperwork. Britain’s exit from the EU could change that profoundly.
- It’s possible, of course, that Britain could negotiate a new treaty with the EU that continues to allow free movement between the UK and the EU. But resentment of EU immigrants — especially from poorer, economically struggling countries like Poland and Lithuania — was
a key force driving support for Brexit. So the British government will be under immense pressure to refuse to continue the current arrangement.

- At a minimum, that would mean that people moving to or from Britain would need to worry about passports and residency rules. And it could mean that some British immigrants may lose their right to continue living and working in the UK and be deported.

How it will affect UK?

Brexit could also change the United Kingdom in a more fundamental way. It’s called the “United” Kingdom because it’s made up of four “countries” — England, Wales, Scotland, and Northern Ireland. But with Britain now on its way out of the EU, there’s a danger it won’t stay united for very long.

- Scotland supported Remain by a margin of 62% to 38 %. And the Scots in particular have never been entirely satisfied with English domination, as shown by the 44% of Scottish people who voted to make Scotland an independent country in 2014. They like having the UK be part of the EU in part because it provides a counterweight to English power within the UK.

- So Britain’s exit from the EU could strengthen the hand of Scottish separatists. A key Scottish leader has already signaled that she wants to hold a second referendum on Scottish independence. If that vote succeeded, Scotland would likely petition for admission to the EU in its own right.

- A similar, but possibly more troubling, situation could emerge in Ireland, which has long been divided between a protestant North that’s part of the UK and an independent Irish republic in the South. Tensions across the border have been minimized by EU rules guaranteeing the right to move across the border. But if the UK withdraws from the EU, the border could become more important and tensions over territory could flare up.

How Brexit affects India?

- Brexit affects global financial market. Markets across the world will tank. The pound will depreciate against most major economies. India cannot remain immune to this. Sensex and Nifty will tumble in the short-run.

- India is presently the second biggest source of FDI for Great Britain. One of the main reasons for this is the historic and cultural ties with the UK that India shares along with the fact that the UK proved to be a gateway into the rest of Europe. Indian companies that would set up their factories in the UK could sell their products to the rest of Europe under the
European free market system. However, now it will not be as attractive a destination for Indian FDI as before.

- With Brexit, India will lose its gateway to Europe. This might force India to forge ties with another country within the EU, which would be a good result in the long run. India is already trying to build trade negotiations with Netherlands, France, Germany, and others, albeit in a small way. Netherlands is India’s top FDI destination as of now. A Brexit could force India to build trading partnership with other EU nations in order to access the large EU market.

- With Britain cutting off ties with the EU, it will be desperate to find new trading partners and a source of capital and labour. There have already been many proponents of the Leave Campaign that suggest that the UK should look towards the Commonwealth to forge new alliances. Britain will still need a steady inflow of talented labour, and India fits the bill perfectly due to its English-speaking population. With migration from mainland Europe drying up, Britain would be able to accommodate migration from other countries, which will suit India’s interests.

- Britain is one of the most important destinations for Indians who want to study abroad. Presently, British universities are forced to offer subsidized rates for citizens of the UK and EU. With Brexit, however, the universities will no longer be obliged to provide scholarships to EU citizens, which will free up funds for students from other countries. Many more Indian students may be able to get scholarships for studying in the UK.

What next?

Article 50 of the Treaty on European Union establishes the procedures for a member state to withdraw from the EU. It requires the member state to notify the EU of its withdrawal and obliges the EU to then try to negotiate a withdrawal agreement with that state.

- Britain’s “Leave” vote, however, does not represent that formal notification. That notification could take place within days — for example, when EU member countries meet for a summit that is scheduled for June 28 to 29. Or British officials might wait a few months to pull the trigger.

- Once Britain invokes Article 50, it will have a two-year window in which to negotiate a new treaty to replace the terms of EU membership. Britain and EU leaders would have to hash out issues like trade tariffs, migration, and the regulation of everything from cars to agriculture.
In the best-case scenario, Britain may be able to negotiate access to the European market that isn’t that different from what it has now. Norway is not a member of the EU, but it has agreed to abide by a number of EU rules in exchange for favorable access to the European Common Market.

Conclusion:
In summary, it can be said that a Brexit would have damaging effects on the economic development in the entire EU along with some positive effects. Apart from economic disadvantages, a Brexit would also cause severe political damage and would weaken Europe geopolitically.

Insights into Editorial: The writing on the great wall

27 June 2016

Article Link

The recent Nuclear Suppliers Group (NSG) meeting in Seoul ended with no decision on India’s application to join the group as a full member. However, this was an expected outcome since China took a public stand against a non-signatory to the Nuclear Non-Proliferation Treaty (NPT) being granted membership.

About NSG:
Nuclear Suppliers Group (NSG) is a multinational body concerned with reducing nuclear proliferation by controlling the export and re-transfer of materials that may be applicable to nuclear weapon development and by improving safeguards and protection on existing materials.

* Interestingly, the NSG was set up in 1974 as a reaction to India’s nuclear tests to stop what it called the misuse of nuclear material meant for peaceful purposes. Currently, it has 48 members.

Why China is opposing?
According to China, if India, being a non-signatory to the NPT, admitted to NSG, would undermine the international non-proliferation regime.

What has China suggested?
It has suggested NSG members to thoroughly discuss the subject of membership of non-NPT states so that a set of objective criteria could be agreed upon and that no application was treated as an exceptional case.
How this would affect India China relationship:
China’s continued obduracy raises serious questions in the Indian government about the value of organisations like BRICS, RIC or even BASIC, where India and China are believed to be working together. If China continues with its opposition, there could be consequences for bilateral relations with Beijing, because it would be a direct refusal to an Indian head of the government.

Why India should be granted NSG membership:
In this game of developing nuclear weapons India has not indulged in any dubious/clandestine activity and its programme has been developed solely by years of hard work indigenously. By this single act India has shown that developing a credible nuclear weapons programme through honest and civilian means is possible for any country having high-level scientific manpower and materials.

Besides, by declaring a voluntary moratorium on further underground nuclear tests India has effectively acted in sense and spirit of NPT/CTBT provisions. By steering its programme only as a minimum deterrence and pledging NFU unless faced with an attack of weapons of mass destruction (WMD), India has established itself as a responsible nuclear state.

Way ahead:
Since China is firm on its stand, India’s entry into the NSG as a unique and exceptional case may be extremely difficult even if a determined lobbying effort is launched in the coming weeks and months. The only practical possibility would be for India and Pakistan to be admitted together, which China has indicated it would be willing to support. However, most NSG members are not in favor of this.

Previous experience:
India had to undergo a similar situation in 2008. In 2008, India was able to get a waiver from the NSG as an exceptional case allowing it to engage in international commerce in civilian nuclear technology and equipment even though, as a nuclear weapon state, it did not have all its nuclear facilities under international safeguards as required by the group.

* Even then, China was opposed to the waiver but did not take a public stand on it. Instead, it encouraged countries like Ireland, New Zealand, Austria and Switzerland to oppose a consensus on the waiver for India, arguing that it would seriously undermine the NPT, that it would upset the nuclear balance in South Asia and trigger a nuclear arms race.
China had also suggested a criteria-based rather than a country-specific approach to be adopted in order to avoid the charge of discriminatory practice. However, later on China decided to support the draft waiver decision.

**What can be done now?**

A fresh discussion on so-called “criteria” applicable to all non-NPT applicants should be held now. The criteria on the basis of which India has already received a waiver in 2008 could be reopened. The waiver has allowed India to engage in civil nuclear commerce with a number of countries. It has entered into long-term nuclear fuel supply agreements with a number of supplier countries and is negotiating the supply of advanced nuclear reactors with Russia, France and the U.S.

Membership of the NSG would not make a substantive difference except that it would make the conditions for international civil nuclear commerce and cooperation more predictable in the long run and also ensure that in any future amendments to NSG guidelines India is an active participant.

**Why has China taken a more public and upfront position opposing India’s membership in the NSG?**

China today is a more confident and assertive power than in 2008. Also, there is a clear enhancement of China’s commitment to Pakistan, not only as its traditional proxy against India but also because it has been assigned a key role in Xi Jinping’s ambitious One Belt, One Road project.

**Conclusion:**

If China sticks to its stand, implications may go beyond the immediate issue of NSG membership and reflect the ongoing changes in the geopolitical landscape. Hence, it is time for the countries to take advantage of the NSG experience to carefully assess these changes, their impact on India and fashion an appropriate response strategy. That is more important than the pursuit of NSG membership.

**Insights into Editorial: S4A won’t solve the bad loans problem**

**Article Link**

**28 June 2016**

Stocks of lenders and debt-ridden companies have been rallying ever since the RBI announced a scheme for sustainable structuring of stressed assets, which allows banks to convert up to half the
loans held by corporate borrowers into equity or equity-like securities. It was believed that the scheme, dubbed as **Scheme for Sustainable Structuring of Stressed Assets (S4A)**, is positive for both lenders and borrowers in the long term.

**What is the scheme all about?**

It is a scheme for resolution of bad loans of large projects wherein a portion of the debt will be converted into equity or other instruments under supervision of IBA’s Overseeing Committee.

- It envisages determination of the sustainable debt level for a stressed borrower, and bifurcation of the outstanding debt into sustainable debt and equity/quasi-equity instruments which are expected to provide upside to the lenders when the borrower turns around.
- The Scheme will cover those projects which have started commercial operations and have outstanding loan of over Rs 500 crore.
- In order to ensure transparency, an Overseeing Committee, set up by the Indian Banks Association (IBA) and comprising of eminent experts, will independently review the processes involved in preparation of the resolution plan. The panel will be set up in consultation with the RBI.
- As per the resolution plan, the debt will be divided into two parts — Part A will include debt which can be serviced from the existing operation while remaining will be classified as Part B. While there will be no extension of the repayment of Part A, the Part B will be converted into equity/redeemable cumulative optionally convertible preference shares. However, in cases where the resolution plan does not involve change in promoter, banks may, at their discretion, also convert a portion of Part B into optionally convertible debentures.
- Banks will also need to set aside higher provisions if they choose to follow this route. Lenders will have to make provisions to the extent of 20% of the total outstanding amount or 40% of the amount of debt that is seen as unsustainable.
- Of these two, the amount that is higher will equal the amount of provisions that a bank has to set aside. These provisions are higher than the 15% that banks make for an NPA in the first year but lower than the 100% in provisions required over a three-year period.

**Why this was needed?**

The move is intended to help restore the flow of credit to crucial sectors such as infrastructure and iron and steel, among others, reduce the stress on corporate borrowers and stanch bad loans across banks.
The gross bad loans of 39 listed Indian banks, in absolute term, rose 92% in fiscal year 2016 to Rs.5.79 trillion even as after provisioning, the net bad loans more than doubled to Rs.3.38 trillion.

In percentage terms, the average gross non-performing assets (NPAs) of this group of banks rose from 4.41% of loans in 2015 to 7.91% in 2016; net NPAs in the past one year rose from 2.45% to 4.63%.

Public sector banks, which have close to 70% market share of loans, are more affected than their private sector peers. Two of them have over 15% gross NPAs and an additional eight close to 10% and more.

If we include restructured loans as well as those loans that have been written off, the total stressed assets could be as much as one-fourth of loans, at least for some of the government-owned banks.

What’s necessary for successful implementation of this scheme?

1. Ability of banks to apportion loans into sustainable and unsustainable.
2. Availability of un-impaired capital of banks.
3. Ability of banks to ensure that promoter’s skin is still in the game after implementation of the scheme.

How is it different from SDR scheme?

The new scheme is better than the Strategic Debt Restructuring (SDR) scheme as entire corporate debt need not be classified as non-performing assets, and existing promoters can also continue. In SDR, banks had the option to convert debt into equity and take control of the company to sell off the assets.

Also, under SDR, a consortium of lenders can convert part of their loan exposure in a stressed company into equity and own at least 51% of it. The banks were also given a window of 18 months to bring the houses of stressed companies in order.

Benefits:

- This scheme would not only strengthen the lenders’ ability to deal with stressed assets, but would also put real assets back on track, benefitting both banks and the promoters of troubled entities.
- The move is intended to help restore the flow of credit to crucial sectors such as infrastructure and iron and steel, among others, reduce the stress on corporate borrowers and stanch bad loans across banks.
What’s not so good in this?

- In its current form, the reform could favour promoters more than the underlying lenders because banks have to provide for the loss of interest from their profit, while promoters get away with lower interest payments.

- The scheme can only be used for operational projects. Banks cannot reschedule or reprice the debt that is remaining after converting part of it into equity. Also, they have to assess the sustainable portion of the debt based on current cash flows rather than any future projection of cash flows. Due to this, many firms would not be able to do much for some power projects which are still under implementation.

- It also does not allow for banks to change the terms and conditions of the loan. This would mean that not too much support to the sustainable part of the debt can be extended.

- The oversight committee will help give comfort to bankers. However, the overseeing committee might slow the process a little but it is a necessary evil, as it gives a lot of comfort to the bankers.

- The guidelines say that while calculating the sustainable part of the debt, banks need to ensure that this part of the debt can be serviced over the original tenor even if the future cash flows remain at their current level. A number of stressed companies are functioning at such sub-optimal levels that they need constant working capital support.

- Another concern could be the high level of equity dilution that may result from a scheme of this nature. This could be negative for shareholders and may also reduce the incentive for promoters to actually turn around the company.

- Banks are required to set aside a large amount of provision as part of this scheme, which would deeply affect not only the value of the loan, but also the profitability of banks as some of these cases are large.

**Conclusion:**

S4A sounds like a car model, but the ride may not be all that smooth for the banking system. To make it smoother, both RBI and the government should identify the loopholes and address them as soon as possible.
Insights into Editorial: Inflation targeting: A long way to go

Article Link

29 June 2016

With the government amending the Reserve Bank of India Act, 1934 through the Finance Bill, 2016, inflation targeting has become the primary objective of RBI. According to the monetary policy framework, agreed by RBI and the government last year, the central bank will look to contain inflation within a band of 4% plus/minus 2 percentage points from next year. However, this is not sufficient. Several reforms will be needed to build institutional capabilities that will add up to a working IT system. These involve:

- Changes in the working of the central bank, including, releasing better and more frequent macroeconomic data, analysis and inflation forecasts in a timely manner.
- Changes in constituting the monetary policy committee and putting in place an operating procedure.
- Changes in letting the currency float and liberalizing the capital account.
- Changes in monetary policy transmission, through financial market reforms.

A central feature of a well-functioning monetary policy is monetary policy transmission (MPT). Changes in policy repo rate affect the economy through the following channels of transmission:

1. Change in bank rates.
2. Changes in bond market.
3. Changes in exchange rate.

Indian scenario:

Monetary policy transmission (MPT) in India is ineffective. It is because none of the above mentioned channels works in India.

- India is a bank-dominated economy. But, the number of banks has not increased noticeably over time. Also, the sector is dominated by public sector banks which account for 80% of the deposits but lack competitive energy. Private and foreign banks face a plethora of entry barriers. Payment banks and small banks would not make much difference here. Hence, in the absence of competition PSBs do not fell its necessary to pass on the rate changes to the final consumers. This renders the bank lending channel of transmission ineffective.
- Unlike in advanced countries such as the US, where the bond market is an important transmission channel through which changes in monetary policy affect the yield curve, bond
market development in India has been an important failure of financial sector reforms. In the absence of a large and liquid bond market, the burden of MPT falls squarely on the banks.

- Also, in India, there exist several restrictions on the movement of capital flows. Compared to other emerging economies, India still enjoys a limited degree of integration with international financial markets. So, any change in RBI’s policy rate does not necessarily result in concomitant changes in capital flows. Besides, in India, any movement in the currency is actively managed by RBI through market interventions. These reduce the effectiveness of the exchange rate channel of transmission. In the absence of an open capital account and flexible exchange rate, this channel of MPT is rendered ineffective.

How can we ensure effective Monetary Policy Transmission (MPT)?

- By adopting structural reforms to declog the channels of transmission. This entails improving financial inclusion, fostering a competitive environment for banks, improving the functioning of the bond market, liberalizing the capital account and letting the currency float.
- By administering big changes in the policy rate.
- By delivering only small changes in the policy rate. This is least painful and perhaps easiest to implement in the short run, but does not create any real impact on the economy.

Conclusion:
The government has done its bit by amending the RBI Act to incorporate IT as an objective. RBI now needs to undertake a series of actions in order to actually become an inflation-targeting central bank.