Economy Watch

April 2016
Issue 10

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This newsletter is prepared by the Economic Affairs & Research Division, FICCI

State of the Economy

The outlook for India's economy remains on a positive plank, especially relative to the performance of its peers in the emerging markets. Given the improvement achieved over the course of past two years, we are on a stronger footing with regard to some key macroeconomic parameters. The position with regard to the twin deficits - on fiscal and current account is fairly comfortable. Inflation which had emerged as a big challenge remains range bound. The improvement seen in the economy needs to be nurtured. It is imperative to support the nascent investment cycle and take further measures to prop up domestic demand.

Global economy remains fragile and the recovery has been scattered. Sharp plunge noted in crude oil prices and the persistently subdued commodity prices have boded well for our economy. However, the prolonged weakness in external demand has adversely affected India's exports and the impact of this is evident in our industrial growth as well. Amidst the current situation, the primary trigger has to come from domestic demand.

The recently announced Union Budget 2016-17 aptly emphasized the need to revive domestic demand. Agriculture & allied activities and the rural sector constitute a huge part of India's economy. The thrust laid on agriculture sector, rural economy and infrastructure in the Union Budget 2016-17 is expected to have a multiplier effect on the economy.

Gross Domestic Product

The latest quarterly GDP data announced in the month of February 2016 reported a growth of 7.3% in the third quarter of 2015-16. This was lower than 7.7% growth recorded in the second quarter of the same fiscal year. GVA registered a growth of 7.1% in quarter 3, vis-à-vis 7.5% growth in quarter 2. The moderation in growth numbers comes on the back of negative growth reported in agriculture and allied activities sector. The industrial sector observed an improved performance y-o-y in quarter 3, vis-à-vis the previous quarter.

Also, CSO had put across a GDP growth estimate of 7.6% for the year 2015-16; implying at least 7.8% growth in the last quarter. This forecast is marginally higher than the 7.4% GDP growth estimate for 2015-16 indicated in the latest round of FICCI's Economic Outlook Survey.

Further, the recently tabled Economic Survey 2015-16 projects GDP growth to be in the range of 7.0% - 7.75% for the fiscal year 2016-17. This reflects a somewhat guarded outlook. The Survey mentions that global headwinds would remain strong and can have a dampening effect on India's economy.

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Table 1: Gross Domestic Product: Growth (y-o-y, in %)

	Q3 FY15	Q1 FY16	Q2 FY16	Q3 FY16	CSO Advance Estimate 2015-16	FICCI's Economic Outlook Survey 2015-16
GDP at Market Prices	6.6	7.6	7.7	7.3	7.6	7.4
GVA at Basic Prices	6.7	7.2	7.5	7.1	7.3	7.4
Agriculture and Allied activities	-2.4	1.7	2.1	-1.0	1.1	1.7
Industry	3.8	6.8	6.4	9.0	7.4	7.1
Services	12.9	9.0	9.4	9.4	9.2	9.7

Source: CMIE, FICCI's Economic Outlook Survey (Feb 2016)

Three key downside risks reported in the Survey include export outlook remaining bleak given the frail global economic situation, greater than anticipated increase in oil prices and a possible combination of these two factors. Thus, giving a push to domestic demand would be imperative. Implementation of the Seventh Pay Commission award and expectation of a normal rainfall this monsoon season is likely to boost demand in the months ahead.

Index of Industrial Production (IIP)

Industrial production numbers reflect persisting volatility and signs of a firm turnaround remain elusive. The latest IIP data for the month of January 2016 reported (-) 1.5% growth. The IIP growth after surging to 9.9% in October 2015 has been in the negative terrain since.

The decline in the January print comes on the back of continued slack in manufacturing activity and moderation in mining and quarrying sub segment. The manufacturing sector reported (-) 2.8% growth in January 2016. Ten out of twenty two manufacturing sub segments reported negative growth, with decline being most discernible in 'Electrical machinery & apparatus (-) 50.3%; 'Publishing, printing & reproduction of recorded media (-) 12.7%' and 'Medical, precision & optical instruments, watches and clocks (-) 11.5%' segments.

According to use based classification, growth in the capital goods segment slipped to (-) 20.4% in January 2016.

Table 2: Index of Industrial Production: Growth (y-o-y, in %)

% growth rate	Jan-15	Oct-15	Nov-15	Dec-15	Jan-16
Index of Industrial Production	2.8	9.9	-3.4	-1.2	-1.5
Sectoral					
Mining	-1.8	5.3	1.9	2.7	1.2
Manufacturing	3.4	10.7	-4.7	-2.2	-2.8
Electricity	3.3	9.0	0.8	3.2	6.6
Use-base industry classification					
Basic goods	4.8	4.2	-0.7	0.5	1.8
Intermediate goods	0.1	6.3	-1.3	1.3	2.7
Capital goods	12.4	16.5	-24.5	-19.1	-20.4
Consumer durable goods	-5.7	41.9	12.5	16.4	5.8
Consumer non-durable goods	0.3	4.8	-5.1	-3.0	-3.1

Source: CMIE

Weak demand remains one of the key constraining factors for businesses and the same has been clearly reported in FICCI surveys as well. Capacities have been lying idle, which is also clearly reflected in the restrain in investment plans of the companies. According to results of FICCI's latest Business Confidence Survey, about 70% of the respondents said that they are operating at below 75% capacity, much higher than 49% stating the same in the previous round.

In addition, on being asked if the participants were aware of any major projects being implemented on ground in and around their area of operation given the announcements made and reforms that are underway, a majority of them indicated that they are yet to see investment intentions fructifying at the ground level.

However, some of the respondents did indicate that they have noticed project activity in the vicinity and that most of these upcoming projects have been in the infrastructure space – specifically road, highways and energy sector related.

Present Capacity Utilization Rates

%age of respondents

	Latest Survey	Previous Survey
Less than 75%	70%	49%
More than 75%	30%	52%

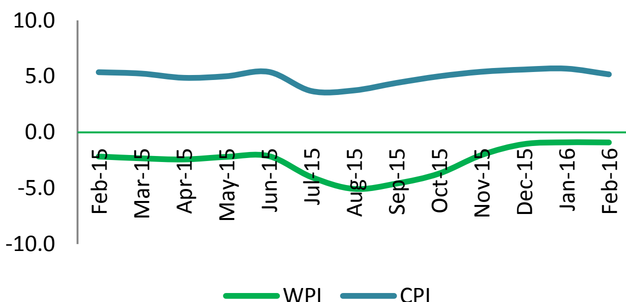
Source: FICCI's Business Confidence Survey, February 2016 and November 2015

Quarterly financial results of companies also report pressure on members of India Inc. It remains critical to address structural issues that are impacting the project pipeline. Government taking cognizance of the situation has been proactive on reform front and this stance was also reflected in the recently announced Union Budget.

Inflation

Latest inflation data for the month of February indicated prices remaining range bound. WPI based inflation rate stood at (-) 0.91% in February 2016, reporting no change from January numbers. CPI based retail inflation, on the other hand, reported softening. CPI based inflation rate for February 2016 was reported at 5.2%, vis-à-vis 5.7% in January 2016.

Food prices that had elevated over the course of past few months noted significant easing in the month of February 2016. The decline comes on the back of softening recorded in increase of vegetable prices. Prices of pulses continue to exhibit high inflation and steps must be intensified to bring these within the comfort zone.



Source: CMIE

Inflation rate: Growth (in %)

	February '16	
	WPI	CPI
Food	3.4	5.5
Vegetables	-3.3	0.7
Pulses	38.8	38.3

Source: CMIE

The recent spell of unseasonal rains in March 2016 has caused some damage to the wheat crop in the states of Punjab and Haryana and the Government is assessing the situation on ground. However, no damage has been reported for other crops like gram and mustard. Prices are expected to remain in line with RBI's indicative trajectory. According to RBI's assessment, CPI based inflation rate is projected to be around 5.0% by the end of the fiscal year 2016-17.

Further, manufactured product prices have been in the negative terrain for twelve consecutive months reflecting persistently subdued commodity prices and weak demand. Prices of key items like chemical products, rubber & plastic products, basic metals and alloys, machine and machine tools remain under pressure.

The interest rates have been on the higher side. According to the results of FICCI's latest Manufacturing Survey (December 2015), the interest rate paid by manufacturers ranged between 8% and 18% with average interest rate being around 11.8% per annum. About, 49% of the companies participating in the survey reported availing credit at over 12% interest rates.

However, the recent downward revision in the repo rate is an encouraging signal for the industry. Also, the Government's decision to lower interest rates on small saving instruments is expected to allow for a better transmission of repo rate cut and banks should hasten a relook at their lending rates.

Foreign Trade

Both merchandise exports and imports continued to decline for the fifteenth consecutive month in February 2016. However, latest data reported the magnitude of fall being contained somewhat. Merchandise exports declined by 5.7% in the month of February 2016 and stood at US$ 20.7 billion. Merchandise imports, on the other hand, declined by 5.0% to US$ 27.3 billion in February 2016. As a result, the trade deficit narrowed to US$ 6.5 billion, vis-à-vis US$ 7.7 billion in January 2016. This has been the lowest trade deficit in over two years.

The latest numbers for India's current account deficit showed a decline to US$ 7.1 billion in quarter 3 of 2015-16 from US$ 8.7 billion in quarter 2 of 2015-16 and US$ 7.7 billion in quarter 3 2014-15. The CAD to GDP ratio stood at 1.3% in quarter 3 of this fiscal year, vis-à-vis 1.7% in quarter 2.

Path Ahead

The prognosis with regard to economy remains sanguine provided the broad structural framework that has been set to foster growth is acted upon. Certain exogenous risk factors will remain prevalent. The longstanding risk that would continue to weigh down growth is the frail global recovery and its impact through exports.

With respect to domestic economy, recovery is expected to continue at a steady pace. The agriculture sector performance is likely to improve this year with expectation of a normal monsoon. This along with the announcements made in the Union Budget 2016-17 is expected to drive domestic demand. Government should stay firm on reform implementation and must look at some key non-legislative measures for immediate action.

Budget Boosters: Industry

- ✓ Tax holiday for 3 out of 5 years for startups setup during April, 2016 to March, 2019
- ✓ Exemption from long term capital gains available to assessees investing in start-up funds/ start-up companies
- ✓ To accelerate the growth of the manufacturing sector, newly set-up domestic companies given the option to pay tax @ 25%, subject to certain conditions.
- ✓ 10% rate of tax on income from worldwide exploitation of patents developed and registered in India by a resident
- ✓ Government to pay Employees' Provident Fund (EPF) contribution of 8.33% for all new employees for the first three years of their employment
- ✓ Budget attempts to correct the duty structure for a host of key manufacturing inputs and this will further domestic value addition in the country

U.S. India Economic Relations: Looking Beyond Delhi

The importance of state government regulation in India is quite obvious to businesses with operations there. Yet, American economic engagement with India—whether by corporate executives, senior government officials, and other policy influencers such as journalists and think tanks—largely focuses on India's central government. There are two key reasons this emphasis on the center must begin to change. First, official engagement with India's states is a critical part of fulfilling America's desire to deepen overall bilateral cooperation. Second, greater understanding of the evolving business regulations in Indian states is vital for potential investors, who often simply use the evolution of federal reforms as the barometer for investment.

State governments have a high degree of control of many of the basic requirements for a business, such as access to electricity, water, land, and sanitation; issuance of most operating permits; and local tax rates on manufacturing and some types of services. India's Constitution lays out the jurisdictions of the central government and state governments, as well as those areas that can be governed by either (the concurrent list). In addition to exerting a dominant influence on the local business environment, several states are run by parties that take independent positions on central government policy reforms. Nearly half of Indian states are controlled by regional parties—several of which have sizeable representation in Parliament. These parties can play a critical role in the Modi government's desire to push through tough legislative reforms, either by offering support or by attempting to block such legislation.

Upon assuming his role as Prime Minister in May 2014, Narendra Modi adopted the twin slogans of "competitive federalism," and "cooperative federalism." The idea of encouraging states to compete is not a novel concept. In fact, such competition hit a fever pitch over a decade ago when Andhra Pradesh, Karnataka, Tamil Nadu, and Maharashtra were fervently competing for an edge during India's original technology services boom.

As a former chief minister himself, Prime Minister Modi has adroitly engaged willing chief ministers. He has overhauled the Planning Commission in an attempt to make its successor (NITI Aayog) more responsive to states' needs, increased federal "pass-through" allocations to states, launched a new rehabilitation program for India's moribund state electric power distribution companies, and brought chief ministers on some of his foreign visits. Other major campaigns such as Smart Cities and Make in India have clear, direct application at the state level.

Another line of action by the Modi government has not received sufficient attention from the foreign business community: creating side-by-side rankings of the state business environments. In September 2015 the Department of Industrial Policy and Promotion (DIPP), in conjunction with The World Bank, released a study that, for the first time, offers a credible apples-to-apples comparison of the relative ease of doing business in each of India's 32 states and territories, based on a 98 point model reform plan.

While the results were not inspiring—only seven states had implemented at least 50 percent of the model reforms—gathering information should always be a precursor to action. NITI Aayog is undertaking a massive survey of businesses, looking at their experience in states, which is expected to add dramatic color and context to the DIPP's report.

Some of the much-hyped central reforms tracked by the international investment community include the Goods and Services Tax, elimination of foreign direct investment (FDI) caps, labor law relaxation, and simplifying land acquisition. While states cannot control Constitutional amendments or market access rules (with the notable exception of the "state approval" needed for foreign multi-brand retailers), states can, and have, taken the lead on adopting more liberal rules for land and labor.

The following are a few examples of land and labor reforms by Indian states in the last six months:

Land:

- Uttar Pradesh, December 2015: UP issued the UP Revenue Code (Amendment) Ordinance 2015 allowing, among other things, Dalits with less than 3.5 acres to sell their land to non-Dalits. Of course, as an ordinance, it will lapse unless it is approved by the state legislative assembly.
- Maharashtra, November 2015: Maharashtra amended its Gunthewari Act, allowing mid-size plots to be divided, and easing the process to sell such plots.
- Andhra Pradesh, December 2015: The Andhra legislature passed a bill extending land leases from the government to private entities from 33 years to 99 years.

Labor:

- Gujarat, December 2015: Gujarat passed a series of labor law reforms making it more difficult for utility workers to go on strike, reducing the time employees have to seek redress for dismissal, and more.
- Maharashtra, December 2015: Maharashtra passed its Factories Amendment Act, which will allow women to work night shifts (7:00pm to 6:00am).
- Maharashtra, January 2016: Maharashtra passed a new retail policy that relaxes work hour restrictions for small retailers, particularly for female employees.

The role of states in contributing to India's business competitiveness for the international investment community cannot be over-stated. Yet the depth of understanding of Indian state policies remains inadequate, and engagement with Indian state officials by American economic policy leaders could be sharpened and expanded. The international community is largely judging India's "reform process" on the basis of a small set of central reforms that may, or may not, happen in a given period. Meanwhile, far more important action is necessary by India's state leaders. In some instances, this action is taking place.

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Executive Actions to enable Make-in-India

India has emerged as one of the leading emerging economies in the world, growing at more than 7 percent, when rest of the major economies are witnessing significant slowdown or much lower growth. However, given the scale of India's requirements, both in terms of income and employment, the country needs to grow at much higher level of around 9-10 percent per annum on a sustained basis.

To steer the economy to such higher levels of growth, we need a strong boost in investments. While India remains an attractive investment destination on the back of its rich demographics, the potential can be realised only when there is an enabling environment to do business.

It is noteworthy that the Governments, at the Centre as well as States, have initiated several reforms and policy initiatives to improve the business climate in the country. We do see a strong commitment in continuing the reforms process, not only on the legislative front but also through executive actions.

FICCI has always pro-actively contributed towards the reforms and development agenda. In the last few months, FICCI has held detailed consultations with its various Sectoral Committees and compiled a list of key executive actions that can be taken up by the government on a priority basis.

These suggestions are directed towards addressing the specific bottlenecks faced by enterprises in their business operations. Once implemented, these measures will further the cause of 'Make-in-India' and help in accelerating investments and driving growth & employment. Some of the key reform measures/solutions that were shared with the government are as follows:

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Companies Act	**Penal Provisions** The scope of non-compliances attracting imprisonment has been significantly increased compared to the Companies Act, 1956, mainly with a view to secure compliance. The current provisions of the Companies Act, 2013 provide for imprisonment of the officer in default even for technical non-compliances where there is no 'willful' default and also for areas involving interpretations. The accepted principle in law is that penalties should be somewhat in proportion to the alleged offence and even for criminal offences judges keep this principle in mind during sentencing. Imprisonment affects personal liberty and hence any restriction on this fundamental right has to be for a just cause. Penalties prescribed under certain sections of the Companies Act, 2013 appear to be draconian and may need to be rationalized, so as not to deter persons from accepting non-executive directorship in companies.	It is suggested that simple errors (for example non-disclosure or late disclosure by a director) should not invite stringent penalties like substantial fines or imprisonment. Further, the magnitude of the offence and the intention of the party committing the default should be taken into account while imposing penalties (including imprisonment) for defaults under the Act. Sections dealing with civil offences of non-compliance have a mandatory imprisonment under the Act that seems excessive, harsh and not in proportion to the alleged offence. Mandatory imprisonment is prescribed even for offences such as delay in filing charges, non-co-operation with the liquidator etc.	The Companies Act, 2013 is a corporate law and breaches are generally civil in nature. While non-compliance should attract fines for the company and the officers in default, imprisonment should be limited to serious matters involving fraud, breach of trust etc. where there is linkage to the person doing such acts 'willfully' or where the general public have been adversely impacted due to the breach, committed. There seems to be no choice left with the judge to waive imprisonment even in extenuating circumstances.

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Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Taxation	Existing text of the sub-section (9) of section 28 of the Customs Act, 1962 states: “(9) The proper officer shall determine the amount of duty or interest under sub-section (8), (a)within six months from the date of notice, in respect of cases falling under clause (a) of sub-section (1); (b)within one year from the date of notice, in respect of cases falling under sub-section (4)”.	**Introduce binding statutory timelines for adjudication of matters relating to indirect taxes** A provision be made each in the Customs, Central Excise and Service Tax laws that in case a show-cause notice is not adjudicated upon within a specified period from the date of issue of show-cause notice, the proceedings shall lapse as if the show-cause notice was never issued. A time limit of six months from the date of issue of the notice may be specified for adjudication but without inviting any adverse consequences if it is delayed beyond six months. The consequences of the show cause notice being rendered null and void could kick in only if the adjudication is delayed beyond one year. A time limit of three years be provided for pending cases where notices have been issued prior to the proposed amendment. A suggested amendment to the Customs Act, 1962 is provided below. Identical Amendments could be considered for Central Excise and Service Tax laws. A similar provision would be required for cases remanded for re-adjudication by appellate authorities. ***<u>Suggested Sub-section (9) of section 28 of the Customs Act, 1962</u>*** ‘(9) The proper officer shall determine the amount of duty or interest under sub-section (8), within six months from the date of the notice issued under sub-section (1) or, as the case may be, under sub-section (4): Provided that if the proper officer fails to issue an order determining the amount of duty or interest within one year from the date of the notice, it shall be deemed as if the notice under sub-section (1) or, as the case may be, under sub-section (4), was never issued and the proceedings shall be treated as lapsed: Provided further that in respect of notices issued prior to the substitution of this sub-section vide the Finance Act, 2016, the proper officer shall determine the amount of duty or interest within three years from the date of enactment of the Finance Act, 2016 failing which it shall be deemed as if the notice under sub-section (1) or, as the case may be, under sub-section (4), was never issued and the proceedings shall be treated as lapsed.”	In the absence of a binding statutory time limit for adjudication of show cause notices, the notices are not adjudicated by the authorities for a number of years. This creates an uncertainty for the notice as a number of business decisions are kept on hold due to lack of clarity on the issues for which the dispute is raised by the department vide issuance of show cause notice. Such disputes reflect adversely on the balance sheets of corporates for years together. Proposed amendment would bring about certainty in tax positions early and contribute to ease of doing business.

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Competition Act, 2002	**Sec 54(2) of the Competition Act, 2002:** This section empowers the Central Government to exempt certain classes of enterprises from the provisions of the Act if such exemption is necessary in the interest of security of the State or public interest. In relation to merger control, in exercise of the powers under Section 54(a) of the Act, the Central Government has issued a notification dated March 4, 2011 whereby an acquisition of a target whose assets in India are less than INR 250 crores or turnover in India is less than INR 750 crores is exempt from the requirement to notify to the Competition Commission of India. However, this exemption is only applicable to acquisitions and not to mergers and amalgamations and is expiring on March 3, 2016.	It is suggested that the Central Government may consider renewing the exemption for a further period of seven years and also make it applicable to mergers and amalgamations. Additionally, there is also a need for enhancing the exemption limits in today's business environment. We therefore suggest that the exemption limit should be raised to assets in India being less than INR 1000 crores or turnover in India being less than INR 2000 crores. It is also suggested that for Anti-Trust matters, the Central Government may consider using its powers under Section 54 of the Act to exempt companies whose assets in India being less than INR 1000 crores or turnover in India being less than INR 3000 crores for the same reasons cited in the next column.	Such an exemption would be beneficial to companies in ensuring that small sized acquisitions that do not have an adverse impact on competition need not be notified even though the party (ies) involved may be large business houses. It would thus help in the ease of doing business by enabling smaller sized transactions to proceed quickly without having to wait for approvals from the CCI. It would also be in the interest of the Competition Commission of India since the regulator would be able to devote its time and resources to matters that are significant from the competition law perspective and not spend the same in monitoring minor arrangements and reconstruction that will in any case not impact competition adversely.
Infrastructure	The erstwhile Planning commission had set up the PPP Appraisal Committee for appraising PPP projects in the country. However, this committee is only responsible for appraising the feasibility of the project. It does not look into arbitration, accountability and execution aspects of the project. Moreover, the developers need to get multiple clearances from different government bodies/ agencies which often delays the process of implementation and lead to projects being stalled for years.	**Set up a "one-stop shop" for handling PPP projects** Government should set up a single agency which is not just responsible for appraising of the projects but also helps in granting approvals, enabling activities to build capacity, forming robust contracting models and developing a quick dispute redressal mechanism. In this regard, though the Government had announced setting up of an institution called '3P India' in 2014, the body has still not been set up. Government should fasten the process of setting up '3P India' to provide support to mainstreaming public-private partnerships (PPPs).	'3P India' once operational, would just not appraise PPP projects in the country but also make provisions for optimal & unambiguous allocation of risks, authority & accountability, project entry & exit options, tariff structuring, toll mechanisms, regulation of service quality, and monitoring compliance of concession agreements, among others. Furthermore, it would also act as a single window for time bound clearances and approvals for PPP projects. This would help in enhancing transparency and efficiency; provide a level playing field to all players and timely completion of projects.

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Infrastructure	The Model Concession Agreements (MCA) of a number of ongoing projects were developed years ago and stand outdated as of date today. Due to changing market dynamics, the outdated MCAs lead to disputes among the implementing parties and cause delay in project implementation. Moreover, the inappropriate risk allocation among the sponsoring agency and the developer as per these MCAs also make it difficult to attract developers for bidding and timely completion of PPP projects.	**Revision in Model Concession Agreements (MCAs)** There should be time-bound review of MCAs and incorporate the best practices from the international PPP experiences and the lessons learned while implementing PPP projects in the country. While revising MCAs, Government should take into consideration the challenges that have been faced by the stakeholders in the past by adopting the existing MCA and incorporate provisions to ensure more accurate revenue projections, remove redundant policies and modify the termination contracts without undermining any of the stakeholders concerns. There is also need to make provisions for optimal allocation of risks, authority and accountability for ensuring successful delivery of projects. Specifically for roads and highways projects, following changes may be made in the MCA: • *Clause 10.3.4 of MCA in the Roads Sector states that if on account of delay not attributable to the Concessionaire, viz. availability of Right of Way, clearance of Encumbrances, Environmental clearance, etc. EOT (Extension of Time) is accorded. It is essential that similar Extension of Time is also given to the Concession period.*	Revamping the old and redundant MCAs to address the current market needs of the players would help in building the confidence of private investors, better risk allocation between various stakeholders, and ensure returns as per current market levels.
Foreign Trade	Merchandise Exports from India Scheme (MEIS) was introduced in the new Foreign Trade Policy 2015-2020. Even though the new scheme incentivizes exporters, several procedural & implementation difficulties have made the usage of this scheme tough for exporters. While DGFT recognized the concerns and allowed manual filing of shipping bills for a limited period, the exporting community would benefit if the same is extended. This would also provide suitable time to sensitize the stakeholders about the new scheme and its requirements.	• Para 3.14 of Foreign Trade Policy 2015-2020 (Handbook of Procedures) should be modified to extend the time period for exporters to claim MEIS benefits in such cases where they have not declared their 'intent to claim' while filing the shipping bill. • The provision of manually submitting the Shipping Bills should be extended beyond the currently stipulated deadline for cases where the 'Declaration of Intent' was not stated by the exporter.	The new Scheme mandates that every exporter willing to take benefit under the MEIS scheme has to declare his intent to claim the incentives while issuing the Shipping Bill on the electronic platform. Even though in many cases the item of export is eligible for MEIS but the exporter or his agent has not ticked the appropriate box, the shipping bill has not been transmitted to the DGFT system. Therefore, exporters are unable to obtain these shipping bills online for submitting claims under MEIS.

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Foreign Trade	**Simplification of Processes** The processes and criteria for major trade facilitating mechanisms for high-performing manufacturer or service exporters need simplification.	Incentivise high-performing exporters of goods & services earning a large proportion of foreign exchange and generating significant employment. • automatic qualification for accredited exporter status and related trade facilitation benefits • post-clearance payment of duties with some penalty for late payment • clearance from allied agencies based on undertaking, with minimum requirement of NOC • special low-interest loan facility based on export income declared for previous year for the purpose of skill development, product & quality development, and brand development	This will help promote ease of doing business in the sector.
Finance	Indian banking sector faces a huge challenge of NPAs, which has restricted the availability of banking finance for economic expansion at the required pace. Within the industrial sector, infrastructure sector has highest concentration of NPAs.	FICCI has suggested the creation of a specialized entity called National Asset Management Company (NAMCO) which will be a time bound and closed ended framework for one-time resolution of large NPAs in India. The proposed NAMCO framework would require Government sponsorship but no capital injection or guarantees. Ministry of Finance can encourage PSU Banks to take up to 49.9% equity in NAMCO and the balance equity will be sourced from private sector banks and other private financial institutions. NAMCO shall focus on rehabilitation of large scale NPAs, restructured loans and other potential stressed assets, mainly in the infrastructure sector. The government will also encourage banks to sell distressed assets to NAMCO thereby speeding up aggregation and resolution. The transfer of stressed assets will be at fair market value that shall be determined by an independent valuer. Given the long-term nature of underlying assets, such specialized entity will be allowed to issue Security Receipts with a tenor of up to 12 years. Under this framework, we have also suggested that RBI should permit the banks to amortize the loss on the sale of these stressed loans to the NAMCO over 5 years.	The model of creating a specialised institution to deal with a one-time clean-up of NPAs has been successfully implemented in several countries. E.g. KAMCO (South Korea), Danharta (Malaysia). NAMCO will serve as a proactive mechanism to avoid banking crisis and improve the health of Indian banking system by accelerating resolution of stressed assets through identification, aggregation, focus, expertise, and rehabilitation; and enable banking sector to start lending and supporting business expansion, leading to enhanced economic growth and employment generation.

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
Finance	**Disinvestment:** In the year 2015-16, the government had set the disinvestment target of Rs. 69,500 crore (Rs 41,000 crore from minority stake sale and Rs 28,500 cr from strategic sale). With respect to the minority stake sale, Rs. 12,701 crore has been realized through sale of minority shareholding in Central Public Sector Enterprises.	• The Government should divest its stake holding in the Central Public Sector Undertakings • Also it is suggested that to meet its disinvestment target, Government should liquidate its equity holding held in Specified Undertaking of the Unit Trust of India (SUUTI) to the tune of Rs. 52,000 crore which is equivalent to 0.4% of GDP.	For the next fiscal (2016-17), Fiscal Deficit target has been set at 3.5%. Given that there will be an additional burden on the fisc of about 0.65% of GDP due to 7th Pay Commission, besides additional pension obligations under OROP and need for enhancing public investment in infrastructure to accelerate growth, it is desirable that the non-tax revenues through disinvestment be utilised effectively for better fiscal management.
Labour	**Section 6(d) of The Factories Act, 1948** The state Government may make rules – (d) requiring the registration and licensing of factories or any class or description of factories, and prescribing the fees payable for such registration and licensing and for the renewal of licenses. The duration of the validity of the factory licence varies from state to state	Central government may issue an advisory to state that: *Factory licence once granted should remain valid for a period of 05 years.*	Sec. 6 (d) of the Factories Act, 1948 requires the State Governments to make rules requiring licensing of the factories. Different states have provisions for renewal of factory license for a period ranging from 1 to 5 years. Bring uniformity across states for better compliance and improve 'ease of doing business'
Labour	**Section 13(2) (b)** of **The Employees' Provident Fund and [Miscellaneous Provisions] Act, 1952** An Inspector- may require an employer to produce before him for examination any accounts, books, registers and other documents relating to the employment of persons or the payment of wages in the [establishment]	There is a need to place a cap on the time duration of records summoned by the Inspector for inspection. *The financial or any other records to be required for the purpose of inspection should for a period not preceding 3 years.*	The Employees Provident Funds officials visit enterprises and require the past financial records to be produced without reference to a time period. This high handedness of the officials causes lot of operational difficulties to industries.

Area	Key Issue/ Existing provision	Proposed Solution	Rationale
MSMEs	**Inclusion of service activities to be carried out by Entrepreneurs in designated industrial areas** Several State industrial development authorities are not taking into account/ defining the list of service sector industries allowed to operate in an industrial area. They are generally providing the list of manufacturing industries but not covering the service industries. For example, as per the Master Plan of Delhi and DMC Act 1957 units are required to procure factory licence to operate in an industrial area. However, the MCD list of allowed trades does not list the service sector industries. They are neither defining nor listing the service sector industries in the list. This creates an ambiguity and as a result, MCD penalizes the industries especially the service sector units operating in the industrial area.	Industrial development authorities/ competent authorities across the States should come out with a list of manufacturing as well as service industries. The authorities could refer to the Activity and Product Classification for MSME sector brought out by the Ministry of MSME.	Entrepreneurs operating in industrial areas (especially in service sector) will not face undue harassment.
MSMEs	**Audit by several departments** There are exemptions being provided to MSMEs like excise, service tax, etc. The concerned departments conduct audit separately to verify the claims. Whereas the unit submits its audited balance sheet certified by the third party (CA).	The departments should accept the Unit's balance sheet & may randomly audit the units. Alternatively, a mechanism should be devised wherein in a single audit could be accepted by all the concerned departments.	Single audit will save a lot of time and avoid undue harassment.
Manufacturing	**Government procurement** Government Procurement is an important instrument which been used by several countries to promote their domestic manufacturing. However, in India we have not been able to leverage this to a large extent be it in MSME or for other sectors. Hence, there is a need for a holistic policy to leverage Government Procurement as the instrument for encouraging domestic manufacturing.	This can be done by the Central Government, by notifying an Order, in respect of procurement of goods and services, produced and provided by domestic manufacturers by its Ministries, Departments and Public Sector Undertakings. This procurement policy can be implemented with Cabinet approval.	The move will encourage domestic manufacturing.

FICCI-ESG Insurance Roundtable on March 16, 2016 in Mumbai

FICCI organised an Insurance Workshop on March 16, 2016 in Mumbai. The event was organised with a view to bring together senior level stakeholders from the insurance, energy and agriculture sectors to deliberate on the key findings of a Report - 'Indian Insurance and Sustainable Development', prepared by Earth Security Group (ESG), a UK based consultancy firm with support from FICCI's Insurance Division. The report which was formally released at the workshop has been developed as part of a project jointly undertaken by FICCI and ESG to understand the role that Indian Insurance industry can play towards sustainable development in India with special reference to the agriculture and energy sectors.

The report identifies key areas of risk from climate change for insurance companies in the Indian market, highlights a set of product and investment opportunities for insurance companies to de-risk climate resilient investments in the energy and agriculture sectors that can help mitigate their climate change exposure, and projects the future prospects for insurance solutions in India. The report has presented six business ideas and explained how insurance companies can provide new types of insurance products and risk guarantees to agriculture and energy sectors, and as institutional investors how insurance firms can invest their own capital to help sustainable energy and agriculture projects scale.

The subsequent sections provide a summary of the key findings presented in the report:

How exposed are insurers to climate change in India?

India is one of the world's most vulnerable countries to climate change and ranks among the top ten countries with highest expected losses due to natural hazards per annum (0.3% of GDP). Presently, India incurs an average annual economic loss of about US$ 9.8 billion due to natural calamities. Incidentally, India is also the fourth largest emitter of greenhouse gases (GHG) in terms of total annual emissions and the tenth largest based on per capita emissions.

Agriculture and energy are the two most critical sectors of the economy that face very high climate change risk. Erratic rainfall in the country has increased India's risk exposure to drought significantly over the years. For consecutive two years i.e. 2014 and 2015, India witnessed more than 10% below average rainfall. In the last 14 years, India experienced lower than average rainfall 8 times due to El Nino. The resulting droughts have adversely impacted both agriculture and energy sectors. While it has led to increase in energy consumption in agriculture sector by as much as 25%, it has also substantially restricted production of hydroelectricity in the country.

Risks in the Energy sector

In the energy sector, insurers are exposed to three types of climate change risks: 1) physical risks – extreme weather conditions leading to increase in insurance premiums for energy assets. The losses incurred by hydro power producers due to uneven rainfall result in high claims cost for insurance companies which in turn force insurers to increase premium rates manifolds for hydropower projects; 2) regulatory risk – carbon intensive assets expose investment portfolios of insurance companies to stranded assets. Government if India is expected to follow a cautious stance towards carbon-intensive energy investments, given India's commitment to increase the non-fossil energy capacity; and 3) liability risk – insurance companies are exposed to civil liability from nuclear plants and extreme weather events.

Risks in the Agriculture sector

Similarly for agriculture sector, physical risk involves increase in claims on crop insurance due to more intense droughts, regulatory risks involves increase in the burden on government subsidised insurance programmes due to high adaptations costs, and liability risks include exposure to third party liabilities that arise due to agricultural losses.

Investment Opportunities for Insurance Companies

To identify the emerging investment opportunities in both agriculture and energy sectors, the report has assessed the current scenario and future outlook for both the sectors in India.

Energy sector

India is highly dependent on imports to meet its energy requirements, with imports catering to around 79% of its oil demand. India has the fifth largest power generation portfolio globally; however weak distribution system results in transmission and distribution losses of about 20% of the total electricity production. Industrial output is adversely affected by blackouts, which is a frequent phenomenon in the country. India also scores low in terms of energy/carbon intensity, with carbon dioxide emissions from electricity generation at 912 gr/kWh being substantially higher than Asian average (746 gr/kWh) and the global average (565 gr/kWh).

To meet its growing energy needs (growing at a rate of about 6%), India has plans to increase its coal-fired generation capacity; however there would be pressure on coal due to India's own international climate commitment and from international investors. Therefore, investments in renewable energy is expected to rise as this would reduce the country's dependence on imports, ensure increased access to electricity supplies and also align with the country's climate commitments. Thus, share of renewables in the portfolio of insurance companies is anticipated to increase in future.

Investment Opportunities for Insurers

- ***Performance guarantees and quality assurance to de-risk renewable investments***

In India, there is demand for insurance products which can address risks associated with energy performance, project quality, uncertainty of costs, and exposure to natural catastrophes, as longer-term guarantees and quality assurance products reduce uncertainty and create more attractive terms of investment to improve project viability. Currently, Indian insurers mainly provide operational and project insurance for renewable energy projects.

- ***Green bonds that reduce the cost of capital for renewable energy projects***

The cost of renewable energy investment in India is relatively higher by almost about 30% as compared to other global economies. This is mainly due the high interest rate regime in the country and availability of short-term bank loans. The debt-financing needs are also not met adequately in India particularly for off-grid projects. To address these issues, renewable energy companies are increasingly using green bonds to raise low-cost financing. The market for green bonds is expected to expand in future as local banks are now been allowed to issue such bonds as per RBI regulations passed in 2014. It is projected that Indian institutional investors may invest up to US$ 400 million to 2019 in refinancing operational infrastructure projects through renewable energy project bonds with partial guarantees that enhance the credit rating to AA. These investments can offer adequately stable returns over maturity periods.

- ***Yield Companies to create investable renewable energy vehicles***

Insurance and reinsurance companies are restricted from investing directly in renewable energy projects due to their illiquidity, small size and high transaction costs. Herein, corporate or pooled investment vehicles, such as publicly traded Yield Companies (YieldCos) can better match insurer's investment requirements for long-term certainty and provide short-term liquidity. Project developers can raise lower-cost capital for more projects and enable more risk-averse investors to finance renewable energy projects. Predictable cash flows can be generated from renewable energy by entering into long-term Power Purchase Agreements with state electricity distributors. On average, these investment vehicles yield 3% to 5% on investment, 10% to 15% on long-term dividend growth, and predict a total return profile of 13% to 20%.

Agriculture sector

India is among the top three most exposed countries in the world with respect to exposure to extreme weather events as per Climate Risk Index 2013. The sector faces insecurities with respect to water, land and food. Water scarcity is a major challenge with around 33.9% of India's total renewable water resources withdrawn manually by 2010. Land investments are complicated by local bureaucracy and informal land rights.

Around 90% of land is leased informally while 27% of India's total land area is common property. Food insecurity is another major concern in India and a significant political issue. Due to structural inefficiencies, India ranks low on the Global Hunger Index (80/117), despite large cereal reserves.

Extreme weather events like variability of monsoon rains, increasing intensity of drought can exacerbate the water scarcity situation in the country. Agriculture being the major source of livelihood for a large proportion of population in the country, the government may favour and probably partly subsidise sustainable agriculture projects in addition to crop insurance scheme. Insurance companies could contribute to facilitating adoption/implementation of these projects, which could range from subsidising efficient irrigation technologies, to adopting mobile phone-based information services, to improve transport and logistics.

Investment Opportunities for Insurers

- ***Credit guarantees and equipment insurance***

The Ministry of Agriculture in 2013 launched a US$ 15 million Credit Guarantee Fund to help 250 farmer organisations, representing 250,000 farmers, invest in modern equipment through collateral free credit. The scheme could also incentivise sustainable farming practices by bundling credit guarantees with incentives to adopt water and energy saving technologies, such as drip irrigation. Swiss Re, the global reinsurance company, is creating incentives for farmers globally to buy insurance by positioning it as collateral for credit risk.

The credit guarantee system partly covers the default risk of loans, absorbing a portion of the loan's risk. In India, there are regulatory limitations to the private provision of credit insurance.

- ***Parametric weather insurance products to scale***

The Weather Based Crop Insurance Scheme has grown from less than 1 million policy holders in 2009 to over 13 million in 2013. Index based insurance systems draw on data thresholds to speed up claim handling times: pay-outs are automatically triggered when rainfall and temperature levels cross a pre-established threshold. While pay-out times can take up to two years under the governments yield based scheme, index or threshold based schemes can settle claims within 45 days.

- ***Insurance products bundled with mobile solutions to improve penetration***

India has a high mobile penetration (77%) and with legislation now permitting non-bank entities, such as mobile phone operators to offer financial services, mobile phone technology can be used to improve risk management (i.e. early warning systems) and claims handling (i.e. automatic mobile payments). It also has the potential to reduce the size of Insurance Units to farm level to improve accuracy of loss estimation. However, to maximise benefits, mobile technology needs to be linked to data platforms that connects insurance details to social security numbers or bank accounts. Product bundling, i.e. linking crop insurance to NatCat insurance or other existing services and networks can also reduce transaction costs.

The full report can be accessed at
http://ficci.in/publication-page.asp?spid=20722

Getting out of the NPA mess

Although India's GDP is estimated to grow by 7.6% in the current fiscal, manufacturing sector's growth has remained fragile, owing to weak domestic demand and underutilized capacities. This year's Union Budget lays a strong thrust on reviving rural demand and this could facilitate a pick-up in manufacturing capacities and production in the near future. However, the expansion in real economy will fructify only when it is supported by a robust financial sector, particularly the banking sector.

Over the last few years, the asset quality of banks has considerably deteriorated. Stressed advances ratio in the banking sector currently stands at 11.3% (September 2015), of which the ratio of gross NPAs and restructured standard advances is at 5.1% and 6.2%, respectively. The problem is largely concentrated in the five sectors of infrastructure, iron & steel, textiles, aviation and mining. These five sectors accounted for 51% of total stressed assets, with infrastructure alone accounting for about 30%.

The situation requires urgent remedial action. No wonder, both RBI and the government have placed this issue on their top priority. Over the last two years, RBI has taken various steps to address the NPA problem, including revamping of the 5:25 scheme and introduction of a Strategic Debt Restructuring (SDR) mechanism which enables all lenders to collectively take a 51% stake in companies that default after restructuring their loans.

The government, on its part, has announced the recapitalisation package for public sector banks. Recently, there have also been talks of consolidation of public sector banks and the passage of the Bankruptcy Code will facilitate speedier legal recourse against defaulting enterprises.

While these steps are noteworthy, they may not be adequate to restore the health of the banking sector in entirety.

The issue of stressed assets requires both remedial and preventive action.

For a one-time quick resolution of stressed assets, Ficci has suggested creation of a specialised entity called the National Asset Management Company (NAMCO), which shall focus on rehabilitation of large-scale stressed assets, mainly in infrastructure sector.

Countries like Malaysia, Taiwan, Thailand and Korea had introduced a similar mechanism to address the issue of rising NPA during the times of financial crisis.

To make the SDR process more effective, a National Asset Management Advisory (NAMA) should be formed. Under this, once an SDR is invoked, the management of the company can be passed to NAMA, which can then put in place a professional board to carry forward the task of negotiations with promoters, requesting for approvals from shareholders, calling for bids from investors and bringing about managerial changes.

We have also suggested that the authorities need to tackle each case of NPA through appropriate root-cause analysis to ensure a fair and effective resolution. Stressed assets can be broadly grouped into three major categories, depending on the underlying contributing factor.

- The first category would comprise those cases which have been affected by cyclical or global factors outside the control of company management; for example, sharp drop in commodity prices, rising imports (dumping) from China;
- The second category would comprise cases wherein policy/procedural impediments over time have led to non-compliance;
- The third category would include cases where viability of operation has suffered owing to mismanagement on the part of the promoters or faulty decisions.

Each of the above categories of stressed assets has a different root cause and hence needs to be dealt with differently.

For the first category, banks could agree upon a restructuring plan. For the second category, an independent body headed by a retired Supreme Court judge can examine the issues in a transparent manner and draw out a revival plan for the project.

For the third category, promoters may be asked to bring in extra contribution by way of equity, failing which the asset may be taken up for resolution through any of the available or new institutional mechanisms. Of course, we fully support that in case of 'willful defaulters', strict action must be taken and that the law of the land should prevail.

Asset Reconstruction Companies (ARCs) can play an enabling role in effective management of NPAs and hence there is a need to strengthen them. The specific measures proposed in the Budget allowing sponsor of an ARC to hold up to 100% stake as well as providing complete pass-through of income tax to trusts of ARCs are noteworthy.

Another area that requires attention is how to bridge price expectation gap between ARCs and banks. It is suggested that the Indian Banks' Association in consultation with the Association of Asset Reconstruction Companies should draw a mutually-acceptable methodology for reserve price valuation under the aegis of RBI and the Department of Financial Services.

Addressing sector-specific policy-level issues is also essential to provide relief to projects impacted due to changes in the regulatory framework. In case of infrastructure sector, the government should fasten setting up of '3P India' announced in 2014, to provide support to mainstreaming PPPs. The government also needs to ensure timely release of payments to the project developers and provide flexibility in PPP contracts including revision of contracts without attracting judicial action. The previous Budget did have some provisions to this effect.

Preventive measures too need to be well-incorporated in the overall banking operations to ensure financial stability. We have to improve in-house credit appraisal and project monitoring capacity of banks.

During project appraisal, banks should factor in contingency credit facility to enable the company to finance cost overruns/project delays due to unforeseen factors. Monitoring of the credit extended by banks should be strengthened and there should be a formal review of the credit processes by an independent external agency every two years. Another important preventive approach is to undertake a review of large NPA cases in the past and disseminate the learnings amongst bank boards, senior management and middle management.

The article is written by Mr. Harshavardhan Neotia, President, FICCI.
It was published in The Financial Express on March 29, 2016.

Move to sanitation plus: Swacch Bharat must switch to a broader understanding of what will make India truly swacch

Nearly 17 months have passed since Prime Minister Narendra Modi launched the Swachh Bharat Abhiyan on October 2, 2014. Riding on this momentum, the nation has seen an unprecedented discourse and policy on sanitation from vast media campaigns to the Swachh Bharat cess on services.

The recent announcement of Rs 11,300 crore for the Swachh Bharat Mission (SBM) in the 2016-17 budget reiterates this. While the high political attention to this neglected yet critical public health endeavour is welcome, SBM has so far still seemingly focussed on the number of toilets to be constructed.

There is an urgent need to build greater momentum around a broader understanding of what will make India truly Swachh. Simple infrastructure creation will not single-handedly propel us towards the government's target to make India Open Defecation Free (ODF) by 2019. Construction of toilets will and must continue. However, we have to move forward, away from merely the provision of toilets to toilets that are used, maintained and where all human waste is safely treated and disposed.

In this phase, which we can call "sanitation plus" accruing the real benefits of ensuring universal access to safe sanitation we need to keep sight of the entire sanitation value chain to ensure sustainability of this massive national effort. As the India Sanitation Coalition's philosophy embodies, there is a dire need to shift the focus from just build to Build, Use, Maintain and Treat (BUMT).

Indeed, the government has clearly emphasised the need to focus on behaviour change and the usage of toilets. Recently issued guidelines by the Ministry of Drinking Water and Sanitation define the criteria for declaring a village as `Open Defecation Free' to include not just access to a toilet, but also usage of toilet and safe technology. What is needed from all supporters of this national programme therefore, is a shared understanding and commitment to provision for the required concomitant infrastructure (water, safe disposal, operations and maintenance funds) to ensure that increased demand is met with the necessary attention to all aspects around the sanitation continuum.

In order to do this effectively, all conversation and efforts around sanitation need to be viewed through a BUMT lens. Failing to do so will risk the current spends and structures built lapsing into disuse by communities that haven't been won over to consistent and universal use; leading to continued rise in diseases and deaths caused by exposure to untreated human waste in the environment. Without adequate and urgent attention to fecal sludge treatment, public health benefits that can accrue with universal access to safe sanitation will continue to elude us.

The latest Central Pollution Control Board (CPCB) has estimated that over 73% of all fecal sludge generated in the country is left untreated in the environment in India. While the announcement of a vast Rs 11,300 crore for SBM is commendable, the lower budgetary allocation of just Rs 2,300 crore to the urban leg of the programme vis-à-vis the Rs 9,000 crore to the rural leg continues to underplay the need for urgent attention to the issue of fecal sludge management. We now have a historic opportunity to address the problem of sanitation in its entirety and use the momentum generated by SBM to realise the ambition of sustainable sanitation.

Moving ahead, we need to shift away from sporadic media coverage of toilet numbers. CPCB statistics are alarming but conversations around sanitation continue to happen in silos. We need to bring to the forefront issues such as the undervaluing of operations and maintenance and sludge treatment projects whilst simultaneously building toilets.

We need to think long term, learning from the experiences of our neighbours like Bangladesh, to address crosscutting issues such as how to keep our water table protected as the uptake of on-site sanitation intensifies across India. It is critical that we integrate the fragmented elements of the Indian sanitation space, both in terms of discussions and players.

There has been significant discussion around engaging corporate India through SBM. Many companies have come forward and contributed, particularly through infrastructure creation.

However, in order to ensure sustained corporate engagement, we must provide an enabling framework to create a business model for sanitation that is economically viable, socially acceptable and environmentally sound.

This includes harnessing the expertise of corporates across the value chain of BUMT from skilling to innovative technologies, instead of confining them to onetime contributions of building toilets. A noteworthy example is the recent move made by the government to include sanitation in the Priority Sector Lending fold.

By creating an enabling framework specific to their expertise, the government has successfully onboarded financial institutions in a sustainable manner.

At the India Sanitation Coalition, we have come across multiple players with varied strengths. Each of these players, from marketing agencies to development practitioners, are repositories of knowledge, expertise and practical insights, willing and able to engage in the Indian sanitation space.

To work towards total and sustainable sanitation, we must keep the focus on BUMT. And to maximise collective contributions, we must tap into the tremendous potential in creating entry points for these multiple stakeholders across the entire value chain.

The article is written by Ms. Naina Lal Kidwai, Past President, FICCI. It was published in The Times of India on March 29, 2016.

Of debt and taxes

Every economic downturn brings a call for debt forgiveness. Income to service debt evaporates and collaterals lose value. In fact, creditor-debtor conflict has existed for ages, but convention upholds sacred rights of creditors while economic reality frequently emphases relief for debtors.

Simultaneously, people can be classified into two categories — those who do not pay taxes and those who grudgingly do. Law lexicons describe tax as a “pecuniary burden on individuals” which is “not voluntary but an enforced contribution exacted pursuant to legislative authority”.

Private gain must not translate into public pain. Still, let us also recognise that taking positions or emotional outpourings neither solve the problem nor lay a sound basis for the future.

Wins and losses

Liza Minnelli, the famous singer, put it so well “somebody loses, somebody wins, but the planet spins, and the world goes round”. Yes, the world indeed goes round. It was precisely two years (and some days) ago the then finance minister P Chidambaram asked banks to focus on recovery of bad loans (calling it banking system’s biggest challenge), then itself seen at around INR 2.4 lakh crore. No surprise then on the latest estimates going around.

At the time, as the president FICCI, I voiced an opinion that banks may not have taken swift action. I concede they may have sincerely anticipated better times but stern measures were required — in essence, effective enforcement of contracts. We believed that if NPAs were classified into three categories, there could be solutions that could mitigate build-up of pain.

Step one was to prudently tackle projects stalled due to policy/administrative laxity or external circumstances and slowdown, but where the company and its business model were not impaired and hand holding or last mile support would go a long way.

Step two was to address instances where the business model was faulty or losses had weakened the company; deep restructuring along with promoter/shareholder commitment by way of asset sales and sharing of pain — or friendly management changes — could be viable options.

Certainly, some infra and other projects were resolved but large pain points persisted in industry.

Remaining cases would mostly be willful defaults and remedy would lie in strict interpretation of contracts and due action, including but not limited to forced management change or liquidation. We believed it was vital that high-level reviews of such loans took place including at the Finance Ministry and RBI. Banks themselves may have been unable to take dispassionate stances.

Take a harder look

It has also become important to take a harder look at definitions of willful defaults to avoid unintended consequences of fine technical interpretations.

NPAs were humungous years ago and it was obvious that with indifferent corporate profitability the position would deteriorate. On the hope of revival, many banks would have restructured many loans. But an unintended effect was sometimes to burden effectively non-performing loans with further interest burdens.

So, one cannot be 100 percent certain what portion of NPAs being discussed today are, in fact, interest build-ups on what were already suspect loans. It requires bravery to separate wheat and chaff in such circumstances.

Failure will make our existing NPA’s gallop at 10-15 percent per year and soon double. It is safe to conclude that all bad loans are not outcomes of bad decisions or behaviour. Many have their origins in pure business risk.

Therefore, high-pitched debates in media, financial markets, Parliament or administration can rapidly turn counter productive.

The last things we need are good faith judgments questioned and probed in hindsight. In the bargain business is viewed by society as inherently deviant. Anyone then trying to assist troubled businesses on merits will be suspect, despite bonafide intent.

All this cannot be good at a time when the economy is in dire need of a fresh investment cycle and the need to bring assets back into a productive one. Even if the financial problems are sorted out by then, I do not foresee that all will be well.

There may be a decision-making paralysis, or lenders will play tough with terms and covenants so as to deter honest borrowers.

Limited liabilities of shareholders are a well-accepted principle. The age of personal guarantees to secure corporate loans is passé. Rather than hold on to such uncertain collateral banks could enforce much higher borrower discipline and governance by holding out the threat of removal from management, or promoter equity being rendered valueless in the event of uncorrected willful misdemeanour.

All in one

For a nation’s finances to be sustainable robust, all national incomes need to fall within the tax framework to promote equity and shared burdens, and avoid misuse and shades of grey. No less than our chief economic adviser is reported to have suggested tax above a threshold income. This can be, and must be, scientifically done without hurting small farmers at the lower rungs or those who have endured agrarian distress. A narrow taxpayer base always compels exploitation of the artificially curtailed pool. Exemptions create opportunities for misuse.

Kautilya’s Arthashastra advocated expansion of the tax base rather than play on tax rates. There can be many ways to tax-incentivise all sections to expand productive capacities to augment the future tax base. The government must be urged to write laws with an eye not centred on bolstering revenue but on ensuring fairness, preferably aligned with well-respected global principles.

Bad choices usually compound themselves and add to grief, be the decision maker a borrower, a banker, a taxpayer or the government. Quoting Minnelli again, “sometimes you’re happy, sometimes you are sad, sometimes you lose every nickel you had, but the world goes round”.

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on March 22, 2016.

Budget focuses on the greater good for inclusive development

Two big events coincided on the date which comes once in four years – the Academy Awards and India's Union Budget. In his acceptance speech for the Oscar, Leonardo Di Caprio highlighted the significance of collective effort in handling a global challenge. Here in India, we heard another resounding speech by the Finance Minister, which underlined the government's vision of "sabka saath sabka vikaas".

The Union budget was clearly oriented towards inclusive development and simultaneously put in place the key enablers for fostering higher growth. The nine pillars on the edifice of which the budget intends to transform India are both focussed and laudable. These are clearly directed towards furthering the reforms process, addressing the demand concerns, creating employment opportunities, bringing in transparency and making India a progressive society.

While the vision of nation-building has already been set through the mega programmes like Make in India, Digital India, Start-Up India, Skill India and Swacch Bharat Abhiyaan, the budget has laid out the nuts and bolts to further the implementation of these initiatives. The huge thrust laid on infrastructure, including roads, highways, railways, and ports will encourage greater investments under Make in India, thereby triggering expansion of all types of economic activities. Likewise, the tax and employment incentives provided to enterprises will encourage several youth towards entrepreneurship and create many more employment opportunities.

The mantra of "minimum government maximum governance" has been re-emphasised with introduction of new initiatives for enhancing the ease of doing business. The steps announced towards reducing disputes and litigation alongside the measures to simplify and rationalise taxes displays the government's intent to provide certainty in tax environment in the country. There is also an attempt to utilise technology across all types of public service delivery including for implementation of Direct Benefit Transfer in case of various subsidies. This will bring greater efficiency and transparency.

The focus on "Bharat" has been brought to the forefront and budget proposals will have a direct bearing on the lives and livelihood security of some of the most vulnerable sections of our society.

Social stability and inclusive development are paramount for sustainable economic growth. We cannot have a sustainable growth model in conditions of rural distress. The two consecutive years of drought had an adverse impact on India's rural economy leading to social as well as economic consequences. This definitely called for laying certain priorities. The budget squarely addressed them by laying huge thrust on agriculture, rural development and infrastructure. Several measures towards improving agricultural production, productivity and rural incomes have been announced including creation of a Long Term Irrigation Fund under NABARD, a further push to the Soil Health Card Scheme, incentivising production of pulses, enhancing agriculture credit, implementation of a Unified Agriculture Marketing Scheme and linking MGNREGA to agriculture and creation of rural assets. All these measures will have a multiplier effect in the form of demand generation and employment creation over time.

Practically speaking, there can be no "win all" situation. Some short term pain is inevitable for some long term gain. Indian industry realises that the "Greater Good for the Greater Many" is the only long term sustainable way for a thriving nation. Therefore, the industry is well prepared to take some additional burden to provide the necessary fiscal space for some socially imperative measures announced in the budget – be it in agriculture, rural development, empowerment of women or for the upliftment of weaker sections of the society. These measures will result in a harmonious and more equitable development of India, which is equally critical for furthering Industrial growth and development.

Likewise, a healthy and happy society is integral for a nation's progress. We see a clear reflection of this in the budget.

The measures introduced for expansion of the social security net through introduction of new health protection scheme and the support extended to education via setting up of a Higher Education Financing Agency and steps towards strengthening skill infrastructure via 1,500 Multi Skill Institutes will help us reap the demographic dividend in the years to come.

Despite the additional burden on account of implementation of Pay Commission recommendation and One Rank One Pay (OROP), the Finance Minister has enhanced the developmental expenditure and yet stuck to the fiscal deficit roadmap. This is commendable and will send very positive signals to the global community. Going forward, healthy and robust fiscal management would enable widening the tax base beyond the existing taxpayers.

Several of FICCI's suggestions have been incorporated in the Budget. It will be our constant endeavour to constructively engage with the government in taking forward the reforms process and playing an enabling role in the nation's development agenda.

The article is written by Mr. Harshavardhan Neotia, President, FICCI.
It was published in The Sunday Guardian on March 4, 2016.

In letter and spirit

Not long ago, I wrote about the need for a conducive atmosphere in governmental interactions and a regulatory environment where laws and their implementation are precise.

This was also in the context of an increasing gap between articulated intent and actual drafting — be it a statute or something as simple as a notification. Rather than easing conduct of business, such glitches create uncertainty. The quality and approach of drafting needs significant overhaul.

As underlying philosophy I cannot beat the words of Reginald Johnston (played by Peter O' Toole in The Last Emperor) as tutor to young Puyi: "A matter of words perhaps, but words are important. If you cannot say what you mean, Your Majesty, you will never mean what you say".

For purposes of my contention let's replace the word "say" with "write". We need written words to reflect, without ifs-and-buts or artificial caps and boundaries, what the leadership promises in the name of reform, simplified rules and ease of doing business.

Reign of suspicion

This cannot happen until thinking in the administration continues to be rooted in legacy, when India was "controlled or regulated" and provided a command-control-blame-punish culture. Such attitudes do not fit needs anymore. We must appreciate that even those systems that created our bureaucracy/laws gave up the command-control duality long ago.

From post-independence till about 1991, the Indian state largely viewed private enterprise with suspicion; ironically, it was trust of society that supported it. Our ethos encourage capital owners to act in trust for family and society while doing the best for the nation with their abilities.

Above all, systemic trust is critical for taking business risk, entering into a contract or, for that matter, for bureaucracy to take decisions.

But when push comes to shove, our national instinct seems to immediately devalue trust and pursue perception. Allegations and perceptions of cronyism persist with some instances good enough to threaten a mature systemic balance.

Public breast-beating or posturing achieves nothing. It is no-one's case that wrong conduct or violation of laws remains unpunished. Swift judgments build systemic trust but require larger judicial infrastructure and processes, not more laws and rules.

Practical solutions

Let me move away from theoretical analysis to practical situations. This is not to criticise (which is easy) but to point out ills in the hope they are attended to. It is not required to evolve solutions to individual issues — correction of the approach will solve them.

The contradiction — between what the government promises/intends in terms of resolving sticky tax matters with global ramifications and what transpires in terms of actions or explanations — is not lost on anyone. One can use finer aspects of law to justify, but the truth remains that outcomes and stated intent are divergent.

It is a no-brainer that if a system leverages legal fine print when confronted with issues requiring solutions, it destroys the trust that positive policy statements generate. Damage to the credibility of general tax law implementation is real, no matter how progressive rules seem on the surface.

I have heard broadly of recent policies ostensibly leading to "decontrol" in certain sectors - yet in detailed rules government specifies artificial caps or discretionary intervention powers — so, what is the truth? Do we mean what we write?

The Companies Act (and many governance-related SEBI clauses) continue to struggle with after-effects of evolution from negativity and a desire to micro-manage or over-prescribe standards of hygiene and governance.

If we are convinced that the law and rules had many problem areas, there are enough models globally which can be emulated — this will help avoid just tinkering and yet being saddled with a sub-optimal legislation.

I, for one, have yet to see any global jurisdiction where tax or corporate laws have been able to prevent leakages or transgressions perpetrated by those determined to do so. On the other hand the laws in most progressive jurisdictions make it easy for an abider to abide, and for the guilty to be punished quickly.

The most topical subject right now is the NPA stress on the banking sector. I worry that soon we may not have a fresh wave of thought and knee-jerks by which every problem loan is viewed with a jaundiced eye. Generalisations are made which sometimes destroy borders between valuations (which are opinions and time-dependent) and accounting (which is exact) or naively equate loan taking with personal enrichment.

The systemic approach must be unambiguous — being in business or borrowing/lending money are fraught with true economic risk. The system must bear this risk, yet punish wrong conduct where established. Giving/taking loans must not get affected.

It is also a part-and-parcel need that (i) rules are not over-exerted so that a perfectly reasonable commercial action gets wrongly coloured and (ii) banks must declare with equal enthusiasm their NPA's recovered in the past/now. Otherwise honest business and processes will remain blamed.

At the end of the day, we must also evaluate the effect judicial outcomes had on management and resolution of NPA's; after all if an NPA could not be resolved because of judicial intervention, who can we blame but the effectiveness of laws?

Need deep reforms

The biggest injustice inflicted on the nation is when people remain in jobless poverty or in under-employment (employed below fair- earning capacity). India requires deep reforms that allow people and businesses to invest, scale up and hire, and it is necessary for private enterprise to step up in a much larger way. While maximum governance is on an upward incline, the minimum government aspirations appear indistinct.

Award winning author Joseph Hallinan argues that when something goes wrong the natural tendency is to lay blame; but misattribution of blame is a reason we make the same mistakes over and over.

In our way of doing things we seek (but usually fail) to ensure a functioning utopia through more regulation and dos-and-don'ts. Instead we could do far better by following the Japanese maxim fix the problem, not the blame!

The article is written by Mr. Sidharth Birla, Past President, FICCI. It was published in The Hindu Business Line on April 9, 2016.

Infrastructure Investment in Asia

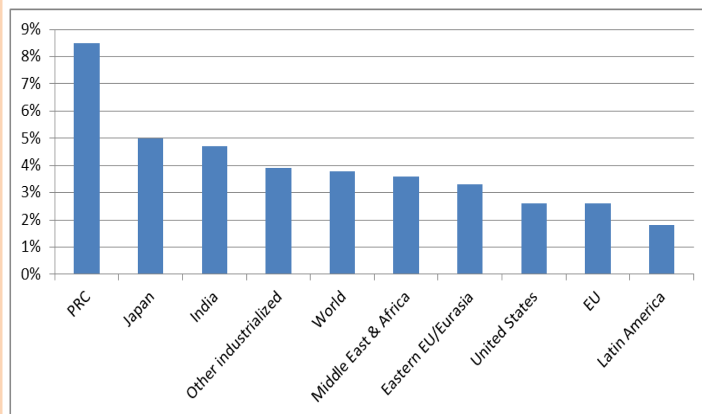
Good infrastructure plays a crucial role towards the growth of an economy. Infrastructure not only acts as a catalyst for faster economic growth but also serves as an important tool for achieving inclusive growth. Hence this is an area that holds very high importance for policy makers worldwide. Infrastructure investment requirements are very high globally, more so in developing economies. The investment requirement in infrastructure is estimated to reach around 4% of GDP globally (about US$ 3 trillion per annum) by year 2020, and the need is even higher for emerging economies at 6% -8%, and 6.5% of GDP for Asia. Infrastructure development also involves long gestation period and there are various other barriers and risks attached to such investment. This affects the risk appetite of investors and lenders, making them reluctant to extend funds for infrastructure development. So in most economies, public sector has taken the lead role in infrastructure financing, with the share of private sector remaining comparatively low. This is despite various measures that governments across countries have taken to attract private investment in infrastructure.

Asian Development Bank Institute has recently conducted a study to evaluate infrastructure investment and finance scenario in Asia from a global perspective. The paper - “Infrastructure Investment, Private Finance, and Institutional Investors: Asia from a Global Perspective”, has provided an overview of infrastructure investment needs of economies across the globe including those within Asia. The study has highlighted the various sources of private finance presently available in these economies. The analysis suggests that institutional investors have emerged as a promising new financing source. There is a heterogeneous group of investors comprising pension funds, insurance companies and sovereign wealth funds (SWF) that exist in Asia which are looking for investment opportunities in this area. Based on past experiences and lessons learnt, the paper has offered some recommendations for policy makers for attracting private sector investments in infrastructure.

Infrastructure Financing Needs

Past data shows that about 3.8% of world GDP has been spent on economic infrastructure over the last 20 years, or about US$ 2,400 billion (applied to 2010 GDP). Infrastructure investment in both the US and the EU amounted to 2.6% of GDP, but was much higher in East Asia, with 5% in Japan and 8.5% in the People’s Republic of China (PRC). Between 1980 and 2008, there has been an increase in infrastructure spending in emerging economies from 3.5% to 5.7% of GDP, mainly driven by East Asia, the report showed.

Chart 1: Infrastructure Spending, 1992–2011 (% of GDP)



EU = European Union, GDP = gross domestic product, PRC = People’s Republic of China.
Source: McKinsey (2013).

In future, emerging markets and developing economies (EMDEs) will have higher infrastructure investment needs compared to developed economies. It is projected that developing economies will have to increase their spending from US$ 800 billion – US$ 900 billion (estimated in 2008) to about US$ 1.8 trillion – US$ 2.3 trillion per year by 2020, which translates into a spending gap of approximately US$1 trillion per annum. The report highlights that 32 developing economies in Asia would need infrastructure investment of US$ 8.2 trillion (in 2008 prices) over the period 2011–2020.

The People Republic of China (PRC) would require more than half, and India more than a quarter of the estimated amounts, followed by Indonesia (5%).

Table 1: Infrastructure Investment Needs 2010-2020 (as % of GDP)

Regions	Energy	Transport	Telecom	Water and Sanitation	All sectors
East and Southeast Asia	3.2	1.6	0.5	0.2	**5.5**
South Asia	3.0	5.6	2.0	0.4	**11.0**
Central Asia	3.0	1.9	1.4	0.4	**6.6**
Pacific	0.0	2.6	0.7	0.3	**3.6**
All Developing Asia	**3.2**	**2.3**	**0.8**	**0.2**	**6.5**

Sources of Infrastructure Finance

Public and Private Finance

In EMDEs, public sector (comprising central, regional, local and other government institutions) has been the major source of finance for infrastructure, accounting for 70% of the total investment, followed by private sources (either in the form of corporate finance or project finance) with a share of 20% while the development banks and agencies accounting for the remaining. Unlike this trend, in developed countries private financing accounts for a major share. In the European region, the ratio of public to private financing is about 1:2 in the old member states and 1:1 in the new member states. The proportion of public and private finance in infrastructure investment in Asia varies considerably across countries. Government's share in infrastructure is estimated to be 90% in the Philippines, 80% in Thailand, 65% in Indonesia, and 50% in Malaysia.

Private Infrastructure Finance

In recent years, private infrastructure investments have been found to be growing globally, including emerging markets. Private investors have been using a range of instruments for investing in infrastructure comprising equity and debt (bonds and loans) instruments, listed and unlisted vehicles, direct and indirect investment routes, and commercial funds or in funds sponsored by governments or national/international development institutions.

Corporate Finance

Corporate finance is an important component of private infrastructure finance.

- *Listed Infrastructure Companies:* Capital expenditure incurred by listed infrastructure companies (developers and operators of infrastructure projects, infrastructure service providers, and well-diversified conglomerates) has contributed substantially to infrastructure investment in many countries. Globally, these listed infrastructure and utility companies represent about 5%–6% of the equity market universe, or around 4% of GDP. Asia has a weighting in the range of 10%-20% in global infrastructure indices. There are some very different regional Asian indices in the market, covering infrastructure companies with a market capitalization of up to US$ 500 billion. This is about 2%–2.5% of GDP in Asia, which is only about half the global percentage.

- *Infrastructure Funds:* Private or unlisted infrastructure investments through infrastructure funds (both equity as well as debt) have also come into focus in recent times. Over the period between 2004 and 2014, about 400 infrastructure funds have been launched worldwide, with an aggregate volume of around US$ 300 billion, including 73 Asia-focused private infrastructure funds with an aggregate capital raised of US$ 27 billion. Infrastructure funds are reportedly undertaking around 700 transactions per year worldwide with deal volume of about US$ 300 billion. As compared to this, in Asia, 100 such deals are undertaken, with an estimated annual deal value of around US$ 20 billion–US$ 30 billion. Highest number of deals has been observed in India and the PRC. However, the primary focus of infrastructure investors has still remained on traditional markets of Europe and North America, rather than Asia. Out of 150 new infrastructure funds, only 22, looking at US$ 11 billion worth of investment, have a specific focus on Asia.

- *Direct Investment:* Lately, investors have also adopted direct investment route through raising equity stakes in infrastructure projects and companies. Also, several (Asian and other) Sovereign Wealth Funds (SWFs), financial and industrial companies have raised their interest in infrastructure assets.

Project Finance

Project finance statistics are often used as indicators of private finance developments in infrastructure. The overall global project finance volume (equity and debt) was estimated to be worth around US$ 408 billion in 2014 from around 1,100 deals. Of this, 12% was financed by equity, 9% by bonds, and 79% by loans. In Asia (excluding India), project finance deal volume has ranged between US$ 40 billion-US$ 60 billion per year or about 0.2% - 0.3% of GDP. In terms of countries, India has been the second largest project finance markets in the world (behind the US). The Indian subcontinent volume was US$ 46 billion in 2014.

Public Private Participations

Public Private Participations (PPPs) have become an alternative financing mechanism to spending by governments or infrastructure companies. Globally, about 18% of project finance has been through the PPP route in 2014. The total global PPP volume in the same year was US$ 72 billion and about 0.1% of global GDP. However, many countries still make very little or no use of PPPs. In Asia (excluding India) PPP deals of less than US$ 10 billion per year has been observed which is far below the global average.

Institutional Investors as Infrastructure Financiers

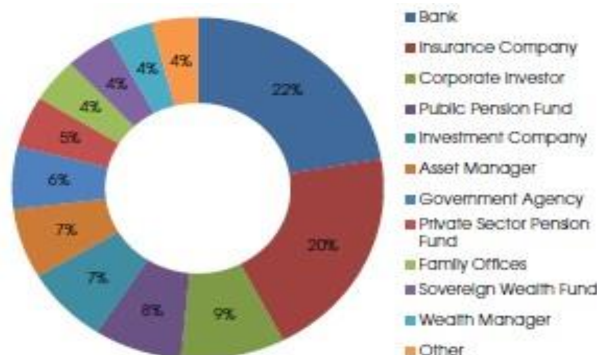
Infrastructure has appeared as an attractive asset class for many investors as it offers an alternative source of income and better diversification in a low interest rate regime witnessed in major markets, globally. Infrastructure investments are especially useful for pensions and insurance companies which look for assets offering long term and predictable income. Traditionally, however, most asset owners had been investors in infrastructure securities, as either shareholders of infrastructure companies listed on public stock exchanges, in IPOs of privatized utility companies, or as buyers of corporate bonds or municipal bonds.

The scenario has been different for unlisted infrastructure investments. For instance, the results of a survey of large pension funds conducted by OECD revealed US$ 70 billion of unlisted infrastructure equity investments and US$ 10 billion of infrastructure debt. However, infrastructure investments were only about 1% of the asset allocation of the whole investor group in the survey. Similarly, insurance companies have also had very limited investments in unlisted infrastructure assets traditionally. But the situation has changed slowly in recent years.

In the Asia-Pacific region, among 295 infrastructure investors (13% of the global infrastructure investor community) which were tracked, insurance companies and banks formed the largest investing group, with pension funds, foundations, and endowments less prominent compared to other regions. Data reveals that the top 100 Asian investors have invested only 0.3% of their total assets worth US$ 20 trillion in infrastructure i.e. about US$ 65 billion. Out of these 100 investors, 88 have invested in private investment vehicles and 62 have invested directly. From these 100 investors, 30 are Japanese, 20 are from the Republic of Korea, 13 from Australia, 11 from the PRC, and 10 from India. Some Asian insurance companies reportedly have also made substantial investments in infrastructure (listed and unlisted), especially in Japan; India; the Republic of Korea; and Taipei, China.

Asia also has a large share of SWFs that are growing their assets (US$ 7 trillion, with 40% of them based in Asia and 37% in the Middle East: SWFI 2015) and becoming increasingly involved in infrastructure.

Chart 2: Asia-based Infrastructure Investors



Source: Preqin (2015b).

With an estimated average asset allocation of 2%, a number of them already have direct holdings in infrastructure assets, although mostly in established markets.

Barriers and Risks

The infrastructure sector has specific barriers and risks for investors which need to be managed properly. The actual and perceived barriers include constraints on the supply side (lack of suitable projects, poor procurement processes, project size, others), demand side (investor resources and capability, portfolio concentration risk, others), as well as in the intermediation process and market structure (inappropriate, expensive investment vehicles; lack of secondary markets; weak capital markets, others).

There are several other risks which include construction and development risks of Greenfield projects; operational, demand and market risks; financial and interest rate risks; governance standards; legal, social and reputational risks; regulatory risks and risks associated with political uncertainty. Foreign investors face hurdles especially in emerging markets with capital markets of low liquidity and currency risks that can hardly be hedged. This calls for a careful evaluation of the risk mitigation mechanisms.

Infrastructure investment faces hindrance from investor regulations, the relevant ones being regulations related to solvency, accounting and investment rules. Risk-based solvency regulations and fair value IFRS accounting rules for insurers and pension funds could lead to de-risking and pro-cyclical investment behaviour. The investment (quantitative and/or qualitative) restrictions in many countries, especially emerging countries which investors have to abide by, may hamper infrastructure investment.

Conclusion and Recommendations

Data available for Asian economies indicates that the role of private players in infrastructure financing though has increased over the years but has remained weak in Asia as compared to global average and compared to future investment requirements.

This is despite several initiatives that have been taken by countries to attract private investment in infrastructure, which include setting up dedicated infrastructure or PPP agencies, national infrastructure banks or green banks. World Bank has suggested various ways by which governments can facilitate and incentivize private infrastructure investments through use of financial leveraging tools such as guarantees, insurance policies, credit enhancements and extending grants, tax exemptions, incentives, amongst others; the public sector has been suggested to set up fund vehicles such as national or regional infrastructure fund.

Asian governments in particular need to increase the attractiveness of private investment in infrastructure. Joint initiative is needed involving government, infrastructure businesses, investors, the financial industry and academia.

The report has provided some specific recommendations for policy makers to consider to improve the public private ratio in infrastructure financing, which include:

- Implement clear infrastructure policies, stable sector and PPP regulation, and effective government institutions. Reduce policy inconsistencies between different departments.
- Expand the role of private long-term savings institutions with strong governance (such as autonomous pension funds and asset management).
- Review investor regulation (and regulators), especially in regard to its effect on infrastructure investment.
- Review sectoral regulation (in energy and transport, etc.), especially in regard to potential barriers for private investment.
- Increase the depth and breadth of local and regional capital markets (e.g., for project bonds, sub-national revenue bonds, and infrastructure funds).
- Review the competitive situation in loan markets, especially the position of public banks.
- Open markets for regional and international infrastructure investors.
- Improve statistical information on infrastructure investment, transparency of investment vehicles, and disclosure on infrastructure projects.

Women's Leadership and Corporate Performance

Gender imbalance in boardrooms has been an issue that has attracted lot of attention in recent years and has turned into a worldwide debate. It is surprising that women representation in corporate boards has remained abysmally low in most countries across the globe, even today. This is despite the improvements that have been observed in female education and labour participation, and the efforts being put forth by governments' towards minimising gender disparity over the years. Though this is a global phenomenon, the ratio of women to men in boardrooms have been found to be higher in European or American companies vis-à-vis their Asian counterparts. This has been revealed by a recent study conducted by the Asian Development Bank (ADB) on gender diversity. In its working paper – 'Women's Leadership and Corporate Performance', ADB has examined the gender diversity practices in 10 economies in Asia and the Pacific region, and has tried to assess its impact on firm performance.

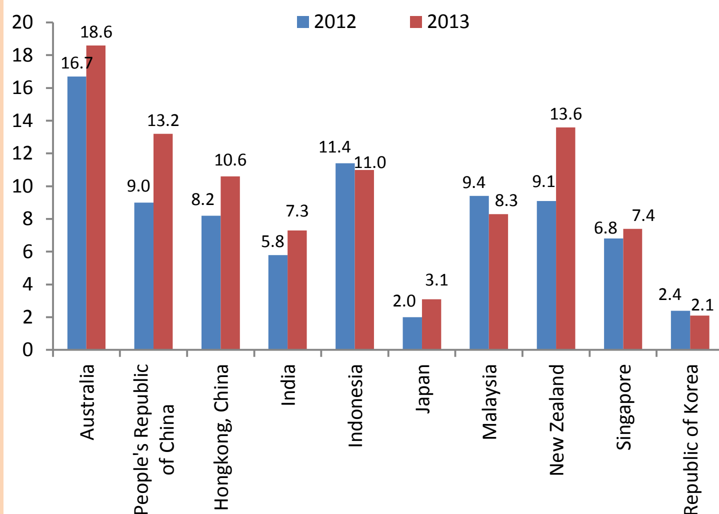
Gender Diversity in Boardrooms in Asia

Studies conducted in 2011 and 2012 shows that about 90% of the US Standard & Poor's top 500 companies have at least one woman on their board, and the proportion is 60% for FP500 Canadian companies. In Europe, some countries explicitly urge companies to have female representation in boardrooms and senior management positions. The prescribed quotas of female representation in leadership in the UK, Norway and Germany are 25%, 40% and 30% respectively. This is driven by the perception that having more women in a position of power make corporations more effective and profitable, and less corrupt. As compared to North America and Europe, gender diversity in boardroom is much lower in Asia and the Pacific, with around 8% female representation on average in 2012.

The present ADB study analysed practices and financial performances, measured in terms of Return on Assets (ROA), Return on Equity (ROE) and market valuation of top 100 listed firms (in terms of market capitalisation during years 2013 and 2014) spread across 10 economies: Australia; the PRC; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; Malaysia; New Zealand; and Singapore. The 1,000 sample firms included in the survey covered the following industries: materials, utilities, financials, real estate, health care, consumer discretionary, industrials, energy, information technology, consumer staples, and telecommunication services.

The examination showed that overall boardroom gender diversity in the 10 economies studied has improved between 2012 and 2013; female representation on boards rose from 8.0% in 2012 to 9.4% in 2013. Country-wise data showed that the greatest improvements in percentage points were seen in New Zealand (4.5%) and the PRC (4.2%). In 2013, Australian companies had the highest female representation on boardrooms (18.6%), while it was lowest in case of companies in the Republic of Korea (2.1%).

Chart 1: Female Representation on Boards in Asia and the Pacific*



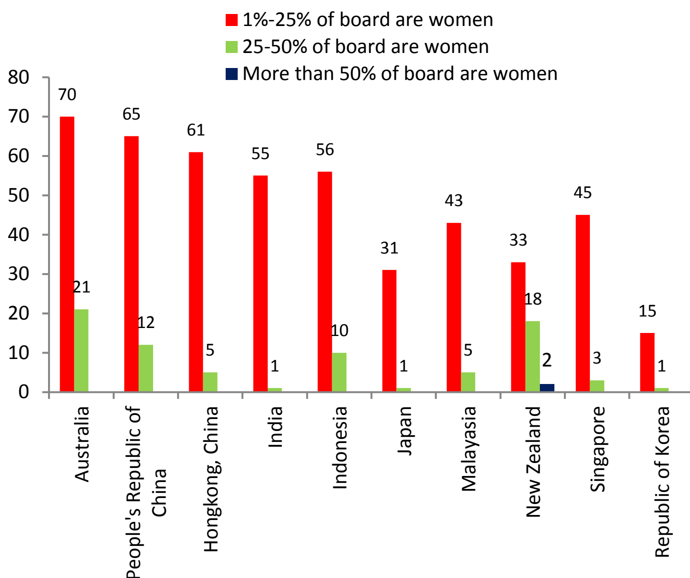
** Note: Sample includes companies having female representation on their boardrooms*

The Republic of Korea also had the highest percentage of all male boardrooms (84%) while it was lowest in Australia (9%). In 2012, more than half of the boardrooms had all male directors in 6 of the 10 economies studied which included developed countries like Japan, New Zealand and Singapore, but there was no boardroom which had all female directors.

The percentage of all-male boardrooms however decreased in 2013. New Zealand showed the maximum improvement by 18%. In Indonesia, the proportion of all male boardrooms increased from 25% in 2012 to 34% in 2013.

The study further indicates that though there has been improvement in gender diversity in boardrooms, percentage of female representation in boards continues to be small, generally a quarter or less. In India, 1% of the boards have 25-50% female representation, while a majority 55% of the boards have less than 25% female representation. Amongst the economies studied, 2% of the boards in New Zealand have more than 50% female representation on the boards.

Chart 2: Proportion of Female Directors, 2013



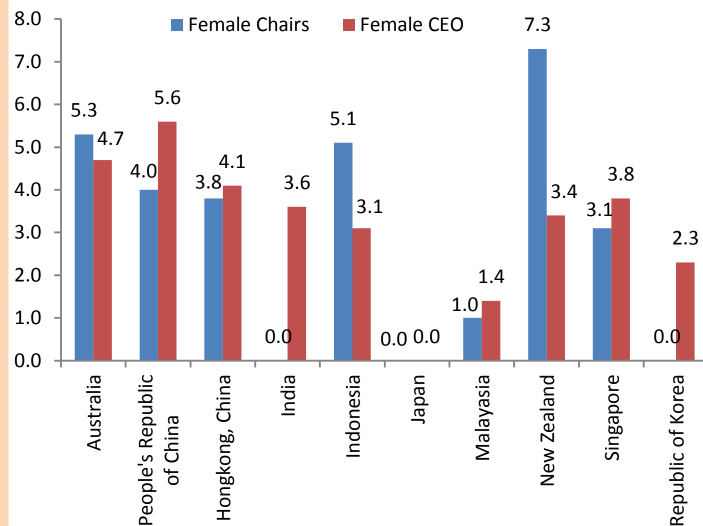
Female boardroom representation by sector shows that the traditionally female-dominated industry like healthcare has the highest proportion of female directors at 13.6%, while it is just the opposite for sectors like information technology, industrials etc.

Female Leadership in Corporation

The report also studied the proportion of women in top leadership positions across countries, which showed that Australia and New Zealand have at least 10% of their female directors holding key leadership roles as CEO or Board Chairperson.

Amongst the 10 economies studied, People's Republic of China (PRC) has the highest percentage of female CEOs (5.6%), while New Zealand has the highest percentage of female board Chairpersons (7.3%). In Japan, there are no women in either of the position in the top 100 companies of the country.

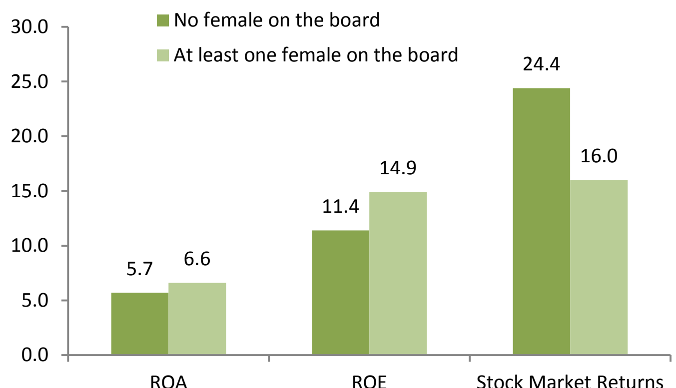
Chart 3: Female Board Leadership in 2013 (%)



Gender Diversity and Firm Performance

Examination of company financials indicated a positive association between presence of female directors in the boardroom with the firms' financials in terms of Return on Assets (ROA) and Return on Equity (ROE). However, However, association between a female presence on the board and stock market returns showed a negative relation in most of the countries, except in the PRC and the Republic of Korea.

Chart 4: Female Board Membership and Returns (%)



FICCI

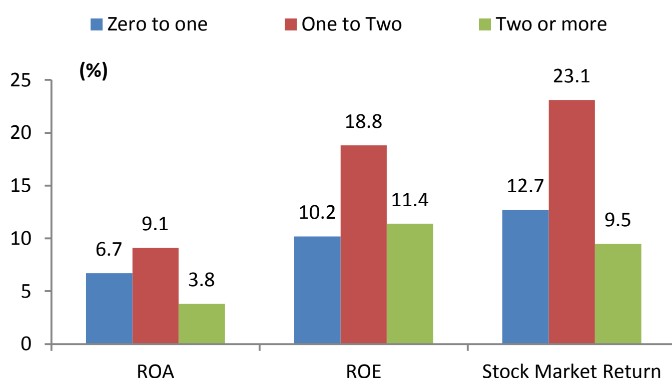
ROA for firms with at least one female on the board was 6.6% as compared to 5.7% for all-male boards. There are however variations across countries, while in New Zealand they outperformed the all-male boards by 3.2 percentage points and in PRC by 2.1 percentage points, in Australia, Indonesia, Japan, Malaysia, and the Republic of Korea, companies with all-male boards seemed to perform better. Similarly, ROE for firms with at least one female on the board was 14.9% as compared to ROE of 11.4% for all-male boards.

The largest difference was observed in the case of PRC (4.6 percentage points). In case of Australia, Japan and Malaysia, firms with all-male boards outperformed the other diverse boards.

Female Director Appointment and Firm Performance

The paper also attempted to understand how a firm's performance changes following appointment of female directors. It revealed that firms that appointed female directors between 2012 and 2013 had the highest ROA at 6.9% and firms which kept the number of female directors unchanged had the lowest ROA.

Chart 5: The Step-wise Impact of Adding Female Directors



Among the firms which appointed female directors, firms with two female directors on board showed the best performance.

To further understand whether there is a causality relation between gender diversity and firm performance, ADB performed a two-stage regression analysis to address the endogenous concerns on gender diversity determinants, which brought out the following key results:

- First, past performance of firms does not explain or predict corporations' choice of female directors. That is, the reverse causality argument of financial performance to gender diversity is not true. Firms do not necessarily increase female representation when performing well.

- Second, country-wise data analysis showed that gender equality in college education has a significant and positive correlation with boardroom gender diversity present in a particular country. However, female labour participation shows a negative effect on boardroom gender diversity. Finally, infant survival equality has a negative and significant relation to boardroom gender diversity.

- Third, female representation on the board, when determined by the economic factors, predicts significant and mostly positive firm future performance.

- Finally, changes in gender diversity that are unrelated to the economic factors have no predictive power on firm performance.

The ADB report therefore recommends that improving the overall gender equality in a country in terms of providing girls/women greater opportunities for education, work and other aspects of society can be more effective in enhancing the gender diversity in boardrooms of Asian companies, rather than mandating quotas for the same.

Beyond Cash – *Why India loves cash and why that matters for financial inclusion*

The importance of financial inclusion, based on the principle of equity and inclusive growth, has been engaging the attention of policy makers internationally. In India too, achieving universal financial inclusion is a priority objective for the Union Government and this has multiple dimensions. The national mission for financial inclusion in India envisages introduction of a transparent and efficient system of subsidy disbursal mechanism as direct cash transfers into the accounts of the end beneficiaries, via JAM trinity (JanDhan-AADHAR, Mobile). The aim is to curtail leakages and help the government better assess and augment social welfare schemes.

With the launch of the Pradhan Mantri Jan-Dhan Yojana (PMJDY) (over 200 million bank accounts opened under this scheme), supported by the Aadhaar framework (over 950 million Indians enrolled), and with over one billion mobile phone connections, India has made remarkable strides toward achieving universal financial inclusion. However, a major concern, despite this tremendous progress is that the use of digital payments in the country remains elusive. Market data indicates three critical factors responsible for this phenomenon:

- **Cash transactions a matter of habit:** As high as about 97 percent of retail transactions in India are conducted in cash or cheque

- **Few consumers use digital payments:** Only 11% of the consumers used debit cards for making payments in 2014

- **Few merchants accept digital payments:** Only about 6% of Indian merchants accept digital payments. This restricts consumers' from meaningfully utilizing their bank accounts and new digital payment tools.

The Reserve Bank of India (RBI) estimates that cash is an inefficient medium of exchange, costing the economy US$ 3.5 billion annually. According to the World Bank, India could save approximately one percent of its GDP annually by digitizing cash-based subsidies alone. Besides, digital payment offers multiple benefits to both consumers as well as merchants. Digital payments can help consumers and merchants spend their money more safely and securely and also build credit profiles for lending opportunities hitherto unavailable in the informal banking sector. It is therefore crucial that a widespread digital payments acceptance network be built in India.

To realize this objective, the Ministry of Finance (MoF), Government of India, and the United States Agency for International Development (USAID) brought together a coalition of over 35 key Indian, American and international organizations operating in India to seek solutions for expanding the retail digital payments acceptance network and address the related challenges. FICCI is the only partner chamber of this alliance. The goal of the MoF-USAID partnership is to identify, test, and scale innovative approaches for expanding the use of digital payments at 'point of sale', particularly among low-income consumers, which in turn would increase financial inclusion.

As part of this ongoing partnership, the USAID embarked on a study between July and September 2015 (conducted by Dalberg, a global strategic advisory firm) and recently released a report – 'Beyond Cash' that highlights the current spending and savings behaviour and perception of digital payments in low-income communities in India, and suggests ideas on how policy makers can accelerate the adoption of digital payments in the country. The study was conducted in six locations across four states and focused on low-income consumers and merchants across rural, semi-urban and urban areas.

Key Research Insights

The report captures the key findings from quantitative surveys with over 2500 respondents as well as from deep ethnographic research with low-income consumers and small merchants. The survey reveals that consumers and merchants who are presently using digital payment are highly satisfied with their experience because of the numerous benefits that this payment system offers like

convenience, safety, ease of access to funds, high speed of transaction, etc. The respondents have also shown willingness to recommend others to adopt digital payment.

Also, both consumers and merchants recognize the problems associated with cash payments. Consumers find it challenging to manage odd value cash transactions for which they need to have exact change. They also find it difficult to track their monthly expenditure in case of cash payments. Similarly, merchants have their own cash pain-points. For them, safety of carrying and storing cash and managing change to return to customers are some of the major business challenges. These problems can be resolved with the help of digital payment and hence offer a significant opportunity for increasing digital acceptance among consumers and merchants.

However, awareness of digital payment framework among non-users of digital payment (both consumers and merchants) is still very low in India. So, there is an urgent need to create awareness about the benefits of digital payment among both these categories of people and measures should be taken to address the issues faced by them which restrict them from accepting this mode of payment.

The report mentions some of the major factors hindering the growth of digital payment among consumers and merchants in India, and offers suggestions to address these issues.

Issues faced by Consumers

- **Low interest in digital payments is often driven by lack of a digital store of value.** In India, people do not have enough opportunities to convert cash into digital, because either they do not earn digitally (almost 80 percent of consumers surveyed) or have the opportunity to save their earnings digitally. This restricts them from making transactions digitally.
- **Low penetration of merchant acceptance is a key barrier to adoption.** Many people do not use digital payment because there are not enough merchants around them who accept this form of payment. Moreover, consumers often associate digital payments with high value transactions only, which impacts its wider use.

Recommendations for Incentivising Consumers

1. **Digitize Income and create opportunities for consumers to make digital contributions to micro-savings products:** The survey findings indicate that consumers who are paid digitally are more willing to transact digitally. The report therefore suggests that the Indian government should continue digitising direct benefit transfers, and incentivise organizations to make payments to their employees digitally. Similarly, research also shows that people who save digitally are more open to digital transactions. Therefore, it is recommended that banks and payment players should develop flexible and convenient micro-savings products for low-income consumers, enabling them to use digital payments.

2. **Digitize low value-high frequency transactions like transport:** Consumers who participated in the survey indicated inconvenience in using cash for low value, high-frequency, transactions. So, the government should consider digitizing mass transit and other public transport systems and expanding the use of such transport payment instruments to broader usage. Also, efforts should be made by banks and other digital payment players to create digital products which can provide convenience to consumers in case of odd value transactions. These products can have additional feature like easy-to-use expense tracking, which can further motivate consumers to use digital payments.

3. **Communicate specific use-cases and encourage trials among new consumers:** To generate interest in digital instruments, banks and payment players can focus their marketing and advertising campaigns on tangible, easy-to-understand, and specific use-cases. They can also encourage trials amongst new consumers by providing innovative incentives; for example, providing cash-back on a consumer's first five transactions can be effective. Moreover, current users should also be incentivised (as they have indicated satisfaction from using digital payment) so that they can share their experience with other non-users and encourage them to adopt digital payment.

4. **The report further suggests that the government can motivate consumers to expand their own digital payments use** by providing tax and monetary incentives. For example, this can be achieved by linking the usage of cards or mobile wallets to income tax rebates. Banks can also incentivize consumers to use and recommend digital payments by offering cash-backs or loyalty points.

Key Issues faced by Merchants

- **Merchants find it expensive to adopt digital payments, which affects their interest.** Merchants have highlighted high cost of trial as a factor driving down interest in acceptance of digital payments.

- **Merchants like consumers, are trapped in cash ecosystems, which inhibits their interest**. The second biggest reason which restricts merchants from accepting digital payment is their own requirement of making cash payments to their suppliers. However, merchants who do not pay by cash, use cheque for payment as cheques provide advantages of physical transaction, trail and latency. Also, lack of consumer demand is highlighted as the third major reason for low acceptance.

Recommendations to bring Merchants onboard

The report highlights that many merchants are comfortable operating in India's 'cash ecosystem' but are open to switching if cheap digital payment options are made available and they are incentivized for using them.

1. **Enable merchants to try digital payments at low or no cost:** As merchants find the up-front cost of trial for digital payments very high, banks and payment players can consider removing these fees and device installation charges and move towards pay-per-use models. This would encourage merchants to accept digital payments. Banks can also remove restrictions on minimum current account balances and simplify the onboarding experience of merchants. Besides, government can provide tax and monetary incentives for digital sales by merchants to incentivise them.

2. **Digitize retailer-to-supplier payments:** It is recommended that FMCG players provide incentives to retailers to make digital payments to their distributors. To give further encouragement, FMCGs can offer discounts and cash back guarantees to retailers on digitally sold goods. Since cheques have been found to be the second most favourite mode of payment, digital payment services should be deigned with features similar to those of cheques to make them popular among merchants.

3. **Build Credit Profiles based on transaction-based usage to incentivize acceptance of digital payments:** Given the large unmet demand for credit among small merchants, banks and payment players can collaborate with data analytics companies and credit providers to provide working capital and business investment loans based on the transaction-data generated by digital payments. Thus, credit can serve as an incentive for merchants to accept digital payments. FMCGs can also offer loans based on digital sales data to incentivize retailers to pay distributors digitally.

Trends in India's Foreign Trade

Over the last 25 years since India's liberalisation, its foreign trade has expanded multifold and seen significant structural shifts in product as well as geographic composition. The easing of quantitative restrictions as well as significant reduction in tariff levels across product lines has aided the growth of foreign trade in the first two decades post liberalisation. In-fact, the share of foreign trade (both exports and imports) in India's GDP stood at over 43 percent during 2011-13 as against 13 -15 percent during early nineties.

However, over the last few years there has been a marked deceleration in India's foreign trade, both exports as well as imports, primarily on account of subdued global demand and dip in global commodity prices. This article presents a detailed analysis of India's foreign trade trends, assessing the performance of key export commodities in current challenging global environment.

Significant expansion in trade over two and a half decades

During the last 25 years, India's exports have increased more than 17 times, from US$ 18.1 billion in 1990-91 to US$ 309 billion in 2014-15, and India's imports have increased 19 times, from US$ 23.5 billion in 1990-91 to US$ 447 billion in 2014-15. India's share in global exports has moved up from mere 0.6 percent in early nineties to 1.7 percent currently. Likewise, India's share in global imports has increased from around 0.6 percent during early nineties to 2.4 percent currently.

In the first decade of this period (1990-91 to 1999-2000), India's exports grew at a CAGR of 8.1 percent and imports at 8.7 percent. The real surge was witnessed in the next decade (2000-01 to 2009-10), when exports grew at 16.8 percent and imports at 21.5 percent annually. This trend continued until 2011-12, after which there has been a steady decline in trade owing to global slowdown. In 2014-15, exports dipped by 1.8 percent while imports dipped by 0.4 percent.

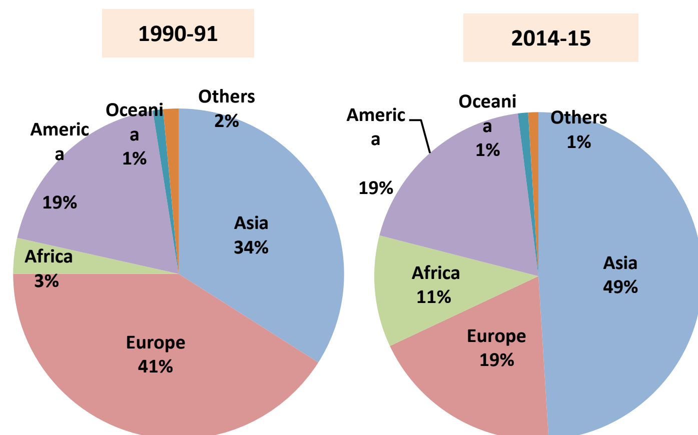
For the first 11 months in financial year 2015-16, exports as well as imports have seen a sharp decline. While exports are lower by 16.7 percent y-o-y, imports have declined by 14.8 percent y-o-y.

Exports are now more diversified geographically

During the initial period of liberalisation, India's exports were less diversified, with top 20 countries accounting for more than 80 percent of India's total exports. During 1991-92, USA was the largest export destination (16.4% share), followed by Japan (9.2%), Russia (9.2%) and some European countries. Today, top 20 export destinations for India account for 67 percent of total exports, reflecting greater diversification. While USA remains the largest export destination, its share has come down to 13.7 percent. UAE has emerged as second largest export destination accounting for 10.7 percent share, while Hong Kong is the third largest destination with a share of 4.4 percent. In-fact, besides the top 10 export destinations, rest of the countries (individually) contribute only 2 percent or less in India's total exports.

The most significant change in the direction of India's exports during post-liberalisation era has been the increasing share of developing countries and falling share of advanced and developed economies. Between 1990-91 and 2014-15, the share of Asia has increased from 34 percent to 49 percent and that of Africa from 3 percent to 11 percent. On the other hand, share of Europe has come down from 41 percent to 19 percent during this period.

Chart 1: India's Exports- By Region



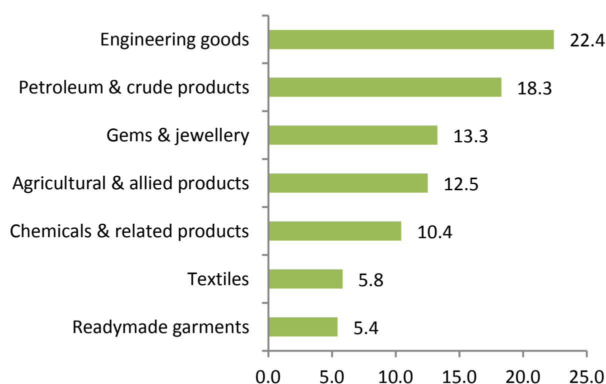
Source: CMIE, Economic Outlook

FICCI

Structural shift seen in exports basket with greater contribution of value-added products

The composition of exports has gone substantial changes since liberalization. There is a structural shift in India's exports, away from primary, agricultural and traditional exports like textiles towards more value added manufactured and technology-based items such as engineering goods, refinery products, pharmaceuticals, etc. Overall, India's export basket is now diversified with non-traditional items and differential products are also gaining importance.

Chart 2: India's Principal Exports (Percentage share in Total Exports in 2014-15)



Source: CMIE, Economic Outlook

Recent export trends for major commodities

Engineering Goods: India's top export item is Engineering goods, accounting for 22.5 percent in India's total exports in 2014-15. Within this category, some of the prominent export items are Transport Equipment (including Automobiles and Auto components), Iron and Steel and Machinery & Instruments. During the five year period 2010-11 to 2014-15, exports of transport equipment have grown at a CAGR of 11.5 percent, from US$ 16 billion to US$ 24.8 billion.

Table 1: India's Top Three Transport Equipment Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
Sri Lanka	881.9	3,228.1	22.7%	98.0%	13.0
UAE	644.7	2,702.4	56.2%	10.1%	10.9
USA	1,382.3	1,531.1	-2.9%	21.2%	6.2

This was led primarily by exports to Sri Lanka and UAE, which recorded CAGR of 38.3 percent and 43.1 percent, respectively. While Dubai has emerged as an international automotive hub, Sri Lanka's automotive market has been one of the fastest growing vehicle markets in the world. India in fact dominates the Sri Lankan market for vehicle imports. However in the last fiscal, exports of transport equipment from India to Sri Lanka have seen a significant dip of 36 percent y-o-y (Apr-Feb 2015-16). In September 2015, Sri Lanka changed the basis on which customs calculates the value of certain motor vehicles, due to which imported vehicles are expected to become costly. It has been estimated that Sri Lanka's vehicle imports could drop by 90 percent, implying significant reduction in India's vehicle exports to Sri Lanka going ahead. Clearly, Indian exporters of transport equipment would have to rework their strategy and focus more on other markets.

Petroleum products: India's refining capacity increased significantly since 2001-02, due to which India turned a net exporter of petroleum refinery products and this category has lately emerged as the largest item in India's export basket. Petroleum products had a share of 4.3 percent in India's total exports in 2000-01, which then rose steadily to a high of 20.1 percent in 2013-14, before falling to 18.3 percent in 2014-15. The decline in global oil prices has severely affected India's exports of petroleum products. In 2014-15, petroleum products' exports declined by 10.7 percent and during the 11 month period from Apr-Feb 2015-16, exports of petroleum products have further declined by half. However, the exports decline is primarily in terms of value due to lower oil prices, while in terms of volume, exports of petroleum products rose by 6 percent y-o-y in 2014-15. Global oil prices are expected to remain low in 2016 as well as 2017 making it difficult and challenging for India's exports of petroleum products.

Table 2: India's Top Three Petroleum Products Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
UAE	4,667.1	6,192.1	-3.5%	47.5%	10.9
Saudi Arabia	675.4	5,524.5	115.9%	-18.8%	9.8
Singapore	5,437.4	5,495.1	10.2%	-24.4%	9.7

Chemicals and chemical products: An important export item that has performed reasonably well over the last two years is Chemicals and chemical products, which account for 10.4 percent share in India's total exports (2014-15). Under Chemicals sector, drugs and pharmaceuticals are the largest export category accounting for 47.7 percent share. Exports of this sector have performed well during the last two years, especially in the US market, which is the largest export destination for this item accounting for about 28 percent of India's exports. In-fact, exports of drugs and pharmaceuticals to USA recorded CAGR of 14.7 percent during 2010-11 to 2014-15 and rose by almost 31 percent y-o-y in the last fiscal (Apr-Jan 2015-16).

Other promising market for this export item is South Africa, where Indian exporters have seen significant growth during the last five-six years. For the last fiscal, during Apr-Jan 2016, India's exports of drugs and pharmaceuticals to South Africa rose by 17.7 percent y-o-y.

This is one sector where India is highly competitive on both quality and pricing front and has emerged as a global hub for pharma production. However, recently the US government has made it mandatory for Active Pharmaceutical Ingredients (APIs) to be manufactured locally, which will hurt Indian exporters significantly. The Indian government should thus take up this issue with US authorities and resolve it at the earliest.

Table 3: India's Top Three Chemicals & Related Products Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	3,693.5	6,438.4	17.3%	7.9%	19.9%
China	841.3	1,216.3	8.2%	14.1%	3.8%
Germany	836.0	1,163.1	12.6%	-2.5%	3.6%

Gems & Jewellery: Gems and jewellery is one of the major contributors of export earnings for India, having a share of 13.3 percent in India's merchandise exports in 2014-15. Geographically, the exports of gems and jewellery are highly concentrated, with top 3 markets viz. UAE, Hong Kong and USA together accounting for almost 80 percent of total exports.

Table 4: India's Top Three Gems' and Jewellery Exports Destination

	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
UAE	16,613.7	12,262.4	-8.5%	-3.8%	29.9%
Hong Kong	8,662.3	12,108.0	8.9%	8.4%	29.5%
USA	5,269.7	8,306.0	13.8%	7.0%	20.2%

Over the last few years, gems and jewellery exports of India have been adversely affected by the global slowdown as luxury demand in overseas market has seen a sharp decline. Additionally, Indian exporters of gems & jewellery have been facing stiff competition from Chinese exporters in these markets. In the last fiscal, during Apr-Jan 2015-16, India's exports of gems and jewellery declined by 6.2 percent y-o-y. Given the global economic uncertainties, gems & jewellery exporters could continue to face challenging times. Hence, the government should take special measures to make the sector more competitive in the global market. For instance, government could consider industry's demand of including gems & jewellery under the Interest Subvention Scheme and Merchandize Exports from India Scheme (MEIS).

Textiles and Readymade Garments: Textiles and garments exports together account for 11.3 percent of India's exports (2014-15). In-fact, India is one of the leading exporting countries of textiles and garments in the world. The US remains the single largest export destination, contributing to 18.7 percent of India's textiles exports and 21.5 percent of India's readymade garments exports. In case of textiles, other prominent countries are China and Bangladesh, while in case of Readymade garments UAE, UK and Germany are other prominent export destinations. The exports of both textiles and garments witnessed good performance between 2010-11 and 2014-15, rising steadily at a CAGR of 9.3 percent and 9.8 percent, respectively. However, the muted global demand last year has led to a marked slowdown in exports growth of both textiles and garments. During Apr-Jan 2015-16, India's textiles exports have declined by 5.4 percent y-o-y and garments' exports have grown at a slow pace of 1.4 percent. Given the subdued global growth outlook, Indian textiles and garments exporters would need to improve their competitiveness and also look at diversifying the export markets.

Table 5: India's Top Three Textiles & Readymade Garments Exports Destination

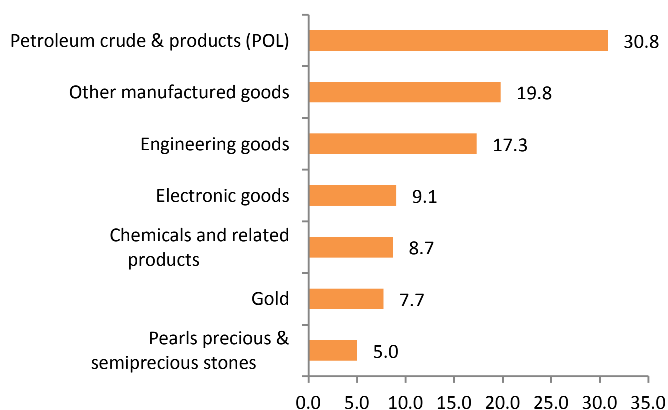
Textiles	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	1,749.9	3,360.6	20.1%	10.8%	18.7%
China	443.8	1,772.1	67.9%	-15.6%	9.8%
Bangladesh	786.1	1,338.9	14.8%	12.7%	7.4%

Garments	2010-11 (USD mn)	2014-15 (USD mn)	CAGR (FY11-FY14)	y-o-y % (FY15)	% share of country FY15
USA	2,951.0	3,617.5	5.1%	5.7%	21.5%
UAE	1,100.6	2,651.0	16.4%	52.9%	15.7%
UK	1,314.6	1,857.9	8.1%	11.8%	11.0%

Trends in imports

POL (petroleum) has always remained the most important item of import in India's trade in the pre as well as post reform period. It had a share of 27 percent in total imports in 1991-92, which currently stands at around 31 percent (2014-15). With a sharp decline in global crude prices, India's imports (in value terms) of POL have come down significantly (growth declined by 16.7 percent in 2014-15 and by 41 percent during Apr-Feb 2015-16). This has helped India in narrowing the trade deficit and also kept current account deficit largely under control.

Chart 3: India's Principal Imports (Percentage share in Total Imports in 2014-15)



Source: CMIE, Economic Outlook

Gold is the second most important import item after crude oil. The data shows that significant drop was observed in gold imports in 2013-14, when gold imports declined from US$ 56.3 billion and US$ 53.7 billion in 2011-12 and 2012-13 respectively to US$ 27.5 billion in 2013-14, primarily due to fall in the international gold prices and various policy measures taken by the government to curb gold imports. The government had increased customs duty on gold to 10 percent and banned import of gold coins and medallions to reduce its ballooning current account deficit. However, a slight jump was again observed in gold imports in 2014-15 to USD 34.4 billion, due to relaxation in curbs on gold imports provided by RBI. For the cumulative period Apr-Feb 2015-16, Gold imports have moderated, registering growth of 4.7 percent y-o-y, owing to weak consumer demand for gems and jewellery, both domestic as well as international.

Trade outlook

WTO, in its latest release said that growth in the volume of world trade was likely to remain sluggish in 2016 at 2.8 percent, unchanged from levels recorded in 2015, which was the fourth consecutive year when growth in world merchandise trade remained below 3 percent. For 2017, global trade is expected to grow at 3.6 percent, but it is below the yearly average of 5 percent since 1990.

With such muted growth prospects, recovery in India's exports becomes extremely challenging. The way forward is to strive towards greater competitiveness, which in turn would require a strong policy push.

Additionally, under the various Free Trade Agreements that are currently being negotiated, the government should aim at achieving significant market access for Indian exporters.

In the recent Board of Trade meeting held by the government, some of the thrust areas identified to push exports include reviving SEZs and according priority sector status to export credit, promoting organic produce, MSMEs, involving missions and embassies to promote trade and removing issues of EXIM bank and Export Credit Guarantee Corporation (ECGC).

Business Confidence Survey

Prospects for the next six months

	Investment	Sales	Selling Price	Profit	Exports	Employment
Much Higher	3	0	3	0	0	0
Higher	38	46	9	31	33	23
Same/ No Change	44	46	68	30	44	54
Lower	15	8	20	39	23	23

Source: FICCI Business Confidence Survey, February 2016

Overall Business Confidence Index reported a decline for the third consecutive round and stood at 56.7, vis-à-vis the reported value of 64.1 in the previous survey round. The index value a year back was 70.5. The latest survey reveals persisting apprehension among members of India Inc.

Current conditions vis-à-vis last six months as well as expectations about the near term noted moderation at all the three levels- economy, industry and firm level. The value of Current Conditions Index decreased to 51.4 in the current survey from 58.4 reported in the previous round. Likewise, the value of Expectation Index declined to 59.4 in the current survey from 67.0 noted in the last round.

Industry members continue to find themselves in a difficult position, with key operational parameters (such as investments, sales and employment) noting little improvement. Participants were not very sanguine about the investment prospects. About 41% of respondents anticipated higher investments over the next two quarters, which was the same as last round.

On being asked whether the participants were aware of any major projects being implemented in and around their area of operation given the announcements made and reforms that are underway, a majority of them indicated that they are yet to see investment intentions fructifying at the ground level. However, those who noticed some project activity in their vicinity conveyed that most of the projects have come up in the infrastructure space.

Moderation was also noted in sales and employment outlook of the companies. The prognosis about sales remained on a downtrend for the third consecutive survey round. About 46% of the respondents cited an increase in sales over the next two quarters. Likewise, more than half of the participants did not foresee any fresh hiring over the near term.

Further, weak demand was once again cited as a key constraining factor. In the present round, about 67% of the participants reported demand to be a bothering factor, vis-à-vis 64% stating likewise in the previous round. About 39% of the respondents indicated a decline in current domestic demand vis-à-vis last six months, while 42% reported a decline in export demand. However, the participants do expect a pickup in demand over the period January-June 2016.

Although availability of credit was not so much of an issue; cost of credit still remained a concern for 50% of the respondents. The response on whether the participants benefitted from the 125 bps reduction in repo rate was somewhat divided. About 58% of the companies reported that they have not really benefitted from the rate cut as of now. Those who did benefit reported a transmission in the range of 25 bps to 125 bps and 68 bps on an average.

Lastly, on being asked to state their key expectations from the Union Budget 2016-17, the respondents opined that the focus of the Budget should be on reviving demand and giving a push to investments particularly in the infrastructure sector.

The current survey drew responses from companies with a wide sectoral and geographical spread. The survey drew responses from about 150 companies with a turnover ranging from Rs 25 lakh to Rs 84,000 crore. The participating companies belonged to an array of sectors such as textiles, real estate and construction, oil & gas, food & beverages, agricultural machinery, food processing, electric products and mining.

For detailed report you may contact:
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Economic Outlook Survey

ANNUAL FORECASTS FY16	
Gross Domestic Product	7.4%
Wholesale Price Index (Avg. 2015-16)	-1.8%
Consumer Price Index (Avg. 2015-16)	5.0%
Index of Industrial Production	4.3%
Export Growth	-8.7%
Import Growth	-9.9%
Trade deficit as % of GDP	4.7%
Current Account deficit as % of GDP	1.2%
Fiscal deficit as % of GDP	4.0%
USD/INR Exchange rate (End March 2016)	Rs 67.0/USD

QUARTERLY FORECASTS Q4 FY16	
Gross Domestic Product	7.4%
Wholesale Price Index (Avg. 2015-16)	-2.2%
Consumer Price Index (Avg. 2015-16)	5.5%
Index of Industrial Production	4.3%
Export Growth	-
Import Growth	-
Trade deficit as % of GDP	-
Current Account deficit as % of GDP	-
Fiscal deficit as % of GDP	-
USD/INR Exchange rate (End of Q4 FY16)	Rs 67.8/USD

Source: FICCI Economic Outlook Survey, February 2016

FICCI's latest Economic Outlook Survey puts across a median GDP growth forecast of 7.4% for the current fiscal year. This marks no change from the estimated growth in the previous survey round. While both agriculture and services sector are expected to grow at a slower pace as per the latest survey, industrial growth is projected to improve in 2015-16.

The median growth forecast for IIP has been put at 4.3% for the year 2015-16, with a minimum and maximum range of 3.0% and 4.5% respectively. The median forecast for IIP in the previous survey was 5.0%. Furthermore, outlook on inflation remained moderate. Median forecast for Wholesale Price Index based inflation rate was put at (-) 1.8% while that for Consumer Price Index based inflation was put at 5.0% for the year 2015-16.

The Mid-year review called for a reconfiguration of fiscal and monetary policy to encourage demand. On this, the participating economists felt that both the policies were of equal importance. A majority of them believed that though striking a balance between growth, fiscal consolidation and inflation was challenging, it remained imperative to boost growth at this juncture.

Views of economists were also sought on whether the global economy is heading towards another recession, led by China. Most economists felt that while the impact of a slowdown in the second largest country on global growth is inevitable, a repeat of the 2008 crisis was unlikely. However, they opined that continuing divergence in growth rates between developed and emerging economies could be expected.

Surveyed economists were of the view that as China tries to rebalance, it will take a few years before the economy recovers by judiciously using its large forex reserves as well as fiscal and monetary measures. As far as impact on India is concerned, economists felt that the slowdown in China will have limited impact on India as we remain a domestic/consumption oriented economy with sound macro-economic fundamentals.

On being asked to list the top trends that will define the global economy in 2016, majority of the economists indicated that monetary policy decisions by central banks of countries like USA, China, Japan and Eurozone, movements in commodity prices (especially oil), China's ability to stabilize its economy and ability of both developed as well as developing nations to initiate investments and demand will determine global growth prospects.

The economists were also asked to list down their top expectations from the Union Budget 2016-17. The respondents unanimously felt that there was an urgent need to kick start the domestic capex cycle with a special focus on the infrastructure sector. Also, it was opined that more measures towards ease of doing business are needed.

The participating economists said they look forward to the passage of important bills such as GST and Bankruptcy Bill in the budget session. Further, economists believed that more farmer centric schemes to protect against adversaries and greater emphasis towards promotion of MSMEs especially in rural areas can boost employment levels and rural economy.

The present round of FICCI's Economic Outlook Survey was conducted in the month of January/February 2016 and drew responses from leading economists primarily from industry, banking and financial services sector. Economists were asked to share their opinion on the policy suggestions prescribed in the Mid-year review to propel demand, global growth prospects in 2016 and expectations from the Union Budget 2016-17.

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Economy Fact Sheet – Balance of Payments

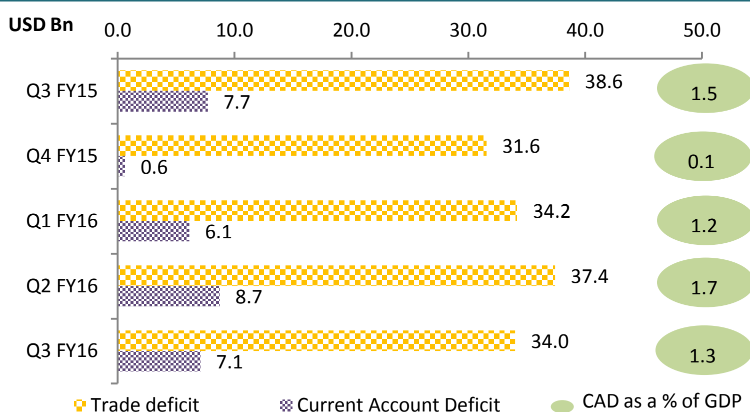
CAD narrowed to 1.3 percent of GDP in Q3 FY16

- *India's Current Account Deficit (CAD) declined to USD 7.1 billion in Q3 2015-16 as compared to USD 7.7 billion in Q3 of 2014-15. As a percent of GDP, CAD was pegged at 1.3 percent in Q3 2015-16 vis-à-vis 1.5 percent noted in Q3 2014-15. For the cumulative period, CAD narrowed to 1.4 percent of GDP in April-December 2015 from 1.7 percent noted in the corresponding period of 2014-15.*

- *Portfolio investments witnessed a marginal net outflow to the tune of USD 0.2 billion in Q3 2015-16 as against net inflow of USD 6.3 billion during Q3 in 2014-15. Net foreign direct investment stood at USD 10.8 billion in Q3 2015-16.*

- *The level of foreign exchange reserves stood at US$ 350.4 billion at the end of quarter three of the fiscal year 2015-16. There was a net accretion of USD 14.6 billion to f*oreign exchange reserves (on BoP basis) *during April-December 2015-16.*

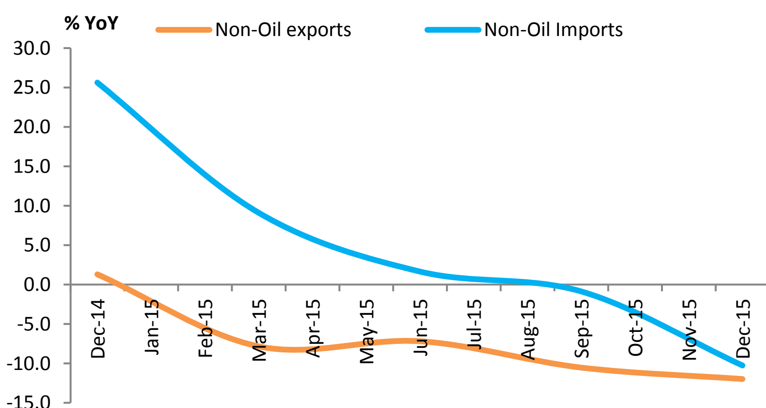
Snapshot of trends in India's Current Account Balance



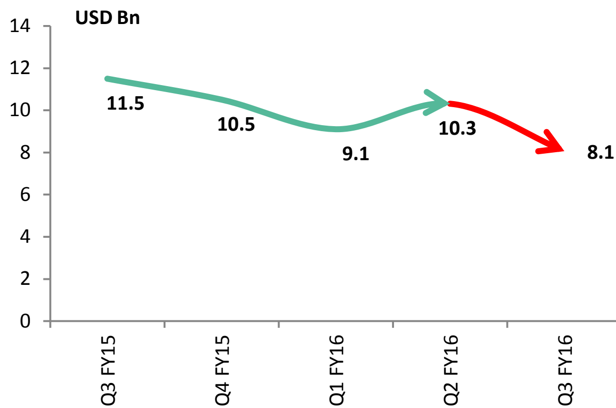
Balance of Payments– Key Components

Indicators (USD bn)	Q3 FY15	Q4 FY15	Q1 FY16	Q2 FY16	Q3 FY15
Goods (Net)	-38.6	-31.6	-34.2	-37.4	-34.0
Services (Net)	20.0	20.1	17.4	18.0	18.1
Current Account	-7.7	-0.6	-6.1	-8.7	-7.1
Financial Account	9.6	-0.2	7.1	9.4	6.5
Forex Reserves	320.6	341.6	356.0	350.3	350.4

Trends in Merchandise Trade



Worker's Remittances have fallen



The contraction in CAD was primarily on account of lower trade deficit that stood at USD 34.0 billion in Q3 2015-16 vis-à-vis USD 38.6 billion in the corresponding period of previous fiscal. Lower commodity prices have helped in narrowing the trade deficit gap over the year. Net services receipts were seen moderating on a y-o-y basis largely due to fall in export receipts in transport and financial services, though there has been marginal improvement over the preceding quarter. Private transfer receipts (which primarily comprises of worker's remittances) noted a decline both on a y-o-y as well as q-o-q basis and stood at USD 15.8 billion in Q3 2015-16. The fall was mainly on account of fears of losing employment opportunities, especially in the Middle East (the largest source of remittances) amidst collapse of oil prices.

Despite sluggish exports, CAD is expected to remain within manageable limits in the near term as commodity prices are expected to remain low. FICCI's latest economic outlook survey puts across the median CAD at 1.2 percent of GDP for the year 2015-16.

As per data released on March 21, 2016

Source: RBI, Economic Outlook CMIE

Economy Fact Sheet – Index of Industrial Production

IIP contracted by 1.5 percent in January 2016

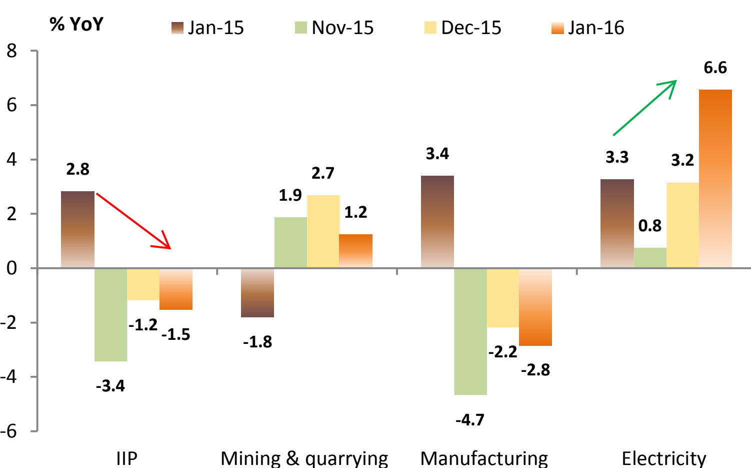
- *Index of Industrial Production contracted by 1.5 percent in January 2016 as against a contraction of 1.2 percent in December 2015.*

- *Growth in the manufacturing sector registered a decline of 2.8 percent in January 2016 vis-à-vis a decline of 2.2 percent in the previous month. Growth in the mining sector slowed down to 1.2 percent in January 2016 as against a growth of 2.7 percent noticed in the previous month. Electricity, however, was the best performer, noting a strong growth of 6.6 percent in January 2016 as against 3.3 percent growth recorded in December 2015.*

- *As per use based classification of industrial production, basic goods as well as intermediate goods noted improvement in growth in the month of January 2016. Basic goods were seen growing by 1.8 percent in January 2016 vis-à-vis 0.5 percent growth noted in December 2015. Intermediate goods grew by 2.7 percent in January 2016. Growth of capital goods, however, remained in the negative zone for the third consecutive month, shrinking by 20.4 percent in January 2016.*

- *Consumer goods, too, witnessed contraction after registering growth for seven consecutive months. Growth in the consumer durables segment was recorded at 5.8 percent in January 2016 as against a double digit growth of 16.4 percent noted in the previous month. Consumer non- durables continued to shrink with growth declining by 3.1 percent in January 2016.*

IIP – Economic Activity



IIP – Use Based Classification (Growth % Y-o-Y)

	Jan-15	Nov-15	Dec-15	Jan-16
Basic goods	4.8	-0.7	0.5	1.8
Capital goods	12.4	-24.5	-19.1	-20.4
Intermediate goods	0.1	-1.3	1.3	2.7
Consumer goods	-1.9	1.0	3.0	-0.1
Consumer durables	-5.7	12.5	16.4	5.8
Consumer non- durables	0.3	-5.1	-3.0	-3.1

As per data released on March 11, 2016

- The growth in manufacturing sector remains fragile which is evident from the fall in manufacturing index for the last three consecutive months. The delay in the recovery of manufacturing is expected to impact the overall economic growth. This calls for addressing the issue of ease of doing business in a comprehensive manner that would help pull investments into manufacturing. Muted growth in consumer goods segment further raises concern on the demand for industrial goods which has been weak, especially the rural component. However, urban demand, as reflected by growth in the consumer durables segment, has also slowed down in January 2016 which is worrisome.

- The budget has tried to address tax related issues for manufacturing and we are hopeful that the measures would yield results in the near term. The budget also outlines measures such as implementation of Pradhan Mantri Krishi Sinchai Yojana in mission mode, creating a dedicated Long Term Irrigation Fund in NABARD with an initial corpus of about Rs. 20,000 crore and implementation of Unified Agricultural Marketing ePlatform, to provide a boost to the rural economy.

- The recent cut in the repo rate by the RBI and the steps taken to ease liquidity should help in effective transmission of rate cuts into lending rates. Banks should now take the lead in supporting the investment cycle and improving economic growth, going forward.

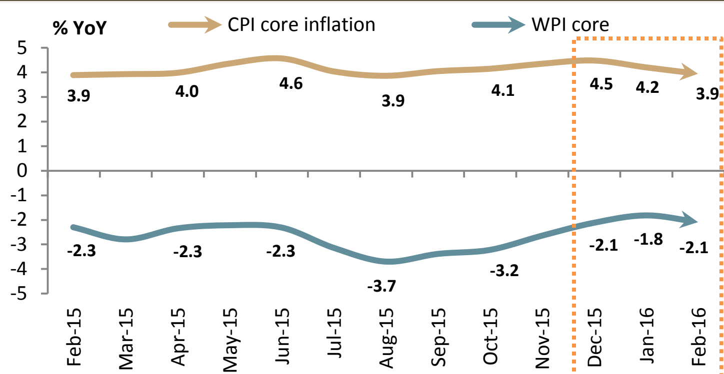
Source: MOSPI, Economic outlook CMIE and FICCI Research

Economy Fact Sheet – Inflation

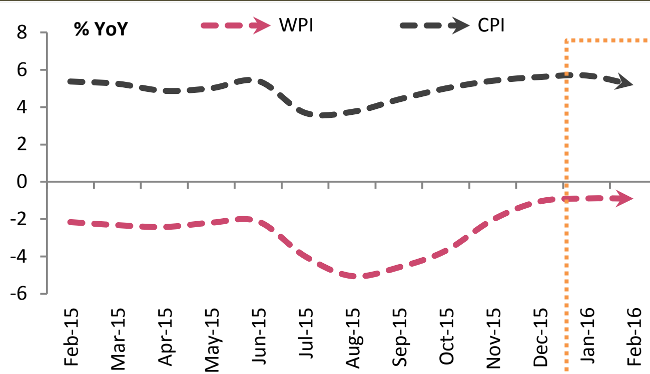
WPI declined by 0.9 percent in February 2016

- *Headline WPI deflated by 0.9 percent in February 2016 which was the same as that witnessed in January 2016.*
- *WPI based food inflation further eased to 3.4 percent in February 2016 vis-à-vis 6.0 percent inflation noted in the previous month. Prices of non-food articles also witnessed moderation after rising for five consecutive months. The segment noted an inflation of 5.9 percent in February 2016 as against 8.2 percent inflation noted in the previous month.*
- *Deflation in fuel and power segment continued with the index contracting by 6.4 percent in the month of February 2016. Price index for mineral oils, the main component of the segment , was seen plummeting by 11.5 percent y-o-y in February 2016.*
- *Prices of manufactured products fell by 0.6 percent in February 2016 vis-a-vis a fall of 1.2 percent noted in January 2016. Major manufacturing sub-segments that noted deflation include basic metals ((-) 8.1 percent), chemicals & chemical products ((-) 0.7 percent) and textiles ((-) 0.6 percent).*
- *Retail CPI inflation eased to 5.2 percent in February 2016 as against 5.7 percent inflation noted in the previous month. After rising for seven consecutive months, CPI based food and beverages inflation moderated to 5.5 percent in February 2016 as against 6.7 percent inflation noted in January 2016.*

Trend in Core CPI and Core WPI Inflation



Trend in CPI and WPI Inflation



Latest data on WPI indicates that inflation continued its deflationary course. Prices of manufactured products remained subdued reflecting persistent weak demand conditions in the economy. In addition, recently released IIP numbers reported negative growth for the third consecutive month in January 2016 further highlighting that signs of pick up in the manufacturing sector remain elusive.

The Union Budget 2016-17 has given due focus on boosting demand and encouraging domestic value addition. It also states that the fiscal framework will be adhered to by the government. RBI, in its latest monetary policy, has adopted an accommodative stance by announcing a cut in the policy rate and other steps to ease liquidity. This should help in better transmission as the banks already have enough room to pare the lending rates owing to recent reduction in small savings interest rate upto 1.3 percent as well as the introduction of the marginal cost of funds based lending rate (MCLR).

Key CPI Components (% change Y-o-Y)

	Feb-15	Dec-15	Jan-16	Feb-16
Food and beverages	6.8	6.3	6.7	5.5
Vegetables	13.0	4.4	6.4	0.7
Pulses	10.6	45.8	43.3	38.3
Clothing & footwear	6.4	5.7	5.7	5.5
Housing	5.0	5.1	5.2	5.3
Fuel & light	4.7	5.5	5.3	4.6

As per data released on March 14, 2016

Key WPI Components (% change Y-o-Y)

	Feb-15	Dec-15	Jan-16	Feb-16
Primary articles	1.0	4.6	4.6	1.6
Food articles	7.8	7.9	6.0	3.4
Vegetables	15.3	19.5	12.5	-3.3
Pulses	14.5	55.8	44.9	38.8
Fuel and power	-14.8	-9.2	-9.2	-6.4
Manufactured products	0.3	-1.5	-1.2	-0.6

Source: Office of the Economic Advisor, Economic Outlook – CMIE and FICCI Research

Economy Fact Sheet – Foreign Trade

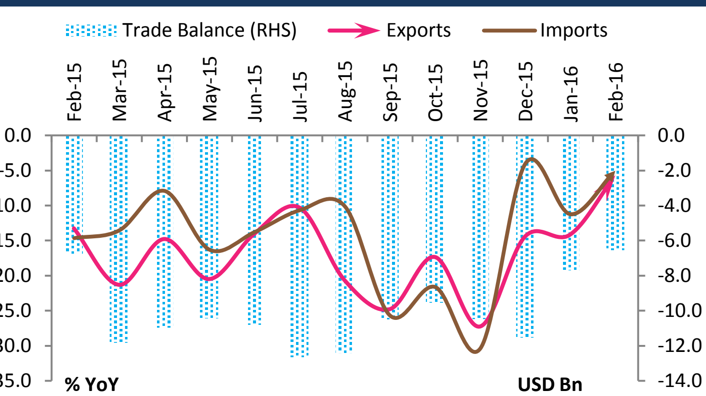
Trade deficit narrows to USD 6.5 billion in February 2016

- *India's trade deficit was curtailed to USD 6.5 billion in February 2016 vis-à-vis USD 7.7 billion noted in the previous month. On a cumulative basis, trade deficit stood at USD 113.1 billion during April-February 2015-16 as against USD 126.1 billion recorded in the corresponding period of previous fiscal year.*

- *Overall exports in February 2016 were valued at USD 20.7 billion, 5.7 percent lower than the level of USD 21.9 billion recorded in the corresponding month of the previous fiscal year. Oil exports declined by 28.3 percent while non-oil exports witnessed a contraction of 2.7 percent during the month. Cumulatively, India's exports stood at USD 238.3 billion at the end of eleven months of the current fiscal as against USD 286.2 billion noticed in the corresponding period previous fiscal year.*

- *Total imports for the month of February 2016 declined by 5.0 percent and stood at USD 27.3 billion vis-à-vis USD 28.7 billion noted in February 2015. Oil imports contracted by 21.9 percent while non-oil imports contracted by 0.5 percent in February 2016. Gold imports were valued at USD 1.4 billion during February 2016 which was 29.5 percent lower than the imports noted in February 2015.*

Trend in India's Merchandise Trade



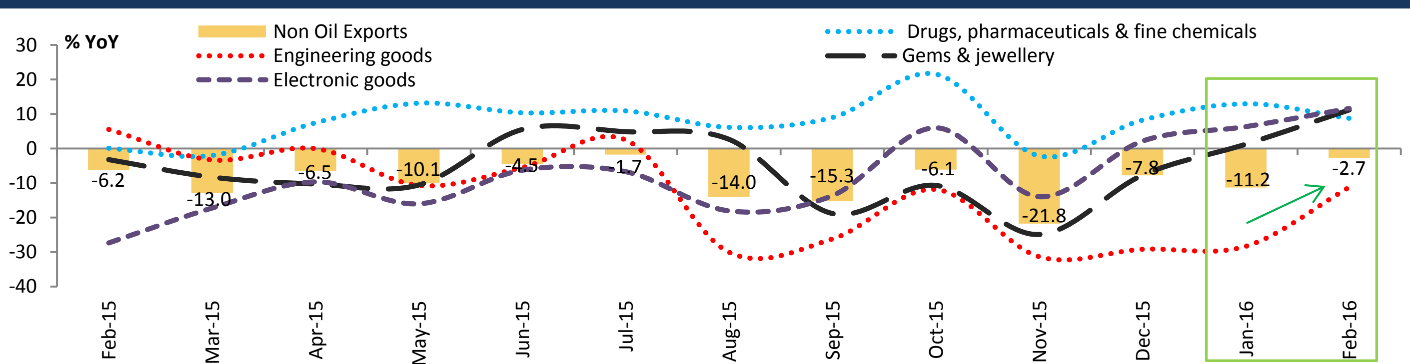
Trend in India's Services Trade

	Services receipts (Exports)		Services payments (Imports)	
	USD million	Y-o-Y % change	USD million	Y-o-Y % change
Jan-15	**14.3**	**2.3**	**7.8**	**7.2**
Nov-15	12.0	-3.6	5.7	-7.6
Dec-15	14.0	-1.9	7.2	-0.7
Jan-16	**12.6**	**-11.8**	**6.8**	**-12.2**

Though merchandise exports noticed contraction for the fifteenth consecutive month ending February 2016, it was the lowest in last thirteen months. However, some export items such as drugs, pharmaceuticals and fine chemicals (8.8 percent), inorganic and agro chemicals (4.5 percent), electronic goods (11.6 percent), carpets (15.4 percent), handicrafts (33.5 percent) and jute manufacturing (113.2 percent) have performed well over the last twelve months.

Forecast for global trade in 2016 remain low with WTO cutting the growth estimates to 2.8 percent from 3.9 percent predicted earlier. Given the weak global demand scenario, it becomes imperative to give policy push India's exports. Some of the thrust areas identified at the recent Board of Trade meeting include reviving SEZs and according priority sector status to export credit, promoting organic produce, MSMEs, involving missions and embassies to promote trade and removing issues of EXIM bank and Export Credit Guarantee Corporation (ECGC).

Trend in Major Export Items and Total Non-oil Exports



As per data released on March 15, 2016

Source: Ministry of Commerce and Industry, Economic outlook CMIE and FICCI Research

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