STUDY MATERIAL

CSEET

# ECONOMIC AND BUSINESS ENVIRONMENT

PAPER 3

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## CSEET

# ECONOMIC AND BUSINESS ENVIRONMENT

Economy of any nation moves on the wheels of various economic and business environment concepts. Unless and until, a person is conversant with various crucial aspects of economics and the business environment that drives the business activities, assist in formulation of government plans and policies, foster entrepreneurship, promotes digitalization, strengthens environmental and corporate governance, and so on and so forth, it may not be possible to comprehend the changes occurring in the business environment, engendered by PESTLE (P: Political, E:Economic, S:Social, T:Technological, L:Legal and E:Economic) factors.

In view of the aforesaid facts, this CSEET Reference Reading Material on Economic and Business Environment will go a long way in comprehending various important theories, concepts, government approaches, technological dimensions, i.e. AI in business, corporate and environment governance, and other concepts.

This study material is structured into two parts. **Part A: Economic Environment** introduces students to the fundamentals of economics, including demand and supply, national income accounting, the Indian economy, and the Union Budget. It also explores financial markets, entrepreneurship, and government policies, providing students with a clear understanding of how economic strategies influence national development. **Part B: Business Environment** focuses on the business landscape, encompassing business environment analysis, corporate governance, global business, environmental governance, and emerging technologies such as Artificial Intelligence. This section is designed to develop students' ability to critically evaluate the role of businesses, institutions, and regulatory policies in a rapidly evolving global context.

This study material will enable the students to assimilate theoretical knowledge and develop practical insights, thereby enhancing their understanding of contemporary economic and business issues. This book will serve as a valuable academic resource, enabling students to build a strong foundation in economics and business environment concepts that influences business, economy, corporate governance, global business environment etc.

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# CSEET

## Paper 3

# ECONOMIC AND BUSINESS ENVIRONMENT

## SYLLABUS

**Objective:**

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

**Level of Knowledge:** Basic Knowledge

## PART A - ECONOMICS (50 MARKS)

**1. Basics of Demand and Supply and Forms of Market Competition:** ● Theory of Demand and Supply ● Equilibrium Price ● Elasticity of Demand and Supply and other related concepts ● Increase and Decrease in Demand and Expansion and Contraction of Demand ● Forms of Market Competition- Monopoly, Duopoly, Oligopoly, Perfect Competition and Monopolistic Competition

**2. National Income Accounting and Related Concepts:** ● Meaning and Methods to compute National Income ● Key concepts of National Income (GNP, GDP, NNP, NDP, Domestic Income, Private Income, Personal Income, Disposable Income, Real Income and Per Capita Income)

**3. Indian Union Budget:** ● Key terminologies / heads covered under the budget ● Revenue and Capital Budget ● Major components of Revenue and Capital Budget ● Meaning of Fiscal Deficit ● Components/ Variables covered under Fiscal Deficit

**4. Indian Financial Markets:** ● Overview of Indian Financial Ecosystem ● Key facets of Indian financial system ● Growth of Financial Institutions ● Public and private sector banks ● Industrial Finance Corporation of India and Small Industries Development Bank of India ● Regional Rural Banks ● Cooperative Banks ● Non-Banking Finance Companies ● Basics of Capital Market: Types of Shares and Debentures ● Financial assistance scenario for Small and Medium Enterprises and Start-Ups

**5. Indian Economy:** ● Primary (Agriculture and allied activities) ● Secondary (Manufacturing) ● Tertiary (Services) ● Current scenario of agriculture and allied activities in India ● Agricultural and Industrial Policies of India ● Current scenario of services sector in India ● Balance of Payments ● Components of Balance of Payments ● Favorable and Unfavorable Balance of Trade ● Foreign Investments in India- Types and Flows

## PART B - BUSINESS ENVIRONMENT (50 MARKS)

**6. Entrepreneurship Scenario:** ● Government initiatives to foster Entrepreneurship ● Need for Entrepreneurship in India ● Bottlenecks in Entrepreneurial Growth

**7. Business Environment:** ● Overview of Business Environment ● Features and factors influencing Business Environment ● Types of Environment: Economic Environment, Socio-cultural Environment, Political Environment,

Legal and Technological Environment ● Ease of Doing Business Index by World Bank for India and Department for Promotion of Industry and Internal Trade (DPIIT) for States

**8. Key Government Institutions:** ● Basic awareness about various institutions and regulatory bodies in India such as NITI Aayog, MCA, SEBI, RBI, IBBI, CCI, NCLT and NCLAT

**9. Global Environment:** ● Understanding of various International Organisations driving business, trade and Commerce, Global Financial System like WTO, Asian Development Bank, OECD, World Bank (IFC, IDC), European Bank for Reconstruction and Development, OPEC etc.

**10. Environmental Governance:** ● Broad understanding on need for Preservation of Environment, focus on planet along with profitability of business organisations to enhance Sustainability, National Guidelines on Responsible Business Conduct, various environmental initiatives of Government of India and SEBI towards safeguarding environment ● Environmental protection initiatives by international organizations.

**11. AI and Business Environment:** ● To provide basics of AI evolution, its types and usage in business organisations

**12. Elements of Corporate Governance:** ● Genesis of Governance – Definition and Features of Good Governance ; Corporate Governance ; Evolution ; Definition of a Company ; Management of a Company – Definition, Key Components, Stakeholders, Key Requirements, Benefits, Corporate Governance and the Ancient Indian Scriptures, Legal Framework, Mandatory Reporting Requirements ; Corporate Governance Report ; Recent Developments in Corporate Governance – Environment, Social, Governance ; ● Case Studies on Corporate Governance ● Case Studies on Failures in Corporate Governance ; Institutions promoting Corporate Governance ; ICSI Guiding Principles on Stewardship

# ARRANGEMENT OF STUDY LESSONS
# ECONOMIC AND BUSINESS ENVIRONMENT
# PAPER 3

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# PART A

# ECONOMICS

# Basics of Demand and Supply and Forms of Market Competition

Lesson 1

## KEY CONCEPTS

■ Demand and supply are the foundation of market economics ■ Elasticity helps measure sensitivity to price, income, and related goods ■ Understanding market structures helps analyze pricing, output, and efficiency ■ Identifying exceptions to demand laws is crucial for real-world applications ■ Quantity of a good consumers are willing and able to buy at various prices ■ Inverse relationship between price and quantity demanded ■ Quantity of a good producers are willing to sell at various prices ■ Direct relationship between price and quantity supplied ■ Inferior goods with positive price-demand relationship ■ Consumers unaware of better substitutes ■ Responsiveness of demand to changes in price, income, or related goods ■ Substitutes, necessity/luxury, income proportion, time period ■ Shift of the demand curve due to non-price factors ■ Many sellers, identical products, free entry and exit ■ Affects pricing, output, efficiency, and consumer welfare ■ Responsiveness of quantity supplied to price changes ■ Production flexibility, resource availability, time period, storage capacity.

## Learning Objectives

**To understand:**

- Theory of Demand and Supply
- Exceptions to the Law of Demand
- Elasticity of Demand
- Increase and Decrease in Demand and Expansion and Contraction of Demand
- Forms of Market Competition Elasticity of Supply

## Lesson Outline

- Understand the concepts of demand and supply in economics.
- Explain the relationship between price and quantity demanded/supplied.
- Identify how equilibrium price and quantity are determined in a market.
- Analyze factors influencing demand and supply.
- Recognize situations where the law of demand does not apply.
- Identify and explain Giffen goods, Veblen goods, and other exceptions.
- Understand how consumer behavior and market expectations affect demand.
- Define and calculate different types of demand elasticity.
- Interpret the degree of responsiveness of demand to price, income, and related goods.
- Analyze factors affecting elasticity and its practical importance in business decisions.
- Differentiate between increase/decrease in demand and expansion/contraction.
- Understand movements along and shifts of the demand curve.
- Identify the causes and implications of these changes in real markets.
- Understand the main forms of market structures: perfect competition, monopoly, monopolistic competition, oligopoly, and duopoly.
- Identify key features, advantages, and limitations of each market form.
- Analyze how market competition influences pricing, output, and efficiency.
- Define and compute elasticity of supply.
- Explain the relationship between price and quantity supplied.
- Identify determinants of supply elasticity and its importance to producers.

## INTRODUCTION

Before getting ready to dwell upon the subject matter of Economics, its meaning, nature and scope a simple question needs to be answered – 'Why to study Economics?'. Let's approach this question with another question by asking- 'What are the things which will be missed out if one chooses not to study economics?' Until studying economics not many persons are aware of how industries, businesses and governments work in the interest of public. It is a natural scene in and around neighborhood and offices when you find people talking about price rise, rise in demand of a particular commodity, tax structure or tax exemption for a particular industry, without finding comprehensive explanation. Study of Economics provides a systematic understanding of economic events which are very significant for day to day functioning of a family, a company, a country or world at large.

A restaurant-bill provides us a lot of information about restaurant business in a locality. To interpret that information one must have a basic understanding about economics. The first visible information on the bill is the rate of tax charged on eatables from a restaurant. If due attention is paid, one must come across reason behind the specific prices charged for dishes listed in the bill. Prices are basically charged upon the cost of purchasing and processing for each item separately. Dairy and Bakery products are relatively less-costlier than poultry products, such are their costs in a restaurant. The cost involved in processing of an ice-cream is lesser than meat so the meat served in a restaurant is priced higher than the market price of the raw meat while the price of ice-cream served there will only be little bit higher than the price of ice-cream in market. This processing charge is the labour cost or wage payment for the workers in that restaurant. Labour wages in famous restaurants are higher than other restaurants and so are their processing charges. There can be several other insights from the bill like rents for the place occupied by restaurant, supply of unprocessed food materials, fresh vegetables, meat, dairy products etc. and others.

It shows that with or without understanding of economics we take part in various economic activities as an agent on a regular basis. The study of economics gives us an advantage to understand the dynamics behind economic activities and ability to interpret them. This sort of interpretation helps in understanding business for all possible changes, manipulation and further advancement in future. For students and professionals seeking career in business or doing business in any field of specialization, knowledge of economics becomes inevitable for realizing their acumen into some enterprising assets. In general, there are following reasons for studying economics;

a) **Economics for citizenship** – Solution to the most of the problems we confront in day to day life have political aspect. And majority of political problems are resolved through economic strategies and planning. Be it the issue of international trade agreement, tax restructuring or launching welfare program. The basic understanding of economics is beneficial for both – voters as well as elected officials.

b) **Achieving Social Change –** As a sensitive young student if one wants to make his locality, country and this world a better place there is no dearth of social problems that required our attention. Be it poverty, inequality, hunger, crime, unemployment, terrorism, illiteracy, malnutrition or any other social problems, economics can certainly help us understand the origins of these problems, explain why previous efforts to solve them haven't succeeded, and help us to design new, more effective solutions.

c) **Personal and Professional Development –** Economics has been one of the most popular subject choice in leading colleges and universities in India at bachelor degree level for students intending to work in business. It has also been popular among students planning for career in law, politics, international law, industrial engineering and other profession only because it can help them in understanding their field better and may affect their business.

d) **Tool for Rational Thinking –** Besides discussing concepts, it helps in generating ideas. Economics has great deal of dependency over mathematics and statistics in pursuit of finding objective explanation for the problem and complex solutions to those problems. In this process, it adopts and sometimes

develops some useful tools which are proven to be very helpful in rational thinking about issues. For example, the development of 'Human Development Index' or HDI which is a comprehensive tool for mapping not only economic but social and educational development of the country or region.

Studying economics is often more useful to understand social, political, technological, legal and environmental activities as the dynamics of scarcity and want plays out in decision making scenarios of these domains of knowledge.

## THE ECONOMIC PROBLEM- SCARCITY AND CHOICE?

The word 'Economics' is derived from the Greek word '*Oikonomia*' which can be divided into two parts : (*a*) '*Oikos*', which means 'House', and (*b*) '*Nomos',* which means 'Management'. Together they mean managing household. The coverage of economics is broader than the meaning of the word 'Economics'.

The study of economics is a social science primarily concerned with analyzing the choices that individuals, businesses, governments, and nations make to allocate limited resources. It has ramifications on a wide range of other fields, including politics, psychology, business, and law.

### Economics is the study of choice under conditions of scarcity.

This definition has two parts; a) Choice and b) Scarcity. Scarcity is a situation in which the amount of something available is insufficient to satisfy the desire for it. As an individual, for instance, we face scarcity of time and spending power. Given more of either, we could have more of the good and services that we desire. At any given point of time, individuals face numerous scarcities. There are so many things one might like to have - sedan cars, branded clothes, stylish shoes, branded watches, sports equipments, studio apartments, independent bungalow, and so on i.e. individuals have unlimited wants but face the constraint of limited spending power.

Every individual confronts this kind of situation on day to day basis. Because of the scarcities of time and spending power, each of us is forced to make choices. We must allocate our scarce time to different activities: work, play, study, sleep, shopping and more. We must allocate our scarce spending power among different goods and services; housing, food, furniture, travel, and many others. And each time we choose to buy something or do something, we also choose not to buy or do something else.

A little reflection suggests that just like individuals, at any given point of time, a society also faces unlimited wants and limited resources. The limited resources have alternative uses to which they can be put to use. Out of these alternative uses of scarce resources and unlimited wants, society has to make choice. The problem of scarcity and choice forms the core of Economics.

Given this, Economics would mean the study of ways in which mankind organizes itself to tackle the basic problem of scarcity of resources. Hence, economics is the study of alternate systems requisite to allocate these resources between competing ends. In view of allocation of resources, it can be said that;

*Economics is the study of how we choose to use limited resources with alternative uses to obtain the maximum satisfaction of unlimited human wants.*

## HOW TO DEFINE ECONOMICS?

Steven D. Levitt, an award winning economist, said that "Since the science of economics is primarily a set of tools, as opposed to a subject matter, then no subject, however offbeat, need be beyond its reach." Steven Levitt had pointed in 'Freakonomics' that economics is primarily a set of tools before being a subject and the range of issues economics deals with is vast enough (ranging from individual consumer choices to buy a burger or not to buy a burger ….to enumerating causes of global financial crisis) to be captured in one definition. On this basis, it can be stated that it is difficult to have one universally acceptable definition of economics. However, systematic attempts were made in the past ever since the subject became a discipline of study.

There are four such notable definitions;

**a) The Wealth Definition of Economics**

Adam Smith (1723-1790) defined Economics as- Science of wealth with an objective to increase wealth and richness of a country.

Key Features of Wealth Definition:

i) The objective of Economics is to increase the wealth of a country.

ii) It considers production, distribution and consumption as core of economic activity.

iii) It deals with causes of creation of wealth in an economy.

iv) The term 'wealth' used in this definition considers material wealth.

**b) The Welfare Definition of Economics**

Alfred Marshall (1842 - 1924) defined Economics as – the study of mankind in the ordinary business of life. According to him, "Economics examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites of well being."

Key features of Welfare Definition:

i) It defines Economics as the study of activities related with human being and their material welfare.

ii) Marshall clarified that Economics is related with incomes of individuals and its uses for creating material welfare.

iii) Collectively incomes of a group of individuals form the wealth of a nation and ultimate objective of Economics is to increase welfare of individual by their day to day activities.

**c) The Scarcity Definition of Economics**

Lionel Charles Robbins (1898 – 1984) defined Economics as – a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.

Key features of Scarcity Definition:

i) It recognized that Economics is a science deals with the economic behaviours of human being.

ii) It also assessed that all the physical and non-physical resources have associated with scarcity.

iii) The resources have multiple utility and it can only be used either for one purpose or another. The use of most of the resources are mutually-exclusive.

iv) There is a need of efficient use of scarce resources, and primary objective of Economics is to ensure efficiency in use of resources with a purpose to satisfy human wants.

**d) The Growth Definition of Economics:**

Paul Samuelson (1915 – 2009) defined Economics as - the study of how man and society choose with or without the use of money to employ the scarce productive resources, which have alternative uses, to produce various commodities over time and distributing them for consumption, how or in the future among various person or groups in society.

Key features of Growth Definition:

i) It deals with allocation of scarce resource to be used in productive purposes.

ii) The selection of most efficient use of the resources from the alternative ways.

iii) The growth of economies will depend upon the consumption and production in the economy.

iv) This definition also points towards Economics as a study of economic system.

Other definitions of economics, as provided by various economists are as under:

“Economics is the science which deals with wealth.” - J.B. Say.

“Economics is the body of knowledge which relates to wealth” - Prof. Walker.

“Economics investigates the nature of wealth and the laws of production and its distribution,” - J.S. Mill

“The subject treated by political economics is not happiness, but wealth” - Prof. Senior

## WHAT IS THE NATURE OF ECONOMICS?

Through the discussion in previous section, one can observe that, Economics has repeatedly been termed as science of wealth, or science of material welfare, which is good enough reason to take a notion whether or not Economics is really a science. The very first question to describe the nature of economics is to ask - whether economics is a science or an art or both.

Science uses empirical approach. Here are five key features of scientific study; a) Verifiability, b) Objectivity, c) Controllability d) Reliability and e) Predictability. Economics should have these features to qualify as a science subject. The definition of Economics clearly underlines it as a subject which is centered around economic behaviour of human beings. The study of human behaviour is different from the study of nature. The objectivity, controllability and other features of typical science subjects do not amicably fit for the study of human behavior in a social setting. Further, it is also mentioned that basic economics is a set of tools for measurement of economic process; be it GDP growth rate, inflation rate, elasticity of demand etc., and this feature adds significant limitation on Economics being an art. Therefore, Economics is being placed in the midst of being science or art. Let us explain this in detail.

### Economics as a Science

A subject is considered science if:

- It is a systematised body of knowledge which studies the relationship between cause and effect.
- It is capable of measurement.
- It has its own methodological apparatus.
- It should have the ability to forecast.

If we analyse economics, we find that it has all the features of science. Like science, it studies cause and effect relationship between economic phenomena. To understand, let us take the law of demand. It explains the cause and effect relationship between price and quantity demanded for a commodity. It says, given that other things remain constant, as price rises, the demand for a commodity falls and vice versa. Here, the cause is price and the effect is change in quantity demanded. Similarly, the outcomes are measurable in terms of money. It has its own methodology of study (induction and deduction) and it forecasts the future market condition with the help of various statistical and non-statistical tools. Thus, a majority of economic laws are of this type and therefore, economics is science.

But it is to be noted that economics is not a perfect science like physical science. The fact is that we cannot rely upon the accuracy of the economic laws. The predictions made on the basis of economic laws can easily go wrong.

This is because economists do not have uniform opinion about a particular event. The problem of actual results differing from the predicted ones arises on account of the fact that in economics we cannot have controlled experiments.

This is so because economic processes involve human agency, their behaviours and adaptation to a particular economic situation. In other words, the subject matter of economics is the economic behaviour of man which is highly unpredictable. Money which is used to measure outcomes in economics is itself a dependent variable. It is not possible to make correct predictions about the behaviour of economic variables.

## Economics as an Art

A discipline of study is termed as art if it tells us how to do a thing that is to achieve an end (objective). It is noteworthy that the final justification for studying economics lies in the possibility of our ability to use it for solving economic problems faced by us. Prof. J. M. Keynes says that "An art is a system of rules for the achievement of a given end."

We know that in practice, economics is used for achieving a variety of goals. Every individual economic unit whether acting as a consumer or a producer or an investor or a supplier of an input or in any other capacity has an economic goal to achieve. It decides its course of action by keeping in mind the end to be achieved and the situation faced by it. Even at national level the authorities formulate a variety of policies. In certain cases they attempt to plan and operate the entire economy so as to achieve a given set of ends. Therefore, economic laws are widely used and relied upon at all levels of our economic activities. And that makes economics an art.

Art is nothing but practice of knowledge. Whereas science teaches us to know, art teaches us to do. Unlike science which is theoretical, art is practical. If we analyse economics, we find that it has the features of being an art also. Its various branches provide practical solutions to various economic problems. It helps in solving various economic problems which we face in our day-to-day life.

From the above discussion, one can easily understand that Economics is not a pure science as other natural sciences. Economics does follow standard practices adopted by science subjects, since it has human element attached in its processes, it cannot completely satisfy the fundamental requirements of being a science subject. Economics is both a science and an art. It is science in its methodology and art in its application.

## Positive and Normative Economics

The next question arises as to whether Economics is positive or normative in nature

The application of mathematical models, empirical testing of economic theories, scientifically obtainable results for business or policy decisions makes Economics as being positive in nature while moral, ethical and collective welfare approaches used in Economics make it normative in nature.

A positive or pure science analyses cause and effect relationship between variables but it does not pass value judgment. In other words, it states what is and not what ought to be. Positive statements are about facts. They state what the reality is. According to Robbins, economics is concerned only with the study of the economic decisions of individuals and the society as positive facts but not with the ethics of these decisions. Economics should be neutral between ends. It is not for economists to pass value judgments and make pronouncements on the goodness or otherwise of human decisions. An individual with a limited amount of money may use it for buying liquor and not milk, but that is entirely his business. A community may use its limited resources for making guns rather than butter, but it is no concern of the economists to condemn or appreciate this policy. Economics only studies facts and makes generalizations from them. It is a pure and positive science, which excludes from its scope the normative aspect of human behaviour.

Complete neutrality between ends is, however, neither feasible nor desirable. It is because in many matters the economist has to suggest measures for achieving certain socially desirable ends. For example, when he suggests the adoption of certain policies for increasing employment and raising the rates of wages, he is making

value judgments; or that the exploitation of labour and the state of unemployment are bad and steps should be taken to remove them. Similarly, when he states that the limited resources of the economy should not be used in the way they are being used and should be used in a different way; that the choice between ends is wrong and should be altered, etc. he is making value judgments.

Normative economics is concerned with normative statements. Normative statements are concerned with what ought to be? In this case, economics is not concerned with facts rather it is concerned with how things should be. As normative science, economics involves value judgments. It is prescriptive in nature and describe 'what ought to be' or 'what should be the things'. For example, the questions like what should be the level of national income, what should be the wage rate, how much of national product be distributed among people - all fall within the scope of normative economics. Thus, normative economics is concerned with welfare propositions.

The above discussion shows that Economics is both positive as well as normative in nature.

## SCOPE OF ECONOMICS

The scope of the subject of economics is vast and ever expanding. It is no more a branch of knowledge that deals only with the production and consumption. However, the basic thrust still remains on using the available resources efficiently while giving the maximum satisfaction or welfare to the people on a sustainable basis. One example gives us an understanding of how vast the scope of the subject of economics is. In December 2007, the IPCC (Intergovernmental Panel on Climate Change) was awarded the *Nobel Peace Prize* for their efforts to build up and disseminate greater knowledge about man-made climate change, and to lay the foundations for the measures that are needed to counteract such change. What did IPCC do to disseminate knowledge about climate change? IPCC basically presented economic analysis of impacts of climate change and estimates to mitigate the challenge of climate change. Economics is being extensively used in assessment of impact of climate change in almost every industrial zone, environmental projects, energy plants and investment in renewable energy resources like solar, wind, tidal and others. Economics is also used for assessment of economic efficiency of space mission, analysis of socio-economic problems like expenditure on health-care, eradication of poverty, management of government budget, taxation, investment in industrial production.

Given this, we can list some of the major branches of economics as under:

***(i)*** ***Micro Economics:*** This is considered to be the basic economics. Microeconomics may be defined as that branch of economic analysis which studies the economic behaviour of the individual unit, may be a person, a particular household, or a particular firm. It is a study of one particular unit rather than all the units combined together. The microeconomics is also described as price and value theory, the theory of the household, the firm and the industry. Most production and welfare theories are of the microeconomics variety.

***(ii)*** ***Macro Economics:*** Macroeconomics may be defined as that branch of economic analysis which studies behaviour of not one particular unit, but of all the units combined together. Macroeconomics is a study in aggregates. Hence, it is often called Aggregative Economics. It is, indeed, a realistic method of economic analysis, though it is complicated and involves the use of higher mathematics. In this method, we study how the equilibrium in the economy is reached consequent upon changes in the macro-variables and aggregates. The publication of Keynes' General Theory, in 1936, gave a strong impetus to the growth and development of modern macroeconomics.

***(iii)*** ***International Economics:*** As the countries of the modern world are realising the significance of trade and commerce with other countries, the role of international economics is getting more and more significant nowadays.

*(iv)* ***Public Finance:*** The great depression of the 1930s led to the realization of the role of government instabilising the economic growth besides other objectives like growth, redistribution of income, etc. Therefore, a full branch of economics known as Public Finance or the fiscal economics has emerged to analyse the role of government in the economy. Earlier the classical economists believed in the *laissez faire* economy ruling out role of the government in economic issues.

*(v)* ***Development Economics:*** After the Second World War many countries got freedom from the colonial rule, their economics required different treatment for growth and development. This led to emergence of new branch of economics known as development economics.

*(vi)* ***Health Economics:*** A new realisation has emerged from human development for economic growth. Therefore, branches like health economics are gaining momentum. Similarly, educational economics is also coming up.

*(vii)* ***Environmental Economics:*** Unchecked emphasis on economic growth without caring for natural resources and ecological balance, now, economic growth is facing a new challenge from the environmental side. Therefore, Environmental Economics has emerged as one of the major branches of economics that is considered significant for sustainable development.

*(viii)* ***Urban and Rural Economics:*** Role of location is quite important for economic attainments. There is also much debate on urban-rural divide. Therefore, economists have realised that there should be specific focus on urban areas and rural areas. Therefore, there is expansion of branches like urban economics and rural economics. Similarly, regional economics is also being emphasised to meet the challenge of geographical inequalities. There are many other branches of economics that form the scope of economics. There are welfare economics, monetary economics, energy economics, transport economics, demography, labour economics, agricultural economics, gender economics, economic planning, economics of infrastructure, etc.

## WORKING OF AN ECONOMIC SYSTEM

An economic system is an entire set of arrangements and institutions meant for meeting the two-fold objectives of a society:

- increasing the availability of resources
- ensuring the economic use

It is well known that economic systems, as created by different societies differ from each other, the economic system of even a given society keeps evolving and changing overtime, partly on account of ongoing efforts of the society to meet the problem of the scarcity of resources. Broadly speaking, types of economic systems are based upon per capita income, prioritization of individuals to spend their resources and scarcity of both income and resources. The best possible solution to these three potential problems is the basis of a successful economic system. Precedence set by society, its individuals and the government for the attainment of resource mobility and individual freedom is fundamental to the right choice of system for any society. There are three different types of economic system.

- Capitalist Economy
- Socialist Economy
- Mixed Economy

### A Capitalist Economy

A Capitalist economic system is one which is characterized by free markets and the absence of government intervention in the economy. In practice a capitalist economy will need some government intervention, primarily

to protect private property. In the real world, many economies which are viewed to have a capitalist economic system may have government spending taking up 35% of GDP. This is because the government pays for welfare, health, education and national defence. However, the economy is still viewed as capitalist because in the area of private enterprise firms are free to decide what to produce and for whom. Capitalist economic systems invariably lead to inequalities of wealth and income. However, it is argued that this inequality provides an incentive for wealth generation and economic growth. A Capitalist economic system is often contrasted to a Socialist or Communist economic system where economic decisions are made centrally by government agencies.

**Features:**

1. Capitalism derives its name from the fact that in this system, means of production are not owned by the government or by cooperatives. They are owned privately, that is by individuals and households. Business units (and therefore, the resources owned by them) also belong to individuals and households. The institution of private property also covers the right to inheritance. The institutions of property and inheritance have two strong implications.
2. People acquire a motive for earning more, because they are allowed to keep their earnings both for current and future use. For this reason, they are always on the look out for opportunities of increasing their income. In the process, if need be, they are also ready to work hard. The net result is that a capitalist system is characterised by a high production potential.
3. Private property and inheritance lead to ever-increasing inequalities of income and wealth. These inequalities, in their turn, result in unequal opportunities of earning an income. The market prices of various goods and services fail to correspond to their relative worth to the society. Therefore, a cumulative process develops in which the owners of capital are able to add to their incomes faster than the workers can add to their incomes, since they have to depend upon the income from their labour only.
4. Capitalism is also characterised by what is known as the policy of laissez-faire on the part of the authorities. The term laissez-faire means absence of state intervention in the working of the economy. The solution of the basic problems of the economy is left in the hands of market mechanism. In other words, the authorities do not try to regulate the prices, demand or supply. The market mechanism, through the interaction between demand and supply forces, brings about changes in prices. The prices, in turn, act as signals for individual economic units and guide them in their respective activities as consumers and producers, etc.
5. In theory, it is usually assumed that the market structure of a capitalist economy is competitive in nature. In practice, however, it need not be so. It is possible that while the authorities are following a policy of laissez-faire, the market itself is not competitive enough. It may have strong monopoly elements. It may be what we call a 'monopolistic competition', or there may be other forms of technical or institutional hurdles in the way of competition.
6. Another salient feature of capitalism is the use of money and credit. This is so because a capitalist system, by its very nature, tends to become quite complex with a large variety of goods, services and occupations. The producers undertake production mainly for sale in the market and not for self-consumption. Similarly, a capitalist economy tends to have production projects which have a long technical life. All these aspects of capitalism necessitate an elaborate system of financing its economic activities and therefore the use of money and credit.
7. In capitalism, all economic activities are guided by market forces. Producers produce only those goods and services which are demanded by consumers in the market. The entire economy operates to meet

the needs and preferences of the consumers. This characteristic of capitalism is known as that of 'consumer sovereignty'.

**Merits:**

1. Capitalist system is self- regulatory.
2. The process of economic growth is faster under capitalism. It has a tendency to register a huge rate of growth in national income and per capita income.
3. The capitalist system decides 'what to produce' and 'how to produce' in consonance with the forces of demand and supply.
4. Capitalistic system provides an incentive for efficient decision making and their implementation in the form of economic gains to the decision makers which ensure a high degree of operative efficiency in the system.
5. It provides flexibility to adapt to the changed circumstances.
6. It ensures individual freedom giving entrepreneurs incentive to work hard.
7. Capitalism ensures optimal allocation of resources in different uses.

**Demerits:**

1. Capitalism generates inequalities of income and wealth.
2. Wide differences in economic opportunities.
3. Distortion in the production pattern.
4. Capitalism wastes its productive resources.
5. Production of merit goods is not profitable.
6. Business units produce only those goods and services which are profitable.
7. Loss of human values and welfare.
8. Increases the wastage of resources as a result of competition.

## A Socialist Economy

The concept of a socialist economy has its origin in the drawbacks of capitalism. There are no pre-determined details of a socialist system, but its main features are well recognized. This system tries to get rid of the drawbacks of capitalism and incorporate those features which are considered to be desirable. For example, it aims at removing the problems of inequalities of income and wealth, inequalities of economic opportunities, unemployment, cyclical fluctuations, and waste of productive resources. The advocates of socialism believe that most of these drawbacks come into being because of certain basic features of capitalism including the institutions of private property and inheritance, and the use of market mechanism.

In the words of H. D. Dickinson, "Socialism is an organization of the society in which the material means of production are owned by the whole commodity and operated by organs, representative of and responsible to, all members of community according to a general plan, all members of community being entitled to get benefits from the results of such socialist planned production on the basis of equal rights."

According to Maurice Dobb, "The fundamental character of socialism consists in its abolition of class relations which form the basis of Capitalist production through expropriation of the propertied class and the socialization of land and capital."

Accordingly, Socialism is basically designed to have the following salient features.

**Features:**

1. In a socialist economy, the institutions of private property and inheritance are abolished. The 'private sector' as we understand by this term, does not exist. It means that the ownership of means of production is not in the hands of individuals and households. Instead, they are owned by the government authorities and/or cooperatives or society. Individuals and households do not own any business concerns. And no one is an employee of a private business. Private ownership is allowed only in the case of consumption goods and personal belongings, and that too only to a limited extent. And to that extent, even inheritance of 'private property' may be allowed. An important implication of the abolition of private property and inheritance is that economic decision-making is no longer left in private hands.

2. A socialist economy is not guided by free working of a market mechanism. It is rendered ineffective. In a sense, its operation is "frozen". Consumers and producers are not allowed freedom in their decision-making. The consumers have to take decisions within the limits set by the authorities. They also lay down production schedules and decide what to produce, how much to produce, and what resources to be used as inputs. Thus, demand and supply forces are not to respond to changes in prices. Instead they are regulated with the objective of serving the national interests as a whole. Similarly, prices are not allowed to fluctuate in response to changes in demand and supply.

   They are also controlled and regulated by the authorities. Only in some cases, cooperatives may be permitted to change the prices within certain limits. Systematic operation of a complex economy necessitates a complex and vast set up of decision-making. In capitalism, this complex task is handled by market mechanism. But in socialism, its substitute has to be created. This is usually done in the form of centralised economic planning.

3. A socialist economy recognises the ill-effects of money and credit. In capitalist system, these create cyclical fluctuations and inequalities of income and wealth. Ideally, therefore, a socialist economy prefers not to have these institutions. But the hard reality is that it cannot do without them. In an economy, which produces a large number of goods and services, cannot have an efficient system of physical rationing. It has to create and operate a complex system of income distribution which is not possible without using money in some form. Accordingly, it is not able to completely discard the use of money and credit but restricts it to the minimum necessary extent.

4. Capitalism derives its name from the fact that in this system, means of production are not owned by the government or by cooperatives. They are owned privately, that is by individuals and households. Business units (and therefore, the resources owned by them) also belong to individuals and households. The institution of private property also covers the right to inheritance.

5. Another important feature of socialism is to have class less society. Since under socialism, no property is privately owned, so there is no question of existence of classes. Every person in the society gets the share in production according to his own merits.

**Merits:**

A socialist economy discards the use of market mechanism and replaces it with some form of regulatory authority, such as the planning commission. It also abolishes the institutions of private property and inheritance. Given these features of the socialist economy, it tries to remove the basic demerits of capitalism by pursuing the objectives of;

- distributive justice
- social security

- elimination of fluctuations of economy
- coordinated development
- elimination of social disputes.

**Demerits:**

While socialism is able to get rid of the problems of income inequalities, unemployment and cyclical fluctuations of national income and prices, it is not able to provide economic incentives and disincentives for hard work and initiative. As a result, it continues to suffer from slow growth rate, poor productivity of labour and low per capita income. On account of these weaknesses of the economy, it becomes difficult to raise the consumption standards of the masses. And this gives rise to the necessity of restructuring the economic system for better results.

### A Mixed Economy

A mixed economy tries to– avoid the ill-effects of both capitalism and socialism and secure the benefits of both.

For this reason, it incorporates some elements of both capitalism and socialism. However, there is no pre-determined and standardised proportion in which their features could be selected and combined.

**Features:**

1. The selection of detailed features of a mixed economy is made with reference to the working of market mechanism, and its expected effects (both beneficial and harmful) on the society as a whole. In other words, we take up one segment of the economy at a time, and adopt the following procedure.
2. It is decided that working of the selected segment of the economy should be guided by free market mechanism if the net effect of this arrangement is expected to be beneficial for the society as a whole.
3. If the working of the segment under consideration can be made beneficial for the society by subjecting the working of market mechanism to some regulatory measures, then the said segment is subjected to be governed by a regulated market mechanism. In other words, in this case, the interaction between demand, supply and prices is regulated in a manner and to the extent found necessary.
4. Working of a segment under free market mechanism may be harmful for the society in certain respects. If it is possible to make its working beneficial by regulating the market mechanism, the said segment is again subjected to a regulated market mechanism. However, the extent and nature of regulatory measures are revised from time to time in light of the changing circumstances.
5. In some other cases, it may be found that market mechanism continues to have net ill-effects even after restrictions and regulations. In such cases, therefore, market mechanism is not allowed to operate at all. The authorities take over one or more functions of market mechanism, namely, demand decisions, supply decisions and prices. This is generally done through public sector undertakings, which need not be guided market forces.
6. Socialistic society offers equal opportunity to all to rise above level of standards. For this, state authority make available health, education, transport facilities to all, either subsidized or free of cost.
7. Since equalities of income and wealth in society is the major objectives in socialist economy, the authority tries to achieve it by social or state ownership of means of production.

Thus, in a mixed economy, the net result is that market mechanism is not totally abolished. It is allowed to operate with different degrees of freedom in different segments of the economy. Indian economy provides a very good example of a mixed economy as it operates in practice. In theory, a mixed economy is far superior to

either capitalism or socialism since it tries to acquire beneficial features of both.

In practice, however, it suffers from many drawbacks. Some of these arise on account of the fact that it is extremely difficult to work out the details of a mixed economy. The system has a tendency to suffer from several inner contradictions. Once the rules and procedures for its working have been formulated, it is not possible to revise them frequently or rapidly. The economy, therefore, fails to adjust itself to changing circumstances as rapidly as it should. The success of a mixed economy also depends upon the integrity and expertise of the government administration, the expertise and freedom of the management, and the willingness of the workers to recognize their moral duty of increasing productivity.

## THEORY OF DEMAND AND SUPPLY

### Meaning of Demand

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

### Law of Demand

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

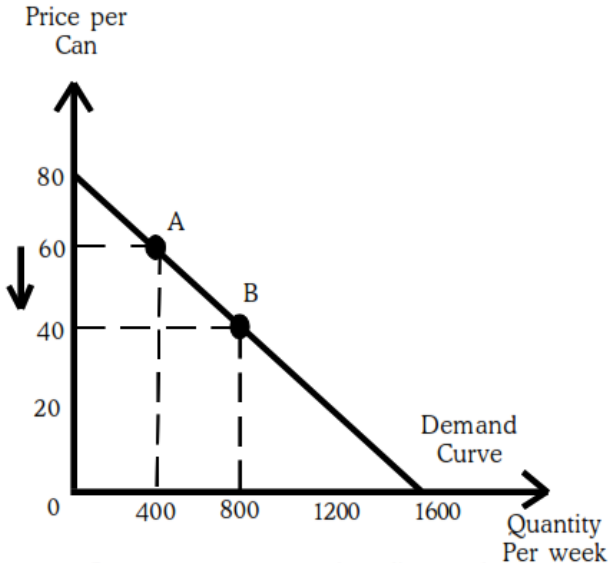
The law of demand describes the functional relationship between price and quantity demanded. Among various factors affecting demand, price for a commodity is the most critical factor. Thus, demand of a commodity is mainly determined by the price of commodity.

Dx = f(Px).

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

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

*Source: Economics Online*




*Source : www.economicsonline.co.uk*

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

### Assumptions of the law of demand

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

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

## EXCEPTIONS TO THE LAW OF DEMAND

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

**Giffen Goods** : In the case of certain inferior goods called Giffen goods (named after Sir Robert Giffen), when the

prices fall, quite often less quantity will be purchased than before because of the negative income effect and people's increasing preference for a superior commodity with the rise in their real income. Examples of Giffen goods can include bread, rice, and wheat.

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

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

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

## Law of Supply

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

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

Thus 'Ceteris Paribus'

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

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

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

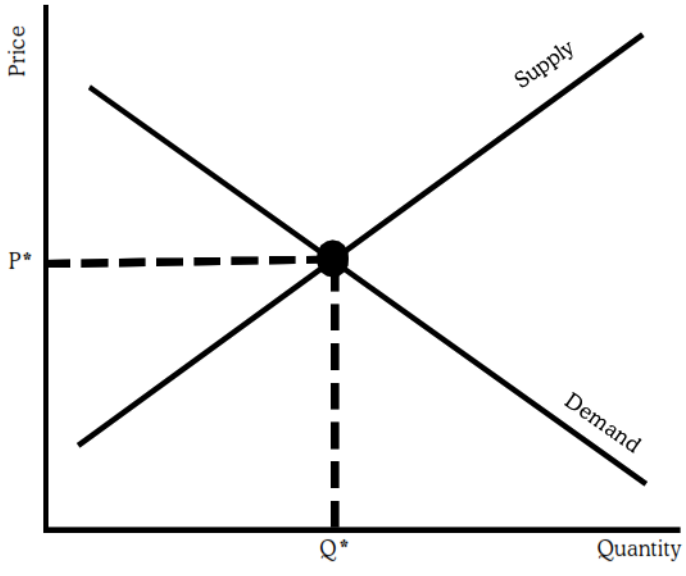
## Assumptions of Law of Supply

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

1. No change in the state of technology.

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

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




*Source: Study.com*

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

Let us take an example to understand the concept.

| Price ($) | Quantity Demanded (Kg) | Quantity Supplied (Kg) | Surplus (kg) | Shortage (kg) |
|---|---|---|---|---|
| 100 | 5 | 50 | 45 | |
| 90 | 12 | 41 | 29 | |
| 80 | 18 | 35 | 17 | |
| 70 | 22 | 28 | 6 | |

| | | | | |
|---|---|---|---|---|
| 60 | 25 | 25 | 0 | 0 |
| 50 | 34 | 22 | | 12 |
| 40 | 41 | 18 | | 23 |
| 30 | 47 | 14 | | 33 |
| 20 | 50 | 9 | | 41 |
| 10 | 55 | 5 | | 50 |

*Source : My Accounting Course*

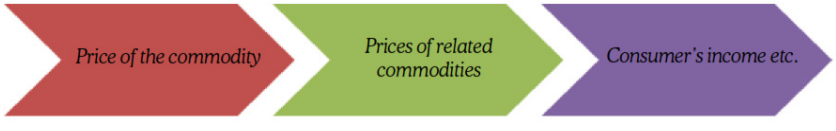
In the table above, the quantity demanded is equal to the quantity supplied at the price level of $60. Therefore, the price of $60 is the equilibrium price. At any other price level, there is either surplus or shortage. Specifically, for any price that is lower than $60, the quantity supplied is greater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

## ELASTICITY OF DEMAND

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

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

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




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

### Price Elasticity of Demand

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

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

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

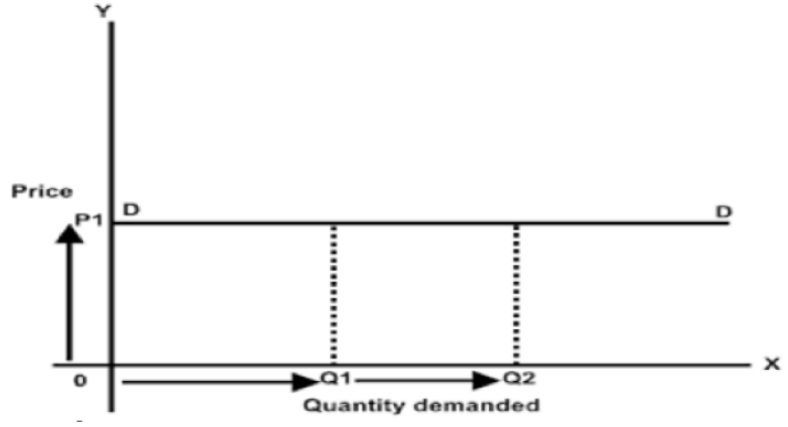
## Types of Price Elasticity of Demand

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

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

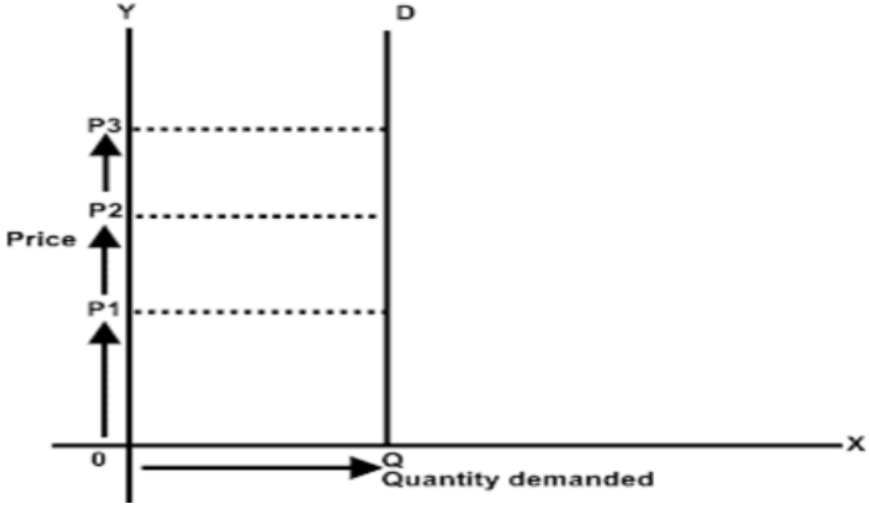
The various forms of price elasticity of demand are as under:

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



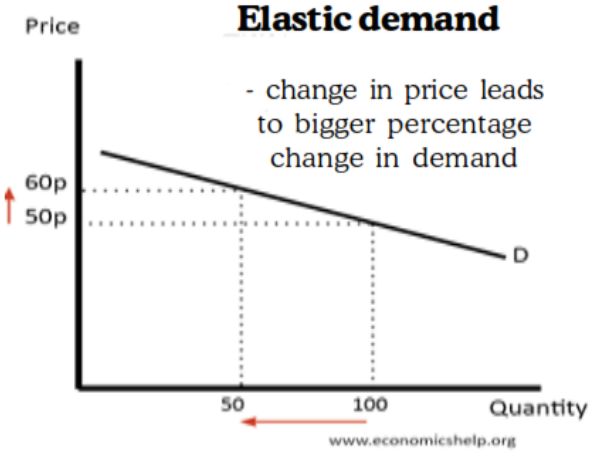

*Source: Economics basics*

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



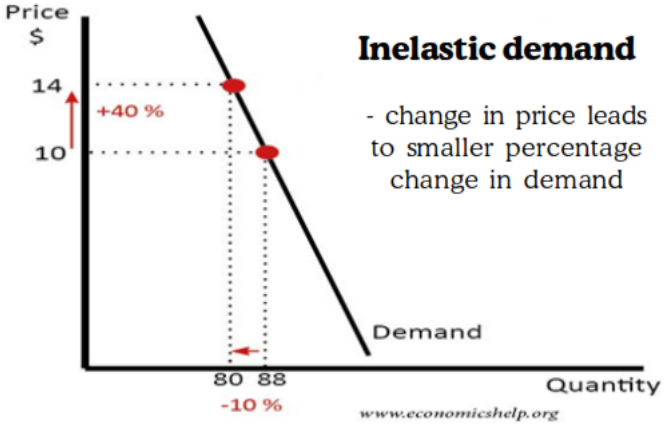

*Source: Economics basics*

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



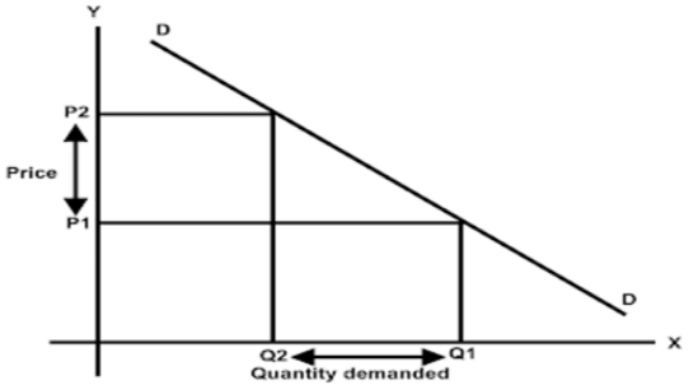

*Source: Economics help*

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




*Source: Economics help*

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




*Source: Economics basics*

***A quick recap***

Perfectly Elastic Demand ($E_p = ?$ )

Perfectly Inelastic Demand ($E_p = 0$)

Relatively Elastic Demand ($E_p > 1$)

Relatively Inelastic Demand ($E_p < 1$ )

Unitary Elastic Demand ($E_p = 1$)

## Factors affecting Price Elasticity of Demand

1. *Price Level* : The demand is generally elastic for moderately priced goods but, the demand for very costly and very cheap goods is inelastic. The rich do not bother about the prices of the goods that they buy. Very costly goods are demanded by the rich people and hence their demand is not affected much by the change in prices. For example, on increase in the price of Toyota car from Rs. 5,00,000 to Rs. 5,20,000 will not make any noticeable difference in its demand. Similarly, the change in the price of very cheap goods (such as salt) will not have any effect on their demand, for their consumption which is very small and fixed.
2. *Availability of Substitutes* : If a good has close substitutes, the price elasticity of demand for a commodity will be very elastic as some other commodities can be used for it. A small rise in the price of such a commodity will induce consumers to switch their consumption to its substitutes. For example gas, kerosene oil, coal etc. will be used more as fuel if the price of wood increases. On the other hand, the demand of such commodities which have no close substitutes is inelastic, such as salt.
3. *Necessities* : If a good is a necessity, then the demand tends to be inelastic. For example, if the price for drinking water rises, then there is unlikely to be a huge drop in the quantity demanded since drinking water is a necessity.
4. *Time Period* : Over time, a good tends to become more elastic because consumers and businesses have more time to find alternatives or substitutes. For example, if the price of gasoline goes up, over time people will adjust for the change, i.e., they may drive less or use public transportation or form carpools.
5. *Habits* : The demand for addictive or habitual products is usually inelastic. This is because the consumer has no choice but no pay whatever the producer is demanding. For example, if the price for a pack of cigarettes goes up, it will likely not have any effect on demand.
6. *Nature of the Commodities* : The demand for necessities is inelastic and that for comforts and luxuries is elastic. This is so because certain goods which are essential will be demanded at any price, whereas

goods meant for luxuries and comforts can be dispensed with easily if they appear to become costlier.

7. *Various Uses* : A commodity which has several uses will have an elastic demand such as milk, wood etc. On the other hand, a commodity having only one or fewer uses will have inelastic demand. The consumer finds it easier to adjust the quantity demanded of a good when it is to be used for satisfying several wants than if it is confined to a single or few uses. For this reason, a multiple-use good tends to have more elastic demand.
8. *Postponing Consumption* : Usually the demand for commodities, the consumption of which can be postponed, is elastic as the prices rise and are expected to fall again. For example, the demand for mp3 is elastic because its use can be postponed for some time if its price goes up, but the demand for rice and wheat is inelastic because their use cannot be postponed when their prices increase.

## Income Elasticity of Demand

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

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

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

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

Symbolically,

Ey = ΔQ/Q x ΔY/Y

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

## Types of Income Elasticity of Demand

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

| S. No. | Numerical Measure of Income elasticity of demand | Verbal description |
|---|---|---|
| 1. | Negative Demand for a commodity falls as income rises. | The trend is visible in case of inferior goods. |
| 2. | Zero Demand for a commodity does not change as income changes. | This is true in the case of essential goods. |
| 3. | Greater than zero but less than one. | Demand for commodity rises in proportion to a rise in income. |
| 4. | Unity | Demand for commodity rises in the same proportion as rise in income. |
| 5. | Greater than the unity | Demand for commodity rises more than in proportion to rise in income. |

## Cross Elasticity of Demand

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

X to change in price of commodity Y and is represented as follows :

Symbolically :

Cross Elasticity of Demand Ec

% increase in quantity demanded of A

% increase in price of product B

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

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

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

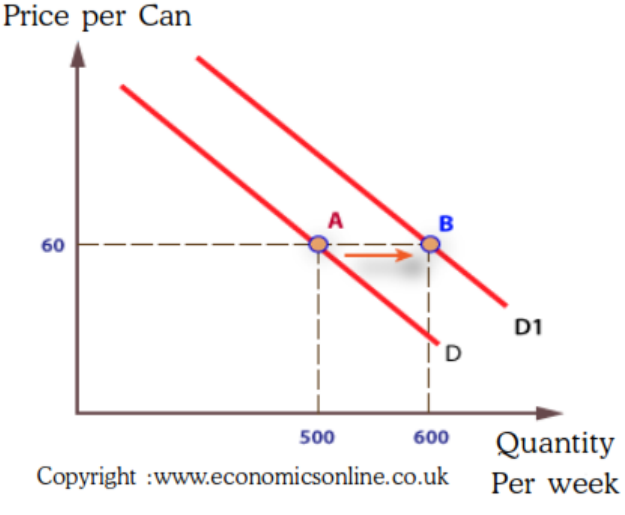
## INCREASE AND DECREASE IN DEMAND AND EXPANSION AND CONTRACTION OF DEMAND

### Increase in Demand and Decrease in Demand

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

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

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

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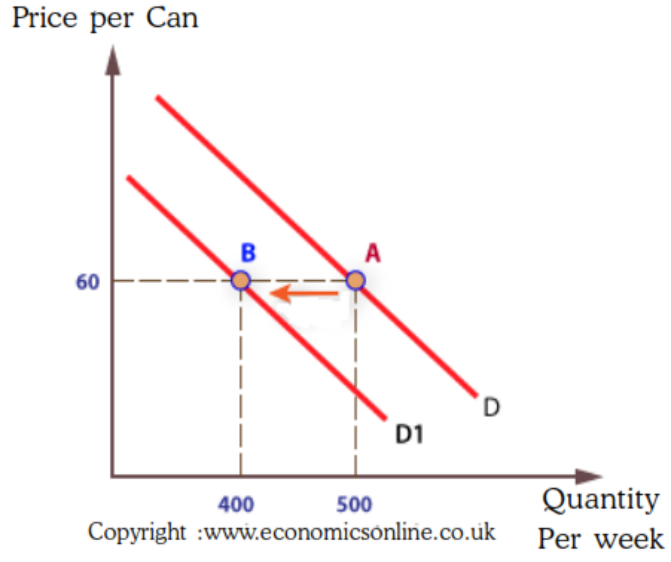
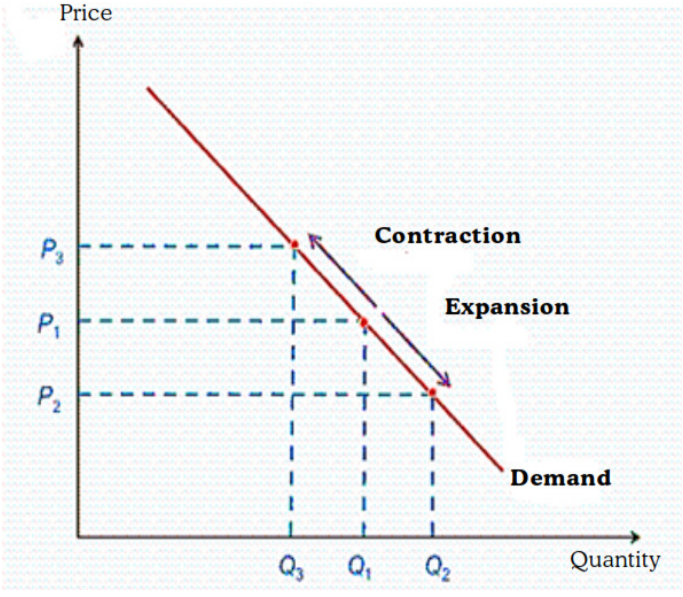
*(b)* *Decrease in Demand*: Decrease in demand means, "Less demand at same price". Demand can

decrease and cause a shift to the left of the demand curve for a number of reasons, including a fall in income, assuming a good is a normal good, a fall in the price of a substitute and a rise in the price of a complement.




## Expansion and Contraction of Demand

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




*Source: knowledgiate.com*

## FORMS OF MARKET COMPETITION

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

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

*(1) Perfect Competition*

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

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

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

*(2) Monopolistic Competition*

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

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

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

*(3) Oligopoly*

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

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

*(4) Monopoly*

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

*(5) Duopoly*

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

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

## ELASTICITY OF SUPPLY

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

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

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

$\Delta_q$ = The change in quantity supplied

q = The quantity supplied

Δp = The change in price

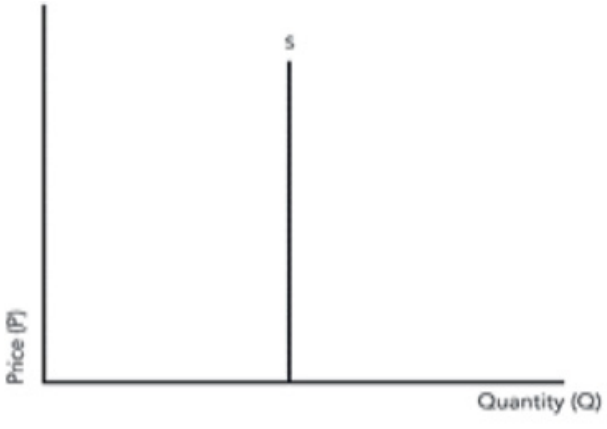
p = The price

### Types of Price Elasticity of Supply

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

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

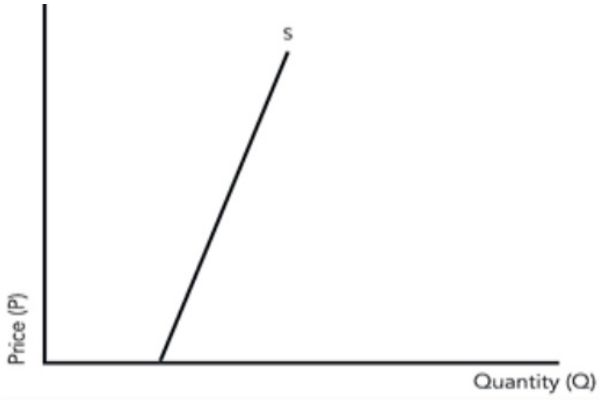
   (PES = 0), The Quantity Supplied doesn't change as the price changes.




*Source: Intelligent Economist*

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

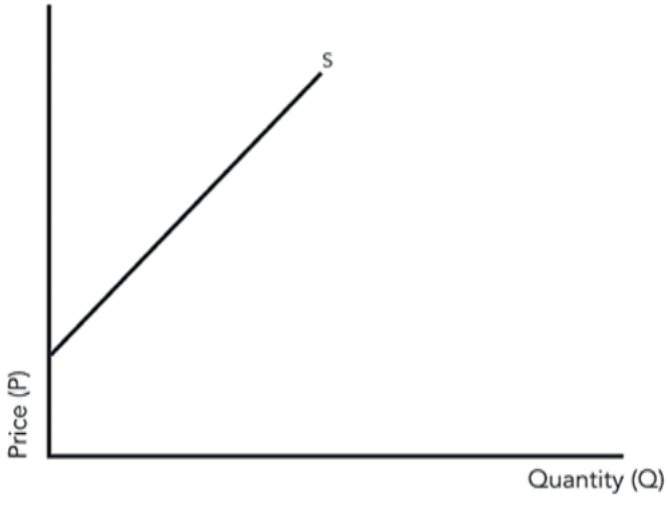
(0 < PES < 1), Quantity Supplied changes by a lower percentage than a percentage change in price.




*Source: Intelligent Economist*

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

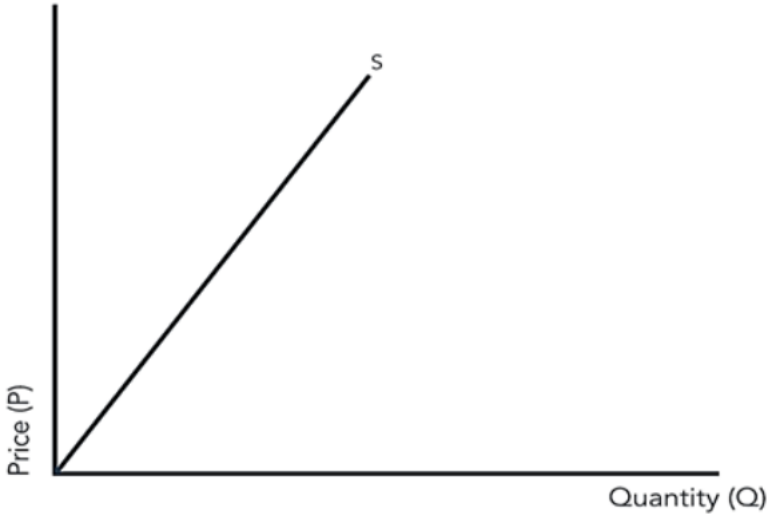
   (PES > 1), The Quantity Supplied changes by a larger percentage than the percentage change in price.




*Source: Intelligent Economist*

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

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




*Source: Intelligent Economist*

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

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


*Source: Intelligent Economist*

## Factors influencing the elasticity of supply

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

2. *Probability that the Price would Change in Future* : If the sellers think that the price of the good will

increase (or decrease) in near future, then, at any particular price at present, they would want to decrease (or increase) their supply. In this case, the supply curve for the good would shift to the left (or to the right).

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

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

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

## LESSON ROUNDUP

**1. Theory of Demand and Supply**

- **Demand**: Quantity consumers are willing and able to buy at different prices.
- **Supply**: Quantity producers are willing to sell at different prices.
- **Laws**: Demand (inverse with price), Supply (direct with price).
- **Equilibrium**: Market price where quantity demanded = quantity supplied.
- **Determinants**: Income, tastes, production cost, technology, related goods, expectations.

**2. Exceptions to the Law of Demand**

- Some goods do not follow the normal inverse relationship between price and demand:
  - **Giffen goods** – inferior goods with upward demand.
  - **Veblen goods** – luxury items with prestige effect.
  - **Necessities** – essential goods with inelastic demand.
  - **Future expectations** – anticipated price changes influence current demand.

**3. Elasticity of Demand**

- **Elasticity** measures responsiveness of demand to changes in:
  - **Price** (Price Elasticity of Demand, PED)
  - **Income** (Income Elasticity of Demand, YED)
  - **Related goods** (Cross Elasticity of Demand, XED)
- **Elastic vs Inelastic**: PED > 1 ⟶ elastic; PED < 1 ⟶ inelastic.
- **Determinants**: Availability of substitutes, necessity vs luxury, proportion of income, time period.

**4. Increase/Decrease vs Expansion/Contraction of Demand**

- **Increase/Decrease in Demand** ⟶ Shift of the demand curve (non-price factors).
- **Expansion/Contraction** ⟶ Movement along the demand curve (price changes).
- **Key Insight**: Understand whether the change is due to price or other factors.

**5. Forms of Market Competition**

- **Perfect Competition** – Many sellers, homogeneous products, free entry/exit.
- **Monopolistic Competition** – Many sellers, differentiated products.
- **Oligopoly** – Few dominant firms, interdependent pricing.
- **Monopoly** – Single seller, no close substitutes.
- **Duopoly** – Two main sellers dominate the market.

**6. Elasticity of Supply**

- **Definition**: Responsiveness of quantity supplied to price changes.
- **Formula**: %Δ Quantity Supplied ÷ %Δ Price.
- **Elastic Supply (>1)** ⟶ easy adjustment of output.
- **Inelastic Supply (<1)** ⟶ limited ability to change output.
- **Determinants**: Production time, resource availability, storage capacity, flexibility.

## TEST YOURSELF

1. Explain the law of demand and discuss the major factors that can cause a shift in the demand curve.
2. What is price elasticity of demand? Describe the determinants of elasticity and explain why some goods are more elastic than others.
3. What is meant by 'monopoly'? Explain the equilibrium of a monopolist firm in the long run.
4. Distinguish between any two of the following:
   (i) 'Inferior goods' and 'status related goods.
   (ii) 'Cardinal approach' and 'ordinal approach' in utility analysis.
   (iii) 'National income at current prices' and 'national income at constant prices.
5. Describe the main features of a perfectly competitive market. How do these features affect pricing, output, and efficiency?

## LIST OF FURTHER READING

**Textbooks**

**1. "Principles of Economics" – N. Gregory Mankiw**

- Covers fundamentals of demand, supply, elasticity, and market structures with real-world examples.

**2. "Microeconomics" – Paul A. Samuelson & William Nordhaus**

- Classic text with detailed analysis of consumer behavior, elasticity, and market competition.

**3. "Modern Microeconomics" – H. L. Ahuja**

- Indian perspective; includes demand-supply analysis, exceptions, and elasticity concepts.

**4. "Introductory Microeconomics" – D. N. Dwivedi**

- Simplified explanations, suitable for beginners and exam preparation.

**5. "Economics: Theory and Applications" – S. P. Gupta**

- Practical approach with examples of market structures and elasticity applications.

**Reference Books**

**6. "Managerial Economics" – Dominick Salvatore**

- Focuses on application of demand-supply and elasticity in business decision-making.

**7. "Microeconomic Theory" – Andreu Mas-Colell, Michael Whinston, Jerry Green**

- Advanced text for in-depth understanding of market structures and elasticity.

**Online Resources**

**Khan Academy – Microeconomics** (*https://www.khanacademy.org/economics-finance-domain/microeconomics*)

- Free video lectures on demand, supply, elasticity, and market competition.

**1. Investopedia – Economics Section** (https://www.investopedia.com/economics-4689748)

- Clear definitions, examples, and practical applications of demand, supply, and market types.

**2. Coursera & edX – Microeconomics Courses**

- Interactive online courses from universities such as University of Illinois, University of London, etc.

# National Income Accounting and Related Concepts

Lesson 2

## KEY CONCEPTS

■ Gross Domestic Product ■ Gross National Product ■ Net National Product ■ National Income ■ Personal Income ■ Disposable Income ■ Methods to Measure National Income

## Learning Objectives

**To understand:**

- Understand the concept of National Income
- Identify the different components of National Income
- Understand methods of measuring National Income
- Differentiate between Real and Nominal National Income
- Recognize the importance of avoiding double counting
- Analyze factors affecting National Income
- Apply the concept of National Income in real-world context

## Lesson Outline

- Methods to Measure National Income
- Key Concepts of National Income

## INTRODUCTION

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

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

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

## METHODS TO MEASURE NATIONAL INCOME

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

(1) The Product Method or Value Added Method.

(2) The Income Method.

(3) The Expenditure Method

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

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

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

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

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

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

***Precautions for Product Method or Value Added Method***

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

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

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

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

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

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

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

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

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

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

***Precautions for Expenditure Method***

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

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

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

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

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

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

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

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

***Precautions for Income Method***

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

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

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

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

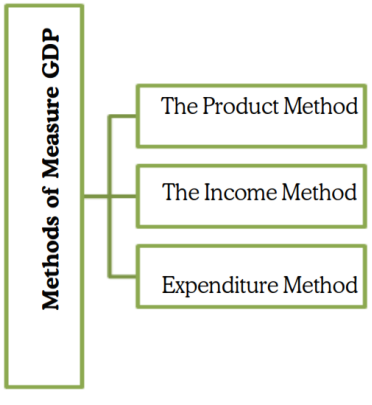
(iv) Receipts from the sale of financial assets such as shares, bonds should not be included in measuring national income as they are not related to the generation of income in the current year's production of goods.

## KEY CONCEPTS OF NATIONAL INCOME

### Gross Domestic Product (GDP)

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

There are three different ways to measure GDP:




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

*(b)* *The Income Method* : The people of a country who produce GDP during a year receive income from their

work. Thus GDP by income method is the sum of all factor incomes: Wages and Salaries (compensation of employees) + Rent + Interest + Profit.

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

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

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

## GDP at Factor Cost

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

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

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

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

(c) Mixed Income of Self- employed.

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

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

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

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

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

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

Nominal GDP is the value of goods and services produced in a year and measured in terms of rupees (money) at current (market) prices. In comparing one year with another, we are faced with the problem that the rupee is

not a stable measure of purchasing power. GDP may rise a great deal in a year, not because the economy has been growing rapidly but because of a arise in prices (or inflation).

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

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

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

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

## GDP Deflator

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

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

## Gross National Product (GNP)

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

GNP includes four types of final goods and services:

1. Consumers' goods and services to satisfy the immediate wants of the people;
2. Gross private domestic investment in capital goods consisting of fixed capital formation, residential construction and inventories of finished and unfinished goods;
3. Goods and services produced by the government; and
4. Net exports of goods and services, i.e., the difference between the value of exports and imports of goods and services, known as net income from abroad.

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

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

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

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

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

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

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

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

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

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

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

## Three Approaches to GNP

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

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

   Thus GNP is the sum total of the following items:

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

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

   *(c) Interest* : Under interest comes the income by way of interest received by the individual of a

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

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

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

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

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

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

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

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

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

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

It includes the following items:

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

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

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

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

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

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

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

3. **Value Added Method to GNP** : Another method of measuring GNP is by value added. In calculating GNP, the money value of final goods and services produced at current prices during a year is taken into account. This is one of the ways to avoid double counting. But it is difficult to distinguish properly between a final product and an intermediate product.

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

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

## GNP at Market Prices

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

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

## GNP at Factor Cost

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

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

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

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

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

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

## Net National Product (NNP)

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

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

## NNP at Market Prices

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

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

## NNP at Factor Cost

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

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

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

**= National Income.**

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

## Domestic Income

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

Domestic income includes:

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

Since domestic income does not include income earned from abroad, it can also be shown as: Domestic Income = National Income-Net income earned from abroad. Thus the difference between domestic income f and national income is the net income earned from abroad. If we add net income from abroad to domestic income, we get national income, i.e., National Income = Domestic Income + Net income earned from abroad.

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

## Private Income

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

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

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

## Personal Income

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

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

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

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

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

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

## Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and families. The whole of the personal income cannot be spent on consumption, because it is the income that accrues before direct taxes have actually been paid. Therefore, in order to obtain disposable income, direct taxes are deducted from personal income. Thus, Disposable Income=Personal Income – Direct Taxes.

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

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

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

## Real Income

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

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

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

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

## Per Capita Income

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

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

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

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

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

## LESSON ROUNDUP

- Total value of goods and services produced and income earned by residents in a country during a year.
- Helps measure economic performance and standard of living.
- **GDP (Gross Domestic Product*):* ***Value of goods/services produced*** within the country**.**
- **GNP (Gross National Product):** GDP + Net income from abroad.
- **NNP (Net National Product):** GNP – Depreciation.
- **NI (National Income):** Total income earned by residents.
- **PI (Personal Income):** Income received by individuals before taxes.
- **DI (Disposable Income):** PI – Direct taxes; available for spending/saving.
- **Product/Output Method:** Sum of value added at each production stage.
- **Income Method:** Sum of all factor incomes (wages, rent, interest, profit).
- **Expenditure Method:** Sum of spending on final goods and services
- **Nominal NI:** Measured at current prices.
- **Real NI:** Adjusted for inflation; shows true purchasing power.
- Avoid double counting by including only value added at each stage.
- National income reflects economic health**,** guiding policy and business decisions.

## TEST YOURSELF

1. Define Gross Domestic Product (GDP). How is it different from Gross National Product (GNP)?
2. What is Net National Product (NNP)? Explain the difference between NNP at market price and NNP at factor cost.
3. Define National Income. Explain the various components included in its calculation.
4. Distinguish between Personal Income (PI) and Disposable Income (DI). Why is DI considered a better indicator of household welfare?
5. Explain the three methods of measuring national income—Income Method, Output (Product) Method, and Expenditure Method. What are the challenges faced in their calculation?

**LIST OF FURTHER READING**

**Textbooks**

**1. NCERT – "Introductory Microeconomics" (Class 12, Economics)**

- Covers demand, supply, elasticity, market equilibrium, and national income measurement.

**2. NCERT – "Introductory Macroeconomics" (Class 12, Economics)**

- Explains GDP, GNP, NNP, methods of measuring national income, and real vs. nominal income.

**3. "Indian Economy" – Ramesh Singh (Class 12 level chapters)**

- Provides practical examples of Indian national income statistics and economic indicators.

**4. "Microeconomics for Class 12" – D. N. Dwivedi (Simplified Edition)**

- Easy-to-understand explanations of demand, supply, elasticity, and national income.

**Reference / Supplementary Books**

**5. "Introductory Economics" – S. P. Gupta**

- Good for exercises, numerical problems, and concept clarity at the senior secondary level.

**6. "NCERT Exemplar Problems – Economics" (Class 12)**

- Challenging exercises including MCQs, short answers, and application-based questions.

**Online Resources**

**7. Microeconomics & Macroeconomics**

*https://www.khanacademy.org/economics-finance-domain/microeconomics*

Free video tutorials for concepts like demand, supply, elasticity, and national income.

**8. CBSE Academic Website – Class 12 Economics Resources**

- https://www.cbse.gov.in
- Official syllabus, sample papers, and previous year question papers.

**9. LearnCBSE.in / TopperLearning**

- Topic-wise notes, solved examples, and sample MCQs for Class 12 Economics.

# Indian Union Budget

Lesson 3

## KEY CONCEPTS

■ Objectives and Significance of Budget ■ Allocation of Resources ■ Economic Stability ■ Redistribution of Income ■ Economic Growth ■ Capital Receipts ■ Capital Expenditure ■ Fiscal deficit ■ Components of Budget Deficits

## Learning Objectives

**To understand:**

- Government budget is a planning and policy tool.
- Capital budget focuses on long-term investment and asset creation.
- Fiscal deficit measures the shortfall in government revenue, indicating borrowing needs.
- Understanding these concepts is crucial for analyzing government finances and economic stability.
- Understand the meaning and purpose of a government budget.
- Explain the objectives of a budget: resource allocation, economic stability, income redistribution, and economic growth.
- Recognize the importance of a budget in planning and implementing government policies.
- Analyze how a budget promotes transparency and fiscal management.
- Define the concept of a capital budget.
- Identify capital receipts and capital expenditures.
- Understand the importance of capital budgeting in financing long-term projects.
- Explain how capital budgets contribute to economic development and asset creation.
- Define fiscal deficit and distinguish it from revenue and primary deficits.
- Calculate fiscal deficit
- Understand the significance of fiscal deficit as an indicator of government borrowing requirements.
- Analyze the impact of fiscal deficit on inflation, economic growth, and public finances.

## Lesson Outline

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

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

Here are some key aspects of the Indian Union Budget:

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

## OBJECTIVES AND SIGNIFICANCE OF BUDGET

One of the key objectives of the Indian Union Budget is to promote economic growth and development. To achieve this, the government allocates resources to various sectors such as agriculture, education, health,

infrastructure, and defense. The budget also aims to promote social welfare and reduce poverty by increasing investments in social programs and schemes.

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

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

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

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

## Major Components of Union Budget

The Union Budget comprises three major components:

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

### Revenue Budget

The Revenue Budget consists of the revenue receipts of the Government (Tax revenues and non-tax revenues) and the revenue expenditure. Tax revenues comprise proceeds of taxes and other duties levied by the Union. Other revenues are receipts of the government mainly consisting of interest and dividend on investments made by the government, and fees and receipts for other services rendered by the government.

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

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

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

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

### Tax Revenue

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

The followings are the examples of tax revenue:

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

### Non-Tax Revenue

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

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

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

1. Plan Revenue Expenditure
2. Non-Plan Revenue Expenditure.
3. Other Revenue Expenditure:

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

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

**Other Revenue Expenditure**: Other Revenue Expenditure refers to the government's expenditure on various heads such as pensions, grants, and loans, among others. Pensions are provided to retired government employees

as a form of social security. Grants are provided to various organizations and institutions for promoting specific sectors such as education, healthcare, and social welfare. Loans are provided by the government to various organizations and institutions for promoting economic growth and development.

## CAPITAL BUDGET

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

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

### Components of Capital Budget

Capital budget comprises three major components:

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

### Plan Capital Expenditure

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

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

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

**Public Sector Undertakings** (PSUs) are government-owned companies in which the government invests to promote their growth and development. The government may invest in PSUs to promote strategic sectors such as defense, energy, and infrastructure, among others. The government may also invest in PSUs to promote

social welfare and support vulnerable sections of society, such as through investments in healthcare, education, and housing.

## FISCAL DEFICIT

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

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

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

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

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

### LESSON ROUNDUP

- **Budget:** A financial statement showing government's estimated revenues and expenditures for a fiscal year.
  - Allocate resources efficiently.
  - Ensure economic stability and control inflation.
  - Redistribute income to reduce inequality.
  - Promote economic growth and development.
  - Helps in planning and implementing government policies.
  - Provides transparency in government finances.
  - Serves as a tool for fiscal management and economic control.
- **Capital Budget:** Part of the budget dealing with capital receipts and capital expenditure.
- **Capital Receipts:** Funds received by the government that do not create liabilities, e.g., loans raised, sale of assets.
- **Capital Expenditure:** Spending that creates assets or reduces liabilities, e.g., investment in infrastructure, equipment.
- **Importance:**
  - Finances long-term development projects.
  - Promotes asset creation and economic growth.

- **Fiscal Deficit:** Excess of **total government expenditure over total receipts (excluding borrowings)**.
  - Indicates the government's borrowing requirement.
  - Helps analyze the gap between spending and revenue generation.
  - High fiscal deficit can lead to inflation but can also fund development.
- **Related Concepts:**
  - **Revenue Deficit:** Revenue expenditure > revenue receipts.
  - **Primary Deficit:** Fiscal deficit – interest payments.

## TEST YOURSELF

1. What are the main objectives and significance of a government budget? Explain how a budget serves as an instrument of economic policy.
2. Explain the key aspects of Indian Union budget?
3. What are the major components of Capital budget?
4. What is the redistribution of income? Discuss how taxation and government expenditure help achieve a more equitable distribution of income.
5. Define fiscal deficit. Distinguish between capital receipts, capital expenditure, and the major components of Capital budget.

## LIST OF FURTHER READING

**Textbooks (NCERT / ISC)**

**1. NCERT – "Introductory Macroeconomics" (Class 12, Economics)**

- Covers government budget, fiscal policy, capital and revenue budgets, and fiscal deficit.
- Includes explanations, diagrams, and numerical examples.

**2. NCERT – "Indian Economic Development" (Class 12, Economics)**

- Provides Indian context for government finances, public debt, and fiscal management.

**3. "Microeconomics for Class 12" – D. N. Dwivedi (Simplified Edition)**

- Explains government budget, fiscal deficit, and capital expenditure in an easy-to-understand manner.

**4. "Indian Economy" – Ramesh Singh (Class 12-level chapters)**

- Offers practical examples of Indian government budgeting and fiscal indicators.

**Reference / Supplementary Books**

**5. NCERT Exemplar Problems – Economics (Class 12)**

- Contains exercises, case studies, and MCQs on budget, fiscal deficit, and capital expenditure.

**6. "Introductory Economics" – S. P. Gupta**

- Provides exercises, numerical problems, and conceptual clarity at the senior secondary level.

**Online Resources**

**7. Macroeconomics**

- https://www.khanacademy.org/economics-finance-domain/macroeconomics
- Free video tutorials on government budget, fiscal deficit, and public finance.

**8. CBSE Academic Website – Class 12 Economics Resources**

- https://www.cbse.gov.in
- Official syllabus, sample papers, and previous year question papers.

**REFERENCE**

1. *Budget Speech available at https://www.indiabudget.gov.in/*
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3. *https://static.pib.gov.in/WriteReadData/specificdocs/documents/2025/feb/doc202524496501.pdf*
4. *https://www.pib.gov.in/PressReleasePage.aspx?PRID=2035618*
5. *https://www.indiabudget.gov.in/doc/Key_to_Budget_Document_2025.pdf*
6. *https://www.indiabudget.gov.in/doc/bh1.pdf*

# Indian Financial Markets

Lesson 4

## KEY CONCEPTS

■ Financial Market ■ Financial institutions ■ Non-Banking Financial Companies ■ Capital Market ■ Debenture ■ MSME

## Learning Objectives

**To understand:**

- Financial markets channel savings into productive investment.
- Banks, NBFCs, and development institutions are key intermediaries.
- Capital markets and specialized financial assistance support economic growth, entrepreneurship, and MSME development.
- The role of financial markets in mobilizing savings and promoting investment.
- Explain how financial markets provide liquidity, risk management, and price discovery.
- Identify the components of India's financial system: organized and unorganized sectors.
- Recognize the role of regulatory bodies like RBI, SEBI, IRDAI, and PFRDA.
- Explain the evolution of financial institutions in India.
- Assess their contribution to economic growth and financial inclusion.
- Understand the objectives and functions of IFCI and SIDBI.
- Examine their role in financing industries and promoting MSMEs.
- Describe the structure and functions of cooperative banks.
- Understand their role in providing credit to rural and small-scale borrowers.
- Explain the functions and importance of NBFCs in the financial system.
- Differentiate NBFCs from commercial banks in terms of operations and regulation.
- Understand the role of capital markets in mobilizing long-term funds.
- Differentiate between primary and secondary markets.
- Identify the different types of shares and debentures.
- Understand the rights and obligations associated with each.
- Explain the features and types of preference shares.
- Understand their importance in corporate finance.
- Understand the concept, types, and features of debentures.

- Explain the role of debentures in raising debt finance.
- Understand the financial support mechanisms available for SMEs and start-ups.
- Evaluate the impact of financial assistance on entrepreneurship and economic development.
- Key concepts of financial markets and institutions.
- Relate financial market functions to economic growth and development.

## Lesson Outline

- Functions of Financial Market
- Overview of Indian Financial Ecosystem
- Key Facets and Growth of Financial Institutions in India
- Industrial Finance Corporation of India and Small Industries Development Bank of India
- Co-Operative Banks
- Non-Banking Financial Companies
- Basics of Capital Market
- Types of Shares and Debentures
- Preference Shares
- Debenture
- Financial Assistance Scenario for Small and Medium Enterprises and Startups
- Recapitulation

## INTRODUCTION

The financial markets play a vital role in the modern economy by facilitating capital formation, enterprise growth, risk management, and free exchange of capital. Financial markets in particular help direct resources to their most valuable use, fueling innovation and employment. A well-regulated, transparent system allows both small investors and large corporations to raise money in public securities markets. This lowers the cost of capital for businesses while offering optionality and wealth growth opportunities. By incorporating myriad views into pricing, the exchanges also guide capital allocation decisions through information discovery.

Financial markets refer to the markets where buyers and sellers participate in the trade of assets like equities, bonds, currencies and derivatives. Financial markets provide a platform for investors to invest money in securities and for companies to raise money by issuing securities. The securities are traded on exchanges like the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India. Stock market allows companies to raise capital by issuing shares to the public and investors to purchase shares of companies.

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

In other words, financial markets refer broadly to any marketplace where securities trading occurs, including the stock market, bond market, forex market, and derivatives market. Financial markets are vital to the smooth operation of capitalist economies.

Thus, the key points pertaining to the financial markets are-

- Financial markets refer broadly to any marketplace where the trading of securities occurs.
- There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets.
- These markets may include assets or securities that are either listed on regulated exchanges or trade over-the-counter (OTC).
- Financial markets trade in all types of securities and are critical to the smooth operation of a capitalist society.
- When financial markets fail, economic disruption, including recession and rising unemployment, can result.

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

## FUNCTIONS OF FINANCIAL MARKET

The following are the major functions of Financial Market:

1. **Facilitating capital formation:** Financial markets allow companies to raise fresh capital from investors to finance their operations or expansion plans. This helps businesses grow and create jobs, leading to economic growth.
2. **Price discovery:** Prices of all financial instruments are determined through market forces like supply-demand dynamics in these markets. This helps buyers and sellers determine fair prices for a given security or asset class at any given time.
3. **Allocating capital efficiently:** By allowing investors to allocate their capital across different classes

of assets according to their risk appetite, financial markets help ensure that resources are allocated efficiently across various sectors of the economy.

4. **Risk management tools:** These markets also offer sophisticated risk management tools such as derivatives which can be used by institutions or individual traders seeking exposure without taking on too much risk or leverage levels beyond what they can manage effectively.

Financial markets are an essential part of the global economy. They provide a platform for investors to trade securities and commodities, helping allocate resources efficiently across different asset classes and countries. Financial markets have become increasingly interconnected in recent years, allowing capital to move more quickly worldwide and making it easier for businesses to access capital when needed.

Financial markets play an indispensable role in facilitating the transfer of capital, aiding in price discovery, and managing risks. Understanding the different types of financial markets and their functions is crucial for any business or individual seeking to participate in the global financial system.

## Types of Financial Markets

### 1. Capital Market

Capital markets are marketplace where buyers and sellers engage in the trade of securities like bonds, stocks, and derivatives. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government, and individuals. Capital markets in India consist primarily of the stock exchanges like NSE and BSE where investors buy and sell shares, bonds, and derivatives. The main usage of capital markets is to allow Indian companies across sectors to raise long-term capital from investors across India. This capital is used to fund growth and projects for business expansion. It provides an alternative to limited bank lending. For investors, it provides an avenue to allocate savings into financial securities to build wealth over time**.**

a) *Stock Market:* Stock markets allow companies to raise capital by issuing and selling shares or stock to investors. The two main stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Companies list and trade their shares on these exchanges to access equity financing from investors across the country. Stock markets provide an avenue for companies to access capital for business purposes like investing in new projects or acquisitions. It offers an alternative to traditional bank lending. For investors, it serves as a platform to allocate savings and build wealth.

b) *Bond market:* Bond markets are used by organisations like governments and companies raise debt financing by issuing bonds that are purchased by investors. The bond market segments in India include the government bond market, corporate bond market, and municipal/local bonds.

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

### 2. Commodity market

Commodity markets are markets that facilitate the trading of primary economic goods like agricultural products, metals, oil and natural gas. The main commodity exchanges in India are MCX and NCDEX. For example, NCDEX allows farmers, traders, and processors to trade in agricultural commodities like wheat, rice, cotton, spices, etc. through futures contracts. This provides price risk management in agri-commodities. Similarly, on MCX traders

buy and sell futures contracts on metals like gold, silver, copper, natural gas, crude oil etc. Jewellers hedge their price risk on gold inventory using gold futures.

The main usage of commodity markets in India is to provide price discovery and price risk management for producers, consumers and traders of commodities. It helps integrate localised commodity markets across India into one national market. Commodity derivatives also allow better inventory planning for companies.

a) *Soft commodities:* Soft commodities refer to agricultural commodities that are grown, rather than mined. They include crops like wheat, rice, pulses, spices, coffee, tea, cotton, rubber, fruits and vegetables. The National Commodity and Derivatives Exchange (NCDEX) in India provides a platform for trading in various soft commodities. For example, it allows futures trading in wheat, chana, soybean, mustard seed, cotton, cardamom, mentha oil, etc. This helps farmers, producers and exporters hedge against price risks.

   The main usage of soft commodity trading in India is price discovery and risk management. It provides valuable information on demand, supply and prices to all participants. Farmers lock in future selling prices for their produce. Processors like flour mills hedge against raw material price changes. The efficient price signals lead to higher farm productivity and food security.

b) *Hard commodities:* Hard commodities refer to natural resources that are mined or extracted, rather than grown agriculturally. They include precious metals like gold, silver, platinum, base metals like aluminium, copper, nickel, lead, zinc and energy commodities like crude oil, natural gas and coal.

In India, hard commodities are traded on exchanges like the Multi Commodity Exchange (MCX) and National Commodity and Derivatives Exchange (NCDEX). For example, MCX offers futures trading in gold, silver, copper, crude oil, natural gas, aluminium, nickel, mentha oil, cotton etc. This facilitates price discovery and hedging for producers, consumers and traders.

The key usage of hard commodity derivatives in India is managing price volatility and inventory risks. Mining companies hedge against fluctuations in global metal prices. Oil marketing companies lock in crude oil purchase costs in advance. Jewellers offset price risks in gold/silver inventory.

### *3.* Money market

Money markets are short-term debt markets where participants borrow and lend for durations typically up to one year. Money market instruments in India include treasury bills, commercial paper, certificates of deposit, repo and reverse repo agreements.

For example, a manufacturing company sometimes issues commercial paper with 3 month maturity to raise short-term working capital funds from investors instead of taking a bank loan. The investors purchasing this commercial paper will earn short-term returns while their money is parked for 3 months.

The main usage of *money markets in India* is to allow businesses, financial institutions, government and investors to borrow and lend for very short periods. It serves as an alternative to bank borrowing and provides short-term liquidity in the economy. For businesses, it offers flexibility in managing cash flows. For investors, it provides very liquid and low-risk short-term investment options like treasury bills. An active money market is essential for the Reserve Bank of India to conduct effective monetary policy.

### 4. Derivatives market

Derivatives markets provide instruments like futures, options, swaps etc. that derive their value from an underlying asset. They allow the transfer of risk from parties who want to hedge their risk exposure to parties more willing to bear that risk.

For example, an Indian farmer will be able to buy a futures contract to sell his crop at a future date for a predetermined price. This protects him from potential decrease in crop prices at harvest time. The speculator taking the opposite trade is bearing the price risk in exchange for a potential profit if prices rise.

The main usage of derivatives markets in India is to allow hedging and speculation on asset prices. For producers and businesses, it provides a means to hedge against commodity price risk, interest rate risk and currency rate risks. For investors, it provides avenues to speculate and profit from movements in underlying asset prices. India has active derivatives markets in equity, commodities and currencies. These markets impart liquidity and price discovery to the underlying cash markets.

a) *Futures*: Futures markets provide standardised contracts that obligate the buyer to purchase an asset and the seller asset and the seller to sell an asset at a predetermined future date and price. The contracts are standardised by the exchanges on the quantity, quality and delivery specifications. The main usage of futures markets in India is to allow hedging and speculation on future asset prices. For producers like farmers, it provides price protection against potential adverse price movements. For speculators, it provides an opportunity to profit from correct bets on future price trends. India has active futures markets in equities, commodities, currencies and bonds. These provide price discovery of the underlying cash markets and improve their liquidity.

b) *Forward*: The forward market is an over-the-counter market where two parties enter into customised contracts to buy or sell an asset at a specified price on a future date. The terms are agreed bilaterally unlike the standardised contracts traded on futures exchanges. The main usage of the forward market in India is to hedge against currency and commodity price risks. Exporters, importers and commodity producers use forward contracts to lock in future prices and mitigate risks. Speculators provide liquidity and absorb risks in the forward market. While smaller in size compared to futures markets, the forward market provides flexibility as terms are customised as per needs.

c) *Option*: Option markets refer to derivatives exchanges where financial securities known as options are traded. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a predetermined price on or before a specific date.

   For example, on the National Stock Exchange (NSE) in India, investors are able to buy or sell Nifty options that give the right to buy or sell the Nifty 50 index at a particular price by the expiry date.

   The main usage of option markets in India is to allow investors to hedge stock portfolios or speculate on market direction. Options help limit downside risk in volatile markets, making option trading a preferred method for managing financial exposure. Traders use options to bet on expected moves in the broader market or individual stocks, with option trading offering a strategic tool for both hedging and speculation purposes.

d) *Swap*: Swap markets refer to over-the-counter (OTC) markets where counterparties exchange financial instruments known as swaps. A swap is a derivative contract where two parties agree to exchange financial flows at certain intervals during the life of the swap. For example, an interest rate swap involves exchanging a fixed interest rate cash flow for a floating rate cash flow.

The main usage of swap markets in India is for corporates to hedge interest rate and currency risk on foreign borrowings. Swaps help convert floating rate loans to fixed rates or vice versa. Banks trading swaps earn fees while facilitating client hedging needs. Swaps also allow speculators to bet on the direction of interest rates and currencies.

### 5. Foreign exchange market

The foreign exchange market is a decentralised global market where participants trade currencies. It consists of banks, commercial companies, central banks, investment management firms, hedge funds and retail forex brokers and investors.

The Reserve Bank of India, for example, wants to intervene in the forex market to strengthen or weaken the rupee against the dollar. They will be able to do this by buying or selling rupees in the market.

Multinational corporations like Infosys use the forex market to pay overseas suppliers or staff in other countries. They need to convert their domestic currency into foreign currency through their bank.

The main usage of the foreign exchange market is to facilitate the conversion of one currency into another. It allows businesses, investors, travellers and governments to pay or receive currencies for goods, services, investments and other transactions globally.

### 6. Cryptocurrency market

The cryptocurrency market refers to the exchanges and over-the-counter platforms where various digital currencies or crypto tokens are traded. Cryptocurrencies like Bitcoin, Ethereum, and Cardano operate on blockchain networks as peer-to-peer decentralised digital money.

In India, investors purchase cryptocurrencies like Bitcoin on exchanges like WazirX, CoinDCX, and CoinSwitch Kuber. Retail investors buy cryptos as investments, while traders aim to profit from price fluctuations. The main usage of the cryptocurrency market is to facilitate the trading of crypto coins and tokens as an alternative digital asset class. It provides a venue for investors, traders and companies to access decentralised cryptocurrencies outside the traditional financial system. The cryptocurrency market aims to allow the transfer of digital value and enable various blockchain-based applications.

### 7. Spot market

The spot market, also known as the cash or physical market, refers to the buying and selling of financial instruments or commodities for immediate delivery. Commodities like gold and crude oil also have active spot markets where buyers and sellers trade for immediate delivery. Gold jewellers or oil refiners sometimes use the spot market for their raw material needs. The main usage of the spot market is to facilitate the exchange of assets at current market prices for near-term requirements. It provides immediate liquidity, unlike derivatives contracts or bonds. Companies use the spot market to fulfil business needs, traders profit from price swings, and the spot prices determine derivatives pricing.

### 8. Interbank lending market

The interbank lending market refers to the system through which banks lend and borrow short-term funds from each other. It enables banks to meet temporary shortages or excesses in liquidity. For example, Bank A has surplus funds while Bank B faces a temporary deficit. Bank B borrows overnight funds from Bank A in the interbank market to square its books. The loans are made at the prevailing interbank interest rates.

Banks in India actively use the interbank market to fine-tune liquidity. The Clearing Corporation of India facilitates interbank lending and borrowing through its collateralized lending and borrowing mechanism. The key usage of the interbank market is to allow banks to efficiently manage their short-term liquidity needs. It provides a mechanism to channel funds from banks with surpluses to those facing deficits. This ensures the stability of the banking system by preventing liquidity crunches and helps optimise the use of available funds.

## OVERVIEW OF INDIAN FINANCIAL ECOSYSTEM

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

(a) Allocation and mobilisation of savings.

(b) Provision of funds.

(c) Facilitating the financial transactions.

(d) Developing financial markets.

(e) Provision of legal financial structure.

(f) Provision of financial and advisory services.

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

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

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

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

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

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

## Components of Financial System

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

1. **Financial Institutions:**

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

2. **Financial Markets:**

   The market where financial assets are created or moved is known as a financial market. A financial

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

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

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

III. *Foreign Exchange Market*: deals with the multicurrency needs that are satisfied through currency exchange. The transfer of funds occurs in this market based on the applicable exchange rate. One of the most advanced and integrated markets on the planet is this one.

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

3. **Financial Instruments:**

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

4. **Financial Services:**

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

5. **Money:**

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

## KEY FACETS AND GROWTH OF FINANCIAL INSTITUTIONS IN INDIA

The significant characteristics of Indian financial system are as under:

1. Plays a pivotal role in accelerating the rate and volume of savings through the provision of different financial instruments and efficient mobilisation of savings.
2. It is playing a significant role in increasing the national output by providing funds to corporate customers to expand their business operations.

3. Safeguarding the interests of the investors by ensuring smooth financial transactions through regulatory bodies like, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) etc.
4. Contributes substantially towards the economic development and raising the standard of living of the people.
5. Promotes development of weaker sections of the society through rural development banks and cooperative societies.
6. Assist corporate customers to make better financial decisions by offering effective financial and advisory services.
7. Facilitates financial deepening and broadening. Financial deepening refers to an increase in financial assets as a percentage of GDP and financial broadening pertains to an increasing number of participants in the financial system.

***Banking Sector***

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

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

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

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country.

**Developments of Indian Banking Sector**

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

| Years | Major Developments |
|---|---|
| 1921 | • Closed market<br>• State-owned Imperial Bank of India was the only bank existing. |
| 1935 | • RBI was established as the central bank of country.<br>• Quasi central banking role of Imperial Bank came to an end. |

| | |
|---|---|
| 1936-1955 | • Imperial Bank expanded its network to 480 branches.<br>• In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India. |
| 1956-2000 | • Nationalisation of 14 large commercial banks in 1969 & 6 more banks in 1980.<br>• Entry of private players such as ICICI intensifying the competition.<br>• Gradual technology upgradation in PSU banks . |
| 2000-2020 | • In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted in to a bank |
| | • In 2009, the government removed the Banking Cash Transaction Tax which had been introduced in 2005. |
| 2020 onwards | • Mega merger of Public Sector Banks<br>– Oriental Bank of Commerce and United Bank of India merged with Punjab National Bank<br>– Syndicate Bank merged with Canara Bank<br>– Allahabad Bank merged with Indian Bank<br>– Andhra Bank and Corporation Bank with Union Bank of India<br>• Technological innovations resulting into marked improvements in efficiency, productivity, quality, inclusion and competitiveness in extension of financial services, especially in the area of digital lending.<br>• Conceptualization of digitalization of Agri-finance jointly by the Reserve Bank of India and Reserve Bank Innovation Hub (RBIH) to enable delivery of Kisan Credit Card (KCC) loans in a fully digital and hassle-free manner.<br>• In November 2022, RBI launched a pilot project on Central Bank Digital Currency (CBDC)<br>• The year 2023 was a significant year for policy reforms and regulatory changes in India's banking sector. The Reserve Bank of India (RBI) played a critical role, with a series of policy rate adjustments aimed at balancing growth and inflation. The repo rate adjustments, which have been kept 6.5% by the Monetary Policy Committee (MPC), were carefully calibrated, reflecting the central bank's commitment to maintaining monetary stability while supporting economic recovery.<br>• Regulatory changes introduced in 2023 had a profound impact on banking operations. The RBI's tightened norms on Non-Performing Assets (NPAs) reflected a stringent stance on asset quality. Moreover, the introduction of new guidelines for digital lending aimed at protecting consumer interests while fostering a healthy digital finance ecosystem.<br>• The year 2023 also witnessed a push towards greater compliance with international banking standards, including Basel III norms. These regulatory measures were pivotal in enhancing the resilience and transparency of the banking system, ensuring a more stable financial environment.<br>• During 2023, the banking sector witnessed an unprecedented surge in online banking services, mobile banking apps, and digital payment solutions. Banks collaborated extensively with fintech companies, leveraging their technology to offer innovative services like instant loans, digital KYC, and AI-driven customer support. |

| | |
|---|---|
| | • In July 2023, Housing Development Finance Corporation (HDFC) merged with its subsidiary HDFC Bank.<br>• In accordance with the Reserve Bank India (RBI) approval dated March 4, 2024, AU Small Finance Bank (AU SFB), India's largest SFB, announced the amalgamation of Fincare Small Finance Bank (Fincare SFB) with and into AU SFB, effective April 1st, 2024. |

***Public Sector Banks***

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

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

***Private Sector Banks***

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

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

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

### Industrial Finance Corporation of India

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

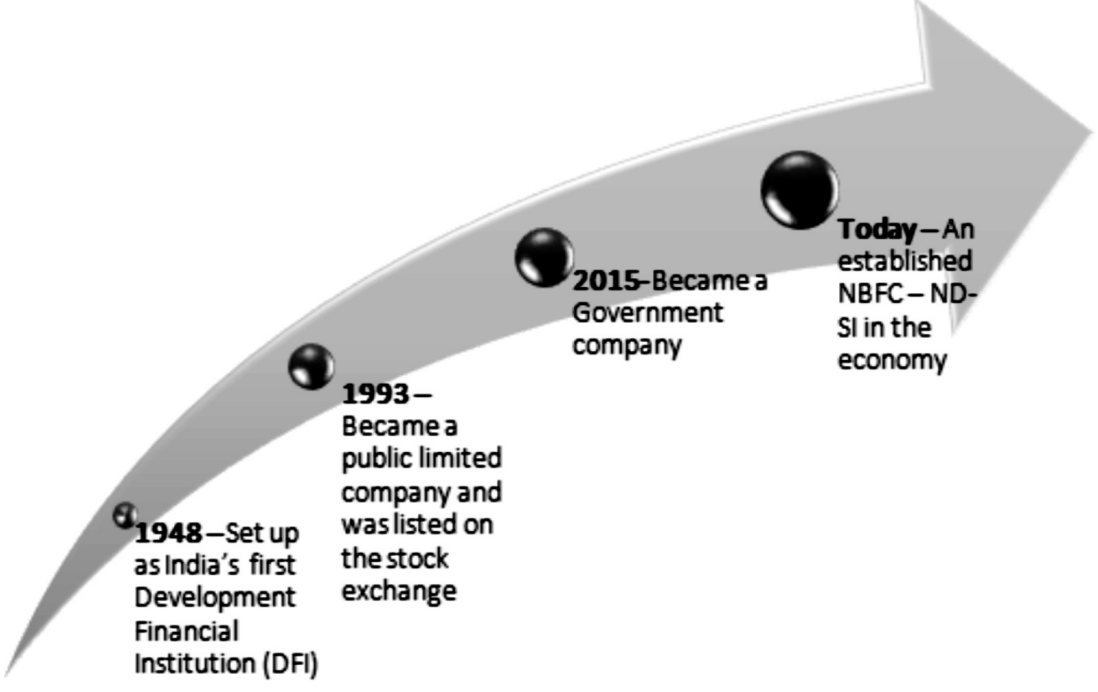
IFCI was the first Development Financial Institution of India set up to propel economic growth through the development of infrastructure and industry. Since then, IFCI has contributed significantly to the economy through its incessant support to projects in all the three spheres of growth & development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

Since its inception, IFCI has witnessed and sustained all business economic cycles. IFCI has been able to maintain the financial sustainability with the consistent support and cooperation of all its stakeholders and particularly the Government of India. In addition to its core competence in long term lending to industrial and infrastructure sectors, IFCI has also developed competence in providing advisory services and has been a nodal agency for providing advisory services to various Govt. of India schemes such as Sugar Development Fund, M-SIPS, Production Linked Incentive (PLI) Scheme and Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS). Further, IFCI also enhanced its organizational value through optimising value of core and non-core assets & investments. Over the years, IFCI has played a pivotal role in establishment of various entities (including some of its subsidiaries & associates) that are respected in their fields today, namely Stock Holding Corporation of India Ltd (SHCIL), National Stock Exchange Ltd (NSE), LIC Housing Finance Ltd, Tourism Finance Corporation of India Ltd (TFCI), ICRA Ltd, among many others. With the changes in the markets over a period of time, a few of the subsidiaries were divested and currently IFCI Group has the following subsidiaries–

1. Stock Holding Corporation of India Ltd,
2. IFCI Venture Capital Fund Ltd,
3. IFCI Factors Ltd,
4. IFCI Infrastructure Development Ltd,
5. IFCI Financial Services Ltd,
6. MPCON

Besides above subsidiaries, IFCI also setup up following institutions under its social sector initiatives : -

1. Management Development Institute
2. Institute of Leadership Development'
3. Rashtriya Gramin Vikas Nidhi



### What IFCI is?

- IFCI is a Systemically Important Non-Deposit taking Non-Banking Finance Company (NBFC-ND-SI) in the public sector. Established in 1948 as a statutory corporation, IFCI is a public limited company listed on BSE and NSE. IFCI has six number of subsidiaries and one associate under its fold.
- IFCI is having mandate to provide financial support for the diversified growth of Industries across the spectrum. The financing activities cover various kind of projects such as airports, roads, telecom, power, real estate, manufacturing, services sector and such other allied industries. During its 75 years of existence, mega projects like Adani Mundra Ports, GMR Goa International Airport, Salasar Highways, NRSS Transmission, Raichur Power Corporation, to name a few, have been setup with financial assistance of IFCI.
- IFCI also provides Government Advisory services and Corporate Advisory services. In Government Advisory, IFCI is appointed as a Project Management Agency (PMA) for various Production Linked Incentive (PLI) schemes launched under the aegis of "Atmanirbhar Bharat" by the Government of India. These schemes are aimed at boosting domestic manufacturing and to attract large investment in the identified sectors. IFCI is also the Verifying & Monitoring Agency for various capital subsidy schemes. Under Corporate Advisory, IFCI is offering financial advisory, ESG advisory and other Project advisory services to the Corporate & Government sectors. IFCI is also the Nodal Agency for monitoring loans of Sugar Development Fund (SDF) since 1984.
- IFCI is also the Nodal Agency for monitoring loans of Sugar Development Fund (SDF) since 1984.
- The company has played a pivotal role in setting up various market intermediaries of repute in several niche areas like stock exchanges, entrepreneurship development organizations, consultancy organizations, educational and skill development institutes across the length and breadth of the country.
- The Govt. of India has placed a Venture Capital Fund of Rs. 200 crore for Scheduled Castes (SC) with IFCI with an aim to promote entrepreneurship among the Scheduled Castes (SC) and to provide concessional finance. IFCI has also committed a contribution of Rs.50 crore as lead investor and Sponsor of the Fund. IFCI Venture Capital Funds Ltd., a subsidiary of IFCI Ltd., is the Investment Manager of the Fund. The Fund has been operationalized since FY 2014-15 and IVCF is continuously making efforts for meeting the stated objective of the scheme.
- Further, in March 2015, Ministry of Social Justice and Empowerment, Government of India has designated IFCI as a nodal agency for implementing the "Credit Enhancement Guarantee Scheme for Scheduled Castes" with an objective to encourage entrepreneurship amongst the Scheduled Castes, by providing Credit Enhancement Guarantee to Member Lending Institutions viz. banks who are providing financial assistance to these entrepreneurs belonging to scheduled castes community.

**Corporate Strategy of IFCI**

1. To be a solution provider to various financial needs of the industry.
2. To remain competitive, competent and sensitive to the economic growth of the country.
3. To design customer focused solutions.
4. To enhance the reputation and image of IFCI

## Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) set up on 2nd April 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and

Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities.

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

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

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

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

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

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

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

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

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

**SIDBI's Historical Journey**

| Years | Developments |
|---|---|
| 1990 | Small Industries Development Bank of India (SIDBI) set up on April 2, 1990. |
| 1992 | Introduced (Bills Discounting) of MSME vendors |
| 1994 | Launched Micro Credit Scheme |
| 1999 | Established SIDBI Venture Capital Limited |
| 2000 | Established CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) |
| 2005 | Established SMERA (now Acuité Ratings & Research Limited) |
| 2008 | Established ISARC (ISARC is the country's first ARC supported by a large number of public sector banks and undertakings. It will strive for speedier resolution of NPAs with a focus on MSME sector). |
| 2010 | Launched NTREES (National Trade Exchange for Electronic Securities) |
| 2012 | Launched PSIG (Poorest States Inclusive Growth (PSIG) Program) |
| 2013 | Established MUDRA (Micro Units Development & Refinance Agency Ltd.) |
| 2016 | Launched RXIL TReDS and Standupmitra Platform |
| 2017 | Launched Udyamimitra Portal |

| Years | Developments |
|---|---|
| 2018 | Launched PSB loans in 59 minutes, MSME Pulse, CriSidEx and Swalamban |
| 2019 | Launched Microfinance Pulse |
| 2020 | Launched Fintech Pulse and Industry Spotlight |
| 2021 | Digitisation of Lending Process |
| 2023 | Launch Udyam Assist Platform (UAP) & FIT Rank |

**Source**: https://www.sidbi.in/en/about

### Regional Rural Banks (RRBs)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26th September,1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. As a result, Five Regional Rural Banks were set up on 2nd October, 1975,Gandhi Jayanti. These were set up on the recommendations of The Narshimham committee Working Group during the tenure of Indira Gandhi's Government with a view to include rural areas into the economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2nd October, 1975, Gandhi Jayanti with the forming of the first RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with an authorised capital of Rs 5 crore at its starting. As on 2nd October,1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gour Gramin Bank,which was the first RRB in the Eastern Region of India.

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

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

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

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

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

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

(d) Small financial banks.

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

## CO-OPERATIVE BANKS

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

***History of Cooperative Banking in India***

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

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

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

***Types of Cooperative Bank***

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

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

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

   (a) Co-operative Banking Union

   (b) Mixed control Co-operative Bank

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

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

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

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

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

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

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

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

## NON-BANKING FINANCIAL COMPANIES (NBFCS)

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

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

## Types of NBFCs

NBFCs are categorized (a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs; (b) regulatory structure of NBFCs under Scale Based Regulation into NBFC-Base Layer, NBFC-Middle Layer, NBFC-Upper Layer, and NBFC-Top Layer; and (c) by the kind of activity they conduct. Based on the type of activities they conduct, the different types of NBFCs are as follows:

I. **Investment and Credit Company (ICC):** ICC means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFCs as defined by the Reserve Bank in any of its Master Directions.

II. **Housing Finance Company (HFC):** HFC shall mean a company that fulfils the following conditions:

It is an NBFC whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets (netted off by intangible assets).Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing finance for individuals .

III. **Infrastructure Finance Company (IFC):** IFC is a non-banking finance company (a) which deploys at least 75 per cent of its total assets towards infrastructure lending.

IV. **Infrastructure Debt Fund (IDF-NBFC):** IDF-NBFC means a non-deposit taking NBFC which is permitted to (a) refinance post commencement operations date (COD) infrastructure projects that have completed at least one year of satisfactory commercial operations; and (b) finance toll operate transfer (TOT) projects as the direct lender.

V. **Core Investment Company (CIC):** CIC is a NBFC carrying on the business of acquisition of shares and securities which satisfies the following conditions:

(a) It holds not less than 90% of its net assets in the form of investment in equity shares, preference shares, debt or loans in group companies;(b) Its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies and units of Infrastructure Investment Trusts (InvITs) only as sponsor constitutes not less than 60% of its net assets;(c) Provided that the exposure of such CICs towards InvITs shall be limited to their holdings as sponsors and shall not, at any point in time, exceed the minimum holding of units and tenor prescribed in this regard by SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended from time to time. It does not trade in its investments in shares, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;(d) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except (i) investment in bank deposits, money market instruments, government securities, bonds or debentures issued by group companies; (ii) granting of loans to group companies; and (iii) issuing of guarantees on behalf of group companies;(e) Its asset size is ₹100 crore or above; and (f) It accepts public funds

VI. **Micro Finance Institution (NBFC-MFI):** "NBFC-MFI" means a non-deposit taking NBFC which has a minimum of 75 percent of its total assets deployed towards "microfinance loans" as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

VII. **Non-Banking Financial Company – Factors (NBFC-Factors):** NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business

should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.

VIII. **Mortgage Guarantee Companies (MGC):** MGC means a company registered as mortgage guarantee company which primarily transacts the business of providing mortgage guarantee i.e., a guarantee for the repayment of an outstanding housing loan and interest accrued thereon up to the guaranteed amount to a creditor institution, on the occurrence of a trigger event. A mortgage guarantee company shall be deemed to primarily transact the business of providing mortgage guarantee when at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business.

IX. **Standalone Primary Dealers (SPDs):** SPDs are primarily NBFCs which have been granted authorisation to undertake the Primary Dealer activities in Government Securities. SPDs may undertake a set of core and non-core activities which are clearly defined. SPDs support G- Sec market, (both primary and secondary) through various obligations like participating in primary auctions, market making in G- Secs, predominance of investment in G-Secs, achieving minimum secondary market turnover ratio, etc.

X. **Non-Operative Financial Holding Company (NOFHC):** NOFHC means a non-deposit taking NBFC referred to in the "Guidelines for Licensing of New Banks in the Private Sector" dated February 22, 2013, issued by the Reserve Bank, which holds the shares of a banking company and the shares of all other financial services companies in its group, whether regulated by the Reserve Bank or by any other financial regulator, to the extent permissible under the applicable regulatory prescriptions.

XI. **NBFC – Account Aggregator (NBFC-AA):** NBFC-AA means a non-banking financial company as notified under in sub-clause (iii) of clause (f) of section 45-I of the RBI Act, that undertakes the business of an account aggregator, for a fee or otherwise. The "business of an account aggregator" means the business of providing under a contract, the service of, retrieving or collecting such financial information pertaining to its customer, as may be specified by the Reserve Bank from time to time; and consolidating, organizing and presenting such information to the customer or any other financial information user as may be specified by the Bank; Provided that, the financial information pertaining to the customer shall not be the property of the Account Aggregator, and not be used in any other manner.

XII. **NBFC – Peer to Peer Lending Platform (NBFC-P2P):** NBFC-P2P means a non-banking institution which carries on the business of a Peer to Peer Lending Platform i.e., acting as intermediary providing the services of loan facilitation via online medium or otherwise, to the participants of the platform.

## Services offered by NBFCs

NBFCs offer a wide range of financial services, including:

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

### Differences between NBFCs and banks

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

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

## BASICS OF CAPITAL MARKET

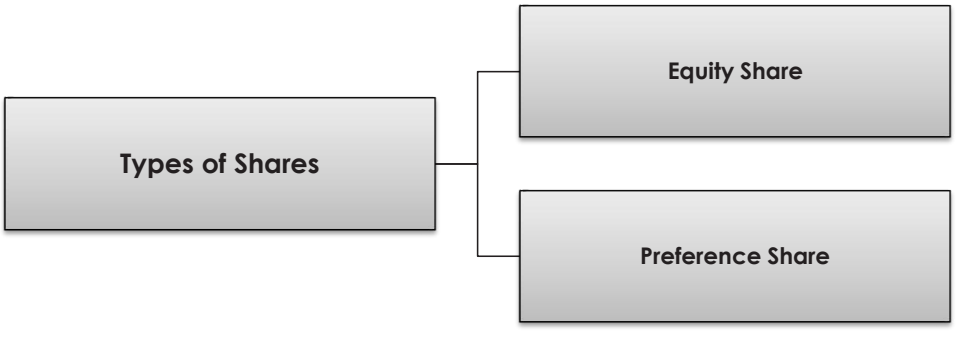
The history of the capital market in India dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century, securities trading was unorganized and the main trading centres were Bombay(now Mumbai) and Calcutta (now Kolkata). Of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

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

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

Indian remained largely inactive till the 1970s. Partial liberalisation of the economy and pro-capital market policies during the 1980s infused some life into the markets, but it was only the economic liberalisation of the 1990s that provided a lasting impetus. Today, segments of India's capital markets are comparable with counterparts in many of the advanced economies in terms of efficiency (price discovery), tradability (low impact cost), resilience (co-movement of rates across product classes and yield curves), and stability. In particular, their ability to withstand several periods of stress, notably the Asian financial crisis in 1997-98, the global financial crisis in 2007-09 and the "taper tantrum" episode in 2013, is a sign of their increasing maturity.

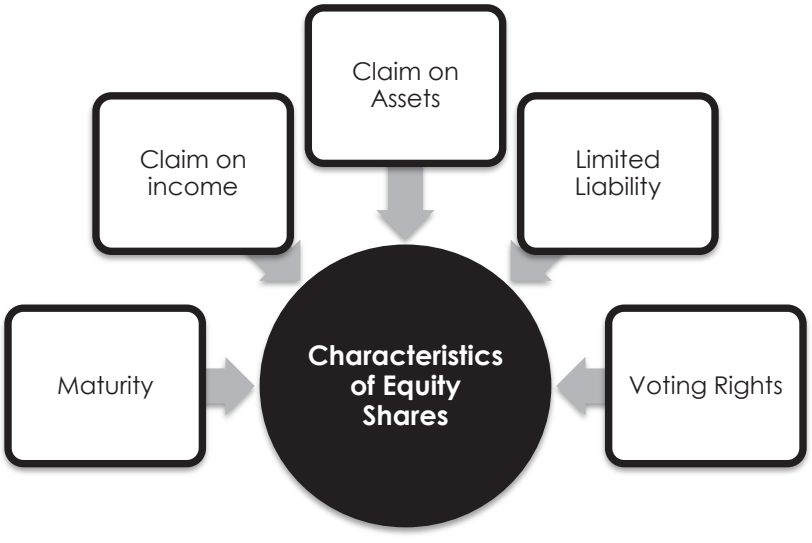
## TYPES OF SHARES AND DEBENTURES



## Equity Share

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

### Characteristics of Equity Shares




An equity share carries the following characteristic:

1) **Maturity:**

   Equity share capital remains with the company as long as the company exists, unless the shareholder chooses to sell the shares or the company undergoes winding up/liquidation.

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

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

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

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

4) ***Voting Rights:***

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

5) ***Limited Liability:***

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

### Advantages of Equity Shares

*Advantages to the Company*:

The company enjoys the following advantages:

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

### Advantages to the Investors:

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

- As the income of the company increases, the equity shareholders get more dividends because the rate of dividend is not fixed on these shares. Shareholders get dividend at higher rate in boom period that increases the income of shareholders.
- The equity shareholders have a right of management and control of the company. They use their voting right and elect directors of their choice to manage the affairs of the company.
- The market price of equity shares of the company increases with the increase in profits of the company and result in capital gain to the investors if they sell their shares in the market.
- The equity shareholders are the owners of the company, so they take interest in company's activities.

### Disadvantages of Equity Shares

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

*Disadvantages to the Company:*

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

*Disadvantages to the Investors:*

Following are the disadvantages of equity shares to the investors:

- The rate of dividend is not fixed on the equity shares. If there is less profit, fewer dividends will be given to the shareholders. Sometimes they get no dividend if the company is having no profit.

- The income of equity shareholders is not only irregular but also uncertain. If the company has profit, it is not necessary that the company should announce dividend and then distribute it to the shareholders. The management of company can decide not to distribute any dividend and keep the profits invested in the company.
- In times of recession, the prices of equity shares fall, hence resulting in capital loss to the investors.
- At the time of liquidation the equity shareholders are paid at the last if there is any balance remains after payment of loans, liabilities and payment of preference shareholders. If nothing is left, they get nothing.

## PREFERENCE SHARES

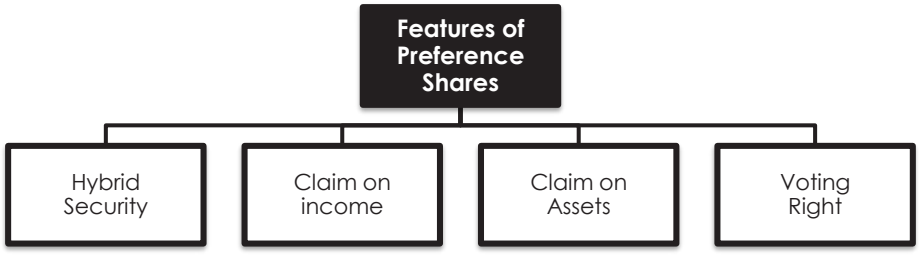
Preference share can be defined as "A preference share is a share which carries preferential rights as to the payment of dividend at a fixed rate either free or subject to income tax and as to the payment of capital at the time of liquidation prior to equity shareholders."

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

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

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

### Features of Preferences Shares




Preferences shares carry four characteristics / features:

**1)** ***Hybrid Security:***

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

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

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

**3) *Claim of Assets:***

Generally the preference shareholders have no right in the surplus assets of the company. However, a company may issue participating preference shares which entitle its holders a right to participate even in the surplus assets of the company at the time of liquidation in agreed ratio.

**4) *Voting right:***

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

## Advantages of Preference Shares

*Advantage to the company*

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

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

*Advantage to the Investors:*

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

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

## Disadvantages of Preference Shares

*Disadvantages to the Company*

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

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

*Disadvantages to the Investors*

– As the preference shareholders, ordinarily, do not have any voting rights.

– The rate of dividend on preference shares is usually lower as compared to the equity shares.

– Preference shareholders do not have any charge on the assets of the company while debentures, usually, provide a charge on all the assets of the company.

– In case of winding up of a company, the preference shareholders only get the invested value of their capital. They cannot participate in the surplus.

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

**Cumulative and Non-Cumulative**

- Cumulative preference shares: the dividends are accumulated and therefore paid before anything paid to equity shares.
- Non-Cumulative preference shares: if company does not pay dividend in current year, claim of preference shareholder is lost to that extent.

**Convertible and Non-Convertible**

- Convertible preference shares possess an option or right whereby they can be converted into an ordinary equity share at some agreed terms and conditions.
- Non-Convertible preference shares do not have the option to convert but has all other normal characteristic of a preference share.

**Participating and Non-participating**

- Participating preferences share has an additional benefit of participating in 'surplus profits or 'surplus assets' of the company apart from preferential dividend.
- The Non-participating preference share are those which are not entitled to participate in the 'surplus profits' or surplus assets'' of the company. They are entitled to only a fixed rate of dividend.

**Redeemable and Non-Redeemable**

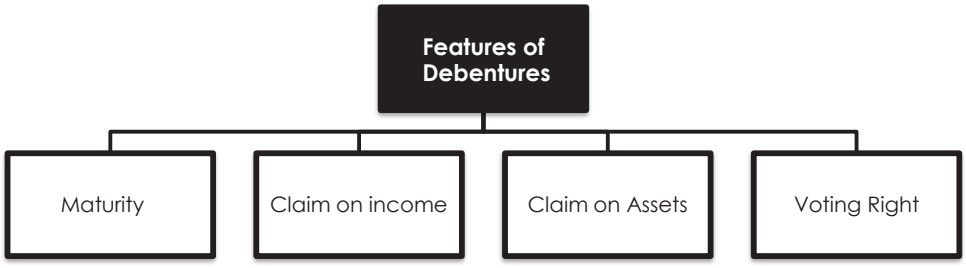
- Redeemable preference share has a maturity date on which date the company will repay the capital amount to the preference shareholders. The paying back of capital is called redemption dividend. Preferences share shall be redeemed within a period not exceeding 20 years (however infrastructure companies can issue preferences shares redeemable within a period not exceeding 30 years).
- Irredeemable Preference Share do not have any maturity date and are repayable only at the time of winding up of the company. However, as per section 55 of the Companies Act, 2013 no company can issue irredeemable preference shares.

## DEBENTURE

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

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

## Features of Debentures




The debenture carries the following features:

**1) Maturity:**

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

**2) Claim on Income:**

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

**3) Claim on Assets:**

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

**4) Voting Rights:**

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

### Advantages of Debentures

*Advantages to the Company*

The company enjoys the following advantages by issuing the debentures:

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

*Advantages to the Investors:*

The investors enjoy the following advantages:

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

**Disadvantage of Debenture**

*From the Company's Point of View:*

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

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

*From the Investors Point of View:*

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

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

***Types of Debentures***

***On the basis of Convertibility***

(a) Non-Convertible Debentures (NCD): These instruments retain the debt character for the whole of the tenure and cannot be converted into equity shares or any other form of security.

(b) Partly Convertible Debentures (PCD): Partly convertible debentures, as the name suggests, a certain portion of these debentures are partially converted into equity shares upon exhaustion of the specified duration.

(c) Fully convertible Debentures (FCD): These are fully convertible into Equity shares or any other form of security at the issuer's notice.

(d) Optionally Convertible Debentures (OCD): The investor has the option to either convert these debentures into shares at price decided by the issuer/agreed upon at the time of issue.

***On the basis of Security***

(a) Secured Debentures: Debentures that are issued against a security are called secured debentures. In other words, a charge is made against the assets of the issuing company.

(b) Unsecured Debentures: Debentures which are issued without any charge against the issuing company's assets are called unsecured debentures.

***On the basis of Tenure***

(a) Redeemable Debentures: Redeemable debentures clearly spell out the exact terms and date by which the issuer of the bond must repay their debt in full.

(b) Irredeemable Debentures: An irredeemable debenture is a type of debenture in which there is not fixed time for the issuer to repay the amount. The debenture holder cannot demand payment as long as the company is a going concern and does not make default in making payment of the interest.

***On the basis of Registration***

(a) Registered Debentures: Registered debentures are made out in the name of a particular person, whose name appears on the debenture certificate and who is registered by the company as holder on the Register of debenture holders

(b) Bearer debentures: Bearer debentures on the other hand, are made out to bearer, and are negotiable instruments, and so transferable by mere delivery like share warrants.

## MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES)

### Introduction

The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy contributing around 30% of India's GDP, over 45% of India's exports. It contributes significantly to the economy and social development of the country by fostering entrepreneurship, innovation and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSME are complementary to large industries as ancillary units. This sector contributes significantly to inclusive industrial development of the country. By fostering entrepreneurship, generating employment and promoting inclusive development, MSMEs continue to drive economic transformation at the grassroots level.

Globally, MSMEs represent the most dominant segment of the business ecosystem, accounting for nearly **90% of enterprises** and over **50% of total employment**. In India, they hold a similar significance, emerging as the **second-largest employer after agriculture.**

### Classification of MSME

MSMEs are governed by the Micro, Small, and Medium Enterprises Development Act, 2006, the classification criteria have evolved over time to better accommodate modern business realities. Micro, Small, and Medium Enterprises are characterised by specific thresholds of investment in equipment and annual turnover. They operate across manufacturing, services, and trade sectors.

| Classification | Micro | Small | Medium |
|---|---|---|---|
| Micro Enterprise<br>Small Enterprise<br>Medium Enterprise | Investment in Plant and Machinery or Equipment: Not more than Rs. 2.5 crore and Annual Turnover not more than Rs. 10 crores | Investment in Plant and Machinery or Equipment: Not more than Rs. 25 crore and Annual Turnover not more than Rs. 100 crores | Investment in Plant and Machinery or Equipment: Not more than Rs. 125 crore and Annual Turnover not more than Rs. 500 crores |

## Udyam Registration Portal

Launched on July 1, 2020, the Udyam Registration Portal serves as a pivotal platform for facilitating the registration of enterprises across India. The portal encourages enterprises previously registered under the Udyog Aadhaar Memorandum and Entrepreneurship Memorandum-II to migrate to this new system. It offers a free, paperless, and self-declaration-based registration process, eliminating the need for document uploads, thus simplifying the formalization of businesses.

In a significant step towards integrating informal micro-enterprises into the formal economy, the Government introduced the Udyam Assist Platform on November 11, 2023. This initiative aims to bring these micro-enterprises under the formal sector, enabling them to access benefits such as Priority Sector Lending, which is essential for their growth and sustainability.

## Government Initiatives for MSMEs

The Government of India has implemented a robust array of initiatives aimed at bolstering the Micro, Small, and Medium Enterprises (MSME) sector, recognizing its pivotal role in the economy. These efforts range from financial support and procurement policies to capacity building and market integration. Key initiatives include the Udyam Registration Portal, PM Vishwakarma scheme, PMEGP, SFURTI, and the Public Procurement Policy for MSEs, all aimed at fostering entrepreneurship, enhancing employment, and integrating informal sectors into the formal economy. These initiatives reflect the government's commitment to supporting MSMEs and driving inclusive economic growth nationwide.

The 'PM Vishwakarma' scheme, launched by the Government of India, aims to enhance the quality and reach of products and services by artisans and craftspeople, integrating them into domestic and global value chains. Announced in the 2023-24 Budget and launched on September 17, 2023, this scheme seeks to provide comprehensive support to Vishwakarmas, improving their socio-economic status and quality of life.

Prime Minister's Employment Generation Programme (PMEGP) is a credit linked subsidy scheme for providing employment opportunities through establishment of micro-enterprises in the non-farm sector. Under the Scheme, Margin Money (Subsidy) is provided to beneficiaries availing loan from banks for setting up new enterprises. The maximum project cost admissible for setting up of new project is Rs. 50 lakhs in manufacturing sector and Rs. 20 lakhs in Service Sector.

## Public Procurement Policy for MSMEs

The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. This policy mandates that 25% of annual procurement by Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must be sourced from MSEs. Within this 25%, 4% is reserved for MSEs owned by Scheduled Castes/Scheduled Tribes (SC/ST), and 3% is reserved for MSEs owned by women entrepreneurs. Additionally, 358 items are exclusively reserved for procurement from MSEs.

## Designing Policy for Medium Enterprises

NITI Aayog in May 2025 released a report titled **"Designing a Policy for Medium Enterprises"**, offering a comprehensive roadmap for transforming medium enterprises into future growth engines of India's economy. The report underscores key challenges faced by medium enterprises, including constrained access to tailored financial products, limited adoption of advanced technologies, inadequate R&D support, lack of sectoral testing infrastructure, and a mismatch between training programmes and enterprise needs. These limitations hinder their ability to scale and innovate.

To address these issues, the report outlines a comprehensive policy framework with targeted interventions across six priority areas:

- *Tailored Financial Solutions:* Introduction of a working capital financing scheme linked to enterprise turnover; a Rs.5 crore credit card facility at market rates; and expedited fund disbursal mechanisms through retail banks, overseen by the Ministry of MSME.
- *Technology Integration and Industry 4.0:* Upgradation of existing Technology Centers into sector-specific and regionally customized India SME 4.0 Competence Centers to promote the adoption of Industry 4.0 solutions.
- *R&D Promotion Mechanism:* Establishment of a dedicated R&D cell within the Ministry of MSME, leveraging the Self-Reliant India Fund for cluster-based projects of national significance.
- *Cluster-Based Testing Infrastructure:* Development of sector-focused testing and certification facilities to ease compliance and enhance product quality.
- *Custom Skill Development:* Alignment of skilling programmes with enterprise-specific needs by region and sector, and integration of medium enterprise-centric modules into existing Entrepreneurship and Skill Development Programmes (ESDP).
- *Centralized Digital Portal:* Creation of a dedicated sub-portal within the Udyam platform featuring scheme discovery tools, compliance support, and AI-based assistance to help enterprises navigate resources effectively.

The report emphasizes that unlocking the potential of medium enterprises requires a shift toward inclusive policy design and collaborative governance. With strategic support in finance, technology, infrastructure, skilling, and information access, medium enterprises can emerge as the drivers of innovation, employment, and export growth. This transformation is pivotal to realizing the vision of Viksit Bharat @2047.

## LESSON ROUNDUP

**1. Functions of Financial Market**

- Financial markets connect **savers and investors**, provide **liquidity**, manage **risk**, and help in **price discovery**, supporting overall economic growth.

**2. Overview of Indian Financial Ecosystem**

- The Indian financial system includes **organized** (banks, NBFCs, stock exchanges) and **unorganized** sectors (moneylenders).
- Regulated by **RBI, SEBI, IRDAI, PFRDA**, it ensures stability, transparency, and efficiency.

**3. Growth of Financial Institutions**

- Financial institutions have evolved post-liberalization to offer **diverse financial services,** promote **inclusive growth**, and support industry and entrepreneurship.

**4. IFCI & SIDBI**

- **IFCI** provides long-term industrial finance.
- **SIDBI** supports MSMEs through **credit, refinance, and development initiatives,** promoting entrepreneurship.

**5. Co-Operative Banks**

- Serve small borrowers, farmers, and local businesses.
- Operate on principles of **mutual help, democratic governance, and profit-sharing.**

**6. NBFCs**

- Provide **credit and financial services** without a banking license.
- Important for **financial inclusion,** offering loans, asset financing, and investment services.

**7. Capital Market Basics**

- Long-term finance market comprising **primary (new issues)** and **secondary (trading)** markets.
- Facilitates **fund-raising for companies** and investment opportunities for the public.

**8. Shares and Debentures**

- **Equity shares**: ownership and voting rights.
- **Preference shares**: priority in dividend and capital repayment.
- **Debentures**: debt instruments with fixed interest, offering an alternative to equity financing.

**9. Preference Shares & Debentures**

- Preference shares may be **cumulative, non-cumulative, redeemable, or convertible.**
- Debentures can be **convertible, non-convertible, secured, or unsecured**, providing companies with flexibility in raising funds.

**10. Financial Assistance for SMEs and Startups**

- Offered by **SIDBI, NABARD, commercial banks**, and government schemes.
- Includes **term loans, working capital finance, venture capital, and subsidies,** encouraging entrepreneurship, innovation, and employment.

## TEST YOURSELF

1. What is the role of financial markets in an economy? Explain how financial markets help in mobilizing savings, providing liquidity, managing risk, and discovering prices.
2. Describe the structure of the Indian financial system. Differentiate between the organized and unorganized sectors. Also mention the role of RBI, SEBI, IRDAI, and PFRDA.
3. Explain the functions and importance of development financial institutions in India. Describe the objectives and roles of IFCI and SIDBI in promoting industries and MSMEs.
4. What are cooperative banks? Explain their structure and functions. How do they contribute to providing credit to rural areas and small borrowers? Also differentiate between NBFCs and commercial banks.
5. What is capital market? Distinguish between primary and secondary markets. Explain the different types of shares, preference shares, and debentures along with their key features.

## LIST OF FURTHER READING

**1. Textbooks and Official Sources**

- **CBSE Skill Education Curriculum (Financial Markets Management, Class XII)**
- Published by: *Central Board of Secondary Education (CBSE)*

- https://cbseacademic.nic.in
- **NCERT Economics (Class XII)** — *Introductory Macroeconomics*
- Chapters on *Money and Banking* and *Government Budget and the Economy* provide foundational understanding.
- https://ncert.nic.in
- **National Skill Development Corporation (NSDC)**
- *Sector Skill Council for BFSI (Banking, Financial Services, and Insurance)* — reference material for skill-based learning.
- https://nsdcindia.org

**2. Standard Reference Books**

- **Full Marks – Financial Markets Management (Class XII)**
- Publisher: Full Marks Pvt. Ltd.
  - Aligned with the CBSE syllabus.
  - Includes theory, activities, and MCQs.
- **Financial Markets Management – Class XII**
- Author: *Harsha Jarani*
- Publisher: *New Saraswati House Pvt. Ltd.*
  - Covers concepts of financial markets, instruments, and institutions with illustrations.
- **Skill Book – Financial Markets Management (Class XII)**
- Publisher: Full Marks Publications
  - Focuses on *practical knowledge* and *application-based understanding* of financial markets.

**3. Supplementary Reading (for deeper understanding)**

- **M.Y. Khan** – *The Indian Financial System: Markets, Institutions and Services*
- (McGraw Hill Education)
  - Comprehensive coverage of India's financial structure and institutional growth.
- **L.M. Bhole & Jitendra Mahakud** – *Financial Institutions and Markets: Structure, Growth and Innovations*
- (McGraw Hill Education)
- **Anthony Saunders & Marcia Millon Cornett** – *Financial Markets and Institutions*
- (McGraw Hill)
  - Provides an international and comparative view of financial systems.

**4. Online Resources**

- **RBI Official Website:** https://rbi.org.in – for authentic information on financial regulation, NBFCs, and co-operative banks.
- **SEBI Official Website:** https://sebi.gov.in – for updates on capital market, shares, and debentures.
- **SIDBI Official Website:** https://sidbi.in – for financial assistance to MSMEs and startups.
- **NABARD:** https://nabard.org – for rural credit and development finance.

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- https://www.india.gov.in/spotlight/startup-india-seed-fund-scheme-sisfs
- https://pib.gov.in/PressReleasePage.aspx?PRID=2002570
- https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12487
- https://banklaw.in/manage/images/services/1556052828RBI-HandbookofRegulationsataglance-27.2.2025-3-76.pdf
- https://www.pib.gov.in/PressNoteDetails.aspx?NoteId=154660#:~:text=India%20became%20the%204th%20largest,the%20lowest%20since%202018%E2%80%9319.

# Indian Economy

Lesson 5

## KEY CONCEPTS

■ Agriculture forms the base of India's economy, employing the largest workforce ■ Allied activities: Animal husbandry, fisheries, forestry, and mining ■ Contributes to food security, raw material supply, and exports ■ Importance of Green Revolution, irrigation, and modern techniques ■ Challenges: Dependence on monsoon, small land holdings, and low productivity ■ Involves conversion of raw materials into finished goods ■ Divided into small, medium, and large-scale industries ■ Contributes to industrialization, urbanization, and employment ■ Startup India ■ Services ■ BoP is a record of all international transactions between residents ■ FDI ■ FPI ■ IFSCA

## Learning Objectives

**To understand:**

- Understand the role and significance of agriculture in India's economic structure.
- Identify the components of the primary sector — agriculture, forestry, fisheries, and mining.
- Explain how agriculture contributes to employment, GDP, and exports.
- Examine major challenges and reforms in the agricultural sector.
- Recognize the impact of technology and government policies on agricultural productivity
- Understand the importance of manufacturing in promoting industrial and economic growth.
- Describe the classification of industries (small, medium, large-scale).
- Explain the role of industrial policies and liberalization in manufacturing growth.
- Analyze challenges faced by the manufacturing sector, such as infrastructure and capital constraints.
- Appreciate initiatives like Make in India and PLI schemes aimed at strengthening manufacturing.
- Identify major components of the service sector.
- Understand the contribution of services to India's GDP and employment.
- Recognize the role of IT, communication, transport, and finance in economic development.
- Examine the impact of globalization and digital transformation on services.
- Evaluate how the service sector supports other economic sectors.
- Understand the objectives and scope of major government economic programs.
- Explain how government schemes promote inclusive growth and development.
- Identify key initiatives in agriculture, industry, and services.
- Evaluate the role of government in encouraging entrepreneurship, employment, and innovation.

- Recognize the importance of public policy in ensuring balanced economic development.
- Define and understand the structure of the Balance of Payments.
- Differentiate between Current Account and Capital Account transactions.
- Interpret the causes and effects of BoP surplus and deficit.
- Understand the importance of foreign exchange reserves and external stability.
- Analyze India's BoP trends and their impact on the economy.
- Define MSME and explain its classification criteria.

## Lesson Outline

- Primary (Agriculture and Allied Activities)
- Secondary (Manufacturing)
- Tertiary (Services)
- Government Initiatives
- Balance of Payments
- Overview of MSME Sector

## INTRODUCTION

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

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

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

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

## PRIMARY (AGRICULTURE AND ALLIED ACTIVITIES)

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

There are two categories of primary industries:

### Genetic Industry

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

### Extractive Industry

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

### Primary Sector Classifications

Primary industries include the following:

**Farming:** Farmers cultivate plants and raise animals that may be utilised to produce food or other items on their

property. Agriculture is a primary-sector industry. It is the ability to make raw food using agricultural methods.

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

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

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

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

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

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

**Difference between Primary, Secondary and Tertiary Sectors**

| *Primary* | *Secondary* | *Tertiary* |
|---|---|---|
| The agricultural and allied sector services are known as the Primary Sector. | The manufacturing sector is known as the Secondary Sector. | The service sector is known as the Tertiary Sector. |
| Raw materials for goods and services are provided for the Primary Sector. | Secondary sector changes one goods into another by building more from it | This sector provides services to both the primary and secondary sector |
| The primary sector uses traditional techniques and is mostly unorganised. | The secondary sector uses more reliable methods of production and is organised. | This sector uses modern-day logistics methods to execute its functions and is well organised. |
| This sector consists of forestry, agriculture and mining activities. | It involves manufacturing units, large firms, small scale units and multinational organisations. | Insurance trade, Banking and communications come under this sector. |
| In comparison to other developed nations, India has a large workforce employed. | The employment rate is in balance, as a specific set of skills is needed to find a workforce in this sector | This sector's employment share has developed in the ensuing years. |

## Current Scenario of Agriculture and allied activities in India

**AGRICULTURE HAS BEEN CONSIDERED AS THE 1ST ENGINE OF DEVELOPMENT IN THE UNION BUDGET 2025-2026**

- *Prime Minister Dhan-Dhaanya Krishi Yojana - Developing Agri Districts Programme*: The programme to be launched in partnership with the states, covering 100 districts with low productivity, moderate crop intensity and below-average credit parameters, to benefit 1.7 crore farmers.
- *Building Rural Prosperity and Resilience*: A comprehensive multi-sectoral programme to be launched in partnership with states to address under-employment in agriculture through skilling, investment, technology, and invigorating the rural economy. Phase-1 to cover 100 developing agri-districts.
- *Aatmanirbharta in Pulses*: Government to launch a 6-year "Mission for Aatmanirbharta in Pulses" with focus on Tur, Urad and Masoor. NAFED and NCCF to procure these pulses from farmers during the next 4 years.
- *Comprehensive Programme for Vegetables & Fruits*: A comprehensive programme to promote production, efficient supplies, processing, and remunerative prices for farmers to be launched in partnership with states.
- *Makhana Board in Bihar*: A Makhana Board to be established to improve production, processing, value addition, and marketing of makhana.
- *National Mission on High Yielding Seeds*: A National Mission on High Yielding Seeds to be launched aiming at strengthening the research ecosystem, targeted development and propagation of seeds with high yield, and commercial availability of more than 100 seed varieties.
- *Fisheries*: Government to bring a framework for sustainable harnessing of fisheries from Indian Exclusive Economic Zone and High Seas, with a special focus on the Andaman & Nicobar and Lakshadweep Islands.
- *Mission for Cotton Productivity*: A 5-year mission announced to facilitate significant improvements in productivity and sustainability of cotton farming, and promote extra-long staple cotton varieties.
- *Enhanced Credit through KCC*: The loan limit under the Modified Interest Subvention Scheme to be enhanced from ₹ 3 lakh to ₹ 5 lakh for loans taken through the KCC.
- *Urea Plant in Assam*: A plant with annual capacity of 12.7 lakh metric tons to be set up at Namrup, Assam.

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

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

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

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

## SECONDARY (MANUFACTURING)

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

Types of secondary sector industries:

a) **Heavy industry**: Involves large-scale production with heavy machinery, such as steel and automobiles manufacturing.

b) **Light industry**: Typically involves less capital-intensive, consumer-oriented manufacturing, like clothing and small electronics.

c) **Craft industry:** Small-scale production focusing on handmade goods.

d**)** **Processing industry**: Converts raw materials into a finished product, like oil refining or food processing.

The secondary sector includes the following business activities:

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

8. **Paper and Pulp Industry**: The paper and pulp industry involves the production of paper, cardboard, and other paper-based products. It includes processes such as pulping, papermaking, and paper finishing.
9. **Plastics and Rubber Manufacturing**: Plastics and rubber manufacturing involve the production of plastic and rubber products for various applications, including packaging, automotive parts, consumer goods, and industrial components.
10. **Textile Machinery Manufacturing**: While textiles are already mentioned, textile machinery manufacturing is a crucial industry that produces machinery and equipment used in textile production processes such as spinning, weaving, knitting, dyeing, and finishing.

## Major Investments

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

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

- MSMEs have been considered as the 2nd Engine of Development in the Union Budget 2025 - 2026
- Revision in classification criteria for MSMEs: The investment and turnover limits for classification of all MSMEs to be enhanced to 2.5 and 2 times respectively.
- Credit Cards for Micro Enterprises: Customized Credit Cards with ₹ 5 lakh limit for micro enterprises registered on Udyam portal, 10 lakh cards to be issued in the first year.
- Fund of Funds for Startups: A new Fund of Funds, with expanded scope and a fresh contribution of ₹ 10,000 crore to be set up.
- Scheme for First-time Entrepreneurs: A new scheme for 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs to provide term-loans upto ₹ 2 crore in the next 5 years announced.
- Focus Product Scheme for Footwear & Leather Sectors: To enhance the productivity, quality and competitiveness of India's footwear and leather sector, a focus product scheme announced to facilitate employment for 22 lakh persons, generate turnover of ₹ 4 lakh crore and exports of over ₹ 1.1 lakh crore.
- Measures for the Toy Sector: A scheme to create high-quality, unique, innovative, and sustainable toys, making India a global hub for toys announced.
- Support for Food Processing: A National Institute of Food Technology, Entrepreneurship and Management to be set up in Bihar.
- Manufacturing Mission - Furthering "Make in India": A National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" announced.

## Major Government Initiatives

The recent major government initiatives announced are as under:

### 1. Transforming India's agricultural and dairy sectors:

On March 19, 2025, the Union Cabinet took two key decisions to further the development of agriculture, dairying and animal husbandry in India. Agriculture, animal husbandry, and dairying are the cornerstone of India's

economy. The Union Cabinet approved the Revised National Program for Dairy Development (NPDD), a Central Sector Scheme, with an additional budget of ₹1,000 crore, bringing the total to ₹2,790 crore for the 15th Finance Commission period (2021-22 to 2025-26).

Key Objectives of the Revised NPDD:

- Improved milk procurement, processing capacity, and quality control.
- Enhanced market access for farmers and better pricing through value addition.
- Strengthening of the dairy supply chain to increase rural income and development.

Components of the Revised NPDD:

a) Component A: Focuses on improving dairy infrastructure.

b) Component B: Dairying through Cooperatives (DTC) in partnership with Japan International Cooperation Agency (JICA).

Expected Outcomes of Revised NPDD:

- Establishment of 10,000 new Dairy Cooperative Societies.
- Additional 3.2 lakh employment opportunities, 70% benefiting women.

2. The Union Cabinet has also approved the Revised Rashtriya Gokul Mission (RGM) to boost the livestock sector, with an additional outlay of ₹1,000 crore, bringing the total budget to ₹3,400 crore for the 15th Finance Commission period (2021-22 to 2025-26).

Key Additions to the Revised RGM**:**

**a)** **Heifer Rearing Centres**: One-time assistance of 35% of capital cost for setting up 30 housing facilities for 15,000 heifers.

**b)** **Support for High Genetic Merit (HGM) Heifers**: 3% interest subvention on loans taken by farmers to purchase HGM IVF heifers from milk unions/financial institutions.

### 3. Government Scales Up PLI Budget to Accelerate Manufacturing

India's manufacturing sector is undergoing a transformative shift, driven by visionary policies aimed at redefining its global standing. At the heart of this transformation is the Production Linked Incentive (PLI) Scheme, a cornerstone of the government's strategy to establish India as a global manufacturing powerhouse while promoting innovation, efficiency, and competitiveness across key industries.

In a strong push to accelerate industrial growth, the Government has significantly increased budget allocations for key sectors under the PLI Scheme in 2025-26, reaffirming its commitment to strengthening domestic manufacturing. Several sectors have witnessed substantial hikes, with allocations for Electronics and IT Hardware soaring from ₹5,777 crore (revised estimate for 2024-25) to ₹9,000 crore, and Automobiles and Auto Components seeing a remarkable jump from ₹346.87 crore to ₹2,818.85 crore. The Textile sector has also received a major boost, with its allocation surging from ₹45 crore to ₹1,148 crore.

Launched in 2020, the PLI Scheme is more than just a policy; it is a strategic leap toward self-reliance. By targeting industries like electronics, textiles, pharmaceuticals, and automobiles, the initiative offers financial incentives tied directly to measurable outcomes such as higher production and incremental sales. This performance-driven approach not only attracts investments from domestic and global players but also encourages businesses to embrace cutting-edge technologies and achieve economies of scale.

| |
|---|
| Mobile Manufacturing and Specified Electronic Components |
| Critical Key Starting Materials/Drug Intermediaries & Active Pharmaceutical Ingredients |
| Manufacturing of Medical Devices |
| Automobiles and Auto Components |
| Pharmaceutical Drugs |
| Specialty Steel |
| Telecom & Networking Products |
| Electronic/Technology Products |
| White Goods (Air Conditioners and LEDs) |
| Food Products |
| Textile Products: MMF Segment and Technical Textiles |
| High Efficiency Solar PV Modules |
| Advanced Chemistry Cell (ACC) Battery |
| Drones and Drone Components |

## TERTIARY (SERVICES)

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

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

## Market of Services Sector

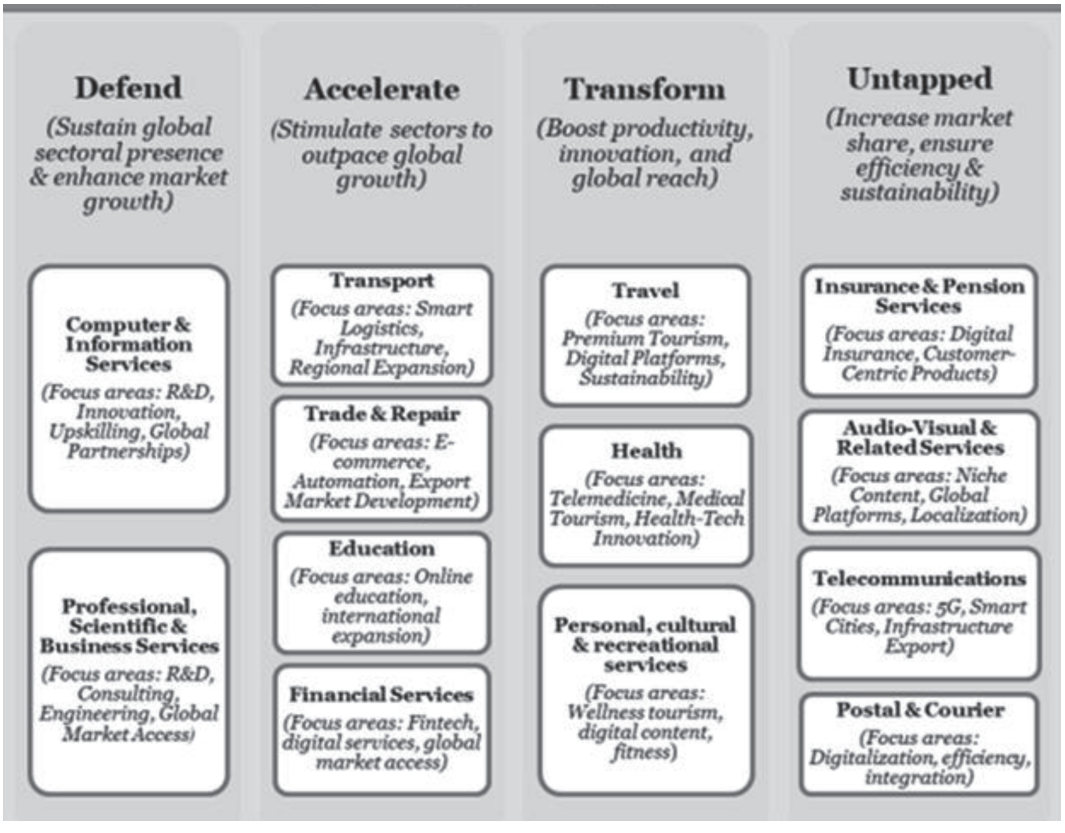
The services sector is not only the dominant sector in India's GDP but has also attracted significant foreign investment, has contributed significantly to exports and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants,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

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

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

## CURRENT SCENARIO OF SERVICE SECTOR IN INDIA

- India's service sector has continued its strong growth trajectory in 2025, demonstrating a notable recovery in February. The **HSBC India Services Purchasing Managers' Index (PMI)**, complied by S&P Global, rose to 59.0 from 56.5 in January, which had marked its lowest level in over two years. The service PMI report published on March 5, 2035, attributes this resurgence to a sharp rise in new business orders, both domestically and internationally, driving increased output and a significant boost in employment.
- India's central government has made a note of its service sector's positive performance. As of January 2025, the sector contributes over 50 percent to India's gross value added (GVA), amounting to approximately US$1.4 trillion in FY2022-23. This share is projected to increase to 56 percent by 2047, driven by continued investment in technology, infrastructure, and skill development.
- India's think tank agency, NITI Aayog, has said that the country's services sector is shifting toward high-tech digital solutions, including e-commerce, fintech, cloud computing, and AI-driven services. This surge in adoption of high-tech digital solutions can be attributed to the rise in establishment of global capability centers (GCC), which provide outsourced technology and business functions.
- NITI Aayog working paper on "Identifying Potential Service Sub-Sectors: Insights from GVA, Exports, and Employment Data" studies the potential of services in transforming the Indian economy from various dimensions such as the contribution to output /value added, employment and exports. Based on the analysis of the performance of the various service sub-sectors on these key dimensions, the Survey classifies services into four categories, each with its own set of policy recommendations: defend, accelerate, transform, and untapped.




- According to Goldman Sachs, the potential for India's share of global insurance and financial services is likely to rise by 2030. Indian states are registering record GVA growth in sectors like computer, transport, and professional services, with Maharashtra, Karnataka, and Tamil Nadu leading the way.
- The central government-backed AI and digital infrastructure initiatives, such as the INR 5 billion (US$57.2 million) investment in AI Centers of Excellence and the National Geospatial Mission, are also reportedly influencing India's position as a leader in digital services.
- India's services sector continues to attract strong foreign investments, solidifying its position as a key driver of economic growth. According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows reached US$40.67 billion in FY2024-25 (April-December), with the services sector accounting for US$7.22 billion of the total.
- From April 2000 to December 2024, India's total FDI amounted to US$719.65 billion, of which the service sector contributed US$116.72 billion, approximately 16 percent of the overall FDI inflow in the country. This significant investment underscores the growing confidence of foreign investors in India's economic potential and the increasing importance of the service sector in driving growth.
- To further attract foreign investments into India's service sector, the Union Budget FY2025-26 introduced a key reform in the insurance sector, raising the FDI cap from 74 percent to 100 percent. This policy change makes market entry easier for global players and enhances capital inflows into the sector.
- India's share in global services exports has been steadily rising for the last two decades. This has helped compensate the impact of oscillation in the share of merchandise exports in global merchandise exports to some extent. India ranks seventh globally, representing a 4.3% share in the global services export.
- India's Global Capability Centres (GCCs) are emerging as strategic hubs reshaping the Indian corporate

landscape while influencing global business dynamics. The number of GCCs in India has grown from approximately 1430 in FY19 to over 1700 in FY24. As of FY24, GCCs in India employ nearly 1.9 million professionals.

- India's telecom sector is expanding with the smart phone boom, surging data consumption, and the advent of technologies like 5G. India stands as the second largest telecommunications market, with over 1.18 billion telephone subscribers, an overall teledensity of 84%, and 941 million broadband users as of 31st October, 2024. The country also leads in mobile data consumption per subscriber and offers the world's most affordable data rates. The average monthly wireless data usage per user in FY24 grew to 19.3 GB, up from 12.1 GB in FY21.
- As per annual survey of unincorporated sector enterprises 2022-23, the number of estimated enterprises belonging to the unincorporated sector stands at 6.5 crore. 72.6% of these enterprises operate in the service sector. These enterprises, though contributing to the overall development of the economy in terms of employment and income, are losing out on benefits normally offered by incorporation, the Survey says.

## Challenges to be addressed in Service Sector

Despite the positive growth of India's service sector over the past decade, several challenges hinder its full potential. One of the concerns is the workforce skill gap in the country, where a disconnect between industry demands and the availability of skilled professionals in IT, artificial intelligence (AI), and financial services poses a constraint on growth.

Another significant challenge is regulatory complexity, as frequent policy changes and varying taxation and compliance requirements across states create uncertainties for businesses. These regulatory inconsistencies can slow investment and expansion efforts.

Additionally, infrastructure bottlenecks remain a key issue, particularly in major business hubs such as Bengaluru. Urban congestion, inadequate digital infrastructure and limited resources can hamper business operations and restrict scalability.

One may note that the sector also faces global market risks, with a high dependence on outsourcing and exports, making it vulnerable to geopolitical disruptions and protectionist policies in major markets.

## Strategic recommendations for businesses

1. Indian companies must evaluate the possibility of expanding digital service exports beyond traditional markets such as the U.S. and Europe. Tapping into emerging economies in Southeast Asia, Africa, and Latin America can unlock new opportunities. Additionally, fostering global partnerships in AI, fintech, and IT-enabled services will drive innovation and enhance competitiveness.
2. The private sector must invest in workforce development in the country by aligning corporate training programs with government-led STEM education initiatives. This includes providing training to employees with future-ready skills through advanced learning platforms, including AI-driven training modules.
3. Leveraging public-private collaboration is also essential. Strong partnerships between businesses and central and state government agencies in sectors such as transport, education, and healthcare can accelerate business growth. Investments in infrastructure and smart-city projects will integrate digital and physical services more effectively.
4. Furthermore, businesses must expand beyond metro-cities to capitalize on emerging opportunities in Tier 2 and Tier 3 cities. With central government initiatives like BharatNet and rural connectivity

programs, expanding operations into these regions can unlock new markets and foster inclusive economic development.

## GOVERNMENT INITIATIVES

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

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

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

  PM-Ayushman Bharat Health Infrastructure Mission (PM-ABHIM) was launched by Hon'ble Prime Minister of India with an outlay of Rs.64,180 crore. The measures under the PM-ABHIM focus on developing capacities of health systems and institutions across the continuum of care at all levels, primary, secondary and tertiary, to prepare health systems in responding effectively to the current and future pandemics /disasters.Under PM-ABHIM provision have been made for construction and strengthening of 730 Integrated Public Health Labs (IPHLs), 3382 Block Public Health Units (BPHU) and 602 Critical Care Blocks (CCBs) during the scheme period.
- Tourism for employment-led growth: Top 50 tourist destination sites in the country to be developed in partnership with states through a challenge mode.
- Research, Development and Innovation: ₹20,000 crore to be allocated to implement private sector driven Research, Development and Innovation initiative announced in the July Budget.

- Deep Tech Fund of Funds: Deep Tech Fund of Funds to be explored to catalyze the next generation startups.
- PM Research Fellowship: 10,000 fellowships for technological research in IITs and IISc with enhanced financial support.
- Gene Bank for Crops Germplasm: 2nd Gene Bank with 10 lakh germplasm lines to be set up for future food and nutritional security.
- FDI in Insurance Sector: The FDI limit for the insurance sector to be raised from 74 to 100 per cent, for those companies which invest the entire premium in India.
- Credit Enhancement Facility by NaBFID: NaBFID to set up a 'Partial Credit Enhancement Facility' for corporate bonds for infrastructure.
- Grameen Credit Score: Public Sector Banks to develop 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.
- Pension Sector: A forum for regulatory coordination and development of pension products to be set up.
- High Level Committee for Regulatory Reforms: A High-Level Committee for Regulatory Reforms to be set up for a review of all non-financial sector regulations, certifications, licenses, and permissions.
- Investment Friendliness Index of States: An Investment Friendliness Index of States to be launched in 2025 to further the spirit of competitive cooperative federalism anounced.
- Jan Vishwas Bill 2.0: The Jan Vishwas Bill 2.0 to decriminalize more than 100 provisions in various laws.

## Agricultural and Industrial Policies of India

### (A) Agricultural Polices

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

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

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

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

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

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

It focused on industrial growth and only 20 per cent of plan allocation was devoted to agriculture. Still food-grains production exceeded the target due to extension of irrigation facilities and use of chemical fertilizers.

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

The priorities were on self-sufficiency in food grains, meeting the raw material needs of industries

and increase in ex-ports. During this period, Green Revolution programme was started on a small scale. But this plan failed to meet the target due to Chinese aggression (1962), Indo-Pak war (1965) and severe and prolonged drought during 1965-66.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The 11th Five Year Plan (2007–12) emphasised 'Inclusive growth' to achieve a target growth of 4 per cent per annum in GDP from agriculture and allied services.

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

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

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

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

**Industrial Policies**

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

**(1) Industrial Policy Resolution 1948**

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

**Salient Features of Industrial Policy, 1948**

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

**(i) Strategic Industries (Public Sector) :**

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

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

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

**(iii) Important Industries (Controlled Private Sector) :**

Eighteen industries were kept in the “Important Industries” category. Such important industries

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

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

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

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

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

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

**Provisions of the Act**

The act laid down two provisions:

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

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

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

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

**(4) Industrial Policy of India, 1991**

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

***Features of Industrial Policy 1991***

1. **Strengthening of Private Sector**
2. **Dismantling of controls**
3. **Dispersing Industries**
4. **Limiting role of public sector**
5. **Liberalization of foreign investments**
6. **Foreign technology had been made easy by allowing automatic approvals for technology related agreements**
7. **Promotion of Small Scale Industries (SSI)**
8. **Domestic Regulatory Reforms**
9. **Abolition of Industrial Licensing:**

**Industry-I (NITI Aayog):**

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

***Core functions of Industry-I***

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

## BALANCE OF PAYMENTS

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

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

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

The formula is

**X - M = TB,**

where:

X = Exports

M = Imports

TB = Trade Balance

## Structure of Balance of Payments

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

## Current Account

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

## Capital Account

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

## Financial Account

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

## Favourable and Unfavourable Balance of Trade

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

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

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

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

## Union Budget 2025-2026: Measures to strengthen International Trade

1. *Tax Benefits and the Production-Linked Incentive (PLI) Schemes*: The Union Budget 2025-26 introduced a series of incentives and structural reforms aimed at enhancing India's role in global trade. With a strong emphasis on export-oriented growth, the government is prioritizing domestic manufacturing to reduce import dependency while simultaneously strengthening export incentives through tax benefits, subsidies and the Production-Linked Incentive (PLI) schemes. A key focus of the budget is on expanding Free Trade Agreements (FTAs) with major trade partners to boost market access for Indian exporters.

   To support this agenda, the government has allocated ₹2,250 crore under the Export Promotion Mission to facilitate Indian businesses in international markets. Additionally, ₹1,615 crore has been earmarked for the pharmaceutical industry to enhance India's global standing in the sector, while ₹2,300 crore has been directed towards the Biotechnology Research, Innovation and Entrepreneurship Development (Bio-RIDE) program, aimed at fostering biotech exports. These measures are expected to strengthen India's global trade competitiveness and accelerate its transition into a leading export-driven economy.

2. *Strategy to Balance Exports and Imports*: In line with its export-driven strategy, the budget also places a strong emphasis on reducing the trade deficit by strategically managing imports while boosting exports in high-value sectors such as pharmaceuticals, automobiles and information technology. To control the outflow of foreign exchange, the government has increased import duties on luxury goods and select raw materials, discouraging non-essential imports.

   Simultaneously, the budget expands support for Micro, Small and Medium Enterprises (MSMEs) to strengthen their participation in global markets. Several key sectors, including engineering goods, textiles, electronics, semiconductors, pharmaceuticals and processed food products, are expected to benefit from export-friendly incentives and subsidies. On the import front, the government is actively reducing reliance on foreign goods by encouraging domestic manufacturing and improving supply chain infrastructure, ensuring that India moves towards a more self-reliant and resilient trade ecosystem. These measures collectively strengthen India's global trade positioning, making it a more competitive and sustainable player in the international market.

3. *Infrastructure Investments*: A strong trade infrastructure is essential for reducing logistics costs and improving export efficiency. Recognizing this, the budget has allocated ₹1.70 lakh crore to the National Highways Authority of India (NHAI) to improve road connectivity to ports, ensuring faster transportation of export goods.

   Additionally, ₹31,239 crore has been allocated for metro projects, enhancing urban trade logistics and connectivity to industrial zones. A further ₹5,649 crore has been set aside for border infrastructure and connectivity projects, aimed at facilitating smoother trade with neighboring countries. The expansion of port infrastructure and logistics parks is expected to lower export costs, streamline trade operations and improve supply chain efficiency, making Indian goods more competitive in international markets.

4. *Export Growth through Small Businesses*: Recognizing the vital role of Micro, Small, and Medium Enterprises (MSMEs) in India's export ecosystem, the budget introduces measures to support their growth and global expansion. ₹9,000 crore has been allocated to the Guarantee Emergency Credit Line (GECL), ensuring working capital support for export-driven MSMEs. Additionally, the Prime Minister Employment Generation Programme (PMEGP) will receive ₹2,954 crore to help small businesses enter global markets, while ₹1,500 crore has been allocated under the Raising and Accelerating MSME Performance (RAMP) program to digitize trade operations and improve market access. These initiatives will enhance MSMEs' competitiveness, enabling them to participate more actively in global trade.

5. *Expanding Global Partnerships: Free Trade Agreements (FTAs) for Market Access*: The budget underscores India's commitment to strengthening bilateral and multilateral trade agreements. India is currently negotiating or implementing Free Trade Agreements (FTAs) with the European Union, the United Kingdom, the United Arab Emirates and Australia, aiming to open new market opportunities for Indian exporters. The key benefits of these FTAs include lower tariffs on Indian exports, easier access to foreign markets and increased foreign direct investment (FDI) in key industries. Sectors such as textiles, information technology, and pharmaceuticals are expected to benefit the most, as these agreements will reduce trade barriers and make Indian goods more cost-competitive on the global stage.
6. *Driving India's Global Trade Renaissance*: The Union Budget 2025-26 sets the stage for a bold transformation in India's global trade strategy. By harmonizing policy reforms, financial incentives and infrastructure development, the government is crafting a dynamic and resilient trade ecosystem that aligns with evolving global economic realities. With targeted customs duty adjustments, expansion of PLI schemes and strategic investments in trade logistics, India is not just reacting to global trends but actively reshaping its role in international commerce.

## Foreign Investments in India: Types and Flows

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

### Major Types of Foreign Investments

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

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

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

**Foreign Direct Investment (FDI)**

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

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

**Benefits for businesses:**

- Market diversification
- Tax incentives
- Lower labor costs

- Preferential tariffs
- Subsidies

**Benefits for the host country:**

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

**Foreign Portfolio Investment (FPI)**

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

**Foreign Institutional Investment (FII)**

Foreign Institutional Investment (FII) is an investment by foreign entities in securities, real property and other investment assets. Investors include mutual fund companies, hedge fund companies etc. The intention is not to take controlling interest, but to diversify portfolio ensuring hedging and to gain high returns with quick entry and exit. As defined by the European Union Foreign Institutional Investment is an investment in a foreign stock market by the specialized financial intermediaries managing savings collectively on behalf of investors, especially small investors, towards specific objectives in term of risk, return and maturity of claims.

FII is an institution like a mutual fund, insurance company, pension fund etc. According to SEBI, “an FII is an institution established or incorporated outside India which proposes to make investments in India in securities”. FII is an institution who is registered under the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995. FIIs comprised of a pension fund, a mutual fund, investment trust, insurance company or a reinsurance company.

**Following are the few types of FIIs investing in India:**

- Hedge Funds
- Foreign Mutual Funds
- Sovereign Wealth Funds
- Pension Funds
- Trusts
- Asset management Companies
- Endowments, University Funds, etc.

**Differences between FDI and FII**

| ***Basis for Comparison*** | ***FDI*** | ***FII*** |
|---|---|---|
| Meaning | When a company situated in one country makes an investment in a company situated abroad, it is known as FDI. | FII is when foreign companies make investments in the stock market of a country. |
| Entry and Exit | Difficult | Easy |
| What it brings? | Long term capital | Long/Short term capital |
| Transfer of | Funds, resources, technology, strategies, know-how etc. | Funds only. |
| Economic Growth | Yes | No |
| Consequences | Increase in country's Gross Domestic Product (GDP). | Increase in capital of the country. |
| Target | Specific Company | No such target, investment flows into the financial market. |
| Control over a company | Yes | No |

*Source: keydifferences.com*

**Difference between FDI and FPI**

| ***Basis for Comparison*** | ***FDI*** | ***FPI*** |
|---|---|---|
| Meaning | FDI refers to the investment made by the foreign investors to obtain a substantial interest in the enterprise located in a different country. | When an international investor, invests in the passive holdings of an enterprise of another country, i.e. investment in the financial asset, it is known as FPI. |
| Role of investors | Active | Passive |
| Degree of control | High | Very less |
| Term | Long term | Short term |
| Management of Projects | Efficient | Comparatively less efficient. |
| Investment in | Physical assets/intangible assets | Financial assets |
| Entry and exit | Difficult | Relatively easy. |
| Results in | Transfer of funds, technology and other resources. | Capital inflows |

*Source: keydifferences.com*

# INTERNATIONAL FINANCIAL SERVICES CENTRE AUTHORITY (IFSCA) - GENESIS, GROWTH AND GOVERNANCE

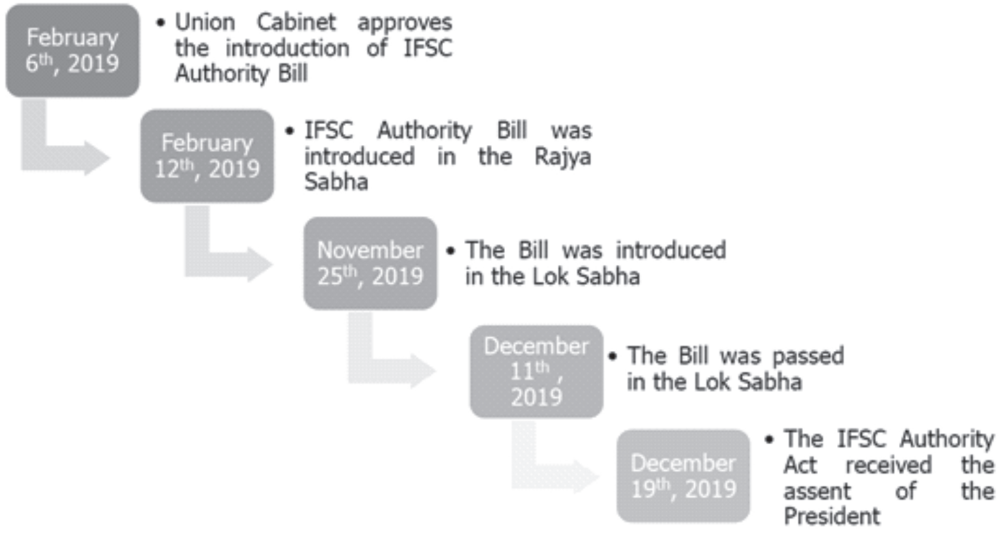
## Genesis

In the year 2007, the Percy Mistry Committee Report had explored the idea of setting up an IFSC in India and had suggested the setting up of an International Financial Centre. The report recommended for the reform of the Indian financial system and suggested that India had the enormous potential as a cost-efficient, competitive producer of International Financial Services (IFS). It found a gap between the present capabilities of Indian financial firms and the requirements of the world IFS market. However, the plan was subsequently abandoned due to the 2008 global financial crisis.

Further, a concept paper on the establishment of finance SEZs, submitted by the National Institute of Public Finance and Policy to the Ministry of Finance, also recognized that the existing financial and taxation regimes are the main reasons which have caused the global business to shift from India to countries like Singapore and Dubai, which provide a beneficial business environment. In order to combat this, it advocated on the establishment of a new financial regulatory framework either through enacting and enforcing a `Finance SEZ Act', or an IFSC. In Budget 2015, the establishment of the GIFT City was announced by the Union Minister of Finance in his budget speech (2015-2016). The relevant extract of the speech is as under:

*"While India produces some of the finest financial minds, including in international finance, they have few avenues in India to fully exhibit and exploit their strength to the country's advantage. GIFT in Gujarat was envisaged as International Finance Centre that would actually become as good an International Finance Centre as Singapore or Dubai, which, incidentally, are largely manned by Indians. The proposal has languished for years. I am glad to announce that the first phase of GIFT will soon become a reality."*

## Timelines




## SEZ Framework and IFSCA

Special Economic Zones (SEZs) aim to attract Foreign Direct Investment (FDI) and improve the economy by exporting products and services and finding market globally. They are specifically defined areas where units may be set up for specified purposes of manufacturing or trading or rendering services or providing warehousing

facility for export. SEZs are treated as a foreign territory for the purposes of trade operations, duties and tariffs, i.e., goods and services going into SEZ are treated as exports and goods and services coming from the SEZ as imports. SEZs provide easy access to global trading hubs that facilitates the flow of capital, movement of goods and economies of scale, all of which are critical for success of an SEZ.

To attract FDI and overcome the shortcomings experienced in terms of governance, infrastructure, etc., in the year 2000, Ministry of Commerce and Industries announced the SEZ policy. After this, in year 2005, the Government passed the SEZ Act, 2005 supported by SEZ Rules, 2006.

GIFT is conceptualized as a global Financial and IT Services hub, a first of its kind in India, designed to be at or above par with globally benchmarked financial centers such as Shinjuku, Tokyo, Lujiazui, Shanghai, La Defense, Paris, London Dockyards etc. GIFT Master Plan facilitates Multi Services SEZ with IFSC (International Financial Services Centre) status, Domestic Finance Centre and associated social infrastructure.

"GIFT SEZ Limited" has been formed for development of Multi Services SEZ at Gandhinagar with the prime focus on development of IFSC and allied activities in SEZ. It is pertinent to note that the primary focus of the Multi Services SEZ will be on financial services. The core objectives of developing IFSC in GIFT Multi Services SEZ are as under:

- To realize the vision of the Government of India to emerge as a major economic power by facilitating development of strong base of International Financial Services in the country.
- Facilitate the implementation of the Government's strategy for the development of a financial hub in the South Asian sub-continent.
- Position the IFSC as a world-class zone for the long-term provision of office/service accommodation and high technological, economical and commercial infrastructure.

The Government of India operationalized International Financial Services Centre (IFSC) at GIFT Multi Services SEZ in April 2015. The Union Budget 2016 provided competitive tax regime for the International Financial Services Centre at GIFT SEZ. It is the vision of the Hon'ble Prime Minister that GIFT SEZ International Financial Services Centre emerges as a hub for international financial services activities.

As per Section 2(q) of SEZ Act, 2005, "International Financial Services Centres" means an International Financial Services Centre which has been approved by the Central Government under sub-section (1) of Section 18 of SEZ Act, 2005.

Section 18(1) of SEZ Act, 2005 states that the Central Government may approve the setting up of an International Financial Service Centre in a Special Economic Zone and may prescribe the requirements for setting up and operation of such centre. However, the Central Government shall approve only one International Financial Services Centre in a Special Economic Zone.

Further, Section 18 (2) of SEZ Act, 2005 states that the Central Government may, subject to such guidelines as may be framed by the Reserve Bank, the Securities and Exchange Board of India, the Insurance Regulatory and Development Authority and such other concerned authorities, as it deems fit, prescribe the requirements for setting up and the terms and conditions of the operation of Units in an International Financial Services Centre.

## About International Financial Services Centre Authority (IFSCA)

The first International Financial Services Centres Authority (IFSCA) has been established on April 27, 2020 under the International Financial Services Centres Authority Act, 2019 at GIFT City, Gandhinagar in Gujarat.

The Government of India implemented a major financial sector reform by establishing and operationalizing India's maiden International Financial Services Centre (IFSC) in Gujarat International Financial Tech City (GIFT City), Gujarat. The vision of the Government is to develop GIFT IFSC as a leading internationally recognized

financial centre with trusted business regulations, competitive tax structure, and ease of doing business. The IFSC has been designated as a special international financial jurisdiction, which is treated as a non-resident zone under Foreign Exchange Management (FEM) Regulations, thereby facilitating transactions in any freely convertible foreign currency.

The IFSCA is a unified authority for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centre (IFSC) in India. At present, the GIFT IFSC is the maiden international financial services centre in India. Prior to the establishment of IFSCA, the domestic financial regulators, namely, RBI, SEBI, PFRDA and IRDAI regulated the business in IFSC.

As the dynamic nature of business in the IFSCs requires a high degree of inter-regulatory coordination within the financial sector, the IFSCA has been established as a unified regulator with a holistic vision in order to promote ease of doing business in IFSC and provide world class regulatory environment. The main objective of the IFSCA is to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole.

The GIFT IFSC in Gujarat, according to the latest Global Financial Centers Index report (October 2025), ranks 43rd globally and placed among 15 centers globally expected to gain significance in the next two-three years. Operating as a special financial zone, it falls under offshore territory classification within Indian foreign exchange regulations, offering world- class financial services in various foreign currencies to both residents and non-residents. This pioneering IFSC in India presents diverse business opportunities spanning Banking, Capital Markets, Fund Management, Aircraft Leasing, Insurance, and more, rapidly becoming a preferred conduit for capital flows into and out of India.

## Goals and Objectives

The main objective of IFSCA is to develop and regulate financial services in the International Financial Services Centres (IFSCs) established in India, with a mandate to create a world-class financial ecosystem based on ease of doing business and to provide best in class regulatory system to make IFSCs in India a preferred global destination for international financial services.

As a unified financial regulator, having power to regulate banking, capital market, insurance and pension funds, which in domestic India are being regulated by RBI, SEBI, IRDAI and PFRDA respectively, and other related activities in IFSC, IFSCA adopts a holistic vision towards the development and regulation of financial products, financial services, and financial institutions in IFSCs in India. At present, the GIFT IFSC is the maiden International Financial Services Centre in India. The objectives of IFSCA include the following:

- To facilitate the development of a strong base of international financial services in the country
- To promote IFSCs as a dominant gateway for international capital flows into and out of India
- To emerge as a regional and global hub for international financial services
- To provide a state-of-the-art unified regulatory framework, with robust regulation and supervisory technology aligned with international best practices
- To develop a strong global connect with leading international financial jurisdictions.

## Business Advantage

GIFT IFSC aims to emerge as a global hub for a plethora of cross border financial services including banking, capital markets, fund management, insurance etc. It offers best-in-class regulatory and business environment that is benchmarked with global financial centres like Singapore, Hong Kong, London, New York etc.

The growth and development of GIFT IFSC, particularly in the recent years, has been nothing short of spectacular. GIFT IFSC is poised to emerge as one of the fastest growing IFSCs in the world and is also set to become one of the most preferred gateways for inbound and outbound financial services relating to India.

GIFT IFSC has several unique features that gives it a competitive edge. These include a unified financial regulator, attractive tax regime, availability of state-of the art infrastructure, access to large hinterland Indian economy, low cost of operations and the availability of skilled talent pool in India.

GIFT IFSC, therefore is well positioned to act as a catalyst to attract global capital that can fuel the growth and development of the Indian economy and has the potential to emerge as a cornerstone in India's strategic roadmap to achieve the Viksit Bharat Mission 2047.

## INDIA'S ECONOMIC TRANSFORMATION IN THE 21ST CENTURY

- India is the world's fourth-largest economy and the fastest-growing major economy.
- By 2030, India is projected to become the third-largest economy with a GDP of $7.3 trillion.
- Growth estimates for 2025–26: 6.3% to 6.8%, leading the world among major economies.

### Key drivers of growth:

- Decisive governance and visionary reforms.
- Stronger engagement with global markets.
- Robust domestic demand.
- Young and dynamic demographic profile.
- Sustained structural reforms in multiple sectors.

### Aatmanirbhar Bharat (Self-Reliant India) vision:

- Promotes innovation, entrepreneurship, and technological sovereignty.
- Initiatives like PLI schemes, revitalisation of MSMEs, and digital infrastructure expansion support high-growth opportunities.

### Focus on inclusive and equitable growth:

- Job creation and financial empowerment.
- Public investment to ensure benefits reach all sections of society.

India is now digital, green, aspirational, and future-ready, moving steadily towards global leadership.

### CPSEs: Catalysts of India's Economic Transformation

Central Public Sector Enterprises (CPSEs) play a critical role in India's economic and industrial development. As strategic national assets, they are not merely commercial entities but pillars of national growth, providing essential infrastructure, manufacturing capabilities, and services across a wide spectrum — from everyday household products like salt, tea, and paper to heavy machinery, electric vehicles, and components used in the construction of national infrastructure.

## LESSON ROUNDUP

**1) Primary Sector – Agriculture and Allied Activities**

- The **primary sector** forms the foundation of India's economy, employing the largest share of the population.
- Agriculture and allied activities provide **food security**, **raw materials**, and **exports**.
- Modernization through irrigation, technology, and government support has improved productivity.
- Despite progress, issues like **climate dependence**, **small holdings**, and **low income** persist.

**2) Secondary Sector – Manufacturing**

- The **manufacturing sector** adds value by converting raw materials into finished goods.
- It generates **employment**, promotes **industrialization**, and supports **exports**.
- Reforms and initiatives like **Make in India** and **PLI** have strengthened industrial growth.
- Key challenges remain in infrastructure, investment, and global competitiveness.

**3) Tertiary Sector – Services**

- The **services sector** is the fastest-growing part of India's economy, contributing the most to GDP.
- Includes trade, transport, banking, insurance, communication, education, and IT.
- Plays a vital role in **employment creation** and **technological advancement**.
- Globalization and digitalization have made India a major **services exporter**.

**4) Government Initiatives**

- The government promotes growth through **targeted schemes and policies** across all sectors.
- Agriculture-focused schemes (PM-KISAN, PMFBY), industrial drives (Make in India, Startup India), and service-sector missions (Digital India, Skill India) have driven progress.
- These initiatives promote **self-reliance, innovation, skill development**, and **employment**.
- Aim for **inclusive, sustainable, and technology-driven** economic development.

**5) Balance of Payments (BoP)**

- BoP records India's **economic transactions** with the rest of the world.
- It has two main components: **Current Account** and **Capital Account**.
- A surplus reflects a strong external position, while a deficit indicates higher outflows.
- Maintaining BoP stability ensures **currency stability** and **economic resilience**.
- Trade policies and foreign investment management play a key role in BoP health.

**6) Overview of MSME Sector**

- **MSMEs (Micro, Small, and Medium Enterprises)** are vital for India's growth and employment generation.
- They promote **entrepreneurship**, **innovation**, and **balanced regional development**.
- Strengthening MSMEs is essential for achieving **inclusive and sustainable economic growth**.

## TEST YOURSELF

1. Explain the important of primary industry? Discuss the classification of primary industry.
2. Discuss the difference between primary, secondary and tertiary sectors.
3. Explain the development of Agricultural and industrial polices in India?
4. Define industries. Distinguish between small, medium, and large-scale industries. Explain how industries contribute to industrialization, urbanization, and employment generation.
5. What is the Balance of Payments (BoP)? Differentiate between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). Also briefly explain the role of IFSCA.

## LIST OF FURTHER READING

**Textbooks and Curriculum**

**1. NCERT Economics – Introductory Macroeconomics (Class XII)**

- Chapters related to sectors of the economy, national income, and government initiatives.
- Official Source: https://ncert.nic.in

**2. CBSE Skill Education Curriculum – Financial Markets Management / Indian Economy Module**

- Provides learning objectives, exercises, and project guidelines.
- Official Source: https://cbseacademic.nic.in

**3. NCERT India: People and Economy (Geography – Class XII)**

- For understanding regional patterns of agriculture, industry, and services.
- https://ncert.nic.in/textbook.php?legy1=0-13

**Recommended Reference Books**

**1. Indian Economy – Ramesh Singh** (McGraw Hill Education)

- Comprehensive understanding of India's economic structure, reforms, and policies.

**2. Indian Economic Development – Sandeep Garg / TR Jain & VK Ohri**

- Class 12-specific textbook aligned with CBSE syllabus; includes exercises, case studies, and current data.

**3. Indian Economy – Uma Kapila**

- Analytical perspective on post-reform growth, sectors, and government initiatives.

**Official Reports and Government Sources**

**1. Economic Survey of India (Latest Edition)**

- Published annually by the **Ministry of Finance**, Government of India.
- Source: https://www.indiabudget.gov.in/economicsurvey

**2. NITI Aayog Reports and Strategy Documents**

- For understanding policy reforms and sectoral development.
- https://www.niti.gov.in

**3. Reserve Bank of India (RBI) Annual Report & Statistical Tables**

- Data on BoP, banking, and MSME credit.
- https://rbi.org.in

**4. MSME Annual Report – Ministry of Micro, Small & Medium Enterprises**

- Information on schemes, performance, and initiatives for MSMEs.
- https://msme.gov.in

**5. Agricultural and Industrial Surveys** – Ministry of Agriculture & Ministry of Commerce.

- Data on agriculture, manufacturing, and services trade.
- https://agricoop.gov.in
- https://commerce.gov.in

**Supplementary Digital Sources**

- **Invest India Portal:** Insights on industrial policy, startups, and FDI.
- https://www.investindia.gov.in
- **MyGov and PIB Releases:** Updates on new government initiatives and reforms.
- https://pib.gov.in | https://www.mygov.in

**Statistical Year Book (MOSPI):** National data on GDP, employment, and trade.

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# PART B

# BUSINESS ENVIRONMENT

# Entrepreneurship Scenario

Lesson 6

## KEY CONCEPTS

■ Elements of Entrepreneurship ■ Intrapreneurship ■ Difference between an Entrepreneur and an Intrapreneur ■ Government Initiatives to Foster Entrepreneurship ■ Ministry of Micro, Small & Medium Enterprises (MSME) ■ Bottlenecks in Entrepreneurial Growth ■ Need for Entrepreneurship in India

## Learning Objectives

**To understand:**

- Concept of Entrepreneurship and its types
- Evolution of entrepreneurship in India
- Various Programmes of the Government of India to foster the growth of entrepreneurship
- Transformation of entrepreneurship in India
- What are the factors affecting Entrepreneurial Growth
- Significance of entrepreneurship for India

## Lesson Outline

- Types of Entrepreneurs
- Functions of Entrepreneurship
- Steps involved in the entrepreneurial process
- Entrepreneurship Scenario in India
- Government Initiatives to Foster Entrepreneurship
- Various Programmes of the Government of India to foster the growth of Startups
- Bottlenecks in Entrepreneurial Growth
- Need for Entrepreneurship in India

## INTRODUCTION

Entrepreneurship is defined as the process of making money, earning profits and increasing the wealth while posing characteristics such as risk taking, management, leadership and innovation. The term Entrepreneurship is a complicated term and gives various meaning depending on the situation.

The word entrepreneur has a French origin. It originated during the Middle Ages when the term entrepreneur was applied to *"the man in charge of the great architectural works: castles and fortifications, public buildings, abbeys and cathedrals*". It is derived from the French word, *entreprendre*, which means "to undertake." In a business context, it means to undertake a business activity or simply to start a business. The Merriamtebster Dictionary defines an entrepreneur as 'one who organizes, manages, and assumes the risks of a business or enterprise'.

The concept of Entrepreneurship has wide range of meanings. On one extreme an entrepreneur is a person of very high aptitude who pioneers change, possessing characteristics found in only a very small fraction of the population. On the other extreme, anyone who wants to work for himself is considered to be an entrepreneur. That is, entrepreneurship is equated to simply starting one's own business. Most economists believe it is more than that. To some economists, the entrepreneur is one who is willing to bear the risk of a new venture if there is a significant chance for profit. Others emphasize the entrepreneur plays a role of an innovator who markets his innovation. Still other economists say that entrepreneurs develop new goods or processes that the market demands and are not currently being supplied.

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Various economists and philosophers termed this differently in their own unique ways.

Cantillon referred entrepreneurs as one of the classes of 'landowners' who are financially independent aristocrats. For him; individuals who purchased a good at a certain price, used that good to produce a product and then sold that product at an uncertain price could be considered 'entrepreneurs'. Risk and uncertainty play central parts in his theory of the economic system. Successful entrepreneurs were those individuals who made better judgments about changes in the market and who coped with risk and uncertainty better than their counterparts. The entrepreneurial motivation is one of the most important factors which accelerate the pace of economic development by bringing the people to undertake risk bearing activities.

### Four Key Elements of Entrepreneurship

- Innovation
- Risk taking
- Vision
- Organising skills

In many of the developing countries a lot of attention is being paid to the development of entrepreneurship because it is not the proprietary quality of any caste and community. The entrepreneurship is usually understood with reference to individual business. Entrepreneurship has rightly been identified with the individual, as success of enterprise depends upon imagination, vision, innovativeness and risk taking. The production is possible due to the cooperation of the various factors of production, popularly known as land, labour, capital, market, management and of course entrepreneurship. The entrepreneurship is a risk taking factor, which is responsible for the end result in the form of profit or loss.

The early history of entrepreneurship in India reflects from the culture, customs and tradition of the India people. The Baliyatra Festival of Cuttack, Orissa reminiscence of past glory of International trade. The process of entrepreneurship, therefore passed through the potential roots of the society and all those who accepted

entrepreneurial role had the cultural heritage of trade and business. Occupational pursuits opted by the individual under the caste system received different meaning of value attached to entrepreneurship, which is based on social sanctions.

As society grew and the process of business occupation depended and the value work tended towards change and the various occupational role interchanged with non-role group and sub-groups. People from different castes and status also entered into the entrepreneurial role. The emergence of entrepreneurship in this part of the country got localized and spread effect, took its own time. The concept of growth theory seems to be closely related in explaining the theory of entrepreneurship development as well.

In the 20th century, economist Joseph Schumpeter (1883-1950) focused on how the entrepreneur's drive for innovation and improvement creates upheaval and change. Schumpeter viewed entrepreneurship as a force of "creative destruction." The entrepreneur carries out "new combinations," thereby helping render old industries obsolete. Established ways of doing business are destroyed by the creation of new and better ways to do them. According to A Schumpeter "The entrepreneurship is essentially a creative activity or it is an innovative function".

After the Second World War, entrepreneurship received new meaning for attaining economic development within the shortest possible time; as concern for economic development became all-pervasive. There was a growing concern for economic development and this strengthened interest in enterprises. This led to the development of the entrepreneurship in India.

Business expert Peter Drucker (1909-2005) took this idea further, describing the entrepreneur as someone who actually searches for change, responds to it, and exploits those changes as an opportunity. For instance; a change converted from typewriters to personal computers to the Internet. According to Peter P Drucker, "Entrepreneurship is neither a science nor an art. It is a practice. It is knowledge based. Knowledge in entrepreneurship is a means to an end, that is, by the practice."

The culture of a community also may influence how much entrepreneurship there is within it. Different levels of entrepreneurship may stem from cultural differences that make entrepreneurship more or less rewarding personally. A community that accords the highest status to those at the top of hierarchical organizations or those with professional expertise may discourage entrepreneurship. A culture or policy that accords high status to the "self-made" individual is more likely to encourage entrepreneurship.

In crux these are various interchangeable meanings of what is entrepreneurship.

- A theory of evolution of economic activities.
- A continuous process and an ingredient of economic development.
- Essentially a creative activity or an innovative function.
- A risk taking factor which is responsible for an end result.
- The name given to the factor of production, which performs the functions of enterprise.
- Creates awareness among people about economic activity.
- Generates Self-employment and additional employment.

## TRAITS OF AN ENTREPRENUER

- He is a person who develops and owns his own enterprise.
- He is a moderate risk taker and works under uncertainty for achieving the goal.
- He is innovative.

- He peruses the deviant pursuits.
- Reflects strong urge to be independent.
- Persistently tries to do something better.
- Dissatisfied with routine activities.
- Prepared to withstand the hard life.
- Determined but patient.
- Exhibits sense of leadership.
- Also exhibits sense of competitiveness.
- Takes personals responsibility.
- Oriented towards the future.
- Tends to persist in the face to adversity.
- Convert a situation into opportunity.

## Who is an Entrepreneur?

Entrepreneurship is a very famous word amongst the business community life. But, there are many common people still cannot get the definition and the meaning for who is the entrepreneur. 'One who undertakes an endeavor' is the meaning of the French word entrepreneur. There is no one definitive profile. Successful entrepreneurs come in various ages, income levels, gender, and race. They differ in education and experience. But research indicates that most successful entrepreneurs share certain personal attributes, including: creativity, dedication, determination, flexibility, leadership, passion, self-confidence, and "smarts."

Creativity is the spark that drives the development of new products or services or ways to do business. It is the push for innovation and improvement. It is continuous learning, questioning, and thinking outside of prescribed formulas.

Dedication is what motivates the entrepreneur to work hard, 12 hours a day or more, even seven days a week, especially in the beginning, to get the endeavour off the ground. Planning and ideas must be joined by hard work to succeed. Dedication makes it happen.

Determination is the extremely strong desire to achieve success. It includes persistence and the ability to bounce back after rough times. It persuades the entrepreneur to make the 10th phone call, after nine have yielded nothing. For the true entrepreneur, money is not the motivation. Success is the motivator; money is the reward.

Flexibility is the ability to move quickly in response to changing market needs. It is being true to a dream while also being mindful of market realities. A story is told about an entrepreneur who started a fancy shop selling only French pastries. But customers wanted to buy muffins as well. Rather than risking the loss of these customers, the entrepreneur modified her vision to accommodate these needs.

Leadership is the ability to create rules and to set goals. It is the capacity to follow through to see that rules are followed and goals are accomplished.

Passion is what gets entrepreneurs started and keeps them there. It gives entrepreneurs the ability to convince others to believe in their vision. It can't substitute for planning, but it will help them to stay focused and to get others to look at their plans.

Self-confidence comes from thorough planning, which reduces uncertainty and the level of risk. It also comes

from expertise. Self-confidence gives the entrepreneur the ability to listen without being easily swayed or intimidated.

"Smarts" consists of common sense joined with knowledge or experience in a related business or endeavour. The former gives a person good instinct, the latter, expertise. Many people have smarts they don't recognize. A person who successfully keeps a household on a budget has organizational and financial skills. Employment, education, and life experiences all contribute to smarts.

Every entrepreneur has these qualities in different degrees. But what if a person lacks one or more? Many skills can be learned. Or, someone can be hired who has strengths that the entrepreneur lacks. The most important strategy is to be aware of strengths and to build on them.

## Characteristics of an Entrepreneur

*(i)* ***Mental Ability:*** entrepreneur must have creative thinking and must be able to analyse problems and situations. He should be able to anticipate changes.

*(ii)* ***Business Secrecy*****:** he should guard his business secrets from his competitors.

*(iii)* ***Clear Objectives:*** he must have clear objectives as to the exact nature of business or the nature of goods to be produced.

*(iv)* ***Human Relation:*** he must maintain good relations with his customers, employees etc. to maintain good relationship he should have emotional stability, personal relations, tactfulness and consideration.

*(v)* ***Communication Ability:*** he should have good communication skills means both the sender and the receiver should understand each others message.

## Why Entrepreneurship

What leads a person to strike out on his own and start a business? The answer lies in the advantages of entrepreneurship.

### 1. Doing What You Love

If an entrepreneur is going to start his business it is assured he will get better odds to succeed if he is doing something he loves. Why? Because, passion is the fuel that is needed to face all the obstacles.

It is natural to feel fearful to fail. But to start with ones own business is like leaving Comfort Zone and entering a Twilight Zone. It is an activity where it should be ensured to strike balance between the business what you love to do and which is profitable as well.

Additionally in the business jungle; it is of utter most importance to survive being one of the best and that is easier if the entrepreneur is passionate about what he is doing.

Therefore, one of the advantages of being an entrepreneur is doing what one loves. "Choose a job that you like and you will never have to work a day in your life."

*– Confucius*

### 2. Independence and Freedom

Entrepreneurship allows undertaking the activities of one's choice and comfort which offers independence and freedom in return. Many people think independence and freedom means going to work or take vacations when you want or need. The truth is that is not possible at least in the earlier years of business. On the other hand, when business is mature, strong and self sufficient, it begins to offer independence and financial freedom.

"Entrepreneurship is living a few years of your life like most people won't, so that you can spend the rest of your life like most people can't"

*– A Student in Warren G. Tracy's Class*

### 3. Recognition and Self Fulfilment

Entrepreneurship provides the ability to be involved in the total operation of the business, from concept to design and creation, from sales to business operations and customer response.

It offers the prestige of being the person in charge.

In line with the Maslow's hierarchy of needs, it is human to desire for recognition and strive for self fulfillment and achievement. Entrepreneurship offers excitement compared to being regular employees. Entrepreneurs enjoy much excitement beginning from the planning stage of the business up to development and realization. Thrill- seekers obviously love being entrepreneurs as they are exposed to too much risk.

"What a man can be, he must be. This need we call self actualization." *– Maslow*

"I have wandered all my life, and I have also traveled; the difference between the two being this, that we wander for distraction, but we travel for fulfillment."

*– Hilaire Belloc*

### 4. Income Potential

Entrepreneurship offers a greater possibility of achieving significant financial rewards than working for someone else.

This is a big one because when you're an entrepreneur you can create a direct relationship between your efforts and your income. In other words: if your efforts are higher your reward should be higher too. Of course that happens if your efforts are well planned, effective and well focused.

Many people really believe that of all the advantages of being an entrepreneur this is the best. That's probably because in comparison to a job where employer, the company's financial budget, the Board and the economy decides salary. In case of an entrepreneur nobody except the market forces defines returns and income.

"A large income is the best recipe for happiness I ever heard of." *– Jane Austen quotes*

### 5. Own Boss

Entrepreneurs are their own bosses. They make the decisions. They choose whom to do business with and what work they will do. They decide what hours to work, as well as what to pay and whether to take vacations.

"Your real boss is the one who walks around under your hat." *–Napoleon Hill*

### 6. Innovation

Entrepreneurship creates an opportunity for a person to make a contribution. Most new entrepreneurs help the local economy. A few – through their innovations – contribute to society as a whole. One example is entrepreneur Steve Jobs, who co-founded Apple in 1976, and the subsequent revolution in desktop computers.

It gives an individual the opportunity to build equity, which can be kept, sold, or passed on to the next generation.

## TYPES OF ENTREPRENEUR

Starting and growing one's own business requires many skills to be successful. One could be a visionary like Bill Gates or a superstar like Peter Sematimba. The entrepreneur personality types are the traits and characteristics that blend with the needs of the business. Understanding the types of entrepreneur personality type helps in

enjoying business as well as providing with what it needs to grow in best.

Each entrepreneur personality type can succeed in the business environment if it is true to character. Identifying strong traits is essential and can act as a compass for the business.

### 1. Idealist

The idealist entrepreneur is the most common type of entrepreneur. He likes innovation and enjoys working on something new or creative. He is guided by more ideals while keeping in view the ideas that are formulated by him in order to pursue his innovation.

### 2. Optimizers

The optimizer entrepreneur comes in a close second and is content with the personal satisfaction of simply being a business owner. It is derived from being optimistic.

### 3. Hard Workers

The hard workers entrepreneur category includes persons who enjoy putting in long hours to build a larger and more profitable business. They like to challenge themselves and strive harder to attain the same. They reap the most rewards if the business turns out to be a multi-million dollar enterprise.

Hard work comes with all businesses but not everyone works hard for the business to grow as this type of entrepreneurs does.

### 4. Sustainers

As the meaning of the word itself implies, sustain is to maintain; the sustainer type of entrepreneurs comprise of people who like to maintain a balance between work and a personal life. Most often, they do not wish the business to grow too large where it will cut into their personal life. These people just need enough to survive.

### 5. Improver

The improver types of entrepreneur are the ones who predominantly are focused to start a business to improve the world. Their motto is to work in a manner which is morally and ethically correct so as to contribute to a noble cause. Improvers have an unwavering ability to run their businesses with high integrity. At the same time, these people need to be aware of their tendency of being over critical of employees and clients in order to be a perfectionist.

### 6. Advisor

These types of people believe in consumer sovereignty where they indulge excessively in providing customer services. This business personality type will provide an extremely high level of assistance and advice to customers. They want to please their customers. Their businesses soon become customer oriented business which involves providing advisory services to them at a cost to themselves.

### 7. Superstar

This type of entrepreneur is lead by charisma, charm and high energy. An entrepreneur like this has an overwhelming personality which works in his favour so does in the favour of business. This personality often will cause to build business around own personal brand. However, such people tend to become too competitive and workaholics; which can sour the workplace and the market. Entrepreneur example is Peter Sematimba, CEO of Super FM.

### 8. Artiste

These are creativity oriented entrepreneurs. Thus, the type of business also are those which demand huge levels of creativity such as; advertising agencies and people in the music industry. The artist involves in business activity which is centered around their talents and creative fields. The limitation faced by such entrepreneur is that of over sensitively reacting to the customers feedbacks if such is a negative one.

### 9. Visionary

Normally, all the businesses are founded keeping a vision in mind. The founding members who visualize a dream and materialize the same are known as visionary. These are thinkers who pursue to make their vision come true. Such people are curious in nature and have a long sighted vision which helps them in understanding the world around better thereby to set up plans to avoid pitfall and hurdles. At the same time, these people lack to relate their dreams with reality which might result in opposite results when it comes to starting up all new. Thus it is advisable to act before visualizing.

### 10. Analyst

These types of entrepreneurs excel at problem solving in a systematic way. Thus businesses involving complications suit them a lot. They are able to crop up the solution at no cost and less time. The challenge is to realize that too much analysis can result in no action being taken. Secondly, they might get caught in analysis paralysis.

### 11. Fireball

Fireball is a casual word used for an energetic person so does it imply for entrepreneurs. A business owned and operated by a fireball is full of life, energy and optimism. Such businesses are life energizing and makes customers feel the firm has a get it done attitude. Since every coin has two sides, such people have a downside too. In being too outright and energetic, they may over commit and act too impulsively. Maintaining a balance for impulsiveness with sensitive planning is of utter most importance.

### 12. Jugglers

A juggler conventionally means entertainer who keeps several plates, knives, balls, or other objects in the air at once by tossing and catching them. The art of juggling has been practiced since antiquity. The juggler entrepreneur likes the concept that the business gives them a chance to handle everything themselves. They are usually people with lots of energy and exist on the pressure of meeting deadlines, paying bills and of course making payroll.

### 13. Hero

Hero like entrepreneurs are the people with great willingness and efficient leadership. He inspires others. He has an incredible will and ability to lead the world and the business through any challenge. He is the essence of entrepreneurship and can assemble great companies. Over promising and using force full tactics to get the way out are the bane sides of being a hero entrepreneur; which definitely is not fruitful in long term.

### 14. Healer

Healer as the name suggest, nurtures the business by bringing harmony with a surprising ability to survive with an inner calm. Healer is closely related to calmness which lets him avoid the outside harsh realities of business. One must keep a scenario planning to pre prepare for any kind of turmoil.

## ENTREPRENEUR VS. MANAGER

For many entrepreneurs, one of the most difficult tasks is to make the successful transition from a creative, task-juggling entrepreneur to a business-skill-applying manager.

The terms Entrepreneur and Manager are considered same; but these have different meanings altogether. These cannot be used interchangeably. The following are some of the differences between a manager and an entrepreneur.

- The main difference between the two terms is that an entrepreneur starts a business enterprise constituting of ideas he comprehends; employing personal stakes in it where as a manager provides his services in an enterprise established by entrepreneur.
- An entrepreneur and a manager differ in their standing, an entrepreneur is the owner of the organization and he bears all the risk and uncertainties involved in running an organization where as a manager is an employee and does not undertake responsibilities for any risk.
- An entrepreneur and a manager differ in their objectives. Entrepreneur's objective is to innovate and create and he acts as a change agent where as a manager's objective is to supervise and create routines. He implements the entrepreneur's plans and ideas.
- An entrepreneur is faced with more income uncertainties as his income is contingent on the performance of the firm where as a manager's compensation is less dependent on the performance of the organization.
- An entrepreneur is not induced to involve in fraudulent behavior where as a manger does. A manager may cheat by not working hard because his income is not tied up to the performance of the organization.
- Their areas of qualifications differ in the sense that; entrepreneur is required to have certain qualifications and qualities like high accomplishment motive, innovative thinking, forethought, risk-bearing ability etc. Conversely it's mandatory for a manager to be educated in the fields of management theories and practices.

"An entrepreneur could be a manager but a manager cannot be an entrepreneur". An entrepreneur is intensely dedicated to develop business through constant innovation. He may employ a manager in order to perform some of his functions such as setting objectives, policies, rules etc. A manager cannot replace an entrepreneur in spite of performing the allotted duties because a manager has to work as per the guidelines laid down by the entrepreneur.

## INTRAPRENEURSHIP

### Meaning

A dictionary meaning to word provides that, "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation is an intrapreneur." It is derived as INTRA (corporate) + (entre) PRENEUR].

The word intrapreneur is the recently coined corporate counterpart to long existing term entrepreneur. This coinage is generally attributed to management consultant Gifford Pinchot, author of the 1985 book entitled Intrapreneuring. Since inception of this term in the scant number of years, intrapreneur has gained momentum and currency very rapidly.

Intrapreneurship is a combination of entrepreneurship and management skills. In simple words, Intrapreneurship is the practice of entrepreneurship by employees within an organization. The trend today is such that every one who is capable of managing others business is himself indulging in entrepreneurship. This is resulting in inadequacy of management staff. In the emergence of this changing pattern, the concept of intrapreneurship

is originated where the intrapreneur (i.e. Manager) is made the head of a given business unit and asked to manage it for the organization while employing innovative skills. As an example, when a company seeks for diversification options, they can appoint one of their managers as an intrapreneur to launch the business venture while allowing him to share the part of the profits made by the new business venture.

## Features of Intrapreneurship

An intrapreneur thinks like an entrepreneur looking out for opportunities, which profits the organization. Intrapreneurship is a novel way of making organizations more profitable where employees entertain entrepreneurial thoughts. It is in the interest of an organization to encourage intrapreneurs. Intrapreneurship is a significant method for companies to reinvent themselves and improve performance. Managers would do well to take employees who do not appear entrepreneurial but can turn out to be good intrapreneurial choices.

## Key Characteristics of Intrapreneurship

- It promotes the managers to be more innovative and take more responsibility while demonstrating charismatic leadership qualities.
- Intrapreneurship projects are funded by large business organization and agreed percentage of profits are remitted to the fund provider/head quarters of the business.
- Intrapreneurship will cultivate entrepreneurial skills/culture within the corporate culture where managers will be motivated to accept more risk.
- Due to the backing from the headquarters, the chances of failure are low when compared to start ups.
- It adds value to the life of the intrapreneur as he is being given the task of being an entrepreneur while receiving necessary training from headquarters.
- Business portfolio of funding organization will be expanded creating diversification.
- Finally, it creates wealth for the headquarters as well as for the intrapreneur through its profit sharing agreement.

## Difference between an Entrepreneur and an Intrapreneur

An entrepreneur takes substantial risk in being the owner and operator of a business with expectations of financial profit and other rewards that the business may generate. On the contrary, an intrapreneur is an individual employed by an organization for remuneration, which is based on the financial success of the unit he is responsible for. Intrapreneurs share the same traits as entrepreneurs such as conviction, zeal and insight. As the intrapreneur continues to expresses his ideas vigorously, it will reveal the gap between the philosophy of the organization and the employee. If the organization supports him in pursuing his ideas, he succeeds. If not, he is likely to leave the organization and set up his own business.

The words entrepreneur and intrapreneur have acquired special significance in the content of economic growth in a rapidly changing industrial climate both in developed and developing countries. Entrepreneur is a key person who envisages new opportunities, new techniques, new lines of production, new products and coordinates all other activities. He likes to experiment with new ideas and thus, face uncertainty. He works for himself and for profits.

On the other hand, intrapreneurs are entrepreneurs who catch hold of a new idea for product service or process and work to bring this idea to fruition within the framework of the organisation. Intrapreneurs with their innovations and dedicated effort are perceived as valuable asset by the organisation, inspiring others. They serve as champions to others in those organizations. In America a number of business executives have left their jobs and started their own enterprises because they were not given chance to test and implement

their innovative ideas. Later they achieved phenomenal success in their new venture and posed a threat to the companies they left. These executives turned entrepreneurs are known as intrapreneur.

The Entrepreneur is typically a visionary who spots an opportunity in the marketplace and has the passion, guile and contact base to set the wheels in motion. The Intrapreneur has passion and drive but also has the operational skills of running the "clockwork" of the business to enable a good idea to be turned into commercial reality. He is the "inside entrepreneur".

Both "preneurs" set themselves aside from employees in a number of ways but perhaps the most significant is in their relationship with the business. It's a question of commitment over involvement. Employees are involved, "preneurs" are committed.

Not every business needs an Entrepreneur, but every business needs an Intrapreneur.

In the same way that the seed of a business idea needs an Entrepreneur to shape and cultivate it, so the Entrepreneur needs the Intrapreneur to pluck from his grasp those seeds of opportunity, convert them in to a viable commercial plan and then manage that plan to a profitable reality. Without the intrapreneur, ideas entrepreneurs and small business are doomed to fail.

## Intrapreneurship vs. Entrepreneurship

- Entrepreneurs can be found anywhere; whereas intrapreneurs are found, rather encouraged within the confines of an organization
- While entrepreneurs face hurdles in the form of ridicule and setbacks from the society in general; intrapreneurs have to face rivalry within the organization they work.
- Entrepreneurs find it difficult to arrange resources while these are readily available to intrapreneurs.

| DISTINGUISHING FACTORS | MANAGER | ENTREPRENEUR | INTRAPRENEUR |
|---|---|---|---|
| Primary Focus | Salary Promotion Traditional corporate rewards | Independent Chance to be creative Opportunity to make more money | Independent Chance to be creative To move towards organizational and personal successes |
| Skills Required | Managing qualities like leadership, organizing, planning, communication skills etc. | Creativity, Innovative, Risk taking, Visionary, Passion, Dedication, Determination | Blend of managerial and entrepreneurial skills |
| Time Focus | Short term to meet deadlines set by top management | Survival and achieving long term growth | To meet self imposed deadlines |
| Activity Delegation | Delegated by top management | Delegated to oneself | Delegated to oneself |
| Amount of Risk Bearing | Conservative | Extreme | Moderate |
| Status Check | Concerned about status | Not concerned about status | Not concerned about status |

| DISTINGUISHING FACTORS | MANAGER | ENTREPRENEUR | INTRAPRENEUR |
|---|---|---|---|
| Failure and Mistakes | Minimizes mistakes | Deals with mistakes | Reduces risky activities |
| Decision | Agrees with top management | Follows a dream | Gets help from others to achieve dreams |
| Availability of Resources | Readily available | Needs to arrange | Provided by Entrepreneur |
| Constituencies Served | Upper Management and Customers | Oneself and Customers | Oneself, Customers and Organization |
| Competitors | No one | Other entrepreneurs outside the organisation | Within the organisation |

## GOVERNMENT INITIATIVES TO FOSTER ENTREPRENEURSHIP

The Indian government has launched several initiatives and programs to foster entrepreneurship, promote innovation, and support the growth of startups. These initiatives aim to create a conducive ecosystem for entrepreneurs, provide them with resources, mentorship, and funding, and facilitate ease of doing business.

Few of the initiatives taken by the Government of India to strengthen entrepreneurship in India are as under:

1. **Make in India** : Businesses from across the globe, and not merely the Americas, consider Make in India as a breakthrough policy of the new India. The 'Make in India' programme was launched in September 2014 soon after the Modi Government came to power with the aim of transforming India into a global manufacturing hub and boosting entrepreneurship in the country.

   Initiatives such as online business registration, single-window clearance, and digitization of government services aim to simplify procedures and reduce the burden of compliance on entrepreneurs. Make in India encourages entrepreneurship and manufacturing growth through sector-specific policies, incentives, and initiatives such as the National Manufacturing Policy, Automotive Mission Plan, Electronics Manufacturing Policies, and Textile Policy, provide targeted support and incentives to promote entrepreneurship and investment in key sectors.

   As a national programme, the Make in India initiatives is aimed at transforming India into a global manufacturing hub, and contained a raft of proposals to attract investments from both local and foreign corporate houses in 25 key areas it has identified, such as:

   (a) Automobile
   (b) Automobile components
   (c) Aviation
   (d) Biotechnology
   (e) Chemicals
   (f) Construction
   (g) Defence Manufacturing
   (h) Electrical Machinery
   (i) Electronic Systems
   (j) Food Processing
   (k) IT and BPM
   (l) Leather
   (m) Media and Entertainment
   (n) Mining

(o) Oil and Gas
(p) Pharmaceuticals
(q) Ports and Shipping
(r) Railways
(s) Renewable Energy
(t) Roads and Highways
(u) Space
(v) Textile and Garments
(w) Thermal Power
(x) Tourism and Hospitality
(y) Wellness

With this scheme, the government has increased the FDI limit in various industries to attract foreign investment and participation.

It has established an investor facilitation centre to assist foreign businesses to locate partners and sites, while a slew of measures have been initiated for domestic companies, which were revealed after Modi Government unveiled the 'Stand Up India' initiative in his Independence Day address in 2015.

**2. Stand Up India** : The key elements of the Stand-Up India scheme are as under:

(i) *Title of the Scheme* : Stand-Up India Scheme for financing SC/ST and /or Women Entrepreneurs.

(ii) *Objective* : The objective of the Stand-Up India scheme is to facilitate bank loans between INR 10 Lakh and INR 1 crore to at least one Scheduled Caste (SC) or Scheduled Tribe (ST) borrower and at least one woman borrower per bank branch for setting up a greenfield enterprise. This enterprise may be in manufacturing, services, agri-allied activities or the trading sector in case of non-individual enterprises at least 51% of the shareholding and controlling stake should be either an SC/ST or woman entrepreneur.

(iii) *Eligibility* : Eligibility under Stand Up India scheme are -

(a) SC/ST and /or woman entrepreneurs, above 18 years of age.

(b) Loans under the scheme is available for only greenfield project. GreenField signifies, in this context, the first time venture of the beneficiary in the manufacturing or services or trading sector.

(c) In case of non-individual enterprises,51% of the shareholding and controlling stakes should be held by either SC/ST and/or women entrepreneur.

(d) Borrower should not be in default to any bank or financial institution.

(iv) *Nature of loan* : Composite loan (inclusive of term loan and working capital) between INR 10 Lakh upto INR 100 Lakh.

(v) *Purpose of loan* : For setting up a new enterprise in manufacturing, services, agri-allied activities or the trading sector by SC/ST women entrepreneur.

(vi) *Size of loan* : Composite loan of 85% of the project cost inclusive of term loan and working capital. The stipulation of the loan being expected to cover 85% of the project cost would not apply if the borrower's contribution along with convergence support from any other schemes exceeds 15% of the project cost.

(vii) *Interest rate* : The rate of interest would be lowest applicable rate of the bank for that category (rating category) not to exceed (base rate (MCLR) + 3% + tenor premium).

(viii) *Security*: Besides primary security, the loan may be secured by collateral security or guarantee of Credit Guarantee Fund Scheme for Stand-Up India (CGFSIL) as decided by the banks.

(ix) *Repayment* : The loan is repayable in 7 years with a maximum moratorium period of 18 months.

(x) *Working capital* : For drawal of working capital upto INR 10 Lakh, the same may be sanctioned by way of overdraft. Working capital limit above INR 10 Lakh to be sanctioned by way of cash credit limit.

(xi) *Margin Money* : The scheme envisages 15% margin money which can be provided in convergence with eligible Central / State schemes. While such schemes can be drawn upon for availing admissible subsidies or for meeting margin money requirements, in all cases, the borrower shall be required to bring in minimum of 10% of the project cost as own contribution.

*For more details, please visit: https://www.standupmitra.in/*

3. **Startup India** : Startup India Scheme is an initiative by the Government of India for generation of employment and wealth creation. The goal of Startup India is the development and innovation of products and services and to increase the employment rate in India. Benefits of Start-up India Scheme are Simplification of Work, Finance support, Government tenders, Networking opportunities. Startup India was launched by Prime Minister Shri. Narendra Modi on 16th January 2016.

***Benefits of Startup India***

(a) *Financial benefits* - Most of the start-ups are patent based. It means they produce or provide unique goods or services. In order to register their patents, they have to incur a heavy cost which is known as the patent cost.

Under this scheme, the government provides 80% rebate on the patent costs. Moreover, the process of patent registration and related is faster for them. Also, the government pays the fees of the facilitator to obtain the patent.

(b) *Income Tax Benefits* - Start-ups enjoy a good amount of benefits under the Income Tax head. The government exempts their 3 years income tax post the incorporation year. But they can avail it only after getting a certificate from the Inter-Ministerial Board. Also, they can claim exemption from tax on capital gains if they invest money in specified funds.

(c) *Registration Benefits* - Everyone believes that incorporation and registration of business are far more difficult than running it. It is because of the long and complex steps of registration. Under the Start-up India scheme, an application is there to facilitate registration. A single meeting is arranged at the Start-up India hub. Also, there is a single doubt and problem- solving window for them.

(d) *Government Tenders* - Everyone seeks to acquire Government tenders because of high payments and large projects. But it is not easy to acquire the government tenders. Under this scheme, the start-ups get priority in getting government tenders. Also, they are not required to have any prior experience.

(e) *Huge Networking Opportunities* - Networking Opportunities means the opportunity to meet with various startup stakeholders at a particular place and time. The government provides this opportunity by conducting 2 startups fests annually (both at the domestic as well as international level). Startup India scheme also provides Intellectual Property awareness workshop and awareness.

## Government Initiatives to Promote Startups across India

The Government of India has taken various initiatives to promote startups across the country. The details of the various initiatives taken by Ministries/Departments of the Government to promote startups are as under:

## Department for Promotion of Industry and Internal Trade (DPIIT) under Ministry of Commerce and Industry

The Government with intent to build a strong ecosystem for nurturing innovation and encouraging investments launched the Startup India initiative on 16th January 2016. As per eligibility conditions prescribed under G.S.R. notification 127 (E) dated 19th February2019, entities are recognized as 'startups' under the Startup India initiative by the DPIIT.

For attaining specific objectives, various programs are implemented by the Government under the Startup India initiative. All the steps undertaken by the Government under the initiative are inclusive and are implemented across age-groups, States/Union Territories (UTs), cities, towns, and rural areas.

Over the past nine years, the Startup India initiative has played a pivotal role in shaping a vibrant entrepreneurial ecosystem in the country. By fostering innovation and inclusivity, it has achieved remarkable milestones that highlight its impact on India's economy and society. The number of DPIIT-recognised startups has grown from around **500** in 2016 to **1,59,157** as of January 15, 2025.

## Ministry of Micro, Small & Medium Enterprises (MSME)

The Government of India has implemented a robust array of initiatives aimed at bolstering the Micro, Small, and Medium Enterprises (MSME) sector, recognizing its pivotal role in the economy. These efforts range from financial support and procurement policies to capacity building and market integration. Key initiatives include the Udyam Registration Portal, PM Vishwakarma scheme, PMEGP, SFURTI, and the Public Procurement Policy for MSEs, all aimed at fostering entrepreneurship, enhancing employment, and integrating informal sectors into the formal economy. These initiatives reflect the government's commitment to supporting MSMEs and driving inclusive economic growth nationwide.

The 'PM Vishwakarma' scheme, launched by the Government of India, aims to enhance the quality and reach of products and services by artisans and craftspeople, integrating them into domestic and global value chains. Announced in the 2023-24 Budget and launched on September 17, 2023, this scheme seeks to provide comprehensive support to Vishwakarmas, improving their socio-economic status and quality of life.

Prime Minister's Employment Generation Programme (PMEGP) is a credit linked subsidy scheme for providing employment opportunities through establishment of micro-enterprises in the non-farm sector. Under the Scheme, Margin Money (Subsidy) is provided to beneficiaries availing loan from banks for setting up new enterprises. The maximum project cost admissible for setting up of new project is Rs. 50 lakhs in manufacturing sector and Rs. 20 lakhs in Service Sector.

## Public Procurement Policy for MSMEs

The Ministry of MSME, Government of India, notified the Public Procurement Policy for Micro and Small Enterprises (MSEs) in 2012. This policy mandates that 25% of annual procurement by Central Ministries, Departments, and Central Public Sector Enterprises (CPSEs) must be sourced from MSEs. Within this 25%, 4% is reserved for MSEs owned by Scheduled Castes/Scheduled Tribes (SC/ST), and 3% is reserved for MSEs owned by women entrepreneurs. Additionally, 358 items are exclusively reserved for procurement from MSEs.

Ministry of MSME, through Khadi and Village Industries Commission (KVIC), is implementing Prime Minister's Employment Generation Programme (PMEGP) for assisting entrepreneurs in setting up of new enterprises in the non-farm sector. It aims to provide employment opportunities to traditional artisans/ rural and urban unemployed youth at their doorstep.

## Skill India

Under the Government of India's Skill India Mission (SIM) , the Ministry of Skill Development and Entrepreneurship (MSDE) delivers skill, re-skill and up-skill training through an extensive network of skill development centres under various schemes, viz. Pradhan Mantri Kaushal Vikas Yojana (PMKVY), Jan Shikshan Sansthan (JSS), National Apprenticeship Promotion Scheme (NAPS) and Craftsman Training Scheme (CTS) through Industrial Training Institutes (ITIs), to all the sections of the society across the country. The SIM aims at enabling youth of India to get future ready and equipped with industry relevant skills.

To promote new age skills in areas like AI/ML, Robotics and Green technology, MSDE has undertaken the following initiatives:

(i) Under PMKVY, more than 200 new age/future skills job-roles have been specially aligned with Industry 4.0 requirements in areas like AI/ML, Robotics, EVs, Mechatronics, Drone Tech, etc. for upcoming market demand and industry requirements.

(ii) Under NAPS, the apprentices are engaged by the establishment in trades (both, designated and optional), which includes those pertaining to new-age /future skills.

(iii) Directorate General of Training (DGT) under aegis of MSDE has introduced 31 new age /future skills courses in Industrial Training Institutes (ITIs) and National Skill Training Institutes (NSTIs) under CTS to provide training in emerging areas such as 5G Network, AI/ML, Cyber Security, Drone Technology, etc.

(iv) DGT has signed MoU with IT Tech companies like IBM, CISCO, Future Skill Rights Network, Amazon Web Services (AWS) and Microsoft to ensure industry linkages for the institutes at the state and regional levels under CSR initiatives. These partnerships facilitate the provision of technical and professional skills training in modern technologies.

(v) Indian Institute of Skills (IIS) established at Ahmedabad and Mumbai, in Public Private Partnership (PPP) Mode, provide training to create a pool of industry-ready workforce for Industry 4.0, equipped with cutting-edge technology and hands-on training.

(vi) MSDE has launched Skill India Digital Hub (SIDH) platform, a comprehensive and accessible platform for skill enhancement, offering industry-relevant skill courses, job opportunities, and entrepreneurship support to youth of the country. SIDH offers an extensive array of AI/ML, Robotics and Green tech courses.

## MeitY Startup Hub (MSH)

India is home to one of the most vibrant startup ecosystems with approximate 30,000+ tech startups, making it the 3rd largest startup ecosystem in the world. The Ministry of Electronics and Information Technology (MeitY) Startup Hub (MSH) aims to foster a vibrant innovation and startup ecosystem by uniting technology innovation stakeholders and promoting economic growth through innovation and technological advancement. It serves as a central hub, ensuring synergies among incubation centres, Centres of Excellence on Emerging Technologies, and other platforms supported by the Ministry of Electronics and Information Technology. MSH facilitates the sharing of resources, best practices, and ideas across the entire innovation and startup ecosystem.

## Unicorns Startups

A unicorn is a term used to indicate a privately held startup company with a valuation of over $1 billion. For a unicorn, the journey starts from the growth stage, they are disruptors which start out in an incredibly unique way to solve everybody problem. The reasons these startup become so successful is because all of their solutions fill a specific need in a new and different way.

The Indian startup ecosystem has developed dynamically in recent times. Two decades back, there were only

few active investors and limited number of support organisations, such as incubators and accelerators. However, in the past decade. There has been a significant increase in both investment activity and infrastructure facilities to provide the much-needed impetus to the expansion of the unicorn tribe. The Indian Unicorns are flourishing in the fast-paced and dynamic economy of today. These startups are not only developing innovative solutions and technologies but are generating large-scale employment.

While we see unicorns active in Tier I cities, this ecosystem is not restricted and is proliferating across the country till the last district. Traditional sectors such as E-commerce, Fin-tech, E-commerce, Supply Chain & Logistics, Internet Software & Services do dominate the arena but a strong wave of unconventional sectors such as Content, Gaming, Hospitality, Data management & analytics, etc are making their place on the list.

## BOTTLENECKS IN ENTREPRENEURIAL GROWTH

1. **Inefficient time management**

   Most entrepreneurs think on infinite time scales, as though they have plenty of time to achieve their goals. Time is the most valuable resource, yet most entrepreneurial leaders don't use it effectively. It is very important to analyze the business flow metrics and identify time-wasting processes. Comparing the performance with industry standards to find out the problem areas is a major challenge. Leveraging technology tools such as automation and machine learning wherever possible is very important in contemporary times.

   McKinsey & Co. reported that the next era of supply chain management will hinge on autonomous vehicles and a network of smart programs that can optimize efficiency. Organisational efficiency can be increased by implementing software solutions that break through bottlenecks and boost productivity.

2. **Lack of money**

   Inadequate funds – Less funding and the resources obtained by these funds -- can hinder expansion. When it comes to resolving bottlenecks, money matters a lot. It helps in the purchase of software programs and hire consultants who reduce the obstacles to growth and profitability. As the company expands, there is a need to scale up the technology, invest in sales enablement and direct resources to a number of other critical areas. Money is needed to achieve all of that.

   Fortunately, there are a number of capital sources out there. In addition to venture capital funding, one can apply for a loan backed by the Small Business Administration. Loans repaid in less than seven years typically incur a less than 10 percent interest rate, and these loans can be used to purchase new technology or building your team with supply chain experts.

3. **Too much noise**

   Building and running a start-up can become too complex when the entrepreneur is trying to cut through the noise generated through social media, marketing, apps and vendors. It's enough to make entrepreneurs think they need to chase down the "next big thing" and clamour for the media limelight.

   But limelight doesn't guarantee success. Many companies that drew huge amounts of press and venture funding have ultimately failed. The better path is to focus on the work and trust that attention will come. Put out a great product, and be rigorous about clearing ones path to growth. The accolades will follow, but they matter only if one can scale and thrive sustainably.

4. **A small (or nonexistent) network**

   Being a first-time entrepreneur, with a near-nonexistent industry, developing contacts is one of the biggest challenges to overcome. A strong network is crucial to a company's growth. But strong networks aren't built through viral campaigns or flashy marketing. They develop over years through resilience,

relationship-building and cultivation of a community around the idea. In Japan and China, sustainable strong networks are an integral part of the value chain and supply chain

To build a supportive network around one's own business, the type of reach an entrepreneurship wants to have is critical. Is the brand primarily local? Thereafter, a blue print needs to be put down, roots have to be made, through partnerships and sponsorships with influencers in the region.

If the entrepreneur wants to have global appeal, there is a need to attend conferences and reach out internationally to learn how to move into other markets. The entrepreneur must become relevant to the rest of the world.

**5. Growing too much too soon**

With the objective of growing production, the problems also compound at the same rate. Figuring out how to scale requires frequent testing and a willingness to pivot -- the entrepreneur doesn't want to miss out on strategic opportunities. For instance, there's nothing wrong with starting small and growing slowly. It's better to take that approach than to over invest in a lacklustre strategy. One needs to pay attention and switch gears when that's needed.

**6. Skill Shortages**

The shortage of skilled workforce and technical expertise in specialized domains hampers the growth and competitiveness of startups, especially in technology-driven sectors. There is a need for comprehensive skill development programs to bridge the skill gap and enhance the employability of the workforce.

**7. Policy Uncertainty**

Frequent changes in government policies, regulatory frameworks, and taxation norms can create uncertainty and instability for entrepreneurs, making it challenging to plan and invest for the long term. Transparent and predictable policy environments are essential for fostering entrepreneurial confidence and investment.

## LESSON ROUNDUP

- Entrepreneurs are those individuals or groups who create new businesses and job opportunities. According to Oxford Dictionary, an entrepreneur is "A person who sets up a business or businesses, taking on financial risks in the hope of profit".
- The various types of entrepreneurs are: Innovative Entrepreneurs; Imitating Entrepreneurs; Fabian Entrepreneurs; Drone Entrepreneurs; Social Entrepreneurs; Women Entrepreneurs; Manufacturing Entrepreneur; Inventors and Challenger Entrepreneurs etc.
- Entrepreneurship is a discipline with a knowledge base theory and is an outcome of complex socio-economic, psychological, technological, legal, and other factors.
- The various functions of entrepreneurship are Innovation and creativity, risk-taking and achievement and organization and management, catalyst of economic development, overcoming resistance to change and market research.
- The evolution of entrepreneurship in India may be studied under three periods, i.e., Medieval Age, Modern and Pre-independence era and post-independence era.

- The major transformation of entrepreneurship in India began with the 'Economic Policy Reform' in 1991. The policy was further expanded in 2022. The New Economic Policy of 1991 was a huge turning point. This policy has included three major aspects, Liberalization; Privatization; Globalization.
- The Indian government has launched several initiatives and programs to foster entrepreneurship, promote innovation, and support the growth of startups.
- The entrepreneurs are considered 'change agents' in the process of industrial and economic development of an economy.

## GLOSSARY

**Entrepreneur:** is an individual, who forms an organization for commercial purpose.

**Liberalization:** Providing some provisions in different parts of the industry to boosts the private sector, including banks and the stock market

**Privatization:** Disinvestment of Public Firms to reduce the burden and promote the national entrepreneurs for good business

**Globalization:** Welcoming FDIs, and FPI Creating SEZ and Economic Corridor for foreign companies

**Make in India:** As a national programme, the Make in India initiatives is aimed at transforming India into a global manufacturing hub, and contained a raft of proposals to attract investments from both local and foreign corporate houses in 25 key areas it has identified.

**Stand-Up India Scheme:** Stand-Up India Scheme for financing SC/ST and /or Women Entrepreneurs.

**Startup India:** The goal of Startup India is the development and innovation of products and services and to increase the employment rate in India.

**MSME:** Ministry of Micro, Small & Medium Enterprises

## TEST YOURSELF

1. What are the key elements of entrepreneurship? Explain the qualities or characteristics that make a successful entrepreneur.
2. What is intrapreneurship? How is an intrapreneur different from an entrepreneur? Explain with examples.
3. Discuss the major government initiatives taken in India to promote and support entrepreneurship. What is the role of the Ministry of Micro, Small & Medium Enterprises (MSME)?
4. What are the major bottlenecks or challenges in the growth of entrepreneurship in India? Explain any four.
5. Why is entrepreneurship important for a developing country like India? Explain the need for entrepreneurship in terms of employment, innovation, economic growth, and regional development.

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# Business Environment

Lesson 7

## KEY CONCEPTS

■ Business Environment ■ External Business Environment ■ Internal Business Environment ■ Micro Environment

## Learning Objectives

**To understand:**

- Concept of Business Environment and factors affecting it
- Internal and External Environment
- Business Environment Factors
- Micro Environment
- Reforms for Ease of Doing Business

## Lesson Outline

- Meaning and definition of business environment
- Importance of Business Environment
- Features influencing business environment
- Types of Business Environment
- Elements of Micro Environment
- Ease of Doing Business
- Trade and Auxiliaries to Trade
- Significance of Auxiliaries to Trade

# BUSINESS ENVIRONMENT

## Concept

The term "business environment" refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments. These elements have a direct or indirect impact on how a firm operates and performs its functions. These factors taken together have an impact on the environment and situation of businesses or corporate entities.

External factors include economic conditions, technological advancements, legal and regulatory frameworks, socio-cultural trends, and the competitive landscape, among others. Internal factors refer to elements within the company's control, such as organizational structure, resources, culture, and operational processes. Understanding the business environment is essential for businesses to anticipate changes, identify opportunities, and mitigate risks effectively, ultimately shaping their strategies for sustainable growth and success.

Business environment enhances overall performance, growth, and profitability of the business by assisting in the identification of business prospects, utilising helpful resources, and assisting in planning. Business environments come in a variety of forms, including macro and micro environments.

The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment. So let's begin by learning about the business environment's basics and its significance.

Now let us look at some of the definitions of business environment.

According to Barry M. Richman and Melvgn Copen, Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country.

According to Keith Davis, Business environment is the aggregate of all conditions, events and influences that surround and affect business.

Bayord O. Wheeler defines business environment as, the total of all things external to firms and industries which affect their organisation and operation.

According to Arthtur M. Weimer, Business environment encompasses the climate or set of conditions, economic, social, political, or institutional in which business operations are conducted.

According to Glueck and Jauch, The environment includes factors outside the firm which can lead to opportunities for or threats to the firm. Although there are many factors, the most important of the sectors are socio-economic, technological, supplier, competitors, and government.

## Meaning of Business Environment

Business may be understood as the organized efforts of an enterprise to supply consumers with goods and services for a profit. Businesses vary in size, as measured by the number of employees or by sales volume etc. But, all businesses share one common purpose that is to earn profits.

The purposes of business that goes beyond earning profits are:

- an important institution in society
- for the supply of goods and services

- creating job opportunities
- offering better quality of life
- contributing to the economic growth of the country.

Hence, it is understood that the role of business is crucial from the point of view of individuals and national society as well. Society cannot do without business. Similarly, it requires no emphasis that business needs society as much. Modern business is dynamic. If there is any single word that can best describe today's business, it is 'change'. It is 'change' that makes the companies spend substantially on Research and development (R&D) to survive in the market. Environment refers to all forces, which have a bearing on the functioning of business. They can be forces of economic, social, political and technological factors, apart from internal forces of the organisation.

Environment factors are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

The success of every business depends on adapting itself to the environment within which it functions. For example, when there is a change in the government polices, the business has to make the necessary changes to adapt it to the new policies. Similarly, a change in the technology may render the existing products obsolete, as we have seen that the introduction of computer has replaced the typewriters; the color television has made the black and white television out of fashion. Again a change in the fashion or customers' taste may shift the demand in the market for a particular product, e.g., the demand for jeans reduced the sale of other traditional wear. All these aspects are external factors that are beyond the control of the business. So the business units must have to adapt themselves to these changes in order to survive and succeed in business.

Hence, it is very necessary to have a clear understanding of the concept of business environment and the nature of its various components.

## IMPORTANCE OF BUSINESS ENVIRONMENT

For any organisation, the business environment offers both possibilities and threats. A good manager of a business not only recognises and assesses the environment, but also responds to these outside factors. If we take into account the following details, we can clearly see how important the business environment is:

1. **Enables to Identify Business Opportunities:**

   Not all changes are bad. If recognised and assessed, they may contribute to a company's success. Finding a change and utilising it as a tool to address a population or business's challenges is crucial.

   For instance, the Indian need for ticket booking bothered Mr. Phanindra Sama. He used to drive a long way to his travel agency to make his reservation, but even then, he wasn't sure if his seat was guaranteed. In response to the issue, he recognised a chance to create an app and joined forces with another person to create the online ticketing platform known as "redBus."

2. **Helps in Tapping Useful Resources:**

   Utilizing the beneficial resources needed for the firm requires careful examination of the business environment. It aids the business in managing these resources and transforming them into products and services**.**

3. **Coping with Changes:**

   The company needs to be aware of the constant changes in the business environment, including shifts

in customer demands, new fashion trends, new government regulations, and technical advancements. The firm can implement a response to deal with those changes if it is aware of these predictable developments.

For instance, Nokia failed to adapt to the change by not incorporating Android OS into its smartphones at a time when the market for Android OS was booming and consumers were choosing Android devices for its user-friendly interface and apps. They lost a great deal of market value by failing to adapt.

4. **Assistance in Planning:**

This is yet another facet of how crucial the corporate environment is. Planning only refers to the future tasks that must be completed. It is up to the business to select what plan it needs to develop in order to address the future, solve the problem, or take advantage of the opportunity when the business environment offers a problem or an opportunity. The business can incorporate plans to combat the modifications for a secure future after assessing the developments that have been offered.

5. **Helps in Improving Performance:**

Businesses that are actively monitoring their surroundings not only adapt to the changes but also thrive in them. Adapting to external influences enables a company to increase performance and remain competitive.

6. **Risk Management:**

The business environment is dynamic and often unpredictable. By monitoring external factors such as economic fluctuations, regulatory changes, and technological advancements, businesses can anticipate risks and take proactive measures to minimize their impact.

7. **Compliance and Governance:**

Businesses operate within a complex regulatory environment. Understanding and complying with relevant laws, regulations, and industry standards are essential for avoiding legal issues, reputational damage, and financial penalties.

## Features influencing business environment

1. **External influences**:

Every firm is impacted by a variety of external circumstances, both directly and indirectly, as was previously said. These elements can include people, governmental rules, environmental issues, as well as other enterprises and organizations.

2. **Overarching Factors**:

Regardless of the presence of the firm, these are aspects of society and the economy. They have an impact on all institutions. These are things like politics, the law, technology, and other things. Regardless of size or market, all businesses are impacted by general factors.

3. **Specific Factors:**

These are the elements that directly affect the firm, including clients, the target market, rivals, suppliers, etc. Every company has a unique set of unique elements that make up its environment.

4. **The Interrelation of Factors**:

The majority of elements that influence a business also influence one another. These are variables that are internal and external, particular and general.

5. **Uncertain Future**:

A corporate environment's future is extremely elusive to forecast. It can swiftly change because there

are so many different forces at work. Although some firms are capable of making accurate predictions for the near future, the factors influencing it are unstable.

6. **Constantly Changing**:

   The corporate environment nowadays is extremely dynamic due to the rapid changes in technology and various societal variables. This makes it very challenging to define a corporate environment. Complex Effects. The effects that the various internal and external factors have on businesses are quite complex. They may seem like a small factor at the time but have a larger impact overall, or vice versa.

7. **Highly Relative**:

   The factors that are beneficial towards one business may be the doom of another. The relationship between factors that affect a business and the particular businesses is highly relative. But there are also factors that affect similar businesses in an equal manner.

## Business Environment Factors

It takes constant attention to operational planning, modifications, and other variables to manage business environments. There are a number of internal and external elements at play that might affect business decisions.

Below is a list of the six key factors that affect business environments.

1. **Technological Factors**

   If a corporation doesn't keep up with the most recent technological advancements, its revenues may drastically fall as it evolves its business strategy.

   For instance, brands will lose money if firms switch to e-Commerce models but are forced to continue accepting offline orders. Another example is a business that creates GPS navigation systems for cars. If they continue to just serve automotive firms and don't diversify into mobile devices and other industries, the brand may experience a decline in revenue.

   Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.

2. **Political and Legal Factors**

   Political and legal factors influence how a business operates in that region and whether or not it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant. Some policies that affect companies range from taxation, import restrictions, intellectual property laws, employment laws, and tariffs.

3. **Demographics**

   Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them. Customers cannot take full advantage of offerings if their needs are not met and their pain points are not addressed.

   Age, gender, geography, country, marital status, economic level, educational attainment, and race are a few demographic factors that have an effect on business operations. A mobile company targeting only a particular segment of the population with a plan, such as those in the college level with special offers, is an example of demography in action. Another illustration is when they make a different offer to businesses and other professionals. All age groups now use communications technology, and the technology environment has transformed.

4. **Competitive Factors**

   Businesses can research their rivals, discover the newest market trends, and maintain an advantage. They may keep expanding and not worry about losing money if they stay current in the market and offer

their customers the greatest services. Market and competitive intelligence might provide understanding of their operations. It teaches how to implement the best marketing tactics, as well as how to improve products and processes.

**5. Social Factors**

Where customers live influences their decision to spend money on a company that sells specific goods/ services. If a business wants to succeed with the crowd, it must understand where the people are coming from. Social factors include current events, societies, and local communities.

Businesses consider social movements and factors to make products more appealing to customers. They have to cater to customers' specific preferences, values, and ideals to stay relevant.

For example, a company that sells products for women must be able to connect with other women's emotional or financial values. It should focus on customer satisfaction and make lives easier for female buyers.

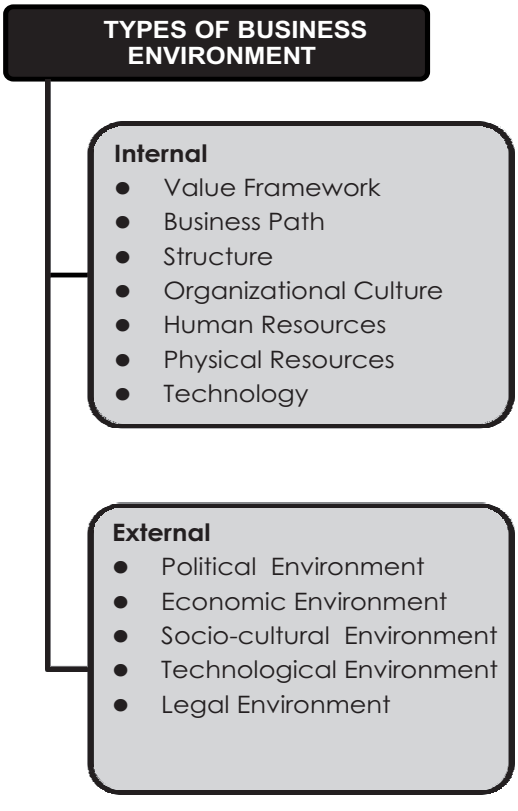
**6. Global Factors**

How a company handles both domestic and foreign concerns is influenced by global variables. Because social and cultural standards are influenced by external influences, company leaders must create staff training programmes that are appropriate. Business organisations strive to create a wide range of goods and services. This is impossible without awareness of global issues. The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.

## Types of Business Environment

There are two types of Business Environment that we will be looking into, internal and external factors.

These types define the business environment in its most understandable manner.



## A. Internal Environment

An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment. The main internal elements that influence the business environment are listed below.

### 1. Value Framework

This is basically the business' functional process and how the value in a business is judged. The value framework of a business defines the manner in which its employees will perform their roles. And, how their work culture will be regulated.

### 2. Business Path

Every company has a reason to exist and a purpose to serve. These two factors along with how the business sees itself in the future constitute the business path. These define the changes that will be enforced into the business framework.

### 3. Structure

The hierarchical or non-hierarchical structure of a business that defines each employee's and management's role is one of the central aspects of the internal business environment. There are various business structures such as matrix, bureaucratic, functional, etc.

### 4. Organizational Culture

Although undefinable in exact terms, every business has a unique culture that it adheres to. This includes the treatment of employees, resources, clients, etc.

### 5. Human Resources

A relatively recent idea that has taken over the business world is human resources. Human resources is responsible for managing personnel on a micro level while firms get bigger every day. As a result, it is crucial in establishing the business environment.

### 6. Physical Resources

Every business needs resources to function, and how these resources are managed has a significant impact on the environment inside the company.

### 7. Technology

A corporate environment is constantly defined by technology, both internally and externally. It is dependent on both the technology being used by the business on the inside and the technology being utilised by its rivals on the outside.

## B. External Environment

A socio-economic entity is a business. As a result, society's numerous facets are fundamental to the success or failure of every organisation as well as to the environment it operates in. PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.

### 1. Political Environment

From the political climate of the business' geography to the international relations it holds, every aspect of politics affects a business. Many countries have laws that facilitate some businesses, others have laws that restrict businesses. The condition of local politics and its relation to other countries highly affect the business condition.

**The main components of Political Environment are:**

- The Constitution of the Country.
- Political organization including the philosophy of political parties, ideology of the government, nature and extent of bureaucracy, influence of primary groups etc.
- Political stability including the structure of Military and police force, election system, Law and order situation etc.
- Image of the country and its leaders.
- Foreign policy alignment or non-alignment.
- Law Governing Business

The economy is constantly impacted by political developments, hence the political environment frequently has an indirect impact on the economic environment. Business regulation laws are a byproduct of the political system in place. The political environment also includes media, social and religious organizations, as well as a variety of lobbying groups, in addition to government and legislative actions. They collectively have a significant impact on how a nation conducts business.

The political system, the government's policies, and its stance towards the business community and unionism are all parts of the political environment. All of these factors have an impact on the commercial enterprises' tactics. Business and related activities are greatly influenced by the stability of the government.

It conveys a message of power and assurance to investors and different interest groups. The political party's philosophy also has an impact on the corporate organisation and how it conducts business. The Coca-Cola, a popular cold beverage today, had to stop operations in India in the late 1970s. Once more, trade union actions have an impact on how businesses are run. In India, the majority of work unions are connected to different political parties. The operations of the firm are also negatively impacted by strikes, lockouts, and other labour conflicts.

Trade unions are now demonstrating a high level of maturity and have begun positively influencing the success of the business organisation and its operations through employee involvement in management as a result of the highly competitive business climate.

**2. Economic Environment**

The current economic condition in most countries is highly volatile. And this is relevant to every business large and small. However, the presence of the open market has been highly beneficial towards businesses as well. Since the global economy is volatile most big business has to be careful of its impact at all times.

**The main components of Economic Environment are:**

- Economic system i.e., capitalist, socialist and mixed economic system.
- Economic policies such as, monetary policy, fiscal policy, supply side policy etc.
- Economic indices such as, Gross Domestic Product, Consumer Price index, Per Capita Income etc.
- Financial markets such as, share market, money market, capital market etc.
- Industrial infrastructure etc.

**Examples of Economic Environment**

1. **Demand/supply:** An increase in the supply and demand of goods can cause inflation. Likewise, a decrease in supply and demand can lead to a depression. Inflation, recessions, and boon periods influence consumer habits and business performance.
2. **Exchange rate:** The exchange rate influences the sales of goods on the global level.
3. **Interest rate:** Interest rates can affect borrowing costs, dictating business opportunities to finance projects.

**3. Socio-cultural Environment**

Every society has its unique requirements and choices. These shape regional business personas and are one of the primary external factors for all businesses worldwide. For example, let's see the current trend towards a western lifestyle throughout the world. This has led to a rise in demand for western food and fashion.

**The main components of social and cultural environment are:**

- Demographic Forces**:** includes Size, Composition and Mobility of Population.
- Social Institutions and Groups.
- Caste Structure and Family Organisation.
- Educational System and Literacy Rate.
- Customs, beliefs, values and life styles.
- Tastes and Preferences of People.
- Entrepreneurial Spirit.

The social environment primarily influences the organization's strategic management process with regard to decision-making about products and markets as well as mission and objective formulation. The social environment of business comprises societal elements like norms, values, and beliefs, as well as socioeconomic issues like poverty, illiteracy, and life expectancy rates.

The social structure and ideals that a society upholds have a significant impact on how commercial firms operate. For instance, during holiday seasons, there is a rise in demand for fresh flowers, fruits, sweets, and clothing. The consumers are becoming more aware of the quality of the items as a result of the rise in literacy rates.

**Examples of socio-cultural environment**

1. *Family structure* - Nuclear families have other needs likened to joint families. This impacts firms like housing, food and education.
2. *Social class* - Upper-class clients demand luxury products, while lower classes demand cheap needs. Firms segment according to other income groups.

**4. Technological Environment**

Technology is one of the primary drivers in today's world. Businesses that are unable to match up to the current technological progress are having a hard time establishing their existence. And the businesses that are using tech to their advantage are moving ahead of their competitors. IT itself has become a leading business in the past few decades.

**The main components of Technological Environment are:**

- Rate of Technological change and Diffusion.
- New approaches to the production of goods and services.
- Use of New processes and equipment.
- Transfer of Foreign Technology.
- Impact of Technology on cost, quality and value chain.

Technology has an impact on a company's ultimate goods through altering the sourcing, manufacture, and distribution of its raw materials. When applied properly, technology can significantly alter a company's productivity. One field where technology keeps driving competitiveness to the edge is the computer industry.

Different countries' technological settings have an impact on how products are designed. For instance, electrical equipment are designed for 110 volts in the USA and many other nations. However, if they are intended for India, they must be 220 volts. The speed of technical change is extremely quick in the contemporary, competitive era.

As a result, a firm must occasionally adopt new technologies in order to thrive and expand in the market. It should be mentioned that most major industrial groups regularly engage in scientific research to improve and innovate their products and services. In actuality, no company today can afford to continue using outdated technology.

**Examples of the technological environment**

1. New technology
2. Production strategies
3. Information and Communication Technology (ICT), such as the internet, mobile apps, smartphones and social media
4. Innovation
5. Augmented reality (AR)
6. Machine learning and artificial intelligence
7. E-commerce technology
9. Robotics
10. Automation
11. Data management practices
11. Research and development

**5. Legal Environment**

There are laws for businesses in every country in the world and every business has to abide by these laws. So, regulations are a primary factor that every business needs to consider in its external environment. But there are also regulations that help businesses thrive.

**Example:** A cigarette-selling company compulsorily has to put the slogan "smoking is injurious to health" on every packaging

**The main components of Legal Environment are:**

- Current Legislations.
- International Legislations.
- Regulatory bodies and processes.
- Tax Regulations.
- Competitive Regulations.
- Industry Specific Regulations.
- Government Regulations.

**A partial list of the legislations that concern the business enterprises in India include:**

i. Companies Act, 2013
ii. Essential Commodities Act, 1955
iii. Legal Metrology Act, 2009
iv. Bureau of Indian Standards Act, 2016
v. Consumer Protection Act, 2019
vi. Environment Protection Act, 1986
vii. Competition Act, 2002
viii. SEBI Regulations Act, Rules & Regulations
ix. Sale of Goods Act, 1930
x. Laws related to Intellectual Properties Rights
xi. Industrial and Labour Laws
xii. Food Safety and Standards Act, 2006.

**Besides, the above legislations, the following are also part of the legal environment of business:**

**i. Provisions of the Constitution:**

The provisions of the Articles of the Indian Constitution, particularly directive principles, rights and duties of citizens, legislative powers of the central and state governments also influence the operation of business enterprises.

**ii. Judicial Decisions:**

The judiciary has to ensure that the legislature and the government function in the interest of the public and act within the boundaries of the constitution. The various judgments given by the courts in different matters relating to trade and industry also influence the business activities.

**Different Types of the Legal Environment**

a) *Domestic Legal Environment:*

1. The domestic legal environment encompasses the laws and regulations governing business activities within a specific country.
2. It comprises legislation passed by the government, court decisions, administrative orders, and policies issued by government authorities.

3. This legal system significantly influences businesses, shaping aspects ranging from company formation to the sale of goods and services.
4. Examples of laws and regulations in the domestic legal environment include labor laws, environmental regulations, tax codes, intellectual property laws, antitrust regulations, and consumer protection laws.

b) *Social Legal Environment:*

1. The social legal environment involves the regulatory framework and legal structures governing societal interactions and behaviours.
2. It comprises a diverse set of laws grounded in cultural, ethical, and social values, reflecting the prevailing norms of a given community or nation.
3. This legal environment extends to personal rights, civil liberties, discrimination, family matters, and various other social issues.
4. Its role is crucial in maintaining order, justice, and fairness within society, influencing individual behaviour, and shaping institutional practices.

c) *Economic Legal Environment:*

1. The economic legal environment constitutes the system of laws and regulations governing economic activities.
2. It includes laws related to business formation, operation, contract, property, and employment.
3. Sector-specific regulations within industries such as finance, energy, and healthcare are incorporated into the regulatory structure.
4. This legal environment plays a vital role in shaping the economy and promoting economic growth.

d) *Technological Legal Environment:*

1. The technological legal environment constitutes the body of laws and regulations governing the development, use, and commercialization of new technologies.
2. It includes laws about intellectual property, data privacy, and security, as well as regulations specific to technologies like artificial intelligence, autonomous vehicles, and drones.

e) *Political Legal Environment:*

1. The political-legal environment involves the interaction between the political and legal systems in a particular society or country, significantly impacting business operations.
2. It comprises government structures, policies, regulations, and the broader legal framework set by the governing body with respect to the country's benefit.
3. Changes in government, shifts in policies, and alterations in legal regulations can profoundly affect businesses, shaping their strategies, decision-making processes, and overall viability.
4. A thorough understanding and assessment of the political-legal environment are crucial for businesses to anticipate and adapt to challenges and opportunities within a specific jurisdiction.

**6. Environmental Environment**

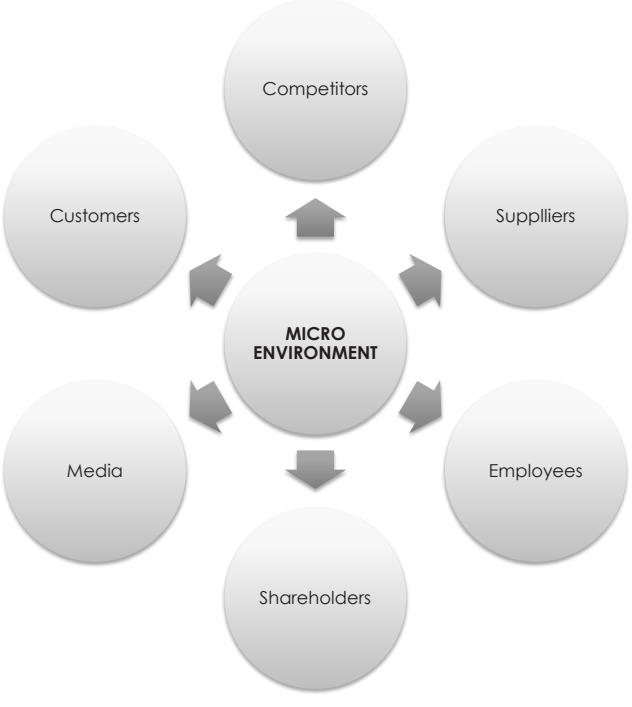
The world is currently facing an environmental crisis. As a result, all businesses are expected to adhere to a process that harms the environment in the least way possible. Also, certain environmental conditions in areas affect businesses. For instance, a cold season might bring down the agricultural business, but it will boost tourism.

**The main components under natural environment are:**

- Climatic Conditions.
- Agriculture, Commercial, and other Natural Resources.
- Ecological System.
- Levels of Pollution.

## MICRO ENVIRONMENT

The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located. The forces that surround the company are all included in the micro environment. These elements are particular to the company at question. The short-term performance of a corporation may be impacted as a result.




## ELEMENTS OF MICRO ENVIRONMENT

Because some aspects of the micro environment are specific to the company, they are closely tied to the business and do not have the same effects on other businesses in the same sector.

As a result, the environment that the company deals with in its particular domains, such as the industry or strategic group, can be described as the micro environment.

**1. Customer**

The customer is king in business. Every business strives to provide the highest quality goods and

services at the most competitive costs. Customers are enticed with additional freebies and discounts. In every market area, keeping track of client feedback and understanding their needs is becoming more and more crucial. With such a tactical approach, any company may win over the hearts of their clients and generate financial profits as a result. In other words, the majority of companies operate largely to fulfill the demands and desires of their clients. The goal of the business is to please customers while making money.

**2. Competitors**

Any business faces intense rivalry due to the enormous number of rivals in the same industry. As a result, you need to have a strategy for dealing with the opposition. It will let you gain control of monopolies and prosper in any business segment. To differentiate your product from others on the market, it needs not only have the USP but also the UPB. An essential aspect of the competitive environment that any organization must comprehend is the need to stand out from the crowd. Regardless of how large a company is, monopolies do not exist in the commercial world.

**3. Employees**

Before conquering the market, it is essential to win the workplace. Any organization's workforce has a significant impact on both the micro and macro business settings. The number of workers has a direct impact on output rate. They so determine the success or failure of any organisation directly. Every successful company strives to consistently improve and train each employee's skills. Additionally, an organisation never stops praising talent that inspires and motivates workers. The market is much larger than the sum of its consumers. Therefore, the company needs engage the best employees to assess the market's current size, development potential, and attractiveness.

**4. Shareholder**

Any firm, whether little or huge, needs money and capital to establish themselves and develop. Investors called shareholders to donate money to the business. Shareholders now own the company's shares, i.e., they invest in the firm, and in exchange, the corporation distributes profits to its shareholders. Thus, the appropriate equation between any organisation and its shareholders is established.

Shareholders are the owners of the corporation in addition to being investors. They are, in a sense, the owners of the company because they have equity in it. This suggests that they have some influence over how a company is run.

**5. Suppliers**

A supplier is a business that offers the raw materials and other inputs needed for the mass production of goods. Any successful business has a close, mutually beneficial connection with its suppliers. As a result, both entities profit from the positive and cooperative connection. The situation where a company runs out of raw materials and the entire manufacturing and supply process is delayed can also be used to understand it.

**6. Media**

The media is an effective tool for promoting any brand's goods and services. The direct consumer contact concept is practical. Consequently, maintaining a cordial relationship with the media is equally essential. Any unfavourable comments or press coverage could severely harm the brand's reputation in addition to causing financial losses. In order to use the power of the media for the promotion and growth of a business, organisations recruit experts like PR managers. If you were to own a business, for instance, you would require media in order to promote your name and sell your products.

## TRADE AND AUXILIARIES TO TRADE

Buying and selling of goods and services with the aim of earning profits is known as Trade. It is one of the most essential parts of commerce. It enables to make the goods available to the consumers or users. These days goods are manufactured on a large scale and it is very difficult for the producers to reach the consumers by themselves. Middlemen serve as a link between the producers and consumers by making the goods available to them. In the absence of trade, both producers and consumers will have to search for each other, and it would not be possible to carry on business on a large scale. Trade can be carried out on small scale, like in the case of Hawkers and small shops, or large scale, like Departmental stores.

Trade may be classified on the basis of the geographical area into two bases:

**a) Internal Trade**: Internal trade is concerned with buying and selling of goods and services within the geographical boundaries of a nation. It is also known as home trade or domestic trade. Here, both buyers and sellers belong to the same country. Internal trade may be further classified into two parts- Wholesale trade and Retail trade.

i) *Wholesale trade:* Wholesale trade involves buying and selling of goods in large quantities or in bulk. Wholesaler buys goods directly from the manufacturer in large quantities and sells them in relatively less quantities to retailers. Wholesaler serves as an important link between manufacturers and retailers, and maintain large stock of goods.

ii) *Retail Trade***:** It involves buying goods in small quantities from the wholesalers and selling them to the final for final consumption is known as retail trade. A retailer serves a link between the wholesaler, manufacturers and consumers. They maintain direct contact with the customers and provide feedback to the wholesalers about the likings and disliking of the customers.

**b) External Trade**: External or foreign trade consists of the exchange of goods and services between persons or organizations operating in two or more countries. It is also known as foreign trade or international trade. External trade is further divided in three parts:

i) *Import trade*: When goods are purchased from another country, it is known as import trade. For example, India imports crude oil from the Middle-east countries.

ii) *Export Trade*: When goods are sold to other country, it is known as export trade. For example, India exports cereals, spices and other products to USA.

iii) *Entrepot trade*: When goods are imported from a country for purpose of exporting it to another country, it is known as entrepot. For example, India imports many commodities from European countries to export them to Nepal.

### Auxiliaries to Trade

Commerce, the intricate web of economic activities that involves the exchange of goods and services, forms the backbone of any modern society. To keep this wheel turning smoothly, a range of support services and processes come into play, collectively known as “Auxiliaries to Trade.”

These auxiliaries are like the invisible hands that facilitate the flow of goods and services, ensuring efficiency, transparency, and reliability in the marketplace. Auxiliaries to trade encompass diverse services and activities that do not directly involve producing or exchanging goods but play a pivotal role in facilitating trade transactions. These services act as intermediaries, smoothing out the complexities of commerce and enabling businesses to focus on their core activities.

In the vast commerce landscape, auxiliaries to trade are essential pillars supporting the structure of global economic activities. From ensuring the safe passage of goods across continents to providing financial stability and fostering brand recognition, these auxiliaries play a critical role in shaping the business world.

The interplay between these services creates a harmonious ecosystem where trade can thrive, benefiting businesses and consumers. The concept of auxiliaries to trade can be best understood by categorizing them into several key components:

i) *Transportation and Logistics*: Efficient transportation and logistics are essential for moving goods from manufacturers to consumers. This includes various modes of transportation like road, rail, air, and sea. Additionally, logistics services involve warehousing, packaging, and distribution. Without these auxiliaries, the global supply chain would grind to a halt. For example, companies like FedEx, UPS, and DHL provide critical logistical support to ensure packages reach their destinations swiftly and securely.

ii) *Insurance*: Risk is an inherent part of trade, and insurance is a safety net. Marine insurance, cargo insurance, and liability insurance protect businesses from potential losses due to accidents, theft, damage, or unforeseen events while transporting goods.

iii) *Banking and Finance*: Financial institutions play a vital role in trade by providing letters of credit, trade finance, and currency exchange services. Letters of credit ensure payment to the exporter upon meeting specified conditions, minimizing risk for both parties.

iv) *Communication and Information Services*: In the digital age, communication and information services are indispensable auxiliaries. Effective communication between buyers, sellers, and intermediaries ensures smooth trade transactions. Online platforms like Alibaba and Amazon have revolutionized trade by connecting buyers and sellers worldwide.

v) *Advertising and Marketing*: Creating awareness about products and services is crucial for trade success. Advertising and marketing agencies help businesses reach their target audiences, influencing purchasing decisions. Brands like Coca-Cola and Apple owe a significant portion of their success to effective advertising strategies.

vi) *Legal and Regulatory Support*: Navigating the complex legal and regulatory landscape is essential for international trade. Legal experts provide guidance on contracts, intellectual property rights, import/export regulations, and dispute resolution. Law firms like Baker McKenzie specialize in international trade law.

vii) *Market Research and Analysis*: Understanding market trends and consumer preferences is essential for making informed business decisions. Market research firms collect and analyze data to provide insights into potential opportunities and threats. Nielsen and MarketResearch.com are examples of companies offering such services.

### Significance of Auxiliaries to Trade

The auxiliaries to trade perform multifaceted functions that contribute to the efficient functioning of the global economy. Their significance can be highlighted through the following points:

i) *Risk Management*: Trade involves inherent risks, from damage during transportation to fluctuating currency values. Insurance and financial services mitigate these risks, giving businesses the confidence to engage in international trade without fearing substantial losses.

ii) *Efficiency and Speed*: Transportation and logistics services ensure that goods reach their destinations promptly and efficiently. This efficiency is vital for perishable goods, such as fruits and vegetables, and industries with just-in-time manufacturing processes.

iii) *Global Connectivity*: Communication and information services bridge the geographical gap between buyers and sellers, enabling them to interact and transact regardless of physical location. This global connectivity expands market reach and opportunities for businesses.

iv) *Legal Compliance*: International trade involves navigating complex regulations and legal requirements. Legal and regulatory support ensures that businesses remain compliant with international laws, avoiding legal disputes and barriers to trade.

v) *Informed Decision*-Making: Market research and analysis provide valuable insights that guide businesses in making informed decisions. Understanding consumer behavior and market trends enables companies to tailor their products and strategies accordingly.

vi) *Sustainable Growth*: Advertising and marketing services contribute to brand building and consumer awareness. This, in turn, drives demand for products and services, fostering sustainable business growth.

### Examples of Auxiliaries to Trade

**Example 1: The Role of Logistics and Transportation**

Consider a multinational electronics company that manufactures smartphones in Asia and sells them in North America. The company relies on an intricate network of transportation and logistics providers to ensure timely delivery and minimize costs. Ships carry bulk shipments across oceans, while cargo planes expedite high-demand deliveries. Additionally, warehousing and distribution centres are strategically located to efficiently reach local markets. The company's success relies on the quality of its products and the seamless coordination of transportation services.

**Example 2: International Trade Financing**

A small artisanal coffee producer in South America receives an order from a European distributor. However, the producer faces cash flow challenges due to the time gap between shipping and payment receipt. In this scenario, a bank can provide trade financing by offering a letter of credit. This financial instrument ensures that the producer receives payment upon meeting the specified conditions, alleviating non-payment risk and enabling the producer to fulfill the order without financial strain.

**Example 3: Market Research and Branding**

A fashion retailer aiming to expand its presence in a new market leverages market research services to understand local preferences and trends. Armed with this knowledge, the retailer tailors its product offerings to suit the local taste, ensuring higher chances of success. Additionally, an advertising agency assists in creating a culturally relevant marketing campaign that resonates with the target audience, boosting brand visibility and engagement.

## EASE OF DOING BUSINESS

### 1. World Bank – Doing Business Report

World Bank 's annual assessment of Ease of Doing Business.

The World Bank conducted an annual assessment of economies ranking them on how easy it is do business in a country based on certain parameters which span over the business lifecycle, published as the Doing Business Report (DBR). The inaugural Doing Business Report, which was released in 2003, encompassed 133 economies and five indicator sets. The final analysis, which was published in 2019, included 190 economies and 10 indicator sets.

Through the collective efforts of DPIIT and other Government departments, India saw a meteoric rise of 79 ranks from 142nd in 2014 to 63rd in 2019 in World Bank ratings for 'ease of doing businesses.

The World Bank Group is now developing a new project to measure the business enabling environment

in economies internationally. The project called Business Enabling Environment (BEE) would be a new benchmarking exercise currently under development in the

Development Economics Global Indicators Group. BEE will provide a quantitative assessment of the business environment for private sector development, published annually and covering most economies worldwide. BEE data and the summary report will aim to advocate for policy reform, inform specific policy advice, and provide data for development policy research. Through its focus on private sector development, BEE will effectively contribute to meeting the twin goals of the World Bank Group (WBG) of eliminating poverty and boosting shared prosperity.

### 2. Business Reforms Action Plan

A sub-national exercise to assess State/UTs bases on the reforms undertaken by them regarding Ease of Doing Business and Ease of Living.

A unique exercise of sub-national ranking was taken up by DPIIT for which the Business Reform Action Plan (BRAP) framework was developed. BRAP is an annual assessment of States & Union Territories (UTs) on their efforts towards Ease of Doing Business. BRAP involves a prescriptive reform action plan for States/UTs. Annual BRAP is prepared by DPIIT in consultation with States/UTs and industry associations which is shared with States/UTs for implementation. DPIIT conducts a detailed capacity building exercise for States wherein efforts are made to cover various reform areas and explain the objectives behind such reforms helping States/UTs in effective implementation of reforms.

The BRAP portal is designed such that the status of implementation of reforms is visible to each State & UT, effectively promoting competitive federalism amongst them. This also allows transparency and fairness in the assessment exercise.

### 3. Reducing Compliance Burden

An initiative aimed at simplifying and rationalization compliances, decriminalization of minor civil offences and removal of redundant laws.

An exercise of Reducing Compliance Burden (RCB) on businesses and citizens is also being carried out by the Government of India. DPIIT has adopted a synchronized approach to closely interact, liaison and monitor progress of reforms implementation across all Central Ministries/ Departments and States/UTs. A 4- pronged strategy has been followed for compliance reduction i.e., Simplification, Digitalization, Decriminalization and Elimination of Redundant Laws. Assessment of various compliances and provisions under multiple Acts/Rules have been conducted by Central Ministries/ Departments and States/UTs to identify and reduce burdensome compliances.

### 4. Cost of Regulation

An Original enterprise with an objective of measurement of the regulatory burden calculation based on the policies at Central and State level.

Measuring the cost of regulation (CoR) is now the focal point of reforms. The aim is to identify the common costs across sectors and suggest means to reduce the cost of regulations, which will improve the productivity of businesses, help the economy gear up for growth and result in job creation.

A “Cost of Regulation” framework being Developed by DPIIT, proposes to calculate regulatory burden in terms of time and cost to businesses related to policies at Central and State level. The framework entails those regulations that contain information obligations, certification, and documentation requirements and otherwise impact businesses in a significant way. The framework has five components that measure the overall cost of regulations, namely Time Cost, Substantive Cost, Intermediary Cost, Delay Cost and Statutory Cost.

## 5. National Single Window System

A Single Window digital platform for all Central and State department approvals.

The National Single Window System (NSWS) is a one stop digital portal to Explore, Apply, Track and Get all your business approvals. The portal currently has details of approvals across 32 Central Ministries / Departments and 32 States / UTs. You can use the Know Your Approval Module to get the list of approvals required to start your business in India. You can also apply for special schemes like the Vehicle Scrapping Scheme, Ethanol Blended programme, National Program on High-Efficiency Solar PV Modules under PLI Scheme and the Indian Footwear & Leather Development Program.

## 6. One District One Product (ODOD)

The ODOP Initiative is aimed at manifesting the vision of the Hon'ble Prime Minister of India to foster balanced regional development across all districts of the country. The idea is to select, brand, and promote One Product from each District (One District – One Product) of the country for enabling holistic socio-economic growth across all regions. The product lists have been signed off by each of the States/UTs with Principal Secretary, Industries/ MSME as the nodal department.

## Decriminalizing the Offences

The Central Government has taken various steps for decriminalizing the offences under different laws in the country. The decriminalization has taken place for various laws including Companies Act, 2013, Limited Liability Partnership Act, 2008 and Labour Codes. Further, through Jan Vishwas (Amendment of Provisions) Act, 2023, one hundred eighty three (183) provisions of Fourty Two (42) legislations have been amended to decriminalize the offences. These legislations includes Information Technology Act, 2000, Copyright Act, 1957, Trade Marks Act, 1999 and Prevention of Money-laundering Act, 2002, to name a few.

Further, the Government is also expanding the reforms and have already initiated the amendments to 16 Central Acts to further decriminalize through Jan Vishwas (Amendment of Provisions) initiative.

### LESSON ROUNDUP

- The term "business environment" refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments
- The key component of any firm is its environment. Suppliers, competitors, the media, the government, customers, market circumstances, investors, and numerous other entities operating on the outside all contribute to the business environment.
- Utilizing the beneficial resources needed for the firm requires careful examination of the business environment.
- Features influencing business environment are External influences, Overarching Factors, Specific Factors, The Interrelation of Factors, Uncertain Future,Constantly Changing, Highly Relative.
- Technology can have an impact on communications, billing, inventory control, and business operations in addition to sales. Businesses that use automation to replace manual operations will be more productive than those that use more conventional methods of operation.
- Political and legal factors influence how a business operates in that region and whether or not it can continue functioning. Companies have to follow modern legislation policies, and those that do not will have to modify their processes in order to stay compliant.

- Businesses must assess the demographics of their target market to make sure they are marketing the appropriate items to them
- Businesses can research their rivals, discover the newest market trends, and maintain an advantage
- Social factors include current events, societies, and local communities. Businesses consider social movements and factors to make products more appealing to customers.
- The quality of items improves as client economic condition and global challenges are taken into account more. It also broadens the business's target demographics and makes it more approachable to wider people.
- Types of Business Environment is Internal and External Environment.
- An organization in business is defined by the forces that exist inside it. These include the managerial style, the level of machinery utilised, and the work environment.
- PESTLE is a phrase frequently used to describe elements in the external business environment. Political, economic, social, technological, legal, and environmental factors are all represented by this acronym.
- The term "micro environment" refers to the setting that might affect day-to-day business operations that is present within an organization. It has a connection to the tiny region where the business is located.
- DPIIT is the Nodal Department for coordination with Ministries/Departments and States/UTs to reduce compliance burden on citizens and business activities.

## GLOSSARY

**Business Environment:** refers to the totality or collection of all internal and external aspects, including people working in the company, customer demands and expectations, supply and demand, management, clients, suppliers, and owners, as well as government actions, technological innovation, social trends, market trends, and economic developments

**External factors:** include economic conditions, technological advancements, legal and regulatory frameworks, socio-cultural trends, and the competitive landscape, among others.

**Internal factors:** refer to elements within the company's control, such as organizational structure, resources, culture, and operational processes.

**Different Types of the Legal Environment:** Domestic Legal Environment: Social Legal Environment: Economic Legal Environment: Technological Legal Environment: Political Legal Environment.

**EDBI:** Ease of Doing Business Index. The index uses ten different factors to measure various business rules that are significant to domestic businesses and to the competitiveness of the country.

**Auxiliaries to Trade:** To keep business wheel turning smoothly, a range of support services and processes come into play, collectively known as "Auxiliaries to Trade."

## TEST YOURSELF

1. What is the meaning of business environment? Give a suitable definition and explain why understanding business environment is important for firms.

2. Describe the major features of business environment. How do these features influence business decisions?
3. Explain the different types of business environment. Distinguish between internal, micro, and macro environment with suitable examples.
4. What are the elements of the micro environment? Explain how each element (customers, competitors, suppliers, intermediaries, and public) affects business operations.
5. What is Ease of Doing Business? Explain how improving the business environment helps promote trade, industry, and investment. Also discuss the significance of trade auxiliaries in supporting business activities.

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# Key Government Institutions

Lesson 8

## KEY CONCEPTS

■ Strategic Vision■ Policy Design and Monitoring ■ Inclusive Development ■ Separation of Powers ■ Public Administration ■ Democratic Accountability ■ Policy-Making and Regulation ■ Independent Oversight Bodies ■ Decentralization & Local Governance Policy Design and Monitoring, ■ Inter-sectoral Coordination.

## Learning Objectives

**To understand:**

- NITI Aaayog's 7 pillars of effective governance
- Affiliated offices of Ministry of Corporate Affairs
- Functions of SEBI
- Main Functions of RBI
- IBBI is a unique regulator: regulates a profession as well as processes

## Lesson Outline

## NITI AAYOG

### Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- To maintain a state-of-the-art Resource Centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

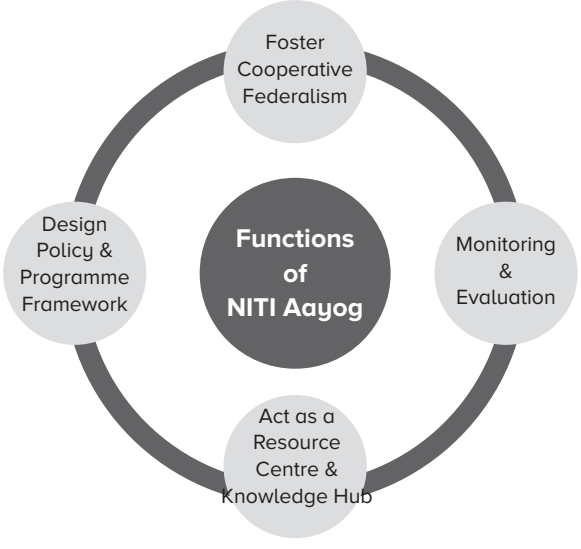
### Features

NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues.

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Design Policy & Programme Framework
2. Foster Cooperative Federalism

3. Monitoring & Evaluation
4. Think Tank and Knowledge & Innovation Hub




NITI Aaayog is based on the 7 pillars of effective governance – **(1) Pro-People (2) Pro-Activity (3)Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.**

## SDG (Sustainable Development Goal) Vertical

*Vision and Mission*

The SDG Vertical, in collaboration with Union Ministries and States/ UTs, is the nodal agency for coordinating and monitoring the Sustainable Development Goals. Through the approach of cooperative and competitive federalism, the Vertical works towards accelerated adoption, implementation, and monitoring of the SDG framework and related initiatives at the national and sub-national levels.

The Vertical works closely with key stakeholders–including the Government, civil society, private sector, academia, think tanks, research organisations, and multilateral organisations–to fast-track the achievement of SDGs in the country.

## Core Functions

*Progress Monitoring*

Monitoring progress achieved under the SDG framework at the global, national, and sub-national levels is the core function of the Vertical. NITI Aayog prepares and presents India's Voluntary National Review (VNR) at the High-Level Political Forum (HLPF) on Sustainable Development at the United Nations. For national and sub-national progress monitoring, the Vertical has developed the SDG India Index and Dashboard, the official and principal SDG progress monitoring tool of the country.

*SDG Localisation*

The States and UTs play a pivotal role in the achievement of SDG targets at the national level. The Vertical works closely with the State/UT Governments and supports them in a range of initiatives for SDG localisation – including the State and District Indicator Frameworks, review mechanisms, and capacity building.

*Private Sector Engagement*

The targets under the SDG framework are not meant to be achieved by Government action alone. It requires commitment and solid action by the private sector. The Vertical drives initiatives to improve the participation of the private sector in SDG efforts. Key collaborative outputs in this area include SDG Investor Map and private sector integration for SDGs.

*SDG Costing and Financing*

Estimating the cost to achieve the SDGs and developing and implementing the tools to attract SDG- related finance and investments are key requirements for the timely achievement of the ambitious targets under the SDG framework. The initiatives of the SDG Vertical in this area include SDG costing exercise for key SDGs and an online platform to facilitate SDG-linked investments.

*Multidimensional Poverty Measurement and Reduction*

The SDG framework specifically targets ending poverty in all its forms, thereby raising the stakes on accelerated multidimensional poverty reduction. The Vertical steers the development of India's national Multidimensional Poverty Index (MPI) and the reform action plan to reduce multidimensional poverty.

The different verticals of NITI provide the requisite coordination and support framework for NITI to carry out its mandate. The list of verticals is as below:

1. Administration
2. Agriculture and allied sectors
3. Data Management and Analysis, and Frontier Techniques
4. E-Mobility
5. Energy
6. Education
7. Economics and Finance Cell
8. Governance and Research
9. Governing Council Secretariat and Coordination
10. Health and Family Welfare
11. Industry-I
12. Industry-II
13. Infrastructure Connectivity
14. Managing Urbanisation
15. MSME
16. Natural Resources and Environment, and Island Development
17. NGO Darpan
18. Project Appraisal and Management Division
19. Public-Private Partnerships
20. Rural Development

21. Science and Technology
22. Social Development Division
23. Skill Development, Labour and Employment
24. State Finances and Coordination
25. Sustainable Development Goals
26. Tourism and Culture
27. Water and Land Resources
28. Women and Child Development

## PROJECT SATH-E

Project SATH-E, 'Sustainable Action for Transforming Human Capital-Education', was launched in 2017 to identify and build three 'role model' States for the school education sector. After an elaborate selection process, Jharkhand, Odisha and Madhya Pradesh were chosen.

The first phase of SATH-E was completed in March 2020. Significant strides were made in learning enhancement programmes (remediation), governance reforms, teacher training, recruitment, assessment and accountability, school consolidation, IT-enabled monitoring of schools, coaching of academic coordinators (BRCs/CRCs), among others.

A few of the achievements are as follows:

1. Learning enhancement programme/remedial teaching with workbook support for approximately 2.3 crore students implemented.
2. Academic monitoring of schools and students streamlined, with nearly 1.5 lakh inspections carried out every month.
3. Comprehensive rewards and recognition programmes, including external certifications, initiated.
4. Assessment reforms, including spot testing and learning tracking formats, introduced.
5. Multiple rounds of teacher training undertaken.
6. In Madhya Pradesh, 30% of the students moved from lower-level foundational literacy, numeracy learning cohorts to the highest learning level for grades 3–8 in two years of the 'Dakshta Unnayan' learning enhancement programme.
7. In Odisha, average improvement of 10–15% observed in learning outcomes due to the 'Ujjwal- Utthan' learning enhancement programme.
8. In Jharkhand, 12% improvement across most competencies was recorded through the 'Gyan Setu' learning enhancement programme.
9. With the onset of the Covid-19 pandemic, SATH-E adapted itself as 'Digi-SATH' to provide undeterred support via digital mediums.
10. Under the Digi-SATH initiative, MP's 'Hamara Ghar Hamara Vidyalaya' and 'Digi-LEP' (or 'Digital Learning Enhancement Programme'), Odisha's 'Shiksha Sanjog' and 'Shiksha Sampark', and Jharkhand's 'Hamara Doordarshan Hamara Vidyalaya' have been providing online educationand teacher training.

## MINISTRY OF CORPORATE AFFAIRS

The Ministry is primarily concerned with the administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law. The Ministry is also responsible for administering the Competition Act, 2002 to prevent practices having an adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers through the commission set up under the Act. Besides, it exercises supervision over the three professional bodies, namely, Institute of Chartered Accountants of India(ICAI), Institute of Company Secretaries of India(ICSI) and the Institute of Cost Accountants of India (ICAI) which are constituted under three separate Acts of the Parliament for proper and orderly growth of the professions concerned. The Ministry also has the responsibility of carrying out the functions of the Central Government relating to administration of Partnership Act, 1932, the Companies (Donations to National Funds) Act, 1951 and Societies Registration Act, 1980.

The affiliated offices of Ministry of Corporate Affairs are as under:

(i) *Serious Fraud Investigation Office* : The Government in the backdrop of major failure of non- banking financial institutions, phenomenon of vanishing companies, plantation companies and the recent stock market scam had decided to set up Serious Fraud Investigation Office (SFIO), a multi-disciplinary organization to investigate corporate frauds. The Organization has been established and it has started functioning since 1st October, 2003.

(ii) *Competition Commission of India* : The Competition Commission of India (CCI) was established under the Competition Act, 2002 for the administration, implementation and enforcement of the Act, and was duly constituted in March 2009. The following are the objectives of the Commission.

1. To prevent practices having adverse effect on competition
2. To promote and sustain competition in markets
3. To protect the interests of consumers and
4. To ensure freedom of trade.

Consequent upon a challenge to certain provisions of the Act and the observations of the Hon'ble Supreme Court, the Act was amended by the Competition (Amendment) Act, 2007. The Monopolies and Restrictive Trade Practices Act, 1969 [MRTP Act] repealed and is replaced by the Competition Act, 2002, with effect from 01st September, 2009 [Notification Dated 28th August, 2009].

(iii) *Indian Institute Of Corporate Affairs* : IICA has been established by the Indian Ministry of Corporate Affairs for capacity building and training in various subjects and matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability through environmental sensitivity and social responsibility, e-Governance and enforcement etc.

One of the wings of IICA, the ICLS Academy, has the responsibility for conducting the Induction & Advanced Training for Probationary Officers (POs) belonging to the Indian Corporate Law Service recruited through the Common Exam of Civil Services Examination conducted by UPSC.

The Institute has been designed with an eye on the future to provide a platform for dialogue, interaction and partnership between governments, corporate, investors, civil society, professionals, academicians and other stakeholders in the emerging 21st century.

*For Data & Reports of the Ministry of Corporate Affairs, please refer: https://www.mca.gov.in/content/mca/global/en/data-and-reports/reports/annual-reports/companies-2013.html*

## SECURITIES AND EXCHANGE BOARD OF INDIA

Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets. It monitors and regulates the securities market and protects the interests of the investors by enforcing certain rules and regulations. SEBI was founded on April 12, 1992, under the SEBI Act, 1992. Headquartered in Mumbai, India, SEBI has regional offices in New Delhi, Chennai, Kolkata and Ahmadabad along with other local regional offices across prominent cities in India.

The objective of SEBI is to ensure that the Indian capital market works in a systematic manner and provide investors with a transparent environment for their investment. To put it simply, the primary reason for setting up SEBI was to prevent malpractices in the capital market of India and promote the development of the capital markets.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

*"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto."*

### Functions of SEBI

SEBI has the following functions

1. Protective Function
2. Regulatory Function
3. Development Function

The aforesaid functions of SEBI are discussed briefly as under:

**Protective Function** : The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

a. *Prohibits insider trading* : Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.

b. *Check price rigging* : Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.

c. *Promoting fair practices* : SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.

d. *Financial education provider* : SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

**Regulatory Function** : Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

a. SEBI has defined the rules and regulations and formed guidelines and code of conduct thatshould be followed by the corporates as well as the financial intermediaries.

b. Regulating the process of taking over of a company.

c. Conducting inquiries and audit of stock exchanges.

d. Regulates the working of stock brokers, merchant brokers.

**Developmental Function** : Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.
2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
3. By making the underwriting an optional system in order to reduce cost of issue.

*For Annual Reports and Statistics of SEBI, please refer: https://www.sebi.gov.in/reports-and-statistics.html*

### Powers of SEBI

Securities and Exchange Board of India has the following three powers:

***Quasi-Judicia***l : With this authority, SEBI can conduct hearings and pass ruling judgements in cases of unethical and fraudulent trade practices. This ensures transparency, fairness, accountability and reliability in the capital market. SEBI PACL case is an example of this power.

***Quasi-Legislative*** : Powers under this segment allow SEBI to draft rules and regulations for the protection of the interests of the investor. One such regulation is SEBI LODR (Listing Obligation and Disclosure Requirements). It aims at consolidating and streamlining the provisions of existing listing agreements for several segments of the financial market like equity shares. This type of regulation formulated by SEBI aims to keep any malpractice and fraudulent trading activities at bay.

***Quasi-Executive*** : SEBI is authorised to file a case against anyone who violates its rules and regulation. It is empowered to inspect account books and other documents as well if it finds traces of any suspicious activity.

## RESERVE BANK OF INDIA (RBI)

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

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

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

### Main Functions of RBI

#### Monetary Authority

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability while keeping in mind the objective of growth.

***Regulator and supervisor of the financial system***

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

***Manager of Foreign Exchange***

- Manages the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

***Issuer of currency***

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public an adequate quantity of supplies of currency notes and coins of good quality.

***Developmental role***

- Performs a wide range of promotional functions to support national objectives.

***Regulator and Supervisor of Payment and Settlement Systems***

- Introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large.
- Objective: maintain public confidence in payment and settlement system

***Related Functions***

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

***Other Significant Facts***

- Has 27 regional offices, most of them in state capitals and 04 Sub-offices.
- Deposit Insurance and Credit Guarantee Corporation of India (DICGC), Bharatiya Reserve Bank

  Note : Mudran Private Limited (BRBNMPL), Reserve Bank Information Technology Private Limited (ReBIT), Indian Financial Technology and Allied Services (IFTAS) are fully owned subsidiaries of Reserve Bank of India.
- Has six training establishments- Three, namely, RBI Academy, College of Agricultural
- Banking and Reserve Bank of India Staff College are part of the Reserve Bank.

Others are autonomous, such as, National Institute for Bank Management, Indira Gandhi Institute for Development Research (IGIDR), Institute for Development and Research in Banking Technology (IDRBT)

## INSOLVENCY AND BANKRUPTCY BOARD OF INDIA (IBBI)

The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons,

partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders.

It is a unique regulator: regulates a profession as well as processes. It has regulatory oversight over the Insolvency Professionals, Insolvency Professional Agencies, Insolvency Professional Entities and Information Utilities. It writes and enforces rules for processes, namely, corporate insolvency resolution, corporate liquidation, individual insolvency resolution and individual bankruptcy under the Code. It has been tasked to promote the development of, and regulate, the working and practices of, insolvency professionals, insolvency professional agencies and information utilities and other institutions, in furtherance of the purposes of the Code. It has also been designated as the 'Authority' under the Companies (Registered Valuers and Valuation Rules), 2017 for regulation and development of the profession of valuers in the country.

## NATIONAL COMPANY LAW TRIBUNAL (NCLT)

The Central Government has constituted National Company Law Tribunal (NCLT) under section 408 of the Companies Act, 2013 (18 of 2013) w.e.f. 01st June 2016. In the first phase the Ministry of Corporate Affairs has set up eleven Benches, one Principal Bench at New Delhi and ten other Benches at New Delhi, Ahmedabad, Allahabad, Bengaluru, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata and Mumbai. These Benches are headed by the President Chief Justice (Retd.) Ramalingam Sudhakar and comprises of sixteen Judicial Members and nine Technical Members at different locations. Subsequently, more Benches at Cuttack, Jaipur, Kochi, Amravati, and Indore have been setup and new members have joined.

## NATIONAL COMPANY LAW APPELLATE TRIBUNAL (NCLAT)

National Company Law Appellate Tribunal (NCLAT) was constituted under Section 410 of the Companies Act, 2013 for hearing appeals against the orders of National Company Law Tribunal(s) (NCLT), with effect from 1st June, 2016.

NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by NCLT(s) under Section 61 of the Insolvency and Bankruptcy Code, 2016 (IBC), with effect from 1st December, 2016. NCLAT is also the Appellate Tribunal for hearing appeals against the orders passed by Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.

NCLAT is also the Appellate Tribunal to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India (CCI) – as per the amendment brought to Section 410 of the Companies Act, 2013 by Section 172 of the Finance Act, 2017, with effect from 26th May, 2017.

### LESSON ROUNDUP

- NITI Aayog is developing itself as a State-of-the-art Resource Centre, with the necessary resources, knowledge and skills, that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues.
- NITI Aaayog is based on the 7 pillars of effective governance – (1) Pro-People (2) Pro-Activity (3) Participation (4) Empowering (5) Inclusion of all (6) Equality (7) Transparency.
- SDG (Sustainable Development Goal) Vertical: Vertical works towards accelerated adoption, implementation, and monitoring of the SDG framework and related initiatives at the national and sub-national levels.

- Project SATH-E, 'Sustainable Action for Transforming Human Capital-Education', was launched in 2017 to identify and build three 'role model' States for the school education sector.
- The Ministry of Corporate Affairs (MCA) is primarily concerned with the administration of the Companies Act 2013, the Companies Act 1956, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law.
- MCA's main function is to regulate and oversee the functioning of the corporate sector in compliance with the law.
- The MCA also administers the Competition Act, 2002.
- The MCA exercises supervision over three statutory professional bodies.
- Securities and Exchange Board of India (SEBI) is a statutory regulatory body entrusted with the responsibility to regulate the Indian capital markets.
- The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code).

**GLOSSARY**

**IBBI:** The Insolvency and Bankruptcy Board of India

**RBI:** The Reserve Bank of India

**SEBI:** Securities and Exchange Board of India

**MCA:** Ministry of Corporate Affairs

**SATH-E:** Sustainable Action for Transforming Human Capital-Education

**MSME:** Micro, Small and Medium Enterprises

**SDG:** Sustainable Development Goa

**MPI:** Multidimensional Poverty Index

**CCI:** The Competition Commission of India

**SFIO:** The Serious Fraud Investigation Office

**TEST YOURSELF**

1. What are the 7 pillars of effective governance according to NITI Aayog? Explain how they contribute to better policy-making and governance.
2. Name and describe the affiliated offices of the Ministry of Corporate Affairs. How do these offices help in regulating corporate sector activities in India?
3. Explain the main functions of the Securities and Exchange Board of India (SEBI). How does SEBI protect investors and regulate the securities market?
4. What are the main functions of the Reserve Bank of India (RBI)? Explain how RBI maintains financial stability and regulates the banking system.
5. What is the Insolvency and Bankruptcy Board of India (IBBI)? Why is it called a unique regulator, and how does it regulate both a profession as well as processes?

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# Global Business Environment

Lesson 9

## KEY CONCEPTS

■ The Global Business Environment ■ Liberalization and Globalization Impacts on the Global Business Environment ■ Organizations Driving Global Business

## Learning Objectives

**To understand:**

- Global business environment and its key components.
- Liberalization and Globalization
- World Trade Organization (WTO)
- UNCTAD
- OPEC
- BIMSTEC
- European Union (EU)
- International Chamber of Commerce (ICC)
- Organisation for Economic Co-operation and Development (OECD)
- Asia-Pacific Economic Cooperation (APEC)
- Association of Southeast Asian Nations (ASEAN)
- World Bank
- Asian Development Bank (ADB)
- European Central Bank (ECB)

## Lesson Outline

- Understand and differentiate the concepts of liberalization and globalization and their impact on the global business environment.
- Explain the roles and functions of major global and regional organizations such as WTO, UNCTAD, OPEC, BIMSTEC, and the EU.
- Describe the significance of key international financial institutions, including the World Bank, ADB, NDB, and ECB

## 1. INTRODUCTION TO THE GLOBAL BUSINESS ENVIRONMENT

The Global Business Environment consists of various external factors, including economic, political, technological, socio-cultural, legal, and ecological influences, that impact how businesses operate across countries. In today's interconnected world, organizations do not operate in isolation. Their decisions, performance, and competitiveness are shaped by global trends.

As globalization, digitalization, and the easing of trade policies continue, businesses have opportunities to enter new markets while facing complex challenges like political risks, differing regulations, and cultural diversity. The global business environment is a network of economies and societies connected through trade, investment, technology, and information.

**A. Key features of the global business environment include:**

i. **Economic Interdependence:** Countries and companies are connected through supply chains, capital flows, and labour movement. For example, a smartphone sold in India may have its design from the U.S., components from South Korea, assembled in China, and distributed worldwide.

ii. **Political and Legal Influences:** Trade agreements, such as WTO norms and regional agreements like the EU, NAFTA/USMCA, and RCEP, as well as tariffs, sanctions, and local laws, affect how businesses operate internationally.

iii. **Technological Integration:** Rapid advancements in AI, blockchain, e-commerce, and digital platforms have changed how businesses provide value globally. Companies need to frequently innovate to stay competitive.

iv. **Cultural Diversity:** For global managers, understanding different cultural values, consumer preferences, negotiation styles, and workplace behaviours' is vital. Misunderstanding cultural norms can lead to unsuccessful business efforts.

v. **Sustainability and Ethics:** There is a growing focus on ESG (Environmental, Social, and Governance) practices, making ethical and sustainable business practices essential in the global market. Issues like climate change, responsible sourcing, and social equity are now central to business strategies.

vi. **Risk and Uncertainty:** Global businesses must manage financial crises, pandemics like COVID-19, geopolitical conflicts such as the Russia-Ukraine war, currency fluctuations, and natural disasters that can disrupt operations. The global business environment is dynamic, unpredictable, and highly competitive. To succeed in this landscape, companies must create strategies that balance global efficiency with local responsiveness, build cultural awareness, and keep innovating.

### B. PESTLE Framework for Global Business Environment

The PESTLE framework diagram for the Global Business Environment highlights six key dimensions: Political, Economic, Social, Technological, Legal, and Environmental. The macro environment (Political, Economic, Social, Technological, Legal, Environmental – PESTLE) shapes the context in which businesses operate. These large-scale forces indirectly influence daily or micro-level decisions on pricing, hiring, sourcing, marketing, and investments.

**Examples of Impact:**

i. **Political & Legal ⟶ Pricing & Compliance**

- Changes in GST/VAT rates force a company to adjust product pricing and accounting practices.
- For example, when India reduced corporate tax rates in 2019, many firms revised their expansion plans.

ii. **Economic ⟶ Investment & Expansion**

- Inflation, interest rates, and exchange rate volatility affects sourcing and capital budgeting.
- For example, a weaker rupee makes imports costlier, leading companies to switch to local suppliers.

iii. **Social ⟶ Marketing & HR**

- Cultural shifts, like increased sustainability awareness, push companies to redesign products or campaigns.
- For example, Nestlé promotes "organic" and "health-conscious" products in India to match consumer demand.

iv. **Technological ⟶ Operations & Strategy**

- AI, automation, and digital payments change how businesses sell and serve customers.
- For example, retail companies adopt UPI/Paytm payments to meet consumer expectations.

v. **Environmental ⟶ Supply Chain & CSR**

- Climate policies and ecological pressures require greener practices.
- For example, automobile companies shift to EV production in response to emission regulations.

## C. Challenges and Opportunities of Global Business Environment

Operating in the global business environment presents both challenges and opportunities.

i. **Challenges**

- **Complexity and Uncertainty:** The number of factors to consider and their unpredictable nature make it hard to forecast outcomes and plan long-term strategies.
- **Cultural and Language Barriers:** Misunderstanding local customs or failing to adjust communication can lead to marketing errors, failed negotiations, and poor management.
- **Political and Financial Risks:** Instability, wars, currency fluctuations, and different tax systems can create significant financial and operational risks for a business.
- **Logistical and Supply Chain Issues:** Managing a global supply chain is complicated. It involves challenges like transportation delays, customs procedures, and unreliable infrastructure.

ii. **Opportunities**

- **Market Expansion and Growth:** Businesses can enter new and growing markets, especially in emerging economies, and reach new groups of consumers.
- **Access to Resources:** Companies can use global resources, including cheaper labor, raw materials, and new technologies, to cut costs and improve efficiency.
- **Diversification of Revenue:** Expanding into multiple countries helps a company rely less on one domestic market, shielding it from local economic downturns.
- **Innovation and Learning:** Exposure to different cultures, markets, and business practices can inspire innovation and new ways of conducting business.

## D. Liberalization and Globalization Impacts on the Global Business Environment

Liberalization and globalization are interconnected forces that have significantly changed the global business environment. While often viewed as the same, they are different processes. Liberalization involves reducing or removing government regulations and restrictions on economic activities, especially in trade and investment. This includes lowering tariffs, easing foreign investment rules, and privatizing state-owned enterprises. Globalization refers to the growing interconnectedness and integration of the world's economies, cultures, and societies. It is a broad process driven by liberalization, technological advances, and the actions of multinational corporations. Together, these forces have created a more integrated, competitive, and dynamic global marketplace.

### i. Key Impacts of Liberalization and Globalization

#### a) Increased Market Access and Competition

Liberalization has removed trade barriers like tariffs and quotas, making it easier for companies to enter foreign markets. This has led to a surge in international trade and foreign direct investment (FDI). For businesses, this means a larger customer base and access to new resources, but also tougher competition from global rivals. Domestic companies that were once protected by government regulations must now compete globally, pushing them to become more efficient and innovative.

#### b) The Rise of Multinational Corporations (MNCs) and Global Supply Chains

Globalization has enabled multinational corporations (MNCs) to expand rapidly. These companies can now divide their production processes across various countries, taking advantage of lower labor costs, tax incentives, and specialized resources. This has led to complex global supply chains, where different stages of a product's creation, from design to assembly, can occur in several nations. For example, a smartphone might be designed in the U.S., use components from Korea and Taiwan, and be assembled in China.

#### c) Technology and Digital Transformation

Technological progress has been a major factor in both liberalization and globalization. The internet, digital communication, and improved transportation have reduced the costs and time associated with conducting business across borders. This has enabled small and medium-sized enterprises (SMEs) to compete globally through e-commerce platforms. Technology has also facilitated the sharing of information, ideas, and best practices, creating a more interconnected and knowledge-driven global economy.

#### d) Financial Integration and Capital Flows

Liberalization of financial markets has made it easier for capital to move across borders. This allows companies to raise funds and invest globally, while giving investors more options. However, this financial integration comes with risks. An economic downturn or financial crisis in one country can quickly affect others, as seen during the 2008 global financial crisis.

### ii. Challenges and Negative Consequences

Despite the benefits, liberalization and globalization have also brought notable challenges:

a) **Increased Inequality:** The advantages of globalization are not shared evenly. While some countries have seen rapid economic growth, others have struggled. Within countries, there is often a rise in income disparity between skilled workers who succeed in the global economy and those in industries displaced by foreign competition.

b) **Job Displacement:** The shift of manufacturing and other jobs to countries with lower labor costs has caused job losses in developed nations. This has contributed to economic and social unrest.

c) **Environmental Concerns:** The growth of global supply chains and increased production can lead to a larger environmental footprint, including higher carbon emissions from transportation and potential exploitation of natural resources in developing countries with less strict environmental laws.

d) **Cultural Homogenization:** The global spread of a few dominant cultures and brands, often Western, can result in the loss of unique local cultures and traditions.

## 2. ORGANIZATIONS DRIVING GLOBAL BUSINESS

International organizations play a key role in shaping the current global business environment. They set rules, ensure financial stability, and promote economic development. These organizations create a framework that supports international trade and investment. The following are key organizations driving global business:

### A. World Trade Organization (WTO)

The World Trade Organization (WTO) is the only global organization focused on establishing trade rules between nations. At its core are the WTO agreements, negotiated and signed by most of the world's trading nations and ratified by their parliaments. The goal is to ensure that trade flows smoothly, predictably, and freely.

**i. Formation**

The World Trade Organization (WTO) was officially established on January 1, 1995, succeeding the General Agreement on Tariffs and Trade (GATT), which had governed international trade since 1947. The idea for the WTO came during the Uruguay Round of trade negotiations (1986–1994), where member countries recognized the need for a stronger, permanent body to regulate trade rather than a temporary agreement like GATT.

The WTO was created to provide a rules-based, transparent, and predictable framework for international trade. Unlike GATT, which mainly focused on trade in goods, the WTO covers a wider domain, including goods, services, and intellectual property rights. Its headquarters are in Geneva, Switzerland, with 164 member countries, representing more than 98% of world trade, making it one of the most powerful institutions in the global economy.

**ii. Role of WTO**

The WTO is often described as the guardian of international trade. Its primary role is to ensure that trade between nations flows smoothly, fairly, and predictably. By creating a structured legal and institutional framework, the WTO gives businesses, investors, and governments confidence that trade will not be disrupted by sudden policy changes.

It acts as a forum for trade negotiations, where member countries come together to discuss tariff reductions, removal of trade barriers, or the adoption of new trade-related standards. Another crucial function is as a dispute settlement authority, where trade conflicts between countries are resolved fairly.

For instance, India's disputes with the U.S. regarding solar panel imports and agricultural subsidies were taken to the WTO, and decisions were made based on globally agreed rules. Such mechanisms prevent countries from engaging in trade wars that could destabilize global commerce.

**iii. Functions of WTO**

The WTO performs several important functions that help promote international trade:

**a) Administering Trade Agreements**

- The WTO manages a set of multilateral trade agreements covering goods (GATT), services

(GATS), and intellectual property rights (TRIPS). These agreements require member nations to abide by global trade rules.

**b) Forum for Negotiations**

- It provides a permanent platform for negotiations. For example, the Doha Development Round was launched to address the concerns of developing countries in world trade.

**c) Dispute Settlement**

- One of the strongest features of the WTO is its Dispute Settlement Body (DSB). If a country believes another has violated WTO rules, it can file a complaint. The DSB investigates and delivers a binding judgment. This provides a peaceful and structured way to resolve trade conflicts.

**d) Trade Policy Review Mechanism (TPRM)**

- The WTO periodically reviews the trade policies of its members to ensure transparency and compliance. These reviews encourage countries to follow stable and investor-friendly policies.

**e) Capacity Building and Technical Assistance**

- The WTO offers training and technical assistance to developing and least-developed countries, helping them build the capacity to participate effectively in global trade.

**f) Cooperation with Other Institutions**

- The WTO works with the IMF, World Bank, and UNCTAD to ensure a coordinated approach to global economic stability and development.

**iv. Contributions of WTO in Fostering Business, Trade, and Commerce**

**a) Promotion of Free Trade**

WTO has significantly lowered trade barriers. Global tariffs, which were around 40% in 1947, have now fallen to below 5% in many sectors. This reduction has resulted in a remarkable growth of international trade, benefiting both producers and consumers.

**b) Predictability and Stability for Businesses**

Since trade rules are binding and disputes are settled by the WTO, companies and investors can confidently make long-term investment decisions. Predictability is important for businesses that operate on a global scale.

**c) Dispute Resolution and Fair Competition**

The fair way to resolve disputes ensures every participant has a level playing field. For example, smaller economies can challenge the unfair practices of larger economies without fearing retaliation, which is not possible outside the WTO framework.

**d) Encouragement of Globalization**

WTO has helped integrate markets worldwide, creating opportunities for multinational corporations and exporters. For instance, India's boom in IT and service exports owes much to WTO's General Agreement on Trade in Services (GATS), which opened up global markets for outsourcing.

**e) Special Provisions for Developing Nations**

WTO acknowledges that nations have unequal statuses and offers special treatment to

developing countries. This includes longer timeframes for implementing agreements, exemptions, and financial assistance.

**f) Intellectual Property Protection**

Through TRIPS (Trade-Related Aspects of Intellectual Property Rights), WTO offers global protection for patents, copyrights, and trademarks. This encourages innovation, foreign direct investment (FDI), and technology transfer.

**g) Boost to Consumer Welfare**

By promoting competition and reducing trade barriers, WTO has broadened consumer choices, lowered prices, and improved product quality.

## B. United Nations Conference on Trade and Development (UNCTAD)

The United Nations Conference on Trade and Development (UNCTAD) is an intergovernmental organization established in 1964. Its main goal is to help developing countries integrate into the global economy in a fair and effective way. UNCTAD was founded to address the concerns of newly independent nations that felt existing international institutions, like GATT (now the WTO), did not represent their interests. These nations believed the global economic system favored industrialized countries.

### i. Formation and Rationale

UNCTAD was established in response to the frustrations of developing countries in the mid-20th century. These nations often relied on commodities and faced challenges such as falling export prices and limited power in trade negotiations. They wanted a permanent forum to discuss these structural imbalances and support a new international economic order focused on reducing global economic inequality. UNCTAD became that voice, advocating for changes that would benefit the Global South.

### ii. Roles and Functions

UNCTAD's work is based on three main pillars:

**a) Research and Policy Analysis:** It serves as a global think tank focused on trade and development. UNCTAD produces reliable reports that analyze trends in trade, investment, finance, and technology. A key publication is the annual World Investment Report, providing important insights on global foreign direct investment (FDI) trends. This research helps governments and businesses understand the global economic landscape and make informed decisions.

**b) Consensus-Building:** UNCTAD acts as a forum for discussions among governments. It brings together representatives from all member states to find common ground on development issues. This is especially critical for developing countries, allowing them to coordinate their positions and represent their interests in multilateral negotiations, ensuring their voices are heard in shaping global economic policies.

**c) Technical Cooperation:** UNCTAD offers direct technical assistance and capacity-building to developing countries. This includes programs to train trade negotiators and customs officials, help countries draft investment policies, and provide software for customs procedures like the ASYCUDA program. This support boosts countries' abilities to engage effectively in international trade.

### iii. Contributions to Fostering Business, Trade, and Commerce

UNCTAD's efforts greatly impact the global business environment, especially for businesses in or with developing countries:

a) **Promoting Fair Trade:** UNCTAD consistently supports special treatment for developing nations in trade agreements. This principle provides these countries with more flexibility in following international rules, creating a fairer environment for their businesses.

b) **Trade Facilitation:** By helping nations modernize customs procedures and trade infrastructure, UNCTAD reduces the time and cost associated with cross-border business. This simplifies the import and export processes for companies, enhancing international commerce.

c) **Encouraging Sustainable Investment:** UNCTAD's work on investment policy helps developing countries attract and manage foreign direct investment (FDI) better. It offers advice on creating a favorable investment climate while ensuring that FDI supports sustainable development and job creation, both crucial for long-term business success.

d) **Supporting SMEs:** The organization provides resources and support for small and medium-sized enterprises (SMEs) in developing countries to overcome challenges and connect to global value chains. This expands their network of potential partners and suppliers.

## C. Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) is a regional organization including seven member states from South Asia and Southeast Asia. Its aim is to promote technical and economic cooperation to create a more integrated and prosperous region.

### i. Formation and Rationale

BIMSTEC was established on June 6, 1997, with the signing of the Bangkok Declaration. Initially called BIST-EC, it included Bangladesh, India, Sri Lanka, and Thailand. After Myanmar joined in late 1997, it became BIMST-EC. The addition of Nepal and Bhutan in 2004 changed it to the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation.

BIMSTEC came into existence from a shared interest in accelerating economic growth and social progress among countries connected to the Bay of Bengal. It serves as an important link between the South Asian Association for Regional Cooperation (SAARC) and the Association of Southeast Asian Nations (ASEAN).

### ii. Roles and Functions

BIMSTEC operates as a sector-driven organization, where each member country leads in certain areas of cooperation. Its actions follow principles of equality, political independence, and mutual benefit. Key roles include:

a) **Promoting Economic Cooperation:** BIMSTEC aims to boost rapid economic development by carrying out specific projects in agreed areas.

b) **Enhancing Connectivity:** A major focus is improving physical links through road, rail, air, and sea routes. The BIMSTEC Master Plan for Transport Connectivity is a significant project aimed at this goal.

c) **Sector-Specific Cooperation:** The organization has identified several key sectors for collaboration. These include trade and investment, connectivity, security, agriculture, and science and technology.

d) **Serving as a Platform for Dialogue:** BIMSTEC provides a space for leaders and officials to meet, discuss policies, and reach agreements on common concerns.

### iv. Contributions to Fostering Business, Trade, and Commerce

BIMSTEC has significantly impacted the business climate in the region, though challenges remain.

a) **Free Trade Agreement (FTA):** A framework agreement for a BIMSTEC Free Trade Area (FTA) was signed in 2004. Ongoing FTA negotiations aim to increase intra-regional trade and attract foreign investment by lowering tariffs and non-tariff barriers.

b) **Trade Facilitation:** The organization is working to streamline customs processes and reduce bureaucracy, making cross-border trade easier and more efficient. This is essential in a region with varying levels of economic development.

c) **Boosting Investment:** BIMSTEC promotes investment cooperation by creating a platform for discussing investment policies and encouraging private sector involvement through events like the BIMSTEC Business Conclave.

d) **Connectivity Projects:** Initiatives like the Kaladan Multimodal Transit Transport Project and the India-Myanmar-Thailand Trilateral Highway aim to lower trade costs and enhance supply chain efficiency, benefiting businesses in the region.

## D. European Union (EU)

The European Union (EU) is a unique economic and political union of 27 member states, primarily in Europe. It grew from a series of treaties aimed at promoting peace and economic integration after World War II. The EU operates as a single market with a common currency (the Euro) for many members. It functions through supranational institutions that make decisions and enforce laws applicable across all member states.

### i. Formation and Evolution

The EU's roots trace back to the European Coal and Steel Community (ECSC), established in 1951 by six founding members (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands). The goal was to prevent future conflicts by sharing control of key industrial resources. This success led to the Treaty of Rome in 1957, which formed the European Economic Community (EEC), a common market that aimed to remove barriers to trade.

The modern EU was formally created by the Maastricht Treaty in 1993. This treaty established the EU as a political entity and laid the groundwork for a single currency, a common foreign and security policy, and increased cooperation on justice and home affairs. Since then, the EU has grown considerably, adding new members from Central and Eastern Europe and becoming a major global economic power.

### ii. Roles and Functions

The EU's roles and functions are vast and complex, covering many policy areas. Key functions include:

a) **Legislation:** The EU's institutions, mainly the European Parliament and the Council of the European Union, create laws that all member states must follow. This legislation covers areas from environmental protection and consumer safety to trade and competition.

b) **Economic and Monetary Union (EMU):** The EU has established a single currency, the euro, for 20 of its members, along with a common monetary policy managed by the European Central Bank (ECB). The euro makes cross-border transactions easier and helps keep prices stable.

c) **External Representation:** The EU represents itself as a single entity on the global stage, especially in trade negotiations. It negotiates international trade agreements on behalf of all its members, giving it considerable influence in global trade discussions.

### iii. Contributions to Business, Trade, and Commerce

The EU's contributions to fostering business and trade are foundational to its purpose.

a) **The Single Market:** This is the EU's most significant contribution. It guarantees free movement of

goods, services, capital, and people across member states, removing internal borders and trade barriers. This allows businesses to operate on a larger scale with fewer obstacles.

b) **Reduced Trade Costs:** By eliminating tariffs and creating a standardized regulatory environment, the EU has significantly lowered the cost and complexity of doing business within Europe. This has led to greater efficiency, lower consumer prices, and increased competitiveness for European companies.

c) **Global Trade Powerhouse:** As the world's largest single market, the EU plays a major role in global trade. It has negotiated a broad network of free trade agreements (FTAs) with countries and blocs worldwide, opening up new markets for European businesses and providing access to raw materials and innovations.

d) **Standardization:** The EU sets common standards for products and services, covering areas like food safety and electronics. This means a product approved for sale in one EU country can be sold across the entire bloc, simplifying supply chains and encouraging innovation.

## E. International Monetary Fund (IMF)

The International Monetary Fund (IMF) is a key part of the global financial system, established to ensure monetary stability and promote international cooperation. While it doesn't directly drive business or trade like a company or a free trade agreement, its role in creating a stable and predictable economic environment is vital for global commerce.

### i. Role and Functions

The IMF's main role is to act as a financial watchdog and a lender of last resort for its 190 member countries. Its functions are based on three main pillars:

a) **Surveillance:** The IMF keeps an eye on the global economy and the economic policies of its member nations. Through regular consultations, known as Article IV consultations, the IMF assesses a country's economic health, identifies potential risks, and offers policy recommendations. This oversight is crucial for preventing crises and promoting sustainable growth, which in turn fosters a reliable environment for international business and investment.

b) **Financial Assistance:** When a country hits a balance of payments crisis, meaning it cannot pay for its imports or manage its foreign debt, the IMF offers temporary financial help. This lending is an essential function, giving countries the time and resources to make policy changes without resorting to harmful measures that could hurt their economies and global trade, like imposing strict import limits.

c) **Capacity Development:** The IMF provides technical help and training to aid member countries in strengthening their economic institutions. This includes guidance on tax administration, modernizing central banks, and improving legal systems. By boosting a country's ability to handle its economy, the IMF helps create a more stable and clear environment for both local and international businesses.

### ii. Contributions to Fostering Business, Trade, and Commerce

The IMF's contributions to global business, trade, and commerce are indirect but fundamental. They stem from its mission to establish a steady, rule-based international monetary system.

a) **Promoting Exchange Rate Stability:** One of the IMF's founding goals was to maintain stable exchange rates among its members. By discouraging competitive currency devaluations, the IMF gives businesses the certainty needed to engage in cross-border trade and investment. A steady exchange rate lowers the risk for companies involved in international transactions.

b) **Removing Trade and Payment Restrictions:** The IMF collaborates with its members to eliminate foreign exchange barriers and set up a multilateral payment system. This allows businesses to exchange currencies and conduct transactions across borders more easily, which is essential for the smooth flow of goods and services.

c) **Lending as a "Financial Firefighter":** By providing loans to countries in distress, the IMF prevents economic turmoil from spreading to other nations. This "contagion" effect can trigger global recessions and interrupt supply chains. The IMF's responses to crises, such as the 1997 Asian financial crisis or the 2008 global financial crisis, were crucial in restoring trust in the global financial system.

d) **Encouraging Sound Policies:** The conditions tied to IMF loans often require countries to pursue market-driven reforms. These can include fiscal discipline, trade liberalization, and improved governance. Such reforms can create a clearer and more attractive environment for both local and foreign businesses to grow and succeed.

## F. International Chamber of Commerce (ICC)

The International Chamber of Commerce (ICC) is a global business group that promotes and supports international trade and investment. It was founded in 1919 by "Merchants of Peace" after World War I. They believed that a strong, connected global economy would reduce the chances of future conflicts. The ICC's main role is to represent international business and set rules and standards that make cross-border transactions easier.

### i. Formation and Structure

The ICC is a non-governmental organization with a vast network of national committees and direct members in over 170 countries, representing more than 45 million companies. Its headquarters is in Paris, France. The ICC's highest governing body is the World Council, made up of representatives from its national committees. The International Secretariat, also located in Paris, is the operational body that implements the ICC's work program and represents the business community in international forums.

### ii. Key Roles and Functions

The ICC's work is divided into three main areas: rule-setting, dispute resolution, and policy advocacy.

a) **Rule-Setting:** The ICC creates and publishes a variety of voluntary rules, guidelines, and standards that businesses and financial institutions widely adopt. Key examples include:

- Incoterms (International Commercial Terms): These three-letter trade terms define the rights and obligations of buyers and sellers in the delivery of goods. They clarify responsibilities for transportation, insurance, and duties, helping to prevent misunderstandings and disputes.
- Uniform Customs and Practice for Documentary Credits (UCP): This set of rules governs letters of credit, which are vital for financing international trade. The UCP offers a common framework for banks to manage and assess the documents involved in these transactions, making the process quicker and more secure.

b) **Dispute Resolution:** The ICC International Court of Arbitration is a leading global institution for resolving commercial disputes. It is not a court in the traditional sense; rather, it oversees and manages arbitration processes. It appoints arbitrators, monitors the proceedings, and evaluates final awards to ensure quality and legal enforceability. This service offers a confidential and efficient alternative to complex and lengthy national court litigation.

c) **Policy Advocacy:** The ICC represents global business at major international forums. It holds a consultative status with the United Nations and actively participates in discussions at the World

Trade Organization (WTO) and the G20. The ICC advocates for policies that support an open, rules-based, and fair international trading system. It also tackles important global issues such as commercial crime, corruption, and transitioning to a more sustainable, digital economy.

**iii. Contributions to Fostering Business and Trade**

The ICC's efforts have significantly shaped the modern global economy by creating a more predictable, transparent, and secure environment for international commerce.

- Standardization and Reduced Risk: By providing standardized rules like Incoterms and UCP, the ICC has greatly lowered uncertainty and risk in international trade. Businesses can confidently enter cross-border transactions knowing there is a universally accepted framework for their contracts and payments.
- Encouraging Investment: The ICC's arbitration services build trust in international business partnerships. A neutral and enforceable dispute resolution process encourages companies to invest and trade in new markets, knowing their interests are protected.
- Promoting Free and Fair Trade: Through advocacy, the ICC works to remove trade barriers and counter protectionism. This promotes open markets, fair competition, and economic growth, benefiting businesses of all sizes and creating jobs worldwide. The ICC also strives to ensure that globalization's benefits are widely shared while addressing sustainability and social responsibility in business.

## G. Organisation for Economic Co-operation and Development (OECD)

The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental organization with 38 member countries. It aims to shape policies that promote prosperity, equality, opportunity, and well-being. The OECD is a place for governments to compare policy experiences, seek solutions to common problems, and find best practices. It succeeded the Organization for European Economic Co-operation (OEEC), which was formed in 1948 to manage the American-funded Marshall Plan for post-World War II reconstruction in Europe. The OECD was established in 1961, expanding its membership to include non-European countries like the United States and Canada for a broader global mission.

**i. Roles and Functions**

The OECD operates as a think tank and monitoring body, providing data, analysis, and recommendations without enforcement power. Its main functions include:

a) **Policy Analysis and Data Collection:** The OECD is a key source of economic data and policy analysis. It gathers extensive data on various economic, social, and environmental issues, producing regular reports such as the OECD Economic Outlook, which predicts global economic trends.

b) **Standard-Setting:** The OECD develops international standards and non-binding instruments, such as recommendations and principles. Although these are not legally binding, they significantly influence national policies. Examples include the G20/OECD Principles of Corporate Governance and the OECD Anti-Bribery Convention.

c) **Peer Review:** A core function involves peer reviews, where member countries' performance in specific policy areas is evaluated by other members. This provides a platform for accountability and encourages the adoption of successful policies.

d) **Forum for Dialogue:** The OECD facilitates discussions among governments, experts, and

stakeholders on pressing global issues, allowing for a cooperative approach to challenges that cross national borders.

**ii. Contributions to Fostering Business, Trade, and Commerce**

The OECD's impact on international business and trade is significant, even without direct enforcement powers.

- **Promoting Open and Fair Markets:** The OECD strongly advocates for free and open markets and a rules-based international trading system. Its research and analysis on protectionism costs and trade liberalization benefits inform policy decisions and negotiations at forums like the World Trade Organization (WTO).
- **Fighting Economic Crime:** The OECD has led efforts against international tax evasion and bribery. Its work on Base Erosion and Profit Shifting (BEPS) has helped create a more level playing field for businesses by ensuring multinational corporations pay their fair taxes. The Anti-Bribery Convention has also been vital in fighting corruption in international business transactions.
- **Simplifying International Business:** The OECD works to lower regulatory barriers and improve transparency in areas like investment and services trade. Its Services Trade Restrictiveness Index (STRI) identifies and measures regulatory barriers, providing a foundation for reform.
- **Supporting SMEs and Global Value Chains:** The organization offers policy recommendations to help small and medium-sized enterprises (SMEs) succeed in the global economy. It also researches global value chains to help countries and businesses understand and integrate into these complex international production networks.

## H. Asia-Pacific Economic Cooperation (APEC)

The Asia-Pacific Economic Cooperation (APEC) is an intergovernmental forum for 21 member economies in the Pacific Rim, aiming to promote free trade and economic cooperation throughout the region. Founded in 1989, APEC has become a crucial engine for economic growth, representing about 62% of the world's GDP and nearly half of global trade. Unlike traditional trade blocs, APEC operates on a voluntary basis, with decisions made by consensus. Its focus is on facilitating trade, reducing barriers, and fostering a collaborative environment to enhance living standards and prosperity across the region.

**i. Formation and Structure**

APEC was established in response to the increasing economic interdependence of the Asia-Pacific region. The initiative was led by Australian Prime Minister Bob Hawke, who recognized the need for formal economic cooperation. In November 1989, 12 economies met in Canberra, Australia, to create the forum. The membership has grown to include 21 economies, such as the United States, China, Japan, and Russia. APEC members are called "economies" rather than "countries" to highlight the focus on trade and economic issues, not political or military matters.

**ii. Roles and Functions**

APEC's work is based on three pillars:

a) **Trade and Investment Liberalization:** APEC aims to reduce tariffs and other barriers to trade and investment. A key goal was the Bogor Goals, set in 1994, which sought free and open trade and investment in the region by 2010 for industrialized economies and by 2020 for developing economies. While these goals were not fully achieved, they have driven reform.

b) **Business Facilitation:** APEC seeks to make it easier, cheaper, and faster to do business across borders. This includes streamlining customs procedures, aligning regulations and standards, and

promoting the use of digital tools. For example, the APEC Business Travel Card (ABTC) enables visa-free access for short-term business travel within member economies.

c) **Economic and Technical Cooperation (ECOTECH):** This pillar focuses on helping member economies improve their capacity and economic infrastructure. APEC-funded projects offer training and technical assistance in various areas, from digital skills for rural communities to enhancing food safety standards and promoting sustainable development.

**iii. Contributions to Fostering Business and Trade**

APEC's voluntary and non-binding approach has effectively promoted economic integration and prosperity in the region.

a) **Tariff Reduction and Trade Growth:** APEC's initiatives have led to a significant average tariff reduction across the region. From 1989 to 2019, average tariffs within APEC economies fell from 17% to 5.2%. This change sparked a substantial increase in trade and investment, with merchandise trade within APEC rising more than nine times during that period.

b) **Creating a Better Business Environment:** By encouraging better regulatory practices and streamlining border procedures, APEC has made it easier for businesses to operate internationally. The APEC Trade Repository, an online platform containing information on market access and regulations, has improved transparency and helped businesses navigate complex trade rules.

c) **Addressing Modern Challenges:** APEC's agenda has adapted to tackle new challenges for businesses and trade, such as the digital economy, climate change, and inclusive growth. It supports digital trade initiatives, helps small and medium-sized enterprises (SMEs) engage in global value chains, and promotes policies ensuring that trade benefits are shared more broadly among all people, including women and indigenous communities.

## 3. ORGANIZATIONS DRIVING THE GLOBAL FINANCIAL SYSTEM

Organizations like the World Bank, Asian Development Bank, New Development Bank, and the European Central Bank play a vital role in shaping the global financial system. They provide stability, encourage economic growth, and create an environment favorable to international business, trade, and commerce.

### A. World Bank Group (IFC, IDA)

The World Bank Group is made up of five international organizations that offer financial and technical aid to developing countries. Two of its main institutions, the International Finance Corporation (IFC) and the International Development Association (IDA), have specific roles that help foster business, trade, and commerce.

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**i. International Finance Corporation (IFC)**

The IFC is the private sector branch of the World Bank Group. It was founded in 1956 to promote private sector development in developing countries. Its creation recognized that a strong private sector is crucial for sustainable economic growth and poverty reduction.

**a. Role and Functions:**

The IFC's main role is to act as a catalyst for private investment in emerging markets. It achieves this by:

- Directly investing in private companies through loans, equity, and guarantees.
- Mobilizing capital from other investors, such as commercial banks and institutional investors, for development projects.
- Offering advisory services to businesses and governments on various topics, including corporate governance, risk management, and environmental and social standards.

**b. Contributions to Business, Trade, and Commerce:**

The IFC focuses on building a strong private sector. By investing in private companies, it helps create jobs, encourage entrepreneurship, and introduce new technologies. Its work in high-risk markets, where traditional financing is scarce, helps unlock economic potential. The IFC's support for businesses in sectors like infrastructure, agriculture, and finance directly supports trade and commerce.

**ii. International Development Association (IDA)**

The IDA is part of the World Bank that aids the world's poorest countries.

**a. Formation:**

It was created in 1960 to complement the World Bank's original lending arm (IBRD) by offering highly concessional financing to countries unable to borrow on regular market terms.

**b. Role and Functions:**

The IDA's main function is to provide interest-free loans (called "credits") and grants to low-income countries. These funds are used for critical development projects, such as:

- Building essential infrastructure like roads, schools, and hospitals.
- Funding social services like healthcare and education.
- Implementing reforms in governance and public finance.

**c. Contributions to Business, Trade, and Commerce:**

While the IDA does not lend directly to businesses, its contributions are foundational for establishing a stable and viable business environment. By funding essential public services and infrastructure, the IDA lowers operational costs and risks for businesses. A country with better roads, a more educated workforce, and reliable power is more appealing to both local and foreign investment. The IDA also helps create the institutional framework and stability necessary for trade and commerce to thrive.

## B. Asian Development Bank (ADB)

The Asian Development Bank (ADB) is a regional development bank founded in 1966 with the mission to encourage economic growth and cooperation in the Asia-Pacific region. Its main goal is to help developing member countries lower poverty and improve the quality of life for their people. Owned by 68 members, most of whom are from the region, the ADB operates through loans, technical assistance, grants, and advisory services.

**i. Formation and Evolution**

The ADB was established on December 19, 1966, under the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Its creation addressed the need for a financial institution tailored to Asian needs. The bank began with 31 members and has since grown to include both regional and non-regional members, with Japan and the United States as its two largest shareholders.

**ii. Roles and Functions**

The ADB follows a long-term strategic framework that focuses on three key areas: inclusive growth, environmentally sustainable growth, and regional integration. Its main functions include:

a) **Financial Assistance:** The ADB provides loans and grants to its developing member countries for a wide range of public and private projects, including infrastructure like roads and power plants as well as social services like education and healthcare.

b) **Technical Assistance:** It offers expertise and grants to help countries prepare and implement development projects, formulate effective policies, and build institutional capacity.

c) **Knowledge Sharing:** The ADB acts as a knowledge hub, producing research, data, and analysis on economic trends and development issues to guide policy decisions in the region.

d) **Catalyst for Investment:** The ADB acts as a co-financier, attracting resources from other development partners, commercial banks, and private investors to fund significant projects that would otherwise be too risky or expensive.

**iii. Contributions to Fostering Business, Trade, and Commerce**

The ADB's efforts directly impact the business environment in the Asia-Pacific region.

a) **Infrastructure Development:** By financing major infrastructure projects, the ADB improves physical connectivity within and between countries. Better roads, ports, and energy grids lower transportation costs, streamline supply chains, and facilitate business operations and trade.

b) **Trade Facilitation:** The bank actively backs initiatives to simplify customs procedures and reduce non-tariff barriers. Its Trade and Supply Chain Finance Program is noteworthy, as it bridges gaps in the financial market by providing guarantees and loans to banks, which supports trade transactions and decreases risk for both importers and exporters.

c) **Private Sector Development:** The ADB directly helps private enterprises in developing member countries through loans and equity investments. It finances projects with significant development impacts, such as those that generate jobs, promote sustainable practices, or introduce new technologies.

d) **Regional Integration:** By encouraging regional cooperation and integration, the ADB creates a more unified and attractive market. This includes facilitating policy discussions and supporting subregional programs that strengthen economic ties and help businesses access new markets.

## C. New Development Bank (NDB)

The New Development Bank (NDB) is a multilateral development bank created by the BRICS countries (Brazil, Russia, India, China, and South Africa). Its main purpose is to gather resources for infrastructure and sustainable development projects in emerging markets and developing countries. The NDB is often regarded as an alternative to Western-dominated financial institutions like the World Bank and the IMF, offering a new approach to development financing.

**i. Formation and Rationale**

The idea for the NDB was first proposed at the 4th BRICS Summit in 2012 in New Delhi, India. The formal agreement to establish the bank was signed at the 6th BRICS Summit in Fortaleza, Brazil, in 2014, and the bank became operational in 2015. Key factors behind the NDB's formation included:

- **Addressing the "Infrastructure Gap":** BRICS nations and other developing countries face a major deficit in infrastructure funding. The NDB was established to help close this gap by providing dedicated capital for projects in sectors like transport, energy, and water.
- **Reforming Global Financial Governance:** The founding countries were frustrated with the slow

pace of reform at existing international financial institutions, which they felt did not adequately represent emerging economies. The NDB, with equal shareholding and voting rights for its founding members, was designed to be a more balanced institution.

- **Reducing Dependence on Western Currencies:** The NDB aims to promote the use of local currencies in lending and transactions, which helps reduce foreign exchange risks for borrowers and strengthens the financial independence of member countries.

**ii. Roles and Functions**

The NDB has a clear focus on infrastructure and sustainable development. Its main functions include:

**iii. Project Financing:** The bank offers loans, guarantees, equity participation, and other financial tools to support public and private projects in its member countries.

**iv. Mobilizing Resources:** The NDB seeks to attract capital from various sources, including international bond markets and co-financing partnerships with other multilateral development banks.

**v. Promoting Knowledge Sharing:** It provides technical assistance and shares expertise on best practices for project design, management, and execution, with a strong focus on environmental, social, and governance (ESG) standards.

**vi. Supporting Sustainable Development:** A key goal of the NDB's strategy is to fund projects that align with the Sustainable Development Goals (SDGs), especially in areas like clean energy, water and sanitation, and environmental protection.

## D. European Central Bank (ECB)

The European Central Bank (ECB) serves as the central bank for the 20 European Union countries that have adopted the euro (€). It is one of the world's key central banks and plays an essential role in maintaining financial stability and supporting the economy of the Eurozone.

**i. Formation and Evolution**

The ECB was officially established on June 1, 1998, succeeding the European Monetary Institute. It emerged as part of the third and final stage of the Economic and Monetary Union (EMU), which introduced the euro as a common currency. The Treaty on the Functioning of the European Union provides the legal foundation for the ECB and guarantees its independence from political influences, ensuring that its decisions are based solely on economic factors. The ECB, along with the national central banks of all EU member states, makes up the European System of Central Banks (ESCB). However, only the ECB and the national central banks of Eurozone countries form the Eurosystem, which is the main decision-making body for monetary policy in the currency area.

**ii. Roles and Functions**

The ECB's primary goal is to maintain price stability in the Eurozone, aiming for a target inflation rate of 2% over the medium term. By keeping prices stable, the ECB seeks to create a predictable economic environment that fosters sustainable growth and job creation. Its main functions include:

- **Setting Monetary Policy:** The ECB's Governing Council determines the key interest rates at which commercial banks can borrow from it. These rates affect interest rates throughout the Eurozone economy, influencing everything from business loans to consumer mortgages.
- **Managing the Euro:** The ECB is responsible for issuing euro banknotes and managing the Eurozone's foreign currency reserves. It also ensures the smooth operation of payment systems, such as the TARGET2 system, which facilitates large payments across the Eurozone.

- **Banking Supervision:** Through the Single Supervisory Mechanism (SSM), the ECB supervises the largest and most significant banks in the Eurozone. This role is vital for maintaining the safety and soundness of the European banking system, preventing financial crises, and sustaining trust in the financial sector.

**iii. Contributions to Business, Trade, and Commerce**

The ECB's actions significantly impact the business environment within the Eurozone and for those trading with it.

- **Price Stability:** By keeping inflation low and stable, the ECB gives businesses a dependable planning horizon. Firms can confidently make long-term investment decisions without constant worry about future costs and revenues.
- **Eliminating Currency Risk:** The euro has removed exchange rate risk for cross-border transactions within the Eurozone. This change has made trade and investment easier and cheaper, encouraging deeper economic integration and creating a true single market for businesses.
- **Financial Stability:** The ECB supports banking supervision and acts as a "lender of last resort," helping to prevent financial turmoil. A stable financial system is crucial for business operations as it ensures a constant flow of credit and other financial services.
- **Promoting an Integrated Market:** The ECB's efforts to harmonize payment systems and promote a single European capital market simplify and reduce costs for businesses to raise capital and conduct transactions across the Eurozone.

## E. World Federation of Exchanges (WFE)

The World Federation of Exchanges (WFE) is the global trade association for stock exchanges, derivatives exchanges, and central counterparties (CCPs). Founded in 1961, the WFE represents over 250 market infrastructure providers worldwide, spanning major financial centers and emerging markets. It serves as a collective voice for its members, working to foster fair, transparent, and stable financial markets.

**i. Formation and Structure**

The WFE was originally set up as the International Federation of Stock Exchanges by a group of European stock exchanges to enhance cooperation and tackle challenges in an increasingly international financial system. Its purpose, as stated in its founding documents, is to support and promote organized and regulated securities and derivatives markets. Headquartered in London, the WFE is a non-profit organization governed by a General Assembly of its members, a Board of Directors, and several committees. Its income comes from member contributions.

**ii. Roles and Functions**

The WFE doesn't regulate markets directly, but it serves as a forum for its members to share knowledge, set best practices, and advocate for policies that benefit the global financial system. Its main functions include:

- **Standard-Setting and Best Practices:** The WFE creates and promotes voluntary standards and best practices for market operation, governance, and technology. These include areas like market integrity, cybersecurity, and data management. By sharing expertise, it helps exchanges and CCPs worldwide work more efficiently and securely.
- **Policy Advocacy and Representation:** The WFE represents the global exchange industry in key international forums. It collaborates with regulators, policymakers, and standard-setting bodies like the G20, the Financial Stability Board (FSB), and the International Organization of Securities

Commissions (IOSCO). The WFE provides expert analysis and recommendations to ensure that financial regulations support market development and stability.

- **Data and Research:** The WFE is a key source of exchange-traded statistics. It collects and publishes extensive data on market indicators, including trading volumes, market capitalization, and initial public offerings (IPOs). This research offers valuable insights into global market trends and informs policy decisions and academic research.

**iii. Contributions to Business, Trade, and Commerce**

The WFE's work significantly impacts fostering business and commerce by creating a more secure and efficient financial ecosystem.

- **Enhancing Market Integrity and Trust:** By advocating for high standards in market conduct and oversight, the WFE helps to build investor trust and confidence. This encourages more individuals and institutions to engage in capital markets, providing businesses with more funding.
- **Promoting Fair Competition:** Through its push for global harmonized standards, the WFE aims to create a level playing field. This helps prevent regulatory arbitrage and ensures that exchanges and businesses compete based on innovation and efficiency rather than lowering standards.
- **Facilitating Capital Formation:** The WFE supports public markets as a crucial source of funding for businesses, including small and medium-sized enterprises (SMEs). Its research and policy efforts emphasize the importance of listing on exchanges for companies wanting to raise capital, broaden their investor base, and raise their public profile.

## F. Financial Stability Board (FSB)

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations regarding the global financial system. It was established in 2009 by the G20 countries as a successor to the Financial Stability Forum (FSF) to tackle the systemic vulnerabilities highlighted by the 2008 global financial crisis. The FSB's main goal is to promote international financial stability and ensure fairness for the financial industry.

**i. Roles and Functions**

The FSB doesn't have enforcement power over its recommendations, but instead works through peer pressure and moral persuasion to encourage its members to adopt agreed-upon policies. Its key functions include:

a) **Vulnerability Assessment:** The FSB continually observes and evaluates vulnerabilities in the global financial system. It cooperates with its members and international organizations, like the IMF, to conduct "early warning exercises" that identify potential risks and weaknesses before they escalate into crises.

b) **Policy Development and Coordination:** The FSB coordinates national financial authorities and international standard-setting bodies (such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions) to create and promote effective regulatory, supervisory, and financial sector policies. It aims to develop globally consistent standards to eliminate regulatory loopholes.

c) **Implementation Monitoring:** The FSB keeps track of how its agreed-upon policies are implemented by its member jurisdictions. It releases regular progress reports and conducts peer reviews to check each country's compliance with international standards and commitments.

**ii. Contributions to Business, Trade, and Commerce**

While the FSB doesn't directly regulate businesses or engage in trade, its contributions to financial stability significantly influence the business environment.

a) **Systemic Risk Reduction:** The FSB's focus on identifying and minimizing systemic risks helps prevent another major financial crisis. By reinforcing the global financial system, the FSB ensures that businesses of all sizes have reliable access to credit and capital, essential for investment, operations, and trade.

b) **Harmonized Regulations:** By promoting consistent global standards, the FSB helps reduce complexity and regulatory uncertainty for multinational businesses and financial institutions. This streamlines operations for companies across borders and encourages international investment and trade.

c) **Encouraging Transparency:** The FSB's initiatives, such as those related to the Global Legal Entity Identifier (LEI), boost transparency in financial markets. This fosters trust among trading partners, lenders, and investors, creating a more secure setting for international business and commerce.

## G. Bank for International Settlements (BIS)

The Bank for International Settlements (BIS), founded in 1930, is the world's oldest international financial organization. It is owned by its member central banks.

i. **Role and Functions:**

The BIS's main role is to promote international monetary and financial cooperation and serve as a bank for central banks. It offers a platform for dialogue and collaboration among central banks, while also conducting research on financial stability and monetary policy. The BIS provides banking services, but only to central banks and other international financial institutions—not to the public or commercial banks.

ii. **Contributions to Business, Trade, and Commerce:**

Although it doesn't directly fund businesses or trade, the BIS is essential for the global financial system that supports them. By promoting financial and monetary stability, it creates a predictable environment for international transactions. Its involvement in the Basel Committee on Banking Supervision (BCBS) is significant as it develops global standards for bank capital and risk management. This helps prevent financial crises and ensures the reliability of the banks that facilitate global trade.

iii. **European Investment Bank (EIB)**

The European Investment Bank (EIB) was established in 1958 under the Treaty of Rome, which formed the European Economic Community (now the European Union). It acts as the long-term lending institution of the European Union.

iv. **Role and Functions:**

The EIB's primary role is to provide long-term finance for projects that support EU policy goals. It lends to projects both inside and outside the EU, focusing on areas like climate and environment, innovation, small businesses, and infrastructure. It raises most of its funds by issuing bonds on international capital markets.

v. **Contributions to Business, Trade, and Commerce:** The EIB is a key source of funding for businesses and projects that drive economic growth. By financing large-scale infrastructure projects, like transport and energy networks, and supporting small and medium-sized enterprises (SMEs) through intermediary banks, it fosters the development of a competitive European economy. The EIB's investment in green projects also assists businesses in transitioning to more sustainable practices, which is increasingly important in global trade.

## H. OPEC Fund for International Development (OFID)

**OPEC – Organization of the Petroleum Exporting Countries**

- **Founded:** 1960 in **Baghdad** by **Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela**. These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007), Equatorial Guinea (2017) and Congo (2018).
- **Headquarters: Vienna, Austria** (since 1965).
- **Objective:** Coordinate oil policies, ensure fair prices, stable supply, and fair return to producers.

**Historical Overview**

- **1960s:** Formed to protect oil-producing nations' interests; adopted policy on national control over resources.
- **1970s:** Gained power; oil prices rose; created OPEC Fund for International Development (1976).
- **1980s:** Oil demand dropped; introduced production quotas to stabilize prices.
- **1990s:** Managed supply during Gulf War; joined climate discussions.
- **2000s:** Worked for market stability; faced 2008 financial crisis; focused on sustainable energy.
- **2010s:** Formed Declaration of Cooperation (2016) with non-OPEC producers; signed Paris Agreement.
- **2020s:** COVID-19 caused oil demand crash; OPEC made record production cuts to restore balance.
- The OPEC Fund for International Development (OFID) was established in 1976 to help developing countries. It provides loans, grants, and aid for projects in areas like health, education, and infrastructure. Its main goal is to reduce poverty and promote sustainable development worldwide

## I. Financial Stability Board (FSB)

The Financial Stability Board (FSB) was established in 2009 by the G20 as a successor to the Financial Stability Forum.

i. **Role and Functions:**

The FSB monitors and makes recommendations about the global financial system. It aims to strengthen financial systems and prevent future crises by coordinating the efforts of national financial authorities and international standard-setting bodies. It has no formal regulatory power but relies on its members' commitments to implement its suggestions.

ii. **Contributions to Business, Trade, and Commerce:**

The FSB's work is vital for fostering a stable global financial system. By coordinating regulatory reforms and promoting sound financial practices, it reduces the risk of crises that can disrupt trade, restrict credit, and harm businesses worldwide. A stable financial system is essential for international commerce.

iii. **Basel Committee on Banking Supervision (BCBS)**

The Basel Committee on Banking Supervision (BCBS) was established in 1974 by the central bank governors of the Group of Ten (G10) countries.

iv. **Role and Functions:**

The BCBS is the primary global standard-setter for banking regulation. It develops and promotes

consistent banking standards, such as the Basel Accords (I, II, and III), which outline requirements for bank capital adequacy. Its goal is to strengthen the regulation, supervision, and practices of banks worldwide to improve financial stability.

**v. Contributions to Business, Trade, and Commerce:**

The BCBS's standards are key to a healthy global banking system. The Basel Accords ensure that banks have enough capital to handle financial shocks, preventing failures and maintaining trust in the financial system. This stability is crucial for businesses, guaranteeing access to credit and reliable financial services for trade and commerce.

## J. International Organization of Securities Commissions (IOSCO)

The International Organization of Securities Commissions (IOSCO) was founded in 1983. It sets global standards for the securities sector.

**i. Role and Functions:**

IOSCO's main goal is to promote high standards of regulation to maintain fair, efficient, and sound markets. It develops and implements widely recognized standards for securities regulation and encourages cooperation and information sharing among its members.

**ii. Contributions to Business, Trade, and Commerce:**

IOSCO contributes to a well-functioning global economy by promoting investor protection and market integrity. By establishing consistent standards for securities regulation, it builds trust and confidence in capital markets. This trust encourages cross-border investment and makes it easier for businesses to raise capital, essential for expansion, innovation, and job creation.

## K. International Association of Insurance Supervisors (IAIS)

The International Association of Insurance Supervisors (IAIS) was established in 1994. It is the global standard-setter for the insurance sector.

**i. Role and Functions:**

The IAIS's mission is to promote effective, globally consistent supervision of the insurance industry. It develops and advocates for international standards for insurance supervision, such as the Insurance Core Principles (ICPs), and works to maintain stable and fair insurance markets.

**ii. Contributions to Business, Trade, and Commerce:**

The IAIS plays a critical role in the stability and reliability of the global insurance industry. By promoting strong supervisory standards, it helps ensure that insurance companies can meet their obligations to policyholders. This is vital for businesses that rely on insurance for managing risk. A stable insurance market is essential for international trade and commerce, providing protection against a variety of risks.

## L. Committee on Payments and Market Infrastructures (CPMI)

The Committee on Payments and Market Infrastructures (CPMI), formerly the Committee on Payment and Settlement Systems (CPSS), is a body of the BIS.

**i. Role and Functions:**

The CPMI is an international standard-setter that promotes, monitors, and recommends actions about the safety and efficiency of payment, clearing, and settlement systems. It works to ensure that the

elements of the global financial system are reliable, secure, and efficient.

ii. **Contributions to Business, Trade, and Commerce:**

The CPMI's work is essential for the smooth operation of global business and trade. By setting standards for payments and market infrastructure, it helps ensure the efficiency and safety of transaction systems worldwide.

## THE SHANGHAI COOPERATION ORGANISATION (SCO)

The Shanghai Cooperation Organization (SCO) is a permanent intergovernmental international organization established on 15 June 2001 in Shanghai, China by the Republic of Kazakhstan, the People's Republic of China, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan, and the Republic of Uzbekistan. Its predecessor was the "Shanghai Five" mechanism.

In 2002, the Charter of the SCO was signed at the Council of Heads of State (CHS) meeting in St. Petersburg, and entered into force on 19 September 2003. The Charter defines the organization's goals, principles, structure, and major areas of activity.

### Goals of the SCO

- To strengthen mutual trust, friendship, and good-neighborliness among member states.
- To encourage effective cooperation in politics, trade, economy, science and technology, culture, education, energy, transport, tourism, environmental protection, and other areas.
- To jointly safeguard peace, security, and stability in the region.
- To promote a new democratic, fair, and rational international political and economic order.

### Guiding Principles

- **Internally:** the "Shanghai Spirit" — mutual trust, mutual benefit, equality, consultation, respect for cultural diversity, and pursuit of common development.
- **Externally:** non-alignment, non-targeting against other countries or regions, and openness.

### Institutional Structure

- **Council of Heads of State (CHS):** The supreme decision-making body; meets annually to decide on major issues.
- **Council of Heads of Government (CHG):** Meets annually to discuss strategies of multilateral cooperation, approve the budget, and set priorities in economic and other fields.
- **Other ministerial and sectoral meetings:** Cover areas such as foreign affairs, defense, security, economy and trade, education, science and technology, culture, health, transport, emergency relief, agriculture, tourism, industry, energy, poverty alleviation, and sports.
- Council of National Coordinators: Ensures coordination among member states.

## LESSON ROUNDUP

- **Liberalization** is the removal of government restrictions on economic activity, particularly trade and investment. Key examples include lowering tariffs and privatizing state-owned enterprises.
- **Globalization** is the increasing interconnectedness of the world's economies, cultures, and societies. It is driven by liberalization, technological advancements, and the actions of multinational corporations (MNCs).
- **Impacts:** They have led to increased market access, intense competition, the rise of global supply chains, and greater financial integration. However, they have also contributed to increased inequality, job displacement, and environmental concerns.
- **World Trade Organization (WTO):** The primary body for regulating international trade. It provides a forum for trade negotiations and a mechanism for dispute settlement.
- **International Monetary Fund (IMF):** Promotes global monetary cooperation and financial stability, acting as a lender of last resort for countries in crisis.
- **The World Bank:** A group of institutions focused on poverty reduction and development. Its arms, the **International Finance Corporation (IFC)** and **International Development Association (IDA)**, provide loans and grants to the private and public sectors, respectively.
- **Asian Development Bank (ADB):** A regional institution that finances infrastructure and development projects in the Asia-Pacific region.
- **New Development Bank (NDB):** A BRICS initiative that funds infrastructure and sustainable development projects in emerging markets.
- **European Central Bank (ECB):** The central bank for the Eurozone, responsible for maintaining price stability and managing the euro.
- **UNCTAD:** A UN body that advocates for developing nations, providing research, policy analysis, and technical assistance to help them participate more effectively in the global economy.
- **BIMSTEC:** A regional organization promoting economic and technical cooperation among countries bordering the Bay of Bengal.
- **Trade and Private Sector Support:** The IFC and ADB provide financing to ensure private businesses can continue to operate and engage in trade during a crisis.
- **Monetary Policy:** The ECB's primary tool is monetary policy, such as adjusting interest rates and implementing quantitative easing, to stabilize financial markets and stimulate economic activity.
- **Local Currency Financing:** The NDB promotes the use of local currencies in lending to reduce a country's vulnerability to foreign exchange fluctuations during a crisis.

## GLOSSARY

- **Globalization:** The increasing interconnectedness of countries through the flow of goods, services, capital, and ideas.
- **Liberalization:** The process of reducing or removing government restrictions and regulations on economic activity, particularly in trade and investment.

- **Foreign Direct Investment (FDI):** An investment made by a firm or individual in one country into business interests in another country, in the form of either establishing business operations or acquiring business assets.
- **Tariff:** A tax imposed by a government on imported or exported goods. Tariffs are often used to protect domestic industries from foreign competition.
- **Non-Tariff Barriers (NTBs):** Rules and regulations, other than tariffs, that limit trade. Examples include quotas, embargos, and various health or safety standards.
- **Free Trade Agreement (FTA):** A treaty between two or more countries to eliminate tariffs and other trade barriers on goods and services traded among them.
- **Balance of Payments (BOP):** A record of all economic transactions between the residents of a country and the rest of the world over a specific period. It includes the **Balance of Trade**, which is the difference between a country's exports and imports.
- **Exchange Rate:** The value of one currency in terms of another. Fluctuations in exchange rates can significantly impact the cost of imports and exports.
- **World Bank Group:** A family of five international organizations that provide financial and technical assistance to developing countries.
    - **International Finance Corporation (IFC):** The World Bank's private sector arm that invests directly in private businesses in developing countries.
    - **International Development Association (IDA):** A World Bank institution that provides interest-free loans and grants to the world's poorest countries.
- **International Monetary Fund (IMF):** An international organization that works to ensure global financial stability and provides financial assistance to countries facing balance of payments problems.
- **Asian Development Bank (ADB):** A regional development bank that promotes economic growth and cooperation in the Asia-Pacific region.
- **New Development Bank (NDB):** A multilateral development bank established by the BRICS countries to finance infrastructure and sustainable development projects.
- **European Central Bank (ECB):** The central bank for the Eurozone, responsible for monetary policy and maintaining price stability for the common currency, the euro.
- **UNCTAD:** The United Nations Conference on Trade and Development, a UN body that advocates for developing nations on issues of trade, investment, and development.
- **BIMSTEC:** The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, a regional organization that promotes cooperation among countries in South and Southeast Asia.

**TEST YOURSELF**

1. What is meant by the global business environment? Explain its key components and how they influence international trade and investment.
2. Distinguish between liberalization and globalization. How have these processes impacted India's economy and business environment?

3. Explain the role and function of the World Trade Organization (WTO) and UNCTAD in promoting global trade.
4. Describe the functions of major international organizations like OPEC, ICC, APEC, and EU. How do they influence global economic policies?
5. Explain the objectives and contributions of financial institutions like the World Bank, Asian Development Bank (ADB), OECD, and the European Central Bank (ECB) in supporting global economic growth.

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# Environmental Governance

Lesson 10

## KEY CONCEPTS

■ Environmental Governance ■ Sustainable Development ■ Environmental Protection Initiatives by International Organizations ■ Various Environmental Initiatives of Government of India ■ Energy Conservation and Management

## Learning Objectives

**To understand:**

- Understand the interdependence between economic growth, environmental balance, and social responsibility, and explain key concepts such as sustainable development, climate justice, and energy conservation.
- Analyse the causes and impacts of global warming and greenhouse gas emissions, and evaluate how businesses and societies can adopt responsible and sustainable practices.
- Interpret and apply major international and national frameworks for responsible business conduct, including the UN Global Compact, Socially Responsible Investments, Equator Principles, and India's National Voluntary Guidelines.
- Develop analytical skills to assess environmental implications through Environmental Impact Assessments (EIA) and contribute to informed, sustainable decision-making.

## Lesson Outline

- Environmental Management
- Sustainable Development
- Environmental protection initiatives by international organizations
- Various environmental initiatives of Government of India
- Energy conservation and Management
- Climate justice
- Environmental Impacts

## ENVIRONMENTAL GOVERNANCE

Environmental governance is important as it helps societies to identify and deal with environmental problems. It involves interactions among different stakeholders and the government wherein they identify strategies, methods, policies and alternatives to reduce the impacts, resolve the problems and devise environment management plans that can be implemented over the longer run. Environment governance emphasises the inclusion of the environment in all parts of development planning and decision-making, from the inception of the project to its final implementation. It also recognises the transboundary impacts of environmental management decisions.

Environmental governance is a fundamental concept in the sustainable management of natural resources and the fight against climate change. This term refers to the set of rules, policies, practices, and processes through which public institutions, private organizations, and civil society make decisions related to the environment.

Environmental governance is defined as the system of rules, practices, and processes that guide the management of the environment and natural resources. This concept extends beyond government regulations, involving businesses, non-governmental organizations (NGOs), and citizens in environmental decision-making.

The main objective of environmental governance is to ensure that environmental decisions are transparent, inclusive, and effective. This includes policies that promote sustainability, ecosystem protection, and climate change mitigation.

Environmental governance broadly covers the following characteristics:

1. It supports sustainable development.
2. It is often used as generic terms.
3. It deals with a world affected by humans.
4. It demands a multidisciplinary, interdisciplinary or even holistic approach.
5. It has to integrate and reconcile different development viewpoints.
6. It seeks to coordinate science, social science, policy making and planning.
7. It is a proactive planning.
8. It generally embraces the precautionary principles.
9. It recognises the desirability of meeting and if possible exceeding basic human needs.
10. The time scale involved extends well beyond the short term and concern ranges from local to global.
11. It should identify opportunities as well as address threats and problems.
12. It stresses stewardship rather than exploitation.

Most environmental managers entrusted with the task of environmental governance aim for an optimal balance of natural resource uses and must decide where that lies using planning and administrative skills to reach it. The conceptualisation usually adopted by mainstream environmental management is clearly biased toward anthropocentric which implies environmental issues are considered after human development objectives are set.

Since pre-history, human beings have accumulated environmental know how and developed strategies for exploiting natures. To help, regulate and sustain resources, individuals have evolved tattoos, superstition and common rights, formulated laws to improve stewardship and for countries some had resource inventories. Many societies have managed to sustain reasonable lifestyles for long periods. Others have been less careful and suffered hardships or full environmental and social collapse. The idea that pre modern people were 'close

to nature' and caused little environmental damages is often a myth. Indeed, when fraction of today's, some prehistoric people, using fire and weapons of flint, bone, wood and leather managed to alter the vegetation of whole continents and probably wiped out many animal species including some large and numerous animals.

The following are the reasons of adoption of environmental governance practice.

1. **Pragmatic reasons** – Fear or common sense makes people or administrators seek to avoid a problem.
2. **Desire to save costs** – It may be better to avoid problems or counter them than suffer the consequences: pollution, species extinction, human deaths, costly litigation. There may be advantages in waste recovery, energy conservation and maintaining environmental quality.
3. **Compliance** – Individuals, local government, companies, states and so on may be required by laws, national and international agreements to take care of the environment.
4. **Shift in ethics** – Research agencies, media houses, individuals and group of activities may trigger new attitudes, agreements and laws.
5. **Macroeconomics** – Promotion of environmental governance may lead to economic expansion: a market for pollution control equipment, use of recovered waste, more secure and efficient energy and raw materials supply; there may be advantages of internalising the externalities.

Environmental governance needs to modify the activities and ethics of individuals, groups and societies to achieve its goals. Generally, the following approaches may be embraced in this regard:

1. **Advisory**
   - Through educations
   - Through demonstrations (model farms or factories)
   - Through the media (advertisement or covert approaches – the later includes subtle messages incorporated in the environment)
   - Through advice (leaflets, drop in shops, helplines).
2. **Economic or fiscal**
   - Through taxation (green taxes)
   - Through grants, loans and aids
   - Through subsidies
   - Through quotas or trade agreements.
3. **Regulatory**
   - Through standards and laws
   - Through restrictions and monitoring
   - Through licensing
   - Through zoning (restricting activities to a given area).

The environmental managers may be more or less anthropocentric or eccentric, more or less green, more or less supportive of technology. There is also a wide spectrum of political and philosophical stances which have been taken into consideration.

1. **Adhoc Approach:** Approach developed in reaction to a specific situation.

2. **Problem solving approach:** It follows a series of logical steps to identify problems and need to implement the solutions.
3. **Systems approach:**
   - Ecosystem (mountain; high latitude; savanna; desert; island; lake and so on.
   - Agro-ecosystem.
4. **Regional approach:** Mainly ecological zones or bio geophysical units, which may be sometimes international (involves different sates for example an internationally shared river basin). For example,
   - Watershed
   - River basin
   - Coastal zone
   - Island
   - Command area development authority (irrigation related)
   - Administrative Region
   - Sea
5. **Specialist Discipline Approach**
   - Air quality management
   - Water quality management
   - Land management
   - Environmental health
   - Urban management
   - Ocean management
   - Human ecology approach
   - Tourism management/eco-tourism
   - Conservation area management
6. Strategic Environmental Management Approach
7. **Voluntary Sector Approach:** Environmental Management by or encouraged and supported by NGOs for example:
   - Debt for nature swaps
   - Private reserves
   - 'Ginger groups' which try to prompt environmental management
   - Private funding for research or environment management
8. Commercial Approach: Environment management for business/public bodies
9. Political economy or political ecology approach
10. Human ecology approach.

## SUSTAINABLE DEVELOPMENT

Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The theme of sustainability can be integrated and implemented 'through the pursuit of environmental and social responsibility in a bank's operations through environmental initiatives such as recycling programs or improvements in energy efficiency and socially responsible initiatives, for instance support for cultural events, improved human resource practices and charitable donations' *(International Institute for Sustainable Development, 2013).*

Before the 1950s the prevailing viewpoint in the west was that humans could and should modify the nature to their advantage and the environment was virtually limitless and resilient. Nature was to be studied, catalogued, tamed and exploited. The frontier was still open with land to settle and relatively few signs of environmental stress, other than localised population and some loss of biodiversity. The pre 1960 outlook, still not fully extinguished was essentially mechanistic – that nature was relatively easy to understand, model and control – like *'clockwork'* and there was little awareness of complexity, vulnerability and limitations of earth's ecosystem. In 1965 US Ambassador to the UN, Adai Stevenson popularised the catch phrase '*Spaceship Earth'* which became icon for many. It represented the world as a fragile, unique, closed environment in which the first-class passengers (the developed countries and other rich people) were greedy and profligate and the more numerous lower-class passengers (the growing stress) were multiplying beyond the life support capacity. Neither first nor lower class passengers were in control and both were vulnerable to each other.

Although the concept was first voiced in the early 1970s (by the World Council of Churches in 1974), serious interest in sustainable development was limited before publications such as *The Limits to Growth* in 1972 *and Schumacher's Small is Beautiful* in 1973. After that it seemed to offer a way to heed limits and develop (have economic growth) – preferable to *'zero growth'* (Meadows et al,1972)

Sustainable development has three component goals: economic development (specially reduction of poverty, inequality and unemployment) ; social development and environmental protection.

There are two overlapping areas of sustainable development: One focuses on its meaning and the second on practical aspects (implementation). A goal of sustainable development may be used to help integrate diverse interests that would probably not otherwise cooperate. Even if it is achieved in only a limited way, it may nevertheless prove to be valuable 'guiderail for development'.

Sustainability and sustainable development are not the same but are often used as if they were. The former is ongoing function of an ecosystem or use of a resource (maintenance of environmental quality). So, sustainability is the quantification of status and progress (environmental or social) and the goal of the sustainable development process. Ecologists, fisheries managers, foresters and biologists developed measures such as carrying capacity and maximum sustainable yield by the 1940s – the idea being that an ecosystem can sustain a given level of demand. It should be noted that even if demand is sustainable, unexpected environmental changes may upset things. Those seeking sustainability often assume steady demands, which may not be the case. Sustainable development to many implies increasing demands in order to improve wellbeing and life styles and probably in the foreseeable future to cope with a growing population. Perhaps there will be some leeway if new technology, altered tastes and substitution of resources enable increasing demand to be met without greater environmental impact – many hopes so. Environmental economists split sustainable development into two (unsatisfactory) extremes: strong and weak.

- *Strong* – Believe that the existing stock of natural capital should be maintained or improved. Rejection of strategies such as substitution (for example – not burring oil, which is non-renewable and then invest some of the profit in sustainable energy sources such as wind generators). The same amount of natural capital is passed on to future generations. Human misery is acceptable as a cost of reaching sustainable development. This means development must be based on natural capital that can be regenerated.

- *Weak* – The costs of attaining sustainable development are carefully weighted in human terms – unpleasant impacts are resisted, even if sustainable development is delayed or endangered. Substitution is possible if it is permissible to trade natural capital though substitution (future generations receive about the same total capital but it may have been changed). What cannot yet be substituted is protected. Broadly this view point concedes that existing economics and development strategies may be used.

There is also a split in opinion as to whether sustainable development can be achieved gradually or demands rapid and radical changes (ethical, habits and economics). Sustainable development may be pursued at local, regional, national and super national levels, the approach being 'top down' or participatory. It is possible for a region, city, country and company to win a false sustainable development at the expense of somewhere also. For example – a town improves its sewage pollution by dumping it far way; or a poor nation may bear the environmental impacts of resource processing which rich consumers do not – this is a sort of export of unsustainable development.

Sustainable development is widely held to have three goals-economic growth, environmental protection and health as well happiness of the people. Plenty of academicians have noted the conflict within the concept of sustainable development – between wishing to remain within the environmental limits and seeking growth and development. Supporters of sustainable development do not pursue environmental quality in isolation from addressing social disintegration and poverty. Tough environmental standards are not acceptable if they cause poverty or for richer people a resented decline in the wellbeing.

## ENVIRONMENTAL PROTECTION INITIATIVES BY INTERNATIONAL ORGANIZATIONS

### Global Compact

Global Compact was launched in 2000 to bring companies together with UN agencies, labour, and civil society to support ten principles in the areas of human rights, labour and the environment, and anti-corruption. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies in the area of the human rights, labour, environment and anti-corruption.

The ten principles of the Global Compact are provided below:

#### *Human Rights*

*Principle 1:* The support and respect of the protection of international human rights.

*Principle 2:* The refusal to participate in or condone human rights abuses

#### *Labour*

*Principle 3:* The support of freedom of association and the recognition of the right to collective bargaining

*Principle 4:* The abolition of compulsory labour

*Principle 5:* The abolition of child labour

*Principle 6:* The elimination of discrimination in employment and occupation.

#### *Environment*

*Principle 7:* The implementation of a precautionary and effective approach to environmental issues.

*Principle 8:* Initiatives that demonstrate environmental responsibility

*Principle 9:* The promotion of the diffusion of environment friendly technologies.

### *Anti-Corruption*

*Principle 10:* The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery.

The United Nation Global Compact (UNGC) publishes annually the Global Corporate Sustainability Report (GCSR) which provides a tracking of the signatories' compliance with the principles over time. Compliance is a process, not an event. The importance of the structure though lies in the fact that provides an internal compass for companies as they seek to find the alignment within or between internal and external stakeholders that promoted sustainability. The tracking helps to point out the principles which pose the greatest compliance challenges and over time can become a useful input for regulators and policymakers who obviously have a strong interest in corporate sustainability since it feeds directly into sustainable development. One interesting issue highlighted by the GCSR of 2013 is that, notwithstanding the willingness of the companies, both large and small to sign on to the contract, it is extremely difficult to monitor and enforce adherence to the principles along the entire supply chain. Companies always have to deal with the tradeoffs in relation to costs, reliability of delivery and so on. When they develop their supply chains and it is difficult to enforce the conditionality of compliance with the principles of the compact once the chain is in place. However, over time, companies that are committed to the principles will presumably nudge and push their suppliers into compliance. Even if not all producers sign on the compact, there will be a positive externality from the sustainability viewpoint as more and more producers particularly small and medium sized ones find that it actually helps their businesses do better.

Critical requirement for sustainability reporting is information. Sustainability reporting discloses the company's policies and actions with reference to an Environmental-Social-Governance (ESG) template. It can be used in conjunction with standard financial report to make a comprehensive assessment of the company's overall balancing of stakeholder interests. Since information is the main input into investment decisions, these reports provide the basis for the two financial pillars of the architecture. All stakeholders need to know what the organization is doing with respect to their and other's interests. Every policy decision or action taken by a company can potentially help or hurt the interest of one or other stakeholder group. GRI is a structure that facilitates that facilitates this level of transparency and disclosure by companies. It lays out guidelines for sustainability reporting, which allows all stakeholders to compare and contrast across companies, not just within a country but across them as well.

## Principles for Responsible Investment

*Oulton (2007: 40)* explained that Socially Responsible Investments (SRIs) considers the traditional method of measuring business growth by share value, evaluating performance of the company by Return on Capital Employed, analyzing prospects and scope of the company by future plans and probability to achieve or accomplish the plans.

Simultaneously SRIs incorporates a further dimension of responsibility or impact of the business in ethical and environmental areas as well as sustainability and governance of the business. The structure of Principles for Responsible Investment (PRI) was set up in 2006, as a partnership between the United Nations Environmental Program Finance Imitative (UNEPFI) and the UN Global Compact (UNGC). The Mode of operation is essentially the same as the UNGC, in the sense that the signatories commit to carrying out their business in compliance with some core principles.

The difference is targeting group. The signatories to the PRI are essentiality fund managers –large, small, long term, short term – the whole range of entities that manage money is included. There are six principles in this structure which essentially require investors should put emphasis on ESG criteria while making their portfolio choices. They also agree to take active interest in the practices and compliance with the ESG standards by the

companies they invest in and encourage them to comply with the reporting standards of the GRI. Six Principles for Responsible Investment are provided below.

*Principle 1:* We will incorporate ESG issues into investment analysis and decision-making processes

Possible Actions:

- Address ESG issues in investment policy statements.
- Support development of ESG-related tools, metrics, and analyses.
- Assess the capabilities of internal investment managers to incorporate ESG issues.
- Assess the capabilities of external investment managers to incorporate ESG issues.
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- Encourage academic and other research on this theme.
- Advocate ESG training for investment professionals.

*Principle 2*: We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Possible Actions:**

- Develop and disclose an active ownership policy consistent with the Principles.
- Exercise voting rights or monitor compliance with voting policy (if outsourced).
- Develop an engagement capability (either directly or through outsourcing).
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- File shareholder resolutions consistent with long-term ESG considerations.
- Engage with companies on ESG issues.
- Participate in collaborative engagement initiatives.
- Ask investment managers to undertake and report on ESG-related engagement.

*Principle 3*: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible Actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).
- Ask for ESG issues to be integrated within annual financial reports.
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- Support shareholder initiatives and resolutions promoting ESG disclosure.

*Principle 4*: We will promote acceptance and implementation of the principles within the investment industry.

Possible Actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).
- Ask for ESG issues to be integrated within annual financial reports.
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- Support shareholder initiatives and resolutions promoting ESG disclosure.

*Principle 5*: We will work together to enhance our effectiveness in implementing the principles.

Possible Actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues.
- Develop or support appropriate collaborative initiatives.

*Principle 6*: We will each report on our activities and progress towards implementing the principles.

Possible Actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues.

## SUSTAINABLE DEVELOPMENT GOALS (SDG)

The 2030 Sustainable Development Goals Agenda for Sustainable Development, with 17 Sustainable Development Goals (SDG) at its core, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

17 Sustainable Development Goals are as under:

| | |
|---|---|
| SDG 1 | End Poverty |
| SDG 2 | Zero hunger |
| SDG 3 | Good health and well-being |
| SDG 4 | Quality Education |
| SDG 5 | Gender equality |
| SDG 6 | Clean water and sanitation |
| SDG 7 | Affordable and clean energy |
| SDG 8 | Decent work and economic growth |
| SDG 9 | Industry, innovation and infrastructure |
| SDG 10 | Reduced inequalities |
| SDG 11 | Sustainable cities and economies |
| SDG 12 | Responsible consumption and production |
| SDG 13 | Climate action |
| SDG 14 | Life below water |
| SDG 15 | Life on land |
| SDG 16 | Peace, justice and strong institutions |
| SDG 17 | Partnership for the goals |

## VARIOUS ENVIRONMENTAL INITIATIVES OF GOVERNMENT OF INDIA

### National Guidelines on Responsible Business Conduct' (NGRBCs)

The philosophy of giving back to the society is embedded in India's culture, which has been exhibited by traditional Indian business houses since time immemorial. In order to integrate this into the core business of philosophy, the Government has obligated companies to shoulder responsibility for the society by incorporating it as a part of the fiduciary duties of a director. Besides, this universal obligation across all categories of companies, those meeting certain threshold in terms of turnover, networth and net profits are obligated to set apart two percent of their net profit for corporate social responsibility activities. Responsible Business Conduct is a globally recognized concept founded on the idea that businesses can perform better when involved in re-vitalizing the society from which they extract resources for production. The National Guidelines on Responsible Business Conduct, 2018 (NGBRC), which is an improvement over the existing National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, 2011 (NVGs), are a means of nudging businesses to contribute towards broader development goals while seeking to maximize their profits. The NGRBC intends to not just make companies more responsible and accountable but also to create a whole ecosystem to 'Protect 1, Respect 1 & 'Remedy' as envisaged in the UNGPs (United Nations Guiding Principles on Business and Human Rights). The Government had adopted nine areas/principles of Business Responsibility and the same has been provided below.

i) **Principle 1:** Business should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable

This principle recognizes that ethical behaviour in all operations, functions and processes, is the cornerstone of businesses guiding their governance of economic, social and environmental responsibilities. The principle emphasizes that disclosures on business decisions and actions that impact stakeholders form the fundamental basis of operationalizing responsible business conduct and should be accessible to all relevant stakeholders.

It recognizes that businesses are an integral part of society and that they will hold themselves accountable for the effective adoption, implementation, and the making of disclosures on their performance with respect to the Core Elements of these Guidelines.

ii) **Principle 2:** Businesses should provide goods and services in a manner that is sustainable and safe

The principle emphasises that businesses have to focus on safety and resource-efficiency in the design and manufacture of their products. These products have to be manufactured in such a way, by which it creates value by minimising and mitigating its adverse impacts in the environment and society through all stages of its life cycle, from design to final disposal. This principle encourages businesses to understand every material sustainability issues across their product life cycle and value chain.

iii) **Principle 3:** Businesses should respect and promote the well-being of all employees, including those in their value chains

The principle encloses all policies and practises that are about the equity, dignity and well-being and the provision of decent work, for every employee that who are engaged within a business or in its value chain, without any discrimination and in a way that contributes to the diversity. The principle identifies the well-being of an employee and the welfare of his/her family.

iv) **Principle 4:** Businesses should respect the interests of and be responsive to all its stakeholders This principle recognises the businesses operate in an eco-system that consists of some stakeholders, being shareholders and investors and their activities affect natural resources, habitats, communities and the environment. The principle brings into light that businesses have a responsibility to maximise

the positive effects and minimise and mitigate the negative impacts of the products, operations and operations and practises on their stakeholders.

v) **Principle 5:** Businesses should respect and promote human rights.

This principle identifies the human rights are rights that have to be inherent to all human beings and these guidelines are applied without discrimination. These human rights are considered to be inherent, inalienable, interrelated, interdependent and indivisible. This principle is inspired, informed and guided by the Constitution of India and the International Bill of Rights, and recognises the primacy of the State's duty to protect and fulfil human rights.

vi) **Principle 6:** Business should respect and make efforts to protect and restore the environment.

This principle gives preference to environmental issues that are interconnected at the local, regional and global levels doing businesses to address the problems like pollution, biodiversity conservation, sustainable use of natural resources and climate change in a comprehensive and systematic manner. The principle encourages firms to adopt environmental practises and processes that minimise or eliminates the harmful effects of their operations across the value chain. Moreover, it also persuades businesses to follow the Precautionary Principle in all its actions.

vii) **Principle 7:** Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

This principle concedes that businesses operate within a specified national and international legislative and policy frameworks that guide their growth and also provides specific restrictions and boundaries. The principle recognises the legitimacy of businesses to engage with governments for redressal of a grievance or for influencing public policy. In addition to this, the law demands that public policy advocacy has to expand public good.

viii) **Principle 8:** Businesses should promote inclusive growth and equitable development..

The principle identifies the challenges of the social and economic development that are faced by the country and enhances the national and development agenda according to the government policies and priorities. This is significant in zones that are affected by social disharmony and low human development. The principle mentioned the need for collaboration amongst businesses, government agencies and civil society in this development agenda.

ix) **Principle 9:** Businesses should engage with and provide value to their consumers in a responsible manner.

The principle is based on the fact that the primary aim of a business entity is to supply goods and services to its consumers that are safe to use, creating value for both. It recognises consumers having freedom of choice for the usage of goods and services, and the enterprises strive to provide the products that are safe, competitively priced, easy to use and safe to dispose of, for the benefit of their consumers. The businesses play a significant role with other relevant stakeholders, in mitigating the adverse effects from excessive consumption of its products that have overall well-being of individuals and society.

## BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING (BRSR)

In recent times, adapting to and mitigating climate change impact, inclusive growth and transitioning to a sustainable economy have emerged as major issues globally. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. Thus, reporting of company's performance on sustainability related factors has become as vital as reporting on financial and operational performance.

Business Responsibility and Sustainability Reporting is a reporting framework by the Securities and Exchange Board of India (SEBI) under SEBI( Listing Obligations and Disclosure Requirements) Regulations for the top 1,000 listed companies in India. The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGRBCs) and reporting under each principle is divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavour to report the leadership indictors also.

The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

## SEBI BRSR Core

The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs)/metrics under 9 ESG attributes. Keeping in view the relevance to the Indian/Emerging market context, few new KPIs have been identified for assurance such as job creation in small towns, open-ness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) have been included.

In order to facilitate the verification process, the BRSR Core specifies the data and approach for reporting and assurance. It is however clarified that the approach specified is only a base methodology. Any changes or industry specific adjustments/estimations shall be disclosed.

For ease of reference, the BRSR Core contains a cross-reference to the disclosures contained in the BRSR. From FY 2023 – 2024, the top 1000 listed entities (by market capitalization) shall make disclosures as per the updated BRSR format, as part of their Annual Reports.

Listed entities shall mandatorily undertake reasonable assurance of the BRSR Core, as per the glide path specified in the following table:

| Financial Year | Applicability of BRSR Core to top listed entities (by market capitalization) |
|---|---|
| 2023 – 24 | Top 150 listed entities |
| 2024 – 25 | Top 250 listed entities |
| 2025 – 26 | Top 500 listed entities |
| 2026 – 27 | Top 1000 listed entities |

## ESG Debt Securities

India's capital markets are undergoing a critical evolution. With the release of SEBI's new Framework for ESG Debt Securities (excluding green bonds), the labelling and issuance of social, sustainability, and sustainability-linked bonds has entered a new era of regulation, integrity, and global alignment. As demand for ESG investing surges and international standards become more rigorous, India's move signals a shift from voluntary ESG claims to verifiable financial accountability.

In recent years, the global financial landscape has witnessed an unmistakable shift. No longer is capital

allocation driven solely by profit margins and short-term gains. Increasingly, it is being guided by environmental, social, and governance (ESG) considerations that reflect a **deeper concern for sustainability, equity, and long-term resilience**. In this context, the regulatory evolution of financial instruments like green bonds, social bonds, and sustainability-linked bonds (SLBs) has become a key focus for forward-thinking economies.

On June 5, 2025, the Securities and Exchange Board of India (SEBI) introduced a comprehensive **Framework for ESG Debt Securities (other than green debt securities)**—a landmark move designed to bolster credibility, transparency, and global alignment in India's fast-evolving sustainable finance ecosystem.

This new framework signals India's regulatory maturity in the ESG space. While green bonds already have an established regulatory track under SEBI's 2017 framework (updated in 2023), this marks the first time that **social bonds, sustainability bonds, and SLBs** receive dedicated regulatory attention. These instruments are essential for financing not just environmental goals, but also inclusive development, gender equity, access to health and education, and broader corporate accountability.

For issuers, investors, and reviewers, this move represents a timely and strategic leap forward, paving the way for India's domestic ESG bond market to scale up responsibly and compete with international standards.

The SEBI ESG Debt Framework, released via Circular SEBI/HO/DDHS/DDHS-POD-1/P/CIR/2025/84, introduces a structured set of regulatory requirements for the issuance of ESG-labelled bonds in India, excluding green bonds which are governed under a separate regime. The new framework covers three categories of instruments:

At its core, the framework aims to eliminate "purpose-washing" and bring enhanced scrutiny to ESG-labelled instruments by making **disclosure, alignment, and third-party assurance** central pillars of ESG bond issuance. It sets forth obligations at each phase of the bond lifecycle – **pre-issuance, post-issuance, and ongoing reporting** – with tailored guidance for each instrument type.

*Key Highlights of the Framework:*

- *Eligibility and Labelling***:** Only those debt securities that align with globally recognized standards (e.g. ICMA Principles, Climate Bonds Standard, ASEAN standards) may be labelled as "Social," "Sustainability," or "SLB" bonds.
- *Use of Proceeds***:** Issuers must clearly define and justify how proceeds will be allocated. In the case of social bonds, SEBI identifies six priority categories for eligible use, including affordable infrastructure, essential services access, employment generation, food security, and socio-economic empowerment.
- *Mandatory Disclosures***:** Issuers are now required to submit detailed disclosures outlining the selection criteria, project objectives, target populations, and decision-making processes prior to issuance. For SLBs, disclosures must include sustainability strategies, KPIs, and performance targets.
- *Third-Party Verification***:** Independent third-party reviewers must be appointed both pre- and post-issuance. These reviewers are responsible for confirming alignment with recognised frameworks, verifying internal controls, and evaluating the integrity of performance-based instruments like SLBs.
- *Post-Issuance Transparency:* Annual reporting obligations include detailed updates on the deployment of funds, progress on KPIs (for SLBs), and explanations for any unutilized proceeds.

## Social Stock Exchanges

Hon'ble Finance Minister Smt. Nirmala Sitharaman as part of the Budget Speech for FY 2019-20 proposed the idea of an electronic fund-raising platform "Social Stock Exchange" (SSE), under the regulatory ambit of SEBI for listing social enterprises and voluntary organizations working for the realiz

Social Stock exchange is mechanism where social enterprises, NGOS and voluntary organisations and donors

of social projects interact with each other. SSE is an electronic fund-raising platform under the surveillance of the SEBI for listing social enterprises and voluntary organizations so that they can raise capital as equity, debt or as units like a mutual fund.

The SEBI (Securities and Exchange Board of India) Report, suggests the SSE allows Indian non profit organisations to list securities, creating a dedicated platform for fund raising and reducing reliance on ad hoc funding. Operating as a separate segment within existing stock exchanges, it encourages socially minded investors to diversify their portfolios, fostering a robust social securities market in the country.

The National Stock Exchange (NSE) and the BSE (formerly called as the Bombay Stock Exchange) play pivotal roles as the platforms facilitating the operation of the SSE. They support the listing of eligible Not-for Profit Organisations (NPOs) and For-Profit Social Enterprises (FPEs), enabling them to raise funds through innovative financial instruments. It emphasises transparency, accountability, and efficiency to ensure that NPOs and social enterprises can achieve their funding and impact goals effectively.

Objectives of the Social Stock Exchange (SSE):

- Regulated platform that brings together social enterprises and donors
- Facilitate funding and growth of social enterprises
- Enabling mechanism to ensure robust standards of social impact and financial reporting

**Benefits for Non-Profit Organizations (NPOs)**

i) *Diversity Funding Opportunity*: SSE offers an alternative fundraising avenue for NPOs, providing opportunities for new funding sources to help the NPOs to expand organisational reach and maximise impact, thus addressing the challenge of limited financing.

ii) *Enhanced Visibility and Access*: SSE listing boosts brand visibility for NPOs, providing national recognition. Early registrants gain sector prominence, while SSE listing on the NSE/BSE website opens access to capital through impact investing, philanthropy and government funding.

iii) *Building Credibility*: Being listed on SSE validates an NPO's regulatory compliance and impact reporting frameworks, fostering trust and attracting socially conscious investors and partners within and outside the platform due to recognised due diligence processes.

## ENVIRONMENTAL IMPACTS ASSESSMENT

There is no universal definition of what exactly environment impact assessment (EIA) is. So, it is treated as a generic term for process which seeks to blend administration, planning, analysis and public involvement in pre decision assessment. A shorter explanation might be 'an approach which seeks to improve development by a priori assessment'. Impact may be defined as the difference between a forecast of the future with a development occurring and a forecast without the development. EIA has the following features

- It is proactive assessment and should be initiated pre-project/program/policy before development decisions are made. In-project/programme/policy and post-project/programme/policy assessments are common. While these may not allow much problem avoidance, they can advise on problem mitigation, gather data, feed into future impact assessment, improve damage control and the exploitation of unexpected benefits.
- It is a systematic evaluation of all significant environmental (including social and economic) consequences that an action is likely to have upon the environment.
- It is a process leading to a statement to guide decision makers.

- It is a structured, systematic and comprehensive approach.
- It is a learning process and means to find the optimum development path.
- It is a process by which information is collected and assessed to determine whether it is wise to proceed with a proposed development.
- It is an activity deigned to identify and predict the impacts of an action on the biological environment and on human health and well-being and to interpret and communicate information about such impacts.

Identifying consequences of a proposed activity is common sense rather than a revolutionary idea. There are a number of approaches running parallel and sometimes overlapping with broadly similar goals, frequently exchanging information, techniques and methods. These include social impact assessment (SIA), hazard assessment, risk assessment, technology impact.

## India's Environmental Initiatives Scenario

1. **Energy Transition:** The utilisation rate of coal power plants is falling. India's coal mines use only two thirds of the capacity with some large ones using only 1 percent, according to a Global Energy Monitor (GEM) analysis. Despite this situation, India hosted its biggest ever coalmine auction (141 new sites) just a few weeks ago, allowing mining in some of India's most ecologically rich and fragile forests, and rural areas populated by tribal communities.

   India's coal, with its high ash content, is extremely polluting and inefficient to burn, requiring twice as much to produce the same amount of power as imported coal. With falling prices of renewables, these new coal mines can become stranded assets in future, while adding heavily to emissions in the present. To get on a 1.5°C emissions pathway, Indian needs specific plans from now until 2070 to phase out old, low-efficiency power plants and reduce or stop new coal capacity additions. India provides subsidies for both fossil fuels and renewable energy, including direct subsidies, fiscal incentives, price regulation, and other government support.

   According to a 2022 report by International Institute for Sustainable Development and Council on Energy, Environment and Water, as compared to previous financial years, the support for fossil fuels increased in 2021, with subsidies for coal, oil, and gas being nine times higher than the subsidies for renewables and Electric Vehicles (EVs). However, there is a silver lining that India has commenced with noteworthy schemes such as FAME and tools like the e-Amrit portal for boosting EV sales.

   However, for EVs to truly contribute to reducing India's emissions, the share of renewable energy over fossil fuel sources in India's electricity generation must also increase. India's climate pledge on renewable energy is based on installed capacity and not actual generation.

   According to actual generation, coal dominates while renewable energy still holds a low share. In this regard, India may develop a detailed assessment of the finance and time required for transition from coal to renewables, and a clear plan for its implementation.

2. **Carbon Sink:** Since 2015, India has been planning on increasing its forest and tree cover and has initiated several programs like the Green India Mission, green highways policy, financial incentives for forests, plantations along rivers, and more to achieve the same. India has made bold commitments to restore 26 million hectares of deforested and degraded land (Bonn Challenge) and sequester an additional 2.5-3 billion tons of CO2 by 2030, in order to realise these goals, forest conservation and reforestation must be catalysed with appropriate funding.

3. **Adaptation:** During 2015-16, India set up a National Adaptation Fund with an initial allocation of US$ 55.6 million (INR3,500 million) to combat the adaptation needs in crucial sectors, further assisting national and state-level adaptation measures financially.

Moreover, there is a need to specifically address agricultural adaptation. Around 60 percent of Indians depend on agriculture for their livelihoods, and climate change is an existential threat to their yields and to India's food security.

Along with scaling and redesigning current programs, like on-farm water management and simplifying soil health cards, India must also develop robust programs on skill development for farmers, and implement financial security mechanisms enabling them to shift to climate-friendly agricultural practices like agro ecology, crop diversification, use of organic fertilisers, promoting plant-based agriculture, alternative proteins, and more.

4. **Carbon Credit Trading Scheme (CCTS):** Towards India's commitment on emission intensity reduction, Government of India has already notified The Carbon Credit Trading Scheme, 2023 in June 2023, and laid the foundation for the Indian Carbon Market (ICM) by establishing the institutional framework, including the National Steering Committee for Indian Carbon Market (NSCICM). In December 2023, the scheme was amended to introduce the Offset Mechanism, enabling participation from non-obligated entities through voluntary climate mitigation projects.

   The Carbon Credit Trading Scheme (CCTS) in India is a mechanism designed to reduce greenhouse gas (GHG) emissions through carbon pricing. It involves two key elements: a compliance mechanism for obligated entities (primarily industrial sectors) and an offset mechanism for voluntary participation. The CCTS aims to incentivize and support entities in their efforts to decarbonize the Indian economy. CCTS laid the foundation for the Indian Carbon Market (ICM) by establishing the institutional framework.

   Carbon pricing is a policy tool that puts a financial cost on greenhouse gas emissions, primarily carbon dioxide, to incentivize reductions in pollution and promote a shift towards cleaner energy sources. It works by making emitters pay for the environmental damage caused by their pollution, encouraging them to reduce emissions.

   India is rapidly advancing toward a **structured and regulated carbon pricing ecosystem** as part of its broader climate and sustainable development agenda. Against the backdrop of increasing global emphasis on carbon markets and emissions trading, India is now actively developing a **rate-based Emissions Trading System (ETS)**[1] and associated **voluntary carbon crediting mechanisms**.

**LESSON ROUNDUP**

- Causes of adoption of environmental management practice are pragmatic reasons, desire to save costs, compliance, shift in ethics, macroeconomics etc.
- There are three approaches of environmental management such as advisory, economic or fiscal and regulatory.
- Sustainable development has three component goals: economic development, social development and environmental protection.
- Socially Responsible Investments (SRIs) considers the traditional method of measuring business growth by share value, evaluating performance of the company by Return on Capital Employed, analysing prospects and scope of the company by future plans and probability to achieve or accomplish the plans.

1. Rate-based ETS refers to a system where total emissions are not capped but individual entities are allocated a performance benchmark that serves as a limit on their net emissions. Rate-based ETSs offer additional flexibility in managing future growth uncertainty as well as international competitiveness concerns.

- The Environment Impact Assessment (EIA) is treated as a generic term for process which seeks to blend administration, planning, analysis and public involvement in pre decision assessment. A shorter explanation might be 'an approach which seeks to improve development by a priori assessment'. Impact may be defined as the difference between a forecast of the future with a development occurring and a forecast without the development.

## GLOSSARY

**Adaptation**: The process of adjustment to actual or expected climate and its effects. In human systems, adaptation seeks to moderate or avoid harm, or exploit beneficial opportunities. In some natural systems, human intervention may facilitate adjustment to expected climate and its effects.

**Adaptation strategy**: A land use and management strategy that can be used— (i) to increase the sequestration capabilities of covered greenhouse gases of any ecosystem; or (ii) to reduce the emissions of covered greenhouse gases from any ecosystem.

**Climate change adaptation**: Climate change adaptation can be defined as: "adjustments in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderate harm or exploit beneficial opportunities".

**Climate governance**: Climate governance, derived from more general approaches to global governance, comprises mechanisms and measures aimed at steering social systems towards preventing, mitigating, or adapting to the risks posed by climate change.

**Environmental and social impact assessment**: A process for predicting and assessing the potential environmental and social impacts of a proposed project, evaluating alternatives, and designing appropriate mitigation, management, and monitoring measures.

**Abiotic**: Physical rather than biological; not derived from living organisms.

**Biodiversity**: Variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part, including diversity within species, between species and of ecosystems. It is a measure of ecosystem health.

**Biofuels:** Gas or liquid fuel made from plant material (biomass). Includes wood, wood waste, wood liquors, peat, railroad ties, wood sludge, agricultural waste, straw, tires, fish oils, tall oil, sludge waste, waste alcohol, municipal solid waste, landfill gases, other waste and ethanol blended into motor gasoline.

**Carbon Footprint**: The total amount of greenhouse gases that are emitted into the atmosphere each year by a person, family, building, organization, or company. A person's carbon footprint includes greenhouse gas emissions from fuel that an individual burn directly, such as by heating a home or riding in a car. It also includes greenhouse gases that come from producing the goods or services that the individual uses, including emissions from power plants that make electricity, factories that make products and landfills where trash gets sent.

**Carbon Sequestration**: The removal and storage of carbon from the atmosphere in carbon sinks (such as oceans, forest or soils) through physical or biological processes, such as photosynthesis.

**TEST YOURSELF**

1. Explain the interdependence between economic growth, environmental balance, and social responsibility. Define key concepts such as sustainable development, climate justice, and energy conservation.
2. Analyse the causes and impacts of global warming and greenhouse gas emissions. Suggest ways in which businesses and societies can adopt responsible and sustainable practices.
3. Discuss the national guideline on responsible business conducts. Explain the principles of business responsibility adopted by the government of India?
4. What is an Environmental Impact Assessment (EIA)? Explain its role in evaluating environmental implications and supporting informed, sustainable decision-making.
5. What is business responsibility and sustainability reporting? Explain SEBI BRSR Core?

**LIST OF FURTHER READINGS**

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# Artificial Intelligence and Business Environment

Lesson 11

## KEY CONCEPTS

■ Components of Computer System ■ Artificial Intelligence (AI) ■ Evolution of AI, Types of AI, Challenges of AI, Opportunities of AI, AI Versus Ethics & Morality, AI Versus Law and Compliance ■ Cyber Security, Cyber-Attacks, Cyber Security Policies ■ Cyber Threats ■ Online Platforms ■ E-Commerce ■ Electronic Funds Transfer (EFT, Digital Currency, Blockchain Technology, Payment Portal ■ Network Security ■ Bluetooth and Wi-Fi ■ Management Information System (MIS) ■ Enterprise Resource Planning (ERP)

## Learning Objectives

**To understand:**

- Computers and Artificial Intelligence
- Cyber Security and Information Protection
- Information Systems and Business Applications
- Networking and Digital Platforms

## Lesson Outline

- Computers: A Vital Tool in Today's Digital World
- Components of Computer System
- Artificial Intelligence
- Artificial Intelligence: Characteristics
- Evolution of Artificial Intelligence
- Types of Artificial Intelligence
- Challenges And Opportunities of AI
- AI Versus Ethics & Morality
- AI Versus Law and Compliance
- Significance of Cyber Security
- Common Kinds of Cyber-Attacks
- Common Kinds of Cyber-Attacks
- Requirement of Cyber Security Policies
- Cyber Threats
- Emerging Technologies
- Network Security
- Enterprise Resource Planning
- Online Platforms
- E-Commerce
- Supply Chain Management
- Electronic Funds Transfer (EFT)
- Digital Currency
- Block Chain Technology
- Payment Portal
- Bluetooth And Wi-Fi
- Information System
- Management Information Systems
- Utilization of Management Information System in Indian Business Scenario

## COMPUTERS: A VITAL TOOL IN TODAY'S DIGITAL WORLD

A computer is an electronic device that receives information and data, automatically stores it and retrieves it at any time, and uses it in a useful manner. The computer converts different types of numbers and solves intractable mathematical equations very quickly and with high accuracy. The computer was invented in the second half of the twentieth century and now it has become the backbone of life. Some operations before the invention of the computer were very difficult, including searches and doing some arithmetic activities. In 1642 AD, the calculator was invented to facilitate arithmetic operations such as addition, subtraction, and other arithmetic operations.

Presently, in the world of digital economies, computers play an important role. Further, computer is vital in people's day to day life. It will be apt to state that computer is indispensable, and its presence has become very important and necessary in our daily life, and it has become easier for us to do many operations and activities. The computer has been able to invade the lives of individuals in a large way, and it is used in all areas of their lives. Computer use is common in homes, institutions, businesses, and education, it is also an integral part of the services, entertainment, and other sectors.

## COMPONENTS OF COMPUTER SYSTEM

From the computer system perspective, the computer can be defined as a collection of entities (hardware, software, and liveware) that are designed to receive, process, manage, and present information in a meaningful format.

**(A)** **Computer hardware:** They are physical parts/ intangible parts of a computer. For example, Input devices, output devices, central processing unit, and storage devices.

**(B)** **Computer software**: They also known as programs or applications. They are classified into two classes namely - system software and application software.

**(C)** **Liveware** – It is the computer user. Also, known as orgware or the humanware. The user commands the computer system to execute instructions.

A computer system is composed of hardware and software components. Hardware is the external physical components of the computer which can be touched by users. Examples of hardware include desktop, printer, mouse, etc. On the other hand, software refers to set of instructions which enable the hardware components to perform. Examples include Windows, Linux, MS Word, PowerPoint, MS Excel, etc. Software, thus, can be referred to as a "set of instructions" which direct the hardware to do a particular task and specifies the manner in which the said task must be accomplished.

The concept of software rests on the basic principle of:

INPUT → PROCESS → OUTPUT →

The input fed into the computer through the hardware device is programmed by the software to produce the desired result or output.

The difference between software and hardware has been discussed in detail below:

| Hardware | Software |
|---|---|
| It is the physical parts of the computer which process the data. | It is the collection of instructions which directs the computer as to 'which' task to perform and 'how' to perform it. |
| Hardware is unable to perform any task without the support of software. | Software can only be run and executed in computer hardware. |

| Hardware | Software |
|---|---|
| It understands only machine-level language. | It accepts inputs by users, converts it into machine-level language which is then sent to Hardware for processing. |
| It can be seen, felt and touched. | It can only be seen and cannot be touched. |
| Examples: Monitor, Hard disk, CPU, Keyboard, Printer, Mouse, etc. | Examples: Windows, Linux, MS PowerPoint, MS Excel, etc. |

## ARTIFICIAL INTELLIGENCE

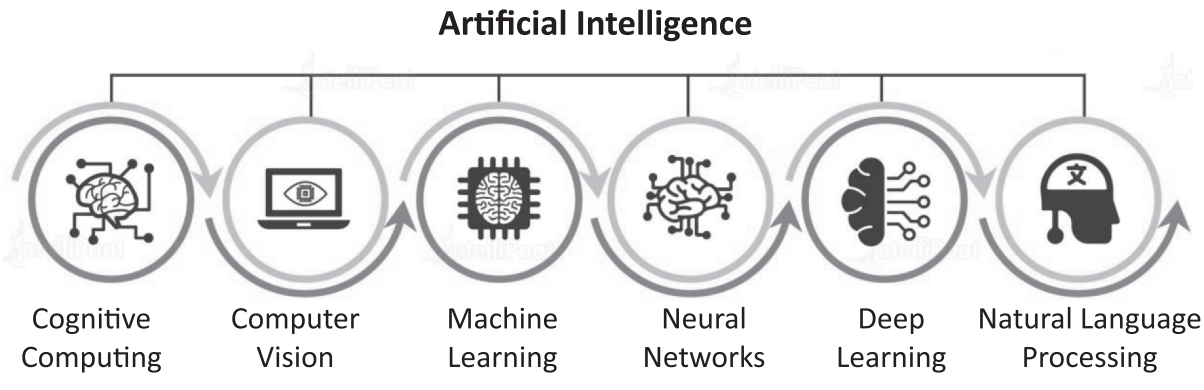
Artificial Intelligence ("AI") is a branch of computer science and engineering that focuses on developing devices and programmes that are capable of carrying out operations that ordinarily call for human intellect, such as comprehending natural language, identifying objects, and forming judgements. As per the Investopedia, Artificial Intelligence (AI) is defined as the simulation of human intelligence by software-coded heuristics. Nowadays this code is prevalent in everything from cloud-based, enterprise applications to consumer apps and even embedded firmware.

**Interesting Fact**

The year 2022 brought AI into the mainstream through widespread familiarity with applications of Generative Pre-Training Transformer. The most popular application is Open AI's ChatGPT. The widespread fascination with ChatGPT made it synonymous with AI in the minds of most consumers. However, it represents only a small portion of the ways that AI technology is being used today.

Depending on the situation, several interpretations of AI's significance can be made. The capacity of computers to display intelligent behaviour, such as learning, thinking, and problem-solving, is at the heart of Artificial Intelligence (AI). Yet, the technology or environment in which AI is utilised can also have an impact on what it means.

Artificial Intelligence, for instance, pertains to a machine's capacity to comprehend and produce human language in the context of natural language processing. Artificial Intelligence (AI) can also refer to a machine's capacity to comprehend and engage with the physical environment.




*Source: https://intellipaat.com*

### Artificial Intelligence: Characteristics

The goal of Artificial Intelligence (AI), which an interdisciplinary study, is to develop intelligent computers that can carry out activities that ordinarily require human intelligence. AI aims to create robots that can reason, learn,

and understand like humans, and that are able to solve challenging issues and adapt to evolving circumstances.

The ideal characteristic of artificial intelligence is its ability to rationalize and take actions that have the best chance of achieving a specific goal. A subset of artificial intelligence is Machine Learning (ML), which refers to the concept that computer programs can automatically learn from and adapt to new data without being assisted by humans. Deep learning techniques enable this automatic learning through the absorption of huge amounts of unstructured data such as text, images, or video.

Several sectors, including healthcare, banking, transportation, and entertainment, can benefit from the use of AI. For instance, AI-powered autonomous cars can increase transportation safety and efficiency while AI-powered medical imaging technologies can assist doctors in providing more precise diagnoses.

## Evolution of Artificial Intelligence

John McCarthy, the founder of artificial intelligence, provided the original definition of the word in 1955, essentially stating: "The goal of AI is to develop machines that behave as though they were intelligent".

The science of Artificial Intelligence (AI), which is expanding quickly, is transforming the manner we operate, live, and interact with the environment. The creation of computer systems with Artificial Intelligence (AI) is what allows them to do things like understand language, acquire, organize, solve problems, and make decisions—tasks that would ordinarily need human intellect.

Although the idea of artificial intelligence has been known since the 1950s, it has only recently gained widespread recognition. AI is currently employed in a wide range of industries, from voice assistants like 'Siri' and 'Alexa' to self-driving automobiles and medical diagnosis, owing to developments in machine learning and deep learning.

The study of Artificial Intelligence (AI) spans a wide range of technologies and methodologies. Building systems that can acquire information and adjust to changing conditions is at the heart of artificial intelligence. A mix of algorithms, data processing methods, and numerical simulations are used to do this.

The fact that AI is clever by design itself is another important feature. This intelligence may manifest itself in a variety of ways, from the capacity to spot data trends to the capacity for deliberation and judgement. Although it is the eventual objective of AI, there is still a long way for development of machines that can replicate human intellect.

## Examples of Artificial Intelligence

AI is used in different types of technologies. For example,

- **Machine Learning:** It helps computers act without the need for programming. There are three types of machine learning.
- **Supervised learning**: Patterns can be recognized using labeled data sets and then used to label new data sets.
- **Unsupervised learning**: Data sets can be sorted according to how similar or different they are.
- **Reinforcement learning**: The AI system is given feedback after actions are performed.
- **Automation:** Tasks can be enhanced when automation tools are coupled together with AI. Big enterprise jobs can be automated while the intelligence from AI is passed on to process changes.
- **Machine Vision**: Machine Vision uses a camera, digital signal processing, and analog-to-analog conversion, to capture and then analyze visual information. It is used in signature analysis to medical analysis.

- **Self-driving Cars**: Automatic vehicles use deep learning, image recognition, and machine vision to make sure the vehicle stays in the proper lane as well as dodges pedestrians.
- **Robotics**: Robotics is an engineering field that focuses on the designing and manufacturing of robots. Nowadays, Machine Learning is being used to build robots so that they can interact with society.

## Types of Artificial Intelligence

There are four types of AI:

| Reactive Machines | Limited Memory | Theory of Mind | Self-Awareness |
|---|---|---|---|
| ● Simple classification and pattern recognition tasks | ● Complex classification tasks | ● Understands human reasoning and motives | ● Human-level intelligence that can by-pass human intelligence too |
| ● Great when all parameters are known | ● Uses historical data to make predictions | ● Needs fewer examples to learn because it understands motives | ● Sense of self-consciousness |
| ● Can't deal with imperfect information | ● Current state of AI | ● Next milestone for the evolution of AI | ● Does not exist yet |

**Organizations operating online can benefit from AI in the following ways:**

- **Detection of Threats:** In order to find abnormalities and possible risks, AI can scan huge amounts of data, including network activity, records, and system events.
- **Automation in Cybersecurity:** Several cybersecurity jobs, including incident management, threat hunting and security screening, may be automated by AI.
- **Statistical Analysis:** To identify possible cyber dangers, AI may evaluate data from a variety of domains, particularly social networking sites. This makes it possible for companies to take preventive steps to stop assaults before they happen.
- **Detecting fraud:** By examining huge databases to find abnormal behaviour patterns and abnormalities, AI may assist businesses in identifying and preventing fraud.
- **Usefulness of AI in the Current Digital World:** AI-powered technologies are becoming into crucial tools for businesses to secure their online resources as the quantity and complexity of cyber threats rise.

**Some important advantages of AI in cyberspace include:**

- **Better and Quick Reaction Times:** Real-time data analysis and fast response to threats are capabilities of AI systems.
- **Enhanced Accuracy:** Systems using artificial intelligence (AI) can evaluate enormous volumes of data and spot possible hazards that conventional analysts would miss.
- **Scalability:** Artificial Intelligence technologies can tackle complicated tasks and expand quickly to evaluate enormous datasets. They are therefore perfect for handling the massive volumes of data generated by the internet.

## CHALLENGES AND OPPORTUNITIES OF AI

One of the most significant technical developments of the twenty-first century has been Artificial Intelligence (AI), which has transformed the way people live, work, and connect. To ensure AI's safe and ethical development and deployment, there are a number of issues that must be resolved, just like with any other technical advance. The following points highlight the key challenges and opportunities of Artificial Intelligence (AI).

**Bias and Discrimination:** The possibility for prejudice and discrimination is one of the biggest problems with artificial intelligence. Because AI algorithms can only be as objective as the data they are trained on, biased data will result in biased algorithms.

**Transparency:** Lack of openness and ability to explain is yet another difficulty with artificial intelligence. The majority of AI algorithms are complicated, making it difficult to comprehend how they make judgments.

**Concerns regarding Security and Safety:** Artificial Intelligence systems have the potential to have severe negative effects, especially if they break down or are compromised.

**Displacement of Jobs:** When AI develops, it will be able to perform numerous activities in lieu of humans, which would cause redundancy and societal unrest.

**Privacy:** With AI, data collection, gathering a lot of personal information if ends up being in the possession of some unwanted person/hacker, it might be misused. Hence, protecting the security and privacy of sensitive data is essential for the ethical creation and utilization of AI.

**Automation of Work:** Automation of chores is one of AI's most important potential benefits. Large database processing and other activities that would take humans a very long time to accomplish can be handled by AI systems.

**Personalization:** The potential to customise products and offerings is yet another advantage AI offers. In order to offer personalised suggestions and insights, AI systems may examine data on consumer behaviour and preferences.

**Making better decisions:** AI may be applied to numerous businesses to enhance decision-making. In order to find patterns and forecast outcomes, AI systems can analyse vast volumes of data, allowing businesses and organisations to make better decisions.

## AI VERSUS ETHICS & MORALITY

The significance of Artificial Intelligence (AI) has increased significantly during the past few decades. Self driving vehicles, chatbots, speech assistants and many other technologies have revolutionised the way we live our lives as a result of AI technology. The importance of moral foundations and ethical issues has increased as AI becomes more pervasive. The growth of artificial intelligence poses moral questions about matters like bias, responsibility, justice, and openness. The effects of Artificial intelligence on ethics and morality are covered here.

- **Confidentiality:** Concerns regarding confidentiality/privacy are quite substantial in regard to AI. Massive quantities of private information, including surfing histories and shopping patterns, are collected about people by AI systems.
- **AI's Prejudice:** The data that AI is fed determines how objective it really is. As statistical information is the basis for training AI models, biased statistical information will result in biased AI models. For instance, if the learning data comprises primarily of white people, an AI system utilised in recruiting may be prejudiced towards people of colour.
- **Responsibility and Transparency:** It might be challenging to comprehend how AI technologies

make judgments since they are frequently "black boxes." Due to the difficulty of holding an Artificial Intelligence's algorithm accountable for its actions, the absence of openness may also result in lack of responsibility.

- **Discrimination and Bias:** AI systems are susceptible to prejudice and bias, which might have detrimental effects on specific human beings or communities.

## SIGNIFICANCE OF CYBER SECURITY

Cybersecurity is the process of defending against malicious intrusions on networks, computers, servers, mobile devices, electronic systems, and data. It is also referred to as information technology security or electronic information security. This covers delicate information, Personally Identifiable Information (PII), Protected Health Information (PHI), personal data, data about intellectual property, and information systems used by the government and businesses. Because of the above reasons, cyber security has become an important part of the business and the focus now is on developing appropriate response plans that minimize the damage in the event of a cyber-attack. Therefore, for an all-compassing cyber security in the interest of business growth and progression, following fundamental categories need to be ensured:

- Network security,
- Data integrity and privacy,
- Operational security.

### Common Kinds of Cyber-Attacks

- ***Denial of Service Attacks (DOS),***
- ***Remote to Local Attack***
- ***User to Root Attacks***
- ***Probing***
- ***Attacks Detection Strategies***
- ***Signature based Approach***
- ***Misuse/Misbehavior***
- ***Reconnaissance Attacks***
- ***Access Attacks***
- ***Cyber-crime***
- ***Cyber Espionage***
- ***Cyber Terrorism***
- ***Cyber War***
- ***Active Attacks***
- ***Passive Attacks***
- ***Malicious Attacks***
- ***Non-Malicious Attacks*** with minor loss of data.
- ***Attacks in Mobile Ad Hoc Network*** (**MANET**)
- ***Attacks on Wireless Sensor Network*** (**WSN**)

## Requirement of Cyber Security Policies

A cyber related incident of national significance may take any form; an organized cyber-attack, an uncontrolled exploit such as computer virus or worms or any malicious software code, a national disaster with significant cyber consequences or other related incidents capable of causing extensive damage to the information infrastructure or key assets. Large-scale cyber incidents may overwhelm the government, public and private sector resources and services by disrupting functioning of critical information systems. Complications from disruptions of such a magnitude may threaten lives, economy and national security. Rapid identification, information exchange, investigation and coordinated response and remediation can mitigate the damage caused by malicious cyberspace activity. Some of the examples of cyber threats to individuals, businesses and government are identity theft, phishing, social engineering, hactivism, cyber terrorism, compound threats targeting mobile devices and smart phone, compromised digital certificates, advanced persistent threats, denial of service, bot nets, supply chain attacks, data leakage, etc. The protection of information infrastructure and preservation of the confidentiality, integrity and availability of information in cyberspace is the essence of a secure cyber space.

## Digital Personal Data Protection Act, 2023: New Paradigm of Data Privacy and Compliance

After receiving approval from both houses of Parliament and obtaining the President's assent, the Digital Personal Data Protection Bill of 2022 has officially become the Digital Personal Data Protection Act of 2023. Few provisions are effective and related Rules have also come into effect. Few provisions and Rules are yet to came into effect and governs the processing of digital personal data in India, regardless of whether the data was originally collected in digital or non-digital format and subsequently digitized. Under the DPDP Act, state agencies may be exempted from its provisions at the government's discretion. This legislation is designed to bolster data protection and accountability for entities such as internet companies, mobile apps, and businesses that handle citizens' data. Furthermore, it's worth noting that the DPDP Act will have implications for India's trade negotiations with other nations. It aligns with global data protection standards, taking inspiration from models like the EU's GDPR and China's PIPL.

At its core, the DPDP Act aims to establish a higher level of accountability and responsibility for entities operating within India, including internet companies, mobile apps, and businesses involved in the collection, storage, and processing of citizens' data. With a strong emphasis on the "Right to Privacy," this legislation seeks to ensure that these entities operate transparently and are answerable when it comes to handling personal data, thus prioritizing the privacy and data protection rights of Indian citizens.

The DPDP Act's scope extends beyond the borders of India, encompassing digital personal data processing activities abroad. This extension applies specifically to organizations offering goods or services to individuals in India or engaging in the profiling of Indian citizens. In doing so, the Act fortifies data protection measures not only within India but also concerning Indian citizens' data handled abroad.

## The Telecommunications Act, 2023: Added Leg in Cyber Security

The Telecommunications Act, 2023 amended and consolidated the laws relating to development, expansion and operation of telecommunication services and telecommunication networks; assignment of spectrum; and for matters connected therewith or incidental thereto.

## Cyber Security: Major Regulating Bodies and Compliance Requirements

Compliance related to cyber security involves meeting various controls (usually enacted by a regulatory authority, law, or industry standards) to protect the confidentiality, integrity, and availability of data. Though compliance requirements may vary by industry and sector, but typically involve using an array of specific standards, technology and process to safeguard data. Hence, this part of the chapter aims to understand main regulating bodies that ensure laws, policies and standards related to cyber security are duly enforced in cyberspace. "The major regulating bodies are as follows."

A. ***Computer Emergency Response Team (CERT-In):*** The Computer Emergency Response Team (CERT-In) is the national nodal agency for collecting, analyzing, forecasting, and disseminating non-critical cybersecurity incidents.

B. ***National Critical Information Infrastructure Protection Center (NCIIPC):*** The NCIIPC was appointed as the national nodal agency in terms of Critical Information Infrastructure Protection and is regarded as a unit of the National Technical Research Organization (NTRO) and therefore comes under the Prime Minister's Office (PMO).

C. ***Cyber Regulations Appellate Tribunal (CRAT):*** Under the IT Act, 2000, Government of India created the Cyber Regulations Appellate Tribunal (CRAT) as a chief governing body and authority for fact-finding, receiving cyber evidence, and examining witnesses.

D. ***Securities and Exchange Board of India (SEBI):*** SEBI is the regulatory body for securities and commodity markets in India and also focus on safeguarding their data, customer data, and transactions.

E. ***Insurance Regulatory and Development Authority (IRDAI):*** The insurance sector of India is regulated by IRDAI, which issues information security guidelines for insurers and addresses the importance of maintaining data integrity and confidentiality.

F. ***Telecom Regulatory Authority of India (TRAI) & Department of Telecommunications (DoT)***

TRAI and DoT, have tightened regulations for protection of data privacy and also mandates guidelines under which users' date has to be used.

### Cyber Security: Recent Government Initiatives in India

Some of the recent Government Initiatives in Cyber Security in India are given below:

- Cyber Surakshit Bharat Initiative.
- Cyber Swachhta Kendra.
- Online cybercrime reporting portal.
- Indian Cyber Crime Coordination Centre (I4C).
- National Critical Information Infrastructure Protection Centre (NCIIPC).

## CYBER THREATS

Cyber security is a serious concern of present times as cyber threats and attacks are overgrowing. Attackers are now using more sophisticated techniques to target the network and security systems. Individuals, small-scale businesses or large organizations, are all being impacted. Therefore, all of these firms, whether IT or non-IT firms, have understood the importance of Cyber Security and focus on adopting all possible measures to deal with cyber threats.

### Definition of Cyber Threats

A cyber threat (*also known as cybersecurity threat*) is defined as a malicious act that seeks to steal or damage data or disrupt the digital wellbeing and stability in general. Cyber threats include a wide range of attacks including but not limited to data breaches, computer viruses, denial of service, and numerous other attack vectors. Cyber threats also refer to the possibility of a successful cyber-attack that aims to gain unauthorized access, damage, disrupt, or steal an information technology asset, computer network, intellectual property, or any other form of sensitive data.

## NETWORK ANALYSIS AND LAW

While legal scholars have not adopted network analytic methods to the same extent as those in other fields of study, there have been a variety of legal network studies, and the trend appears to be increasing. This section will briefly review the legal scholarship applying network analyses before the following part explores more fully the future potential for legal network studies and the challenges faced by legal scholars working in the field.

Researchers have used network analytic techniques in a variety of contexts relevant to legal scholars. These include the analysis of legal social networks examining statutes and regulatory codes as networks, studying the networks of criminals and terrorists, and studying the structure created by case law citations. As case law citation network analyses are the most common and perhaps the most accessible of these, we will begin the review by looking at the history of this body of study.

### Emerging Technologies

Emerging technologies are technologies whose development, practical applications, or both are still largely unrealized. These technologies are generally new but also include older technologies finding new applications. Emerging technologies are often perceived as capable of changing the status quo.

Emerging technologies are characterized by radical novelty (in the application even if not in origins), relatively fast growth, coherence, prominent impact, and uncertainty and ambiguity. In other words, an emerging technology can be defined as "a radically novel and relatively fast-growing technology characterized by a certain degree of coherence persisting over time and with the potential to exert a considerable impact on the socio-economic domain(s) which is observed in terms of the composition of actors, institutions, and patterns of interactions among those, along with the associated knowledge production processes. Its most prominent impact, however, lies in the future and so in the emergence phase is still somewhat uncertain and ambiguous."

| Technologies | Key Benefits | Use Cases |
|---|---|---|
| **Artificial Intelligence (AI) and Machine Learning (ML)** | Automate and optimize processes, provide insights | Chatbots, fraud detection, image recognition, predictive maintenance, personalization, recommendation engines, etc. |
| **Robotic Process Automation (RPA)** | Automation of repetitive and rule-based tasks | Data entry, invoicing, HR onboarding, financial reporting, etc. |
| **Edge Computing** | Reduced latency, improved performance | Autonomous vehicles, real-time analytics, video streaming, IoT, etc. |
| **Quantum Computing** | Solve complex problems traditional computers cannot | Cryptography, drug discovery, optimization, machine learning, etc. |
| **Virtual Reality (VR) and Augmented Reality (AR)** | Immersive experiences, user interaction with digital environments | Gaming, education, training, marketing, tourism, etc. |
| **Blockchain** | Secure and transparent transactions | Supply chain tracking, digital identity, voting, payment processing, etc. |
| **Internet of Things (IoT)** | Improved efficiency, automation, and monitoring | Smart homes, industrial automation, healthcare monitoring, energy management, etc. |

| Technologies | Key Benefits | Use Cases |
|---|---|---|
| **5G** | Increased speed, reduced latency | Enhanced mobile broadband, autonomous vehicles, smart cities, etc. |
| **Cybersecurity** | Protection of data, networks, and systems | Network security, threat intelligence, identity management, encryption, etc. |
| **Full Stack Development** | End-to-end development of software applications | Web development, mobile app development, e-commerce, etc. |
| **Computing Power** | Increased computing power for complex calculations | Scientific research, weather forecasting, financial modelling, artificial intelligence, etc. |
| **Datafication** | Collection, analysis, and use of data | Marketing analytics, customer insights, operational efficiency, personalized experiences, etc. |
| **Digital Trust** | Building trust in digital interactions | Online banking, e-commerce, social media, digital identity, etc. |
| **Internet of Behaviours** | Analysis and use of data from human behaviour | Retail analytics, healthcare monitoring, smart cities, etc. |
| **Predictive analytics** | Analysis and use of data to predict outcomes | Customer retention, fraud detection, supply chain optimization, risk management, etc. |
| **DevOps** | Integration of development and operations processes | Continuous integration/continuous deployment (CI/CD), software testing, infrastructure as code, etc. |
| **3D Printing** | Printing of physical objects from digital designs | Prototyping, product design, medical implants, customized manufacturing, etc. |
| **AI-as-a-Service** | Access to AI technology through cloud computing | Chatbots, predictive analytics, natural language processing, image recognition, etc. |
| **Genomics** | Study of genes and their functions | Precision medicine, genetic engineering, disease diagnosis, personalized |

*Source: Reproduced from Koenig India – Step Forward*

## Network Security

A computer network is a group of two or more devices/computers connected to one another for efficient exchange of information. Networks are connected through networking devices like computer, switches, routers, modems, etc. These networking devices may be connected through wires (for example, cables) resulting in a wired network or through wireless media (for example, air) resulting in a wireless network.

It is important to note that data on a network is transmitted for communication in the form of packets, which are nothing but small chunks of data. Network Security refers to the protective measures undertaken by an organization or individual to secure its network systems and data from unauthorized access and attacks

by hackers. The basic aim of any network security system is to safeguard the accessibility, accuracy and confidentiality of sensitive data.

Network security seeks to protect data in order to ensure and maintain the following:

***Data confidentiality:*** Assures that the data does not fall in the hands of unauthorized users.

***Privacy:*** Assures that individuals are able to decide what data belonging to them may be disclosed, to whom it is disclosed and the extent of disclosure.

***Data Integrity:*** Assures that the data remains in its intended form, subject to modification only in authorized manner.

***System Integrity:*** Assures that systems perform their intended function, unhampered by any external manipulation.

***Availability:*** Assures that data available on the system is readily accessible and not denied to authorized users.

### Objectives of Network Security

It must be noted that a secure network is one which is able to:

a. Control the physical access to the network.

b. Prevent any accidental deletion, modification or tampering of data.

c. Detect and prevent internal network security breaches.

d. Detect and prevent external network attacks.

## DATABASE CONCEPTS

Database concepts are vital to understand how databases function, and databases are a crucial element in modern computer systems. The aim of databases, data abstraction, data models, database management systems, data integrity, data security, and the benefits and drawbacks of databases are just a few of the topics that we'll cover in this chapter.

### Purpose of Database

A database's goal is to have a collection of data serve as many applications as it can. As a result, a database is frequently considered to be a collection of data required to carry out specific tasks inside a business or organisation. It would enable not just data retrieval but also on-going data alteration, which is necessary for operation control. You might be able to search the database to get answers to your inquiries or details for planning.

### Why is data privacy important?

In many jurisdictions, privacy is considered a fundamental human right, and data protection laws exist to guard that right. Data privacy is also important because in order for individuals to be willing to engage online, they have to trust that their personal data will be handled with care. Organizations use data protection practices to demonstrate to their customers and users that they can be trusted with their personal data.

Personal data can be misused in a number of ways if it is not kept private or if people don't have the ability to control how their information is used:

- Criminals can use personal data to defraud or harass users.
- Entities may sell personal data to advertisers or other outside parties without user consent, which can result in users receiving unwanted marketing or advertising.

- When a person's activities are tracked and monitored, this may restrict their ability to express themselves freely, especially under repressive governments.

## ENTERPRISE RESOURCE PLANNING

Enterprise Resource Planning ("**ERP**") is a type of software which is used by businesses and organisations to automate and manage the day-to-day business activities and operations such as manufacturing, accounting, procurement, supply chain operations, risk management and compliance management. ERP is a platform that is used by companies to manage and integrate the essential parts of their businesses. Many ERP software applications are critical to companies because they help them implement resource planning by integrating all the processes needed to run their companies within a single system.

### Significance of ERP

ERP applications also allow the different departments to communicate and share information more easily with the rest of the company. It collects information about the activity and state of different divisions, making this information available to other parts of the company, where it can be used productively.

ERP applications can help a corporation become more self-aware by linking information about production, finance, distribution, and human resources together. Because it connects different technologies used by each part of a business, an ERP application can eliminate costly duplicates and incompatible technology.

### Benefits of Enterprise Resource Planning

There are many advantages to implementing an Enterprise Resource Planning (ERP) software solution. Among countless other advantages, implementing ERP software can improve productivity, increase efficiencies, decrease costs and streamline processes. Businesses employ enterprise resource planning (ERP) for various reasons, such as expanding, reducing costs, and improving operations. The benefits sought and realized between companies may differ; however, some are worth noting, which have been set out herein under:

- **Integration and Cost Effectiveness**

  In a nutshell, Enterprise Resource Planning software tries to integrate all the different departments and functions of an organization into a single computer system to serve the needs of different departments. These different departments usually have an individual software program that is optimized in the way each department works.

  However, if installed correctly this integrated approach can be very cost effective for an organization. With an integrated solution, different departments can easily share information and communicate with one another.

  The following diagram illustrates the differences between non-integrated systems versus an integrated system for enterprise resource planning.

- **Improves Accuracy and Productivity:** Integrating and automating business processes eliminates redundancies and improves accuracy and productivity.
- **Improves Reporting:** Accurate and complete reporting help companies adequately plan, budget, forecast, and communicate the state of operations to the organization and interested parties, such as shareholders.
- **Increases Efficiency:** ERPs allow businesses to quickly access needed information for clients, vendors, and business partners.
- **Increases Collaboration:** Departments are better able to collaborate and share knowledge; a newly

synergized workforce can improve productivity and employee satisfaction as employees are better able to see how each functional group contributes to the mission and vision of the company.

- **Competition:** It's true that ERP software requires a major investment, but this cost of investment is nothing as compared to the bigger cost in not making the investment.
- **Forecasting:** Enterprise resource planning software gives users, and especially managers, the tools they need to create more accurate forecasts.
- **Collaboration:** With the data entered into ERP systems being centralized and consistent, there's no reason why departments cannot work together.
- **Regulatory Compliance:** Powerful ERP solutions will keep track of regulations within the industry and monitor changes in compliance.
- **Flexibility:** Modern ERP software systems are robust, flexible, and configurable. They are not a one size-fits-all proposition but can be tailored to the unique needs of a business.
- **Customer Service:** It's easier to provide high-quality customer service using an enterprise solution, especially when you're using one as well-equipped as Work Wise ERP.
- **Security:** ERP systems can help in protection of data. In an ERP system, data is spread across multiple systems with varying levels of security.

## APPLICATIONS OF INTERNET

Applications that can function or can be used only when connected to the internet are called Internet applications. In other words, it can also be said that such applications are made to run from the Internet itself.

Because all the data of internet applications is stored on their servers, if you want to use these applications then you must have an internet connection. So that through the internet your request goes to the server and in return you get information. You can also exchange your information through these applications.

In any case, you need internet service to use the internet application. Without internet service, you cannot access the information of these applications.

Additionally, to use internet applications, you also need a digital device with an internet connection, only then you can use those applications. Examples of digital devices include smartphones, tablet PCs, laptops, desktops, etc.

### Application of Internet: Major Types

An Internet application serves some purpose for end users. It is generally not concerned with how data is actually transmitted between the hosts. Here are some distributed applications that require well-defined application-level protocols:

- Sending and receiving email
- Searching and browsing information archives
- Copying files between computers
- Conducting financial transactions
- Navigating (in your car, smart scooter, smart bike, etc.)

## ONLINE PLATFORMS

With the rise of e-commerce and online trading, online platforms are increasingly exposed to claims of intellectual property ("IP") infringement. Their visibility and deep pockets often make them a more worthy target as compared to individual users of platforms, whose obscure identities and business scale seldom justify protracted legal proceedings.

As per Section 2 (1)(w) of Information Technology Act, 2000 - *Unless the context otherwise requires - "intermediary", with respect to any particular electronic records, means any person who on behalf of another person receives, stores or transmits that record or provides any service with respect to that record and includes telecom service providers, network service providers, internet service providers, web-hosting service providers, search engines, online payment sites, online-auction sites, online-market places and cyber cafes.*

As the per the above definition, online platforms fall under the definition of intermediary. Hence, lets us understand the liability of intermediaries and the legal provisions governing the same.

Most major jurisdictions around the world have introduced legislations for limiting intermediary liability in order to ensure that this wheel does not stop spinning. With the 2008 amendment of the Information Technology Act 2000, India joined the bandwagon and established a 'notice and takedown' regime for limiting intermediary liability.

> "Intermediary liability, which is based on the legal principle of vicarious liability, means that the service providers shall be held accountable for any illegal act of the user on their platform. As Rebecca MacKinnon has said, "Intermediary liability means that the intermediary, a service that acts as 'intermediate' conduit for the transmission or publication of information, is held liable or legally responsible for everything its users do."

But in the recent times, considering the abuse of online platforms, it is demanded time and again to create an efficient regulatory regime for all the intermediaries including online platforms.

### E-Commerce

E-commerce is a process used to distribute, buy, sell or market goods and services, and also transfer the funds online through electronic communication and networks. It facilitates the conduct of commercial transactions electronically at a global level with the help of technologies like internet, electronic data interchange and electronic fund transfer. E-commerce is not only promoting easy access to products and services but also ensures variety of benefits to the sections, involved in the e-commerce transactions. Some of the major advantages that e-commerce offers are (a) a large market, (b) extensive access to this large market, (c) easy access to the wide-ranging market of e-commerce porch and alike. These overwhelming benefits of e-commerce market are establishing and sprouting the popularity of e-commerce over the traditional forms of businesses and commerce.

### Benefits and Limitations of E-Commerce

Issac Newton's 3rd Law of Motion confirms that 'for every action there is an equal and opposite reaction'. The same principle applies to e-commerce also. The benefits and limitations of e-commerce transactions for (i) businesses, (ii) consumers and (iii) society as a whole have been outlined below:

***Benefits***

E-commerce serves the following advantages:

- **Increased Convenience:** In e-commerce transactions, consumers can visit multiple websites at any time, be it day or night. With this ease, they can access all e-commerce websites, can compare the prices and availability of goods and services, and make their purchases, without moving from their house or workplace.

- **Increased Choice:** E-commerce transactions have increased consumer's choice for goods and services with their different variety as compared to traditional brick and mortar stores.
- **Enhanced Product Information:** In e-commerce transactions, consumers get an opportunity to analyse information about the particulars of the product like quality, quantity, product performance, durability, drawbacks and limitations of the product.
- **Lower Prices:** The increased competition on e-commerce platforms allows companies to offer goods and services at competitive prices to the customers.
- **Improved Delivery Process:** E-commerce enables faster delivery specially in the electronic goods and services segment where items like software, audio-visual files, access to online journals and books, etc. are quicker and swifter in comparison to the packages delivered by mail or courier.
- **Global Presence:** With the advent of e-commerce, businesses are confirming global presence at global scale in global market.
- **24/7 Opening:** E-commerce business allows business to operate 24 hours a day and seven days a week, which offers competitive advantage over traditional businesses.
- **Reduced Costs:** E-commerce companies are not required to have a building, staff or incur maintenance expenses like physical form of businesses do. Due to the lower operational cost in e-commerce businesses, they are able to provide goods and services at reduced cost.
- **Increased Sales and Profits:** As e-commerce provides 24/7 access to products and services, it provides ease to consumers to transact in e-commerce transactions, which leads to increased sales and profit to e-commerce businesses.
- **Improved Customer Information:** Disclosure of accurate information like name, address, and credit or debit card details, is a compulsory requirement for the completion of e-commerce transactions.
- **Economic Benefits:** Running an e-commerce business is economical and cost-effective as it allows businesses to participate in global market, which serves them a greater opportunity to receive revenues at a global platform.
- **Social Benefits:** E-commerce serves a range of benefits to the society in the form of enhanced quality of life by providing services with more convenience and satisfaction.
- **Political Benefits:** E-commerce allows public services like health services (i.e. on-line consultation with doctors and nurses) on internet, filling taxes over internet, filling educational forms and extracting educational guidelines over internet.
- **Technological Benefits:** Introduction of e-commerce in any society will allow people to enhance their IT skills, internet literacy and promote advancement of new technologies through applications on e-commerce.

## TYPES OF E-COMMERCE (B2B, B2C, C2C AND C2B)

Business models of e-commerce can be classified into the following four models:

**(1) Business to Business Model (B2B):** The B2B model involves electronic transactions between two businesses for ordering, purchasing, selling or distributing the goods.

**(2) Business to Consumer (B2C) Model:** The B2C model involves transactions between business organizations and consumers. This implies a model whereby business organizations sell their product or services to consumers over the internet.

**(3) Consumer to Consumer (C2C) Model:** The C2C model involves business transactions between consumers. In such model, one consumer sells directly to another consumer. For example, www.olx. in is one of the websites which allows consumers to advertise and sell their products online to another consumer.

**(4) Consumer to Business (C2B) Model:** The C2B is similar to B2C model of e-commerce. C2B model also involves business transactions between consumers and a business organization. In C2B, consumer is the seller and business organization is the buyer.

### E-Commerce Security – Mobile Commerce (M-Commerce)

M-commerce (mobile commerce) is the buying and selling of goods and services through wireless handheld devices such as smartphones and tablets. M-commerce is a form of e-commerce that enables users to access online shopping platforms without the use of a desktop computer.

**M-commerce encompasses three major approaches to mobility and business.**

- Examples of M-commerce include in-app purchasing; mobile banking virtual marketplace apps, such as the Amazon mobile app; and digital wallets, such as Apple Pay, Google Pay and Samsung Wallet.

### Types of M-commerce

**M-commerce is categorized based on the following three basic functions:**

- **Mobile shopping** enables customers to buy a product using a mobile device with an application such as Amazon or a web app.
- **Mobile banking** is online banking designed for handheld technology. It enables customers to access accounts and brokerage services, conduct financial transactions, pay bills and make stock trades.
- **Mobile payments** are an alternative to traditional payment methods, such as cash, check, credit and debit cards. They enable users to buy products in person using a mobile device.

## SUPPLY CHAIN MANAGEMENT

At the most fundamental level, supply chain management (for brevity, 'SCM') is management of the flow of goods, data, and finances related to a product or service, right from the procurement of raw materials to the delivery of the product at its final destination.

Supply chain activities span procurement, product lifecycle management, supply chain planning (including inventory planning and the maintenance of enterprise assets and production lines), logistics (including transportation and fleet management), and order management. SCM can also extend to the activities around global trade, such as the management of global suppliers and multinational production processes.

***Note:*** Product Lifecycle Management (PLM) is the process of managing the entire lifecycle of a product, right from its inception through the engineering, design and manufacture, as well as the service and delivery of manufactured products. PLM integrates people, data, processes, and business systems and provides a product information backbone for companies and their extended enterprises.

Productivity and efficiency improvements can go straight to the bottom line of a company. Good supply chain management keeps companies out of the headlines and away from expensive recalls and lawsuits. In SCM, the supply chain manager coordinates the logistics of all aspects of the supply chain which consists of the following five parts:

- **Planning:** To get the best results from SCM, the process usually begins with planning to match supply with customer and manufacturing demands.

- **Sourcing:** Efficient SCM processes rely very heavily on strong relationships with suppliers. Sourcing entails working with vendors to supply the raw materials needed throughout the manufacturing process
- **Manufacturing:** At the heart of the supply chain management process, the company transforms raw materials by using machinery, labor, or other external forces to make something new.
- **Delivering:** Once products are made and sales are finalized, a company must get the products into the hands of its customers.
- **Returning:** The supply chain management process concludes with support for the product and customer returns.

### Customer Relationship Management (CRM)

Customer Relationship Management (CRM) is a technology for managing all your company's relationships and interactions with customers and potential customers. The goal is simple: Improve business relationships. A CRM system helps companies stay connected to customers, streamline processes, and improve profitability.

CRM software helps you focus on your organization's relationships with individual people — including customers, service users, colleagues, or suppliers — throughout your lifecycle with them, including finding new customers, winning their business, and providing support and additional services throughout the relationship.

Different CRM products and methodologies vary in terms of features and focus, and they can be divided into three main categories.

1. ***Collaborative CRM systems:*** Collaborative CRMs ensure all teams have access to the same up-to-date customer data, no matter which department or channel they work in.
2. ***Operational CRM systems:*** Operational CRMs help streamline a company's processes for customer relationships. They provide tools to better visualize and more efficiently handle the full customer journey—even when it includes a high number of touchpoints.
3. ***Analytical CRM systems:*** Analytical CRMs have the primary focus of helping in the analysis of customer data, in order to gain important insights.

## ELECTRONIC FUNDS TRANSFER (EFT)

Electronic Funds Transfer (EFT) is the process by which a user of one bank can transfer money from their account to another by way of payment. It is also called a direct deposit since it directly deposits money into the receiver's account without the need for any physical interaction involving use of documents and cheques.

### Electronic Funds Transfer (EFT): How it works

ETFs work via electronic signals that the sender generates when initiating payments, i.e. sending money to the receiver. Instantly, the networks and the servers or payment terminals receive the signals to initiate and continue with the payment. It involves transactions where receiver and the sender can be parties like employers to their employees, vendors to customers, retailers, etc.

### Digital Currency

Digital currency is a form of currency that is available only in digital or electronic form. It is also called digital money, electronic money, electronic currency, or cyber cash.

- Digital currencies are currencies that are only accessible with computers or mobile phones because they only exist in electronic form.
- Typical digital currencies do not require intermediaries and are often the cheapest method for trading currencies.

- All cryptocurrencies are digital currencies, but not all digital currencies are cryptocurrencies.
- Some of the advantages of digital currencies are that they enable seamless transfer of value and can make transaction costs cheaper.
- Some of the disadvantages of digital currencies are that they can volatile to trade and are susceptible to hacks.

***Note:*** Cryptocurrency is a digital payment system that doesn't rely on banks to verify transactions. It's a peer-to-peer system that can enable anyone anywhere to send and receive payments. Instead of being physical money carried around and exchanged in the real world, cryptocurrency payments exist purely as digital entries to an online database describing specific transactions. When you transfer cryptocurrency funds, the transactions are recorded in a public ledger. Cryptocurrency is stored in digital wallets.

Digital currencies have utility similar to physical currencies. They can be used to purchase goods and pay for services. They can also find restricted use among certain online communities, such as gaming sites, gambling portals, or social networks.

Digital currencies also enable instant transactions that can be seamlessly executed across borders. For instance, it is possible for a person located in the United States to make payments in digital currency to a counterparty residing in Singapore, provided they are both connected to the same network.

## Block Chain Technology

Blockchain is a distributed database or ledger shared amongst a computer network's nodes. They are best known for their crucial role in cryptocurrency systems for maintaining a secure and decentralized record of transactions, but they are not limited to cryptocurrency uses. Blockchains can be used to make data in any industry immutable—the term used to describe the inability to be altered.

Since Bitcoin's introduction in 2009, blockchain uses have exploded via the creation of various cryptocurrencies, Decentralized Finance (DeFi) applications, Non-Fungible Tokens (NFTs), and smart contracts.

***Note:*** Non-Fungible Token (NFT) is a unique digital identifier that is recorded on a blockchain, and is used to certify ownership and authenticity. It cannot be copied, substituted, or subdivided.

Decentralized Finance (DeFi) is an umbrella term for a variety of financial applications in cryptocurrency or blockchain geared toward disrupting financial intermediaries.

- Blockchain is a type of shared database that differs from a typical database in the way it stores information; blockchains store data in blocks linked together via cryptography.
- Different types of information can be stored on a blockchain, but the most common use for transactions has been as a ledger.
- In Bitcoin's case, blockchain is decentralized so that no single person or group has control—instead, all users collectively retain control.
- Decentralized blockchains are immutable, which means that the data entered is irreversible. For Bitcoin, transactions are permanently recorded and viewable to anyone.

## Payment Portal

A payment gateway is a technology used by merchants to accept debit or credit card purchases from customers. The term includes not only the physical card-reading devices found in brick-and-mortar retail stores but also the payment processing portals found in online stores. However, brick-and-mortar payment gateways in recent

years have begun accepting phone-based payments using QR codes or Near Field Communication (NFC) technology.

- Payment gateways are the consumer-facing interfaces used to collect payment information.
- In physical stores, payment gateways consist of the point of sale (POS) terminals used to accept credit card information by card or by smartphone.
- In online stores, payment gateways are the "checkout" portals used to enter credit card information or credentials for services such as PayPal.
- Payment gateways are distinct from payment processors, which use customer information to collect payments on behalf of the merchant.
- There are also payment gateways to facilitate payment in cryptocurrencies, such as Bitcoin.

## BLUETOOTH AND WI-FI

Both Bluetooth and Wi-Fi are used for providing wireless communication through radio signals. The difference between Bluetooth and WiFi is that, Bluetooth is actually accustomed to connect short-range devices for sharing information whereas WiFi is used for providing high-speed web access or internet. WiFi provides high information measure because the speed of web is a vital issue.

**Bluetooth** is a technology designed to enable short-range wireless communication between electronic devices, such as between a laptop and a smartphone or between a computer and a television.

**Wi-Fi** is similar to Bluetooth in that it also uses radio waves for high-speed data transfer over short distances without the need for a wire connection.

## WHAT IS INFORMATION SYSTEM

Information systems encapsulates the tools that organizations use to collect, manage, and analyze data. Decision making process in the organization is getting improved by enhancing decision making capacity and efficiency of operations as whole, which in turns result in improved profitability. In today's scenario, be it human resource management, financial management, or customer support activities, or supply chain of operations, data is core of every business activity and information system become inevitable part of all such data-driven activities. Information system does not merely mean the usage of software for the purpose of processing data and sharing information based on such processing, in real sense it is more than that and encapsulates various components such as hardware, software and telecommunication networks to collect useful data, especially in an organization.

### How Information System is Useful for Company Secretary in Business Management

Business Information Systems may be boundary-spanning field of ponder relating to how Information and Communication Technologies (ICT) can be deployed to enhance business processes and upgrade the organization's value chain systems, which firms utilize to obtain, create, and deliver goods and services across the globe.

Information Systems play a vital role within the modern economy and enterprise setting characterized by strategic procurement, worldwide outsourcing, physically distributed operational environments, and extensive business alliances.

Information systems help decision-makers at a business to make informed decisions for the company. Information technology helps get prepared data on all areas of the business as it offers current data, background, and trend analysis. To utilize this nitty-gritty information on the company environment and finances to progress business execution within the long- and short-term.

Generally, the application of computer information systems in a business helps to manage operations, interact with customers and suppliers to compete with other business firms and organizations. This motivates more companies to learn about Information Systems (IS) and to utilize it for an added business advantage.

Following are the main reasons, why information system is useful for company secretary in business:

**a. Efficient functioning:**

In order to achieve higher profitability for your business, it is essential to improve the efficiency of business operations continually. This is possible to do by continuously storing the correct amount of stock so that you can always give your consumers what they want.

**b. New products, services, and business models:**

For businesses to make new products and services, information systems play a crucial role. Information System also help create new business models, and these can describe how a company produce, design, and sell their products.

**c. Behavioural changes:**

The information system can also help to communicate better between the employers and the employee. It works better as it stores information systematically, including the documents and files in folders that can be easily accessed and shared by the employees. This way, it oversees the flow of information between the management and the lower-level employees.

**d. Better decision making:**

Information systems assist managers in creating informed decisions with the help of real-time data. Continuously making informed decision improves decision power and avoid wastage of time looking for information.

**e. Store and Analyse Information:**

Most information systems function as delivery vehicles for data stored in databases. Databases support the operations and management aspects of a business. With a database, the collected data is stored and organised. Examples of databases include employee records and product catalogues.

**f. Simplify Business Processes:**

The integration of information systems in a business enables easier management of certain business processes to save on time and labour. For instance, buyers can have a seamless shopping experience at an online retailer as they can select a particular product display based on best-selling items, price range and customer ratings.

**g. New Products and Services:**

Any company looking to improve and secure the future must establish a broader perspective with the use of a well-designed and coordinated information system. The Information System makes it easier to analyze independent processes such as information to produce valuable products or services and organized work activities.

## Management Information Systems

Management Information Systems (MIS) is the study of people, technology, organizations, and the relationships among them. MIS is a people-oriented field with an emphasis on service through technology. The system gathers data from the internal and external sources of an organisation.

One of the most important tools which aims to provide reliable, complete, accessible and understandable

information to managers for effective decisions making and improving business performance is Management information system. The use of management information systems has become necessary for every organization to facilitate the work procedures and improve efficiency and productivity and improve performance in general.

Moreover the importance of management information systems comes from the benefits that generated by that system such providing useful information in a timely manner, improved labor productivity, cost savings, providing the information without any delays and mistakes, and improved the management of work.

*A formal method of collecting timely information in a presentable form in order to facilitate effective decision making and implementation, in order to carryout organisational operations for the purpose of achieving the organisational goals."* *– Walter I. Kennevan*

*An MIS is a system designed to provide selected decision-oriented information needed by management to plan, control and evaluate the activities of the corporation. It is designed within a framework that emphasises profit planning, performance planning and control at all levels.*

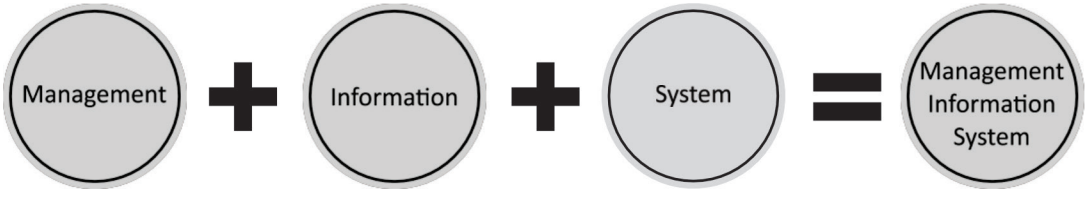
*It contemplates the ultimate integration of required business information, sub systems both financial and non-financial within the company"*

*– Management Information System Committee of the Financial Executive Institute*

*"Management information system is a computer-based information system that provides for management-oriented reporting based on transaction processing and business operations of the organization."*

*– Nowduri & Al-Dossary*

A Management Information System is an acronym of three words, viz., Management, Information, System.




1. **Management:** Management is the art of getting things done through and with the people in formally organised groups.
2. **Information:** Information is data that is processed and is presented in a form which assists decision making.it may contain an element of surprise, reduce uncertainty, or provoke a manager to initiate an action.

## Utilization of Management Information System in Indian Business Scenario

Management Information Systems provide the owner and other decision-makers at a business with the data needed to make informed decisions for the company. A MIS provides background, current data, and trend analysis so you have ready information on all areas of the business.

Management information system can be utilised in below mentioned manner for more efficient utilisation of such information system:

1. **Business Communication System**: Part of management is gathering and distributing information, and information systems can make this process more efficient by allowing managers to communicate rapidly.

2. **Business Operations Management**: How the company's operations are being managed are highly depended on information such company managers possess.
3. **Company Decision-Making**: The company information system can help decision maker to make better decisions by delivering all the information one need and by modelling the results decisions taken. A decision involves choosing a course of action from several alternatives and carrying out the corresponding tasks.
4. **Company Record-Keeping**: Company needs records of its activities for financial and regulatory purposes as well as for finding the causes of problems and taking corrective action.

## CONCLUSION

In today's digital era, computers and emerging technologies have transformed the global business environment by enabling intelligent systems, efficient transactions, and secure communication. With advancements in Artificial Intelligence, organizations can automate processes, make faster decisions, and improve productivity while also addressing ethical, legal and compliance concerns. At the same time, the expansion of online platforms, e-commerce, ERP, MIS, and digital payment systems has strengthened business operations, supply chains, and financial transactions. However, increased reliance on digital platforms also brings risks such as cyber-attacks, data theft, and security breaches, emphasizing the need for robust cyber security measures, secure network systems, and policy frameworks. Overall, the integration of AI, cyber security, blockchain, digital currency, and information systems is shaping a more connected, efficient, and secure business ecosystem, paving the way for smarter and more responsible digital transformation.

### LESSON ROUNDUP

- Computers have become an indispensable part of everyday life and business operations, enabling fast processing, accurate calculations, and efficient data management.
- A computer system comprises hardware, software, data, users, and procedures, all functioning collectively to perform tasks.
- Artificial Intelligence (AI) aims to simulate human intelligence, enhancing decision-making, automation, and problem-solving capabilities.
- AI is advancing rapidly, offering wide opportunities in innovation, productivity, and cost efficiency, while also presenting challenges like ethical issues, job displacement, data privacy concerns, and legal compliance.
- Ethical and legal frameworks are essential to ensure responsible and transparent AI usage, preventing misuse and protecting public interest.
- With growing digital activities, cyber security has become crucial in safeguarding devices, networks, and data against cyber-attacks such as malware, phishing, hacking, and ransomware.
- Organizations must adopt strong cyber security policies to protect sensitive information and support secure online transactions.
- Information Systems (IS) and Management Information Systems (MIS) support managerial planning, analysis, and decision-making, significantly improving business efficiency.
- Emerging technologies like ERP, e-commerce, blockchain, digital currency, payment portals, Bluetooth, and Wi-Fi are transforming business models, communication, logistics, and digital transactions.

- Overall, digital technologies, AI, and cybersecurity collectively shape the modern business environment, requiring continuous adaptation, awareness, and innovation.

## TEST YOURSELF

1. What are the main components of a computer system? Explain the role of hardware, software, and peripheral devices.
2. Explain the evolution and types of Artificial Intelligence. Discuss the challenges and opportunities of AI.
3. Explain key cyber security policies and measures to protect networks and online platforms.
4. What is e-commerce? Explain different modes of electronic funds transfer (EFT), digital currency, blockchain technology, and online payment portals.
5. Explain Enterprise Resource Planning (ERP) and its role in integrating business processes.

## SUGGESTED READINGS


- Wolfgang Ertel, "Introduction to Artificial Intelligence", Second Edition, Springer Publishing
- Philip C. Jackson, Jr., "Introduction to Artificial Intelligence", Third Edition, Dover Publications, Inc.
- Bart Custers, Eduard Fosch-Villronga, "Law and Artificial Intelligence: Regulating AI and Applying AI in Legal Practice", TMC Asser Publishing, Springer
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- National Strategy for Artificial Intelligence, Niti Aayog, Government of India, June 2018. Available https://www.niti.gov.in/sites/default/files/2023-03/National-Strategy-for-Artificial-Intelligence.pdf


## LIST OF OTHER REFERENCES

***1. Books / Textbooks***

- **NCERT – Computer Science (Class XI & XII)**
- **NCERT – Informatics Practices (Class XI & XII)**
- **CBSE – Information Technology Skill Course**
- **ISC/ICSE Computer Applications Textbooks (Class X–XII)**
- **Kalyani Publications – Computer Science Textbook for Class XII**
- **Sumita Arora – Computer Science with Python (Class XI–XII)**

***2. Reference Books (Simplified Learning)***

- **Fundamentals of Computers** – V. Rajaraman
- **Introduction to Artificial Intelligence** – S. Russell & P. Norvig (Beginner level chapters)
- **Cyber Security Essentials** – Charles J. Brooks (Selected easy-to-read units)

***3. Government and Educational Websites***

**Digital India** – Policies & Initiatives

https://www.digitalindia.gov.in

**Ministry of Electronics and Information Technology (MeitY)** – Cyber Laws & AI Initiatives

https://www.meity.gov.in

**CERT-In (Cyber Security Awareness)**

https://www.cert-in.org.in

***4. Free Online Learning Platforms***

**Diksha Portal (Govt. of India)** – Class XII ICT Content

https://diksha.gov.in

**CBSE Academic Repository**

https://cbseacademic.nic.in

**SWAYAM (Govt. MOOCs Platform)** – Beginner courses on AI, ICT

https://swayam.gov.in

***5. Supplementary Reading (Articles/Reports)***

- **NITI Aayog – National Strategy for Artificial Intelligence (AI for All)**
- **Reserve Bank of India (RBI) Reports on Digital Payments & Blockchain**
- **NPCI Publications on UPI, Digital Payments, & Cyber Safety**
- https://www.imf.org/external/datamapper/datasets/AIPI
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# Elements of Corporate Governance

Lesson 12

## KEY CONCEPTS

■ Genesis of Governance ■ Definition of Governance ■ Features of Good Governance ■ Corporate Governance ■ Corporate Governance and the Ancient Indian Scriptures ■ Government Guidelines on Responsible Business Conduct ■ Legal Framework ■ Mandatory Reporting Requirements ■ Recent Developments in Corporate Governance ■ Case Studies on Corporate Governance ■ Case Studies on Failures in Corporate Governance ■ Institutions promoting Corporate Governance

## Learning Objectives

**To understand:**

- Understand the principles of **good governance and corporate governance**, including transparency, accountability, participation, and ethical conduct.
- Explain how governance practices operate through **board structures, stakeholder engagement, compliance mechanisms**, and the ethical foundations rooted in ancient Indian scriptures.
- Evaluate India's key **governance regulations and reporting frameworks**, such as the Companies Act, SEBI's LODR, Corporate Governance Report, and BRSR.
- Analyse real-world governance successes and failures, recent **ESG-driven developments**, and the role of global and national institutions in promoting responsible, sustainable business practices.

## Lesson Outline

- Genesis of Governance
- Definition of Governance
- Features of Good Governance
- Corporate Governance
- Corporate Governance and the Ancient Indian Scriptures
- Government Guidelines on Responsible
- Legal Framework
- Mandatory Reporting Requirements
- Recent Developments in Corporate Governance
- Case Studies on Corporate Governance
- Case Studies on Failures in Corporate Governance
- Institutions promoting Corporate Governance
- ICSI Guiding Principles on Stewardship

## GENESIS OF GOVERNANCE

The word "Governance" finds its roots in various languages. The Greek word "Kubernan" which means "to steer", the Latin word "Kubernare" which means "to steer or rule" and the French word "governer" all led to the word "Govern" which means "to control, influence or regulate"

Therefore, the word "Governance" in its early stages was always linked to the actions of a king or his ministers to control or regulate the conduct of the people whom they ruled over. The ministers set the rules or laid down a code of conduct and the masses followed them. The citizens were thus **governed** by the rulers.

In the Indian context, the linkage of governance to kingdoms is also evident when we read our ancient texts and scriptures. Our Upanishads, Vedas, the epics Ramayana, Mahabharata and Bhagwad Gita all contain guidelines on good governance which the Kings and their ministers were expected to follow. The "Ram Rajya" depicted in the Ramayana is a model of governance featuring dharma, justice, equality and the welfare of all citizens.

Till this day the word "Governance" continues to represent actions by the governmental authorities.

## DEFINITION OF GOVERNANCE

The concept of governance broadly describes as:

**"The role of public authorities in establishing the environment in which economic operators function and in determining the distribution of benefits as well as the relationship between the ruler and the ruled."**

**"An essential complement to sound economic policies and central to creating and sustaining an environment which fosters strong and equitable development."**

**"The exercise of political, economic and administrative authority necessary to manage a nation's affairs and the process by which decisions are made and implemented within Government. It is a process by which public institutions conduct public affairs and manage public resources."**

## FEATURES OF GOOD GOVERNANCE

Good governance is about running a good administration in the country. Good governance has the following features:

- **Rule of Law**

  Essentially Governance consists of a set of rules and regulations.

- **Strategic Vision**

  There is an overarching vision to make the country better and citizens prosper.

- **Consensus Orientation**

  The attempt is to build a consensus while laying down policies.

- **Participation:**

  The views of the citizens are considered and included in the policies laid down by the Government.

**A country that is governed well improves the economic, social and political well-being of all its citizens.**

## CORPORATE GOVERNANCE

The term "Corporate Governance" relates to Governance in Companies.

**Evolution**

From the kingdoms, the principles of governance flowed into organisations. As the industrial revolution resulted

in the creation of large corporate factories, there was need to create a standard set of rules in order to maintain order and efficiency. The principles of Governance thus seeped into large organisations first and later spread to other corporates.

**Definition of a Company:**

The celebrated Lord Justice Lindley defined a Company as "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising therefrom."

Thus, a Company is formed by the association of many persons to engage in trade or business. The persons contributing money or capital are known as shareholders.

A company is a legal entity formed by a group of individuals to engage in business or trade with the intention of earning profits or achieving specific objectives. Companies exist as separate legal entities, meaning they are distinct from the people who own or manage them. The concept of a company plays a crucial role in modern commerce, offering a framework for businesses to operate, grow, and ensure legal compliance.

**Management of a Company:**

The shareholders, however, do not manage the Company.

The operations of a Company are managed by a Board comprising of Directors elected by the shareholders. The shareholders lay down the vision for the Company. The Board of Directors have the responsibility of converting the vision of the shareholders into measurable objectives and get them executed. For this the Board appoints senior management who along with other members actually run the operations.

Therefore, the Board has different sets of responsibilities in the management of the Company:

- To the shareholders, they have to convert their vision into reality
- To the management team for handholding them so that they execute efficiently
- To other stakeholders (like the Govt and the Society in which they operate) to meet their individual requirements
- To the environment for economic usage of resources and for management of pollution and waste.

**Definition of Corporate Governance:**

The definition of Corporate Governance has evolved over the years. Robertlan Tricker coined the word "Corporate Governance" in 1984. According to Tricker,

> **"Corporate Governance is concerned with the way Corporate entities are governed. Corporate Governance addresses issues facing the Board of Directors of a Company such as the interaction with top management and relationships with owners and others interested in the affairs of the Company."**

The Institute of Company Secretaries of India has defined Corporate Governance as

**"the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."**

The OECD has defined corporate governance as

> **"a set of relationships between the Company's management, its Board, its shareholders and other stakeholders."**

Corporate Governance is about how a Company, beginning with the Board and encompassing all employees goes about its activities in the pursuit of its objectives in a manner that is fair to every stakeholder while complying with all legal requirements.

We can, therefore, rephrase the definition into simpler language as below:

**Corporate governance encompasses**

- A set of policies, procedures and practices operational in an organisation
- In the pursuit of its objectives
- Which are legally compliant
- Ethically oriented and
- Meets the requirement of all stakeholders (Including shareholders)

**Key Components of Good Corporate Governance:**

- **Policies, Procedures and Practices:**

  Every Company will have a set of policies, procedures and practices laid down by the Board or the senior management within which it is supposed to operate. All actions by the employees in line with such laid down policies and procedures are considered as good governance actions.

- **Actions in the Pursuit of its Objectives:**

  The set of policies, procedures and practices must be aimed at meeting the objectives of the Company and realising the vision of its shareholders. If they are not in line with the goals of the Company, any action will result in bad governance.

- **Legal Compliance:**

  The laid down policies, procedures and practices and the actions thereon must all be meeting the requirements of law. Any violations can lead the Company to penalties and in some extreme cases prison terms for the operational Directors.

- **Ethical Orientation:**

  A Company's actions must not only fall within the ambit of law but must also go a little beyond. Its actions must be morally right as well apart from being legally correct.

- **Meet the Requirement of all Stakeholders:**

  In the early days of corporate evolution, the Board of Directors and the Management and employees of the Company focussed on ensuring that the shareholders benefited from their actions. Slowly the focus shifted to looking at the needs of not only the shareholders but all stakeholders.

**Stakeholders in an Organisation:**

The shareholders of a Company are the first stakeholders. Their money is at stake and they are directly impacted by its operations. If the Company is profitable, they can look forward to a large dividend and if the Company is continuously profitable, they can reap capital appreciation in the form of a market price for their shares much above the book value.

There are, however, other stakeholders also who are impacted by the operations of a Company. Let us look at all the stakeholders.

1. **Shareholders:**

   As stated above, the shareholders have a direct impact in terms of receiving dividends and capital appreciation. In some cases, where the Companies do not do well, they may not receive any dividend and possibly could even lose their entire capital.

2. **Employees:**

   The employees have a critical stake in the Company. They are impacted by the work culture prevalent,

by the kind of emoluments and incentives they receive and by the gender and diversity policies of the organisation. A long term career for the employees is dependent on how successful the Company is in its operations.

**3. Suppliers:**

Suppliers are another key stakeholder in a Company. They supply materials, many times on credit, and in some instances align a large portion of their capacity to a single- buyer. Their fortunes depend on the successful operation of the Company. It is important they are treated fairly and considered as partners by the Company.

**4. Customers:**

Customers form the backbone for a Company's performance. The Company must ensure that customers are keen to buy their products and feel they get value for money. It is the responsibility of the Company to provide quality products at affordable prices.

**5. Government:**

In a large number of cases, the Government is the approving authority for creation of the enterprise either in the form of licensing or registration. Their approvals kick-start the creation of the enterprise.

In addition, the Government generates revenue from the Company mainly in the form of:

- Excise and Customs Duties
- Goods and Services Tax
- Income Tax

They are therefore interested in ensuring that the Company operates successfully so that they continue to get these revenues.

**6. Society/Area of operation:**

The area in which a Company operates is also an important stakeholder. The Company uses a lot of resources like electricity, water etc for its production. These are supplied by the governmental or private authorities concerned. Similarly, a large number of people in the area get both direct and indirect employment from the Company.

The Company may also offer to develop the area surrounding its operations to improve the overall standard of living for the people residing therein. This could be in the form of developing schools, public places, vocational training and providing additional infrastructure as part of overall corporate social responsibility.

**7. Environment:**

The Company significantly impacts the environment in which it operates. For its raw material requirements, most of the Companies use some form of natural resources or other. For e.g. a Company may use natural rubber or wood or iron or steel or oil for its production. To the extent they use up these natural resources, the overall stock of these resources come down and this depletion can lead to climate change or other unwanted consequences.

A large number of consumables in the form of water, electricity, coal or oil is also used up by these Companies as part of their production processes. In addition, they also generate waste that needs proper treatment before they are let out.

Therefore, the Company has a large responsibility in first minimising the use of resources by eliminating waste and improving productivity and also working on restoration of these resources so that there is no depletion.

**Key Requirements for effective Governance:**

How can a Company improve its Governance function and be considered as a model for good governance?

The following are the key requirements:

- A Strong Board of Directors
- A Robust Legal Framework
- A Strong Financial Reporting
- A Robust Risk Management Process

**Strong and Effective Board of Directors:**

The Company must have a very effective Board of Directors who understand their responsibilities and deliver to the expectations of all concerned. The key to good governance squarely lies with the Board.

In order to facilitate and help the Board to effectively perform their duties, the following must be in place:

- Clear process of appointment
- Proper Identification of the Roles of the Individual Directors and Accountability of the Board
- Induction and Training processes for Directors
- Regular Conduct of Board Meetings
- Intense deliberations and participation by all Directors
- Effective functioning of the Audit Committee of the Board
- Proper Performance Evaluation of the Directors

**Robust Legal Framework:**

In order for Companies to improve their Governance, it is important that the legal system must be robust and comprehensive. The laws applicable to Companies must be very clear and not capable of different interpretations or allow for different treatment for different organisations. Once the laws are clear, all organisations will work towards complying with the requirements thus improving governance.

**Strong Financial Reporting:**

At the end of the day the financial performance of an organisation is key to its survival and growth. It is important that the financial results reflect the actual operations and that there are no misrepresentations or wrong reporting. The Board of Directors, therefore, has to ensure that there is an effective system of financial reporting and adequate disclosures of the goings-on in the Company. This provides adequate comfort for the shareholders and the other stakeholders that the Company is working towards realising its objectives.

**Robust Risk Management Systems:**

Another key requirement for a well-governed Company is an adequate and comprehensive risk management system in place. Business today faces all kinds of risks – financial risks, operational risks, strategic risks, political risks and other environmental risks. Any of these risks can lead to huge losses for the Company and may even lead to its complete closure. During Covid 19, there were companies who were resilient enough to survive and move on while some others simply fell by the wayside.

It is, therefore, important for a Company to identify those risks which are critical to its operations and survival and have a methodology in place to manage those risks.

**What are the attributes of a Company with very good Governance?**

A Company with Good Corporate Governance displays certain special attributes. These are:

- **Transparency in Operations and Reporting:**

  A well governed Company is very transparent in its dealings with other stakeholders as also in reporting its activities. There is no desire to hide any information from the various stakeholders. Disclosures by the Company are complete and more than adequate. Shareholders and others are very comfortable in the fact that they have complete knowledge of the Company's operations.

- **Accountability:**

  Another attribute of a well governed Company is the Accountability of its Board of Directors. The Board is mindful of its rule and takes full responsibility for the operations.

- **Fairness:**

  The Company is extremely fair in its dealings with others. Whether dealing with employees, creditors, customers or outsiders (government and society), the Company ensures respect and dignity for others and complete equality in its dealings.

- **Responsibility:**

  A well governed Company takes full responsibility for its actions and consequences. It is committed to an ethical conduct in its dealings, being responsible in its business practices, ensuring sustainability of the environment and owning responsibility towards society.

**Benefits of Corporate Governance:**

There are several advantages accruing to a Company with good Corporate Governance. These are:

- **Improved Corporate Performance**

  A Company with good governance mechanism improves its long-term prosperity and sustainability. It is rated at a premium compared to other companies.

- **Enhanced Investor Trust**

  Because of complete transparency and disclosure, investors feel comfortable that their interests are fully protected and continue to stay with the Company for the long term.

- **Better Access to Global Market**

  Global Investors are attracted to well governed companies thereby enhancing the financing options for such companies including lower cost of funds. Similarly such companies can tap the market for their raw material requirements and for export of their finished products.

- **Elimination of Fraudulent/Corrupt Practices**

  With strong systems in place, the possibility of fraudulent or corrupt practices becomes extremely low. Illegal or immoral actions will get to be found out quickly.

- **Better Financing from Institutions**

  When a Company is known for its good corporate governance, financial institutions will queue in to offer finances and at lower costs because they are confident about the Company's success and

sustainability. This is a positive cycle as with lower financing costs, the profits of the company will continue to rise further leading to even more interest from financial institutions.

- **Reduced Risk of Scandals and Crisis**

  An organisation with strong governance culture will not get into any scandals or crisis. Scandals or crisis arise when suddenly an organisation announces huge losses or a misappropriation or wrong financial reporting. This will be a rarity in a Company with good governance.

- **Enhanced Enterprise Value**

  When a Company is known for its governance, the entire investor community takes note and is keen to be a part of the shareholding of that Company. They know that the Company will outperform its peers and generate super profits and handsomely reward its shareholders. This pushes up the enterprise or the business value of the organisation benefiting every one of its investors.

## CORPORATE GOVERNANCE AND THE ANCIENT INDIAN SCRIPTURES

There is a great deal of similarity between the governance structures of ancient kingdoms and modern corporations (Companies) as evidenced by our ancient scriptures and writings. The Vedas, Upanishads, and the epics contain a lot of directives on being ethical and following good governance standards.

Kautilya's famous treatise Artha Shastra lays down four duties for a king. We can make this applicable to large corporations with the king being substituted by the Board of Directors and the subjects being substituted by stakeholders.

The four duties of the King and their relationship to modern day companies is explained below:

| Duties | Meaning | With reference to Companies |
|---|---|---|
| Raksha | Protection | Risk Management Systems |
| Vriddhi | Growth | Enhancement of Shareholder Value |
| Palana | Maintenance/Compliance | Compliance with Law |
| Yogakshema | Well Being | Corporate Social Responsibility |

## GOVERNMENT GUIDELINES FOR RESPONSIBLE BUSINESS CONDUCT

The Ministry of Corporate Affairs, Government of India released in 2019 a set of National Guidelines on Responsible Business Conduct. These guidelines contain **nine principles** for all businesses to follow. These principles are provided below:

1. Businesses should conduct and govern themselves with integrity in a manner that is Ethical, Transparent and Accountable.
2. Businesses should provide Goods and Services in a manner that is sustainable and safe.
3. Businesses should respect and promote the well-being of all employees including those in their value chains.
4. Businesses should respect the interests of and be responsive to all their stakeholders.
5. Businesses should respect and promote human rights.
6. Businesses should respect and make efforts to protect and restore the environment.
7. Businesses when engaging in influencing public and regulatory policy should do so in a manner that is responsible and transparent.

8. Businesses should promote inclusive growth and equitable development.
9. Business should engage with and provide value to their customers in a responsible manner.

The Government felt that adoption of these principles by a company will lead to a quantum jump in corporate governance standards.

**How does the Government/Regulator ensure that Companies follow good governance?**

- By enacting rules and creating a framework for companies to comply.
- By seeking reports from the Companies themselves.

## LEGAL FRAMEWORK ON CORPORATE GOVERNANCE

We had earlier stated that a robust legal framework is a key requirement for good governance.

Regulations on Corporate Governance are mostly found in the Companies Act 2013 and additionally for listed companies in the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. There are also communications from the Reserve Bank of India for Banks and Finance Companies and from the Insurance Regulatory and Development Authority of India for Insurance Companies.

**Provisions related to Corporate Governance in the Companies Act 2013:**

The Companies Act 2013 contain the following provisions on corporate governance:

- Appointment and Tenure of Independent Director
- Appointment of Woman Director
- Appointment of Whole time Key Managerial Personnel
- Performance Evaluation of Board & Directors
- Enhanced Disclosures and Assertions in Board Report, Annual Return and Directors' Report
- Mandatory Secretarial Standards and Secretarial Compliances
- Related Party Transactions
- Vigil Mechanism
- Nomination and Remuneration Committee
- Corporate Social Responsibility Committee
- Rotation of Auditors
- Secretarial Audit
- Constitution of National Financial Reporting Authority
- Separation of Role of Chairperson and Chief Executive Officer
- Mandatory E Voting

**Provisions related to Corporate Governance in SEBI Regulations**

Regulation 4 of SEBI (LODR) Regulations lays down

- Principles for Periodic Disclosure on Governance
- Generic Corporate Governance Principles

In addition, the Regulations contain specific provisions on:

- Board Composition
- Board Committee
- Intimations and Disclosure to Stock Exchanges
- Requirements with reference to Board Processes and Meetings
- Website Requirements
- Advertisement Mandates
- Policies
- Shareholding Pattern
- Corporate Actions

**Recommendations of the Basel Committee on Banking Supervision:**

The Basel Committee on Banking Supervision, an international body formed with the objective of strengthening the regulation, supervision and practices of banks worldwide, released in July 2015 a set of guidelines for effective corporate governance in banks. The guidelines cover the following areas:

- Board's Overall Responsibility
- Board's Qualification and Composition
- Board's structure and practices
- Senior Management
- Governance of Group Structures
- Risk Management Function
- Risk Identification, monitoring and control
- Risk communication
- Compliance
- Internal Audit
- Compensation
- Disclosure and Transparency
- Role of Supervisors

**Reporting Requirements on Corporate Governance:**

There are two major reports called for by SEBI from the listed Companies:

1. Corporate Governance Report

2. Business Responsibility and Sustainability Report

- **Corporate Governance Report:**

  The Securities Exchange Board of India has under Regulation 27 required Companies to file a quarterly report on Corporate Governance and a yearly report to be also attached to the Annual Reports. The details called for broadly cover:

  - Board Composition

- Board Committee Composition
- Meetings of the Board and Committees
- Related Party Transactions
- Senior Management
- Remuneration of Directors
- Meetings of Members
- General Shareholder Information.

The idea is to enlarge disclosure which improves transparency and monitoring.

- **Business Responsibility and Sustainability Report:**

  Based on the National Guidelines on Responsible Business Conduct (NGRBC) released by the Ministry of Company Affairs, the Securities Exchange Board of India has directed the top 1000 companies to attach a Business Responsibility and Sustainability Report as part of the Annual Report. The format for the BRSR is also provided by SEBI.

  One of the important components of the BRSR is the principle wise information to be provided in respect of the nine principles laid down in the NGRBC. The principle wise information will clearly demonstrate the extent of good governance that exists in the Company.

## RECENT TRENDS IN CORPORATE GOVERNANCE

In recent years, companies are focussing their attention on the following areas:

- Environment Protection
- Social Responsibility
- General Governance.

ESG (Environment, Social and Governance) is now in the limelight. Companies are now looking to project their ESG activities and even try to get a rating on ESG from rating agencies. Special funding is now available for ESG activities only.

Let us look at the broad areas covered by E, S and G.

**Environment:**

- Usage of
  - Natural Resources
  - Energy
  - Water
- Generation of
  - Waste
  - By Products
  - Carbon Emission
- Pollution
  - Greenhouse Gas Emissions

- Air Pollution
- Water Pollution

- General Impact
  - Climate Change
  - Bio Diversity and Ecosystems Rehabilitation

**Social:**

- Employee Related
  - Labour Practices
  - Health and Safety
  - Child Labour
  - Employee Welfare
- Society Related
  - Diversity and inclusion
  - Community Management
  - Attributes of Products and Services
  - Human Rights Policy

**Governance:**

- Board Related
  - Board Composition
  - Board Diversity
  - Board Independence
  - Succession Planning
  - Board Evaluation
- **Others**
  - Risk Management
  - Internal Controls, Policies and Processes
  - Ethics and Compliance Management
  - Governance Structure
  - Environmental and Social Oversight
  - Executive and Board Compensation
  - Stakeholder Engagement
  - Anti-Corruption
  - Supply Chain

- IT Security and Data Protection
- Disclosures and Reporting

Companies are now releasing Sustainability Reports, as part of Corporate Governance, wherein they specify what areas of ESG are in focus and how they are targeting improvements on the same. A large part of the action is now on the Environmental front where climate change and carbon emissions are attracting high importance for mitigation.

## CASE STUDIES ON CORPORATE GOVERNANCE*

In this portion we will try to demonstrate how various companies across the world are working towards improving their overall Environmental, Social and Governance orientation.

### Companies outside India

**Embraer – Brazil**

Embraer S A is a Brazilian multinational aerospace corporation. They are manufacturers of aircraft and aviation systems which are sold across the world. They have over 23000 employees and touched a revenue of US $ ..... 6.4 billion during the year ended December 2024. Towards improvement in employee orientation, Embraer has set the following goals for 2025:

- 50% diversity in hires across all entry level programs (The company will look to hire persons from different backgrounds, experiences and perspectives from across the world)
- Ensure 20% of senior leadership positions are filled by women.

In addition, Embraer promotes an ecosystem of knowledge generation and dissemination that encourages high quality training of their employees.

**Eli Lily – USA**

Eli Lilly and Company is an American multinational pharmaceutical company with a turnover of US $ 45 billion (year ended 31st March 2024). Their goal on patient safety is "to ensure that the benefits and risks of our medications are continuously monitored and well understood by regulators, health care providers and patients."

They have set the following Goals to be achieved by 2030:

- To be carbon neutral with reference to Scope 1 and Scope 2 emissions.
- 100% of purchased electricity from renewable sources
- Zero Waste to go to Landfills
- Improve Quality Healthcare for 30 Million people living in resource limited settings
- Achieve Zero severe injuries.

**Shell plc - UK**

Shell plc is a British multinational oil and gas company. Shell is a vertically integrated oil company beginning from initial exploration through harvesting (production), transportation, refining and finally trading. Shell deals with about 25000 suppliers globally.

As part of good governance, Shell engages only with those vendors who behave in an economically, environmentally and socially responsible manner. The Suppliers are expected to:

- Protect the environment by complying with all laws and regulations

*[*For the purpose of information only]*

- Use energy and natural resources efficiently
- Continually look for ways to minimise waste, emissions and discharges from their operations, products and services.

**Robert Bosch GmbH - Germany**

Robert Bosch GmbH is a German multinational engineering and technology company. They employ around 420000 associates worldwide and women in management currently constitute 20.4%. For the year ended 31st December 2024 group sales totalled around 90 billion Euros.

- Bosch is carbon neutral from 2020.
- 99.5% of purchased electricity is from renewable sources.
- The majority of the share capital of Robert Bosch GmbH is held by a charitable foundation.
- By 2030 atleast one in four leadership positions to be held by a woman.
- To bring down by end 2025 the number of work-related accidents to 1.45 accidents per 1 million hours worked. (Previous year was 1.46 accidents)
- Responsibility to customers:

Bosch's mission statement "Invented for Life" reflects their desire to provide safe and reliable products to customers with very high quality. The quality of all products is overseen by their Product Compliance Management System. The system helps to identify, monitor, control and minimise risks related to product quality. Products are not released for mass production unless all safety aspects have been fully clarified.

**Indian Companies**

**ITC Limited**

ITC is a leading multi-business Indian enterprise with presence in FMCG, Paper, Packaging, Agribusiness and IT. ITC generated a turnover of 73465 crores for the year ended 31st March 2025 and employs approx. 34000 employees. The company has been an exemplar in Sustainability Management. The following are the outcomes achieved:

**Environmental:**

| | |
|---|---|
| Water Positive | For the last 23 years |
| Carbon Positive | For the last 20 years |
| Solid Waste Recycling Positive | For the last 18 years |
| Renewable Energy | 52% of the total energy consumed |
| Green Buildings with Platinum Certification | 17 |
| Plastic Neutral | Since 2021-22 |
| Net Zero Carbon Emission | By 2050 (no carbon emission) |

**Social:**

| | |
|---|---|
| No Lost Time Accident | 52 units |
| Employment Generated through Social and Forestry Initiatives | 241 million man-days |

**ICICI Bank Ltd.**

ICICI Bank Ltd. is an Indian multinational Bank and financial services company. The total deposits as on 31st March 2025 stood at approximately 16100 billion INR. As per the Sustainability Report of the Bank, the following are the ESG related outcomes:

**Environmental:**

| | |
|---|---|
| Carbon Neutrality | Scope 1 and Scope 2 by 2032. |
| Paper Use | 79% Sustainable and Recyclable. |
| Renewable Energy | 38% of total energy consumption |
| Trees Planted | 1.2 million in fiscal 2025 |

**Social:**

Sustainable Financing Outstanding as at 31st March 25 – 1000 billion

**Governance:**

| | |
|---|---|
| Risk Governance | Resilient Framework in place |
| Data Governance | Robust Framework in place |
| Cybersecurity Response Team | Dedicated Cybersecurity Incident in place |

**Tata Motors Limited**

Tata Motors Limited is an Indian multinational automotive company engaged in the manufacture and sale of cars, trucks, buses and vans. Their Sustainability Goals are as under:

**Environment:**

| | |
|---|---|
| Net Zero Emission | By 2045 for Commercial Vehicles business |
| Use of 100% renewable electricity | By 2030 |
| Water Neutral | By 2030 |
| Zero Waste to Landfill | By 2030 |

**Governance:**

Diversity- 30% of leaders to be women – Target 2030

**Reliance Industries Limited**

Reliance Industries Limited is an Indian conglomerate with businesses in energy, petrochemicals, natural gas, retail, entertainment, telecommunications, mass media and textiles. It employed 400000 people as at 31st March 2025 and had a turnover of Rs.1071174 crores for the year ending on that date. The ESG performances are detailed below:

**Environment:**

| | |
|---|---|
| O2C Business | Move towards complete removal of carbon emission by use of renewable energy sources (solar and green hydrogen) |

| | |
|---|---|
| Net Carbon Zero | By 2035 |
| Packaging | Largest recycler of PET bottles in the country |

**Social:**

| | |
|---|---|
| Health, Safety and Environment | Project CASHe: Safety of a Person overrides all production targets |

## CASE STUDIES ON FAILURES IN CORPORATE GOVERNANCE

There have been cases where governance in companies has been absent leading to the companies winding down. Following are a few illustrations:

**(i) Enron Corporation**

Enron Corporation was a US Company engaged in the operation of gas pipelines, electricity plants, paper plants and water plants across the globe. The company also traded in a similar array of products and services. Enron filed for bankruptcy in 2001 after accounting frauds came to light. Enron were apparently inflating their profits hiding losses in associates which caught up with them.

The Securities Exchange Commission of the US investigated the scandal and some of the executives were handed jail terms for their conspiring in the matter. Shareholders lost US $ 40 billion in market capitalisation and the Company was dissolved.

The failure in Enron was largely a failure in corporate governance. The following were considered as the major causes for the downfall:

- Improper revenue recognition
- Inappropriate mark to market accounting of investments.
- Creation of Special Purpose Vehicles to hide losses
- Lack of Board Oversight on Complex Financial Accounting
- Executive Compensation based on short term performance
- Poor Risk Management
- Ineffective Financial Audit

**(ii) Lehman Brothers Inc**

Lehman Brothers was an American global financial services firm (the fourth largest bank in the US) founded in 1850. The Company filed for bankruptcy in 2008 with over 25000 employees losing their jobs. The financial crisis of 2008 was in part created by the bankruptcy of Lehman Brothers.

The main reasons for the failure of Lehman Brothers were:

- Use of accounting gimmicks to inflate profits
- The sub-prime mortgage crisis where housing loans were provided at below cost and for far higher amounts than the intrinsic cost.

**(iii) Satyam Computer Services Ltd.**

Satyam Computer Services Ltd was an Indian Information Technology Services Company. The Company employed around 52000 employees and was one of the top five IT companies from India. The Company's

offerings included software development, system maintenance, packaged software integration and engineering design services.

In January 2009, the Company's Chairman admitted to inflating the company's assets by US $ 1 billion. The Company's share price collapsed to Rs 11.50 from Rs.544/-. The Government overturned the Board and the Mahindra group took over the Company and later merged the Company with Tech Mahindra.

The reasons for the collapse were found to be:

- Falsification of accounts to increase profits
- Poor Governance from the independent directors
- Poor oversight by the auditors.

**(iv) Infrastructure Leasing and Financial Services Ltd. (IL&FS)**

IL&FS was a major infrastructure financing and development company in India. It was created by public sector banks and insurance companies to focus on infrastructure lending and development. The Company had over 250 subsidiaries.

In 2018 two of the subsidiaries defaulted on its debt obligations and it was later discovered that there were several irregularities and fraudulent activities within the Company. Like in the Satyam Case, the Government revamped the Board to get the Company back on its heels. At that point in time, the Company had over 90000 crores to be recovered as debt and an equivalent liability.

The new Board has been able to resolve 55000/- crore of debt till now. The number of subsidiaries has been slashed and aggressive asset disposal is being pursued.

The reasons for the poor state of affairs at IL&FS are:

- Complex operations through a maze of subsidiaries
- Huge Compensation to Senior Management bypassing approval procedures
- Lack of oversight by the promoters (Public sector banks and Insurance companies)
- Poor supervision by RBI
- Inadequate review on credit proposals leading to NPAs.

## INSTITUTIONS PROMOTING CORPORATE GOVERNANCE

Several institutions have been established for promoting governance in Companies. A few of them are discussed below:

- **Organisation for Economic Cooperation and Development (OECD)**

  The Organisation for Economic Cooperation and Development (OECD) is a unique forum established in 1961 where the governments of 36 member states work with each other as well as with 70 non-member states to promote economic growth, prosperity and sustainable development. India is not a member but a key partner in the deliberations. OECD is headquartered in Paris, France.

  The OECD Principles of Corporate Governance, the revised edition of which was released in 2023, provide guidance on how companies should manage their governance responsibilities.

- **International Corporate Governance Network (ICGN)**

  Established in 1965, in the UK, the main objectives of ICGN are to:

- Engage with policy makers, standard setters and regulators on the legal framework of Governance
- Bring together the member community to share their views and learn from each other
- Share the knowledge of their experts in governance and stewardship.

ICGN's members are large institutional investors who manage assets of around US$ 90 trillion.

- **National Foundation for Corporate Governance (NFCG)**

  The Ministry of Corporate Affairs in the year 2003 set up the National Foundation for Corporate Governance with the vision of being the key facilitator and the reference point for corporate governance standards in India.

  The NFCG is set up in partnership with the Confederation of Indian Industry, The Institute of Company Secretaries of India, The Institute of Chartered Accountants of India, The Institute of Cost Accountants of India and the National Stock Exchange.

  NFCG endeavours to create a business environment that promotes voluntary adoption of good corporate governance practices.

- **The Asian Corporate Governance Association (ACGA)**

  Based out of Hong Kong, the Asian Corporate Governance Association is an independent non-profit organisation dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia.

  The Association was founded in 1999 on the belief that good corporate governance is fundamental to the development of Asian economies and capital markets.

- **ACGA focusses on three areas:**
  - Research – tracking corporate governance developments across 12 markets of the Asia Pacific
  - Advocacy - engaging with all stakeholders including the government on practical issues affecting the regulatory environment
  - Education - Organising conferences and seminars to improve the understanding of the benefits of good governance.

## ICSI Guiding Principles on Stewardship

The role of Institutional Investors and Service Providers in capital markets is of paramount importance. Worldwide, they are expected to invest responsibly on behalf of their clients and/ or beneficiaries by stepping up their monitoring activities and engagement efforts with Investee entities on various Environmental, Social and Governance (ESG) parameters. These actions are generally referred to as "Stewardship Responsibilities" with an objective to safeguard the interest of clients and/or beneficiaries.

Institutional Investors make huge investments in capital markets on behalf of their clients and/or beneficiaries. They have large investible funds at their command for trading in securities, real estate and other investment assets. They function as highly specialized investors on behalf of others and are stewards of assets owned on behalf of clients and/or beneficiaries including individual savers, pensioners, and holders of long-term insurance policies etc., who largely rely on Institutional Investors as their agents to act in their best interests, protect and grow long term investment value in the spirit of stewardship.

Stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. Environmental, social and governance aspects, particularly climate change, are becoming important factors for investors to take into account while making investment decisions and exercising stewardship. Institutional

Investors can yield significant infiuence in the management of entities as they are entitled to exercise the voting rights in an entity, have regular meetings with senior management of the entity including CEOs/ Directors/ Key Management Personnel, etc. assess industry conditions and study in depth the prospects for every entity they intend investing in.

Institutional Investors, while discharging their stewardship responsibilities, may also avail the services of Service Providers like investment consultants, proxy advisors, data and research providers, etc. to get the best information about investee entities.

As a result, Service Providers play a key role in the investment decisions as they provide necessary information that support the Institutional Investors to fulfil their stewardship responsibilities. Globally, the Principles of Stewardship are codified for Institutional Investors/ Service Providers to ensure transparency while discharging their ownership and governance obligations in relation to the clients and/or beneficiaries. Stewardship improves the overall investment ecosystem while protecting the interest of ultimate Investors.

The ICSI Guiding Principles on Stewardship ("IGPS") is the culmination of various practices followed while exercising stewardship responsibilities in different jurisdictions. The IGPS aim to sets out certain best practices in relation to Institutional Investors and Service Providers' stewardship obligations, policies, and processes. The IGPS provides a framework to implement stewardship practices in fulfilling Institutional investors' and Service providers' fiduciary obligations towards their clients and/ or beneficiaries. The IGPS is developed keeping in View the existing and emerging market practices, regulations and the best practices followed worldwide.

**The list of ICSI Guiding Principles on Stewardship (IGPS):**

*PART A: For Institutional Investors*

IGPS A1: Defining Mission, Investment Philosophies, Strategy and Governance Culture.

IGPS A2: Internal Governance.

IGPS A3: Monitoring the Investee Entities.

IGPS A4: Identifying and Responding to Market-Wide and Systemic Risks.

IGPS A5: Continuous Engagement with the Investee Entities.

IGPS A6: Taking Collaborative Approach in Exercising Stewardship Responsibilities.

IGPS A7: Identifying and Managing Conflicts of Interest.

IGPS A8: Integrating Material Environmental, Social and Governance (ESG) Factors.

IGPS A9: Exercising and Protecting Voting Rights.

IGPS A10: Reporting Stewardship Activities.

*Part B: For Service Providers*

IGPS B1: Defining Mission, Strategy and Governance Culture.

IGPS B2: Internal Governance

IGPS B3: Identifying and Responding to Market-Wide and Systemic Risks

IGPS B4: Identifying and Managing Conflicts of Interest

IGPS B5: Integrating Clients' Stewardship

IGPS B6: Reporting Stewardship Activities

## LESSON ROUNDUP

- The word "Governance" finds its root in various languages. Primarily the word means to "steer, control or regulate".
- Governance in its earliest context always related to governments and kingdoms.
- Good Governance is about good administration. Good Governance features the following:
  - Rule of Law
  - Strategic Vision
  - Consensus Orientation
  - Participation
- Corporate Governance relates to Governance in Companies
- The shareholders of a Company do not manage the Company. The shareholders only lay down the vision for the Company.
- The operations of a Company are managed by a Board comprising of Directors elected by the shareholders. The Board of Directors have the responsibility of converting the vision of the shareholders into measurable objectives and get them executed.
- Corporate Governance addresses issues facing the Board of Directors of a Company such as the interaction with top management and relationships with owners and others interested in the affairs of the Company.
- Corporate governance encompasses a set of policies, procedures and practices operational in an organisation, in the pursuit of its objectives which are legally compliant, ethically oriented and meets the requirement of all stakeholders (Including shareholders).
- The various stakeholders in an organisation include the shareholders, the employees, the vendors, the customers, the government, the society and the environment.
- In order for an organisation to have an effective system of corporate governance, the following are required:
  - A Strong Board of Directors
  - A Robust Legal Framework
  - A Strong Financial Reporting
  - A Robust Risk Management Process
- A Company with Good Corporate Governance displays the following special attributes:
  - Transparency in Operations and Reporting:
  - Accountability
  - Fairness
  - Responsibility

- A Company with an effective system of Corporate Governance enjoys the following advantages:
  - Improved Corporate Performance
  - Enhanced Investor Trust
  - Better Access to Global Market
  - Elimination of Fraudulent/Corrupt Practices
  - Better Financing from Institutions
  - Reduced Risk of Scandals and Crisis
  - Enhanced Enterprise Value
- The Vedas, Upanishads, and the epics contain a lot of directives on being ethical and following good governance standards.
- The Ministry of Corporate Affairs, Government of India released in 2019 a set of National Guidelines on Responsible Business Conduct. These guidelines contain nine principles for all businesses to follow.
- The Government/SEBI (the regulator for listed companies) ensure that good governance is being followed in Companies by:
  - By enacting rules and creating a framework for companies to comply.
  - By seeking reports from the Companies themselves.
- The rules/guidelines related to corporate governance for companies to follow emanate from the following:
  - Companies Act 2013
  - SEBI (Listing Obligations and Disclosure Requirements ) Regulations 2015
  - Recommendations of the Basel Committee on Banking Supervision
  - Master Directions from the Reserve Bank of India
  - Guidelines from the Insurance Regulatory and Development Authority of India
- On the Reporting front, there are two major reports called for by SEBI from listed companies:
  - Corporate Governance Report
  - Business Responsibility and Sustainability Report
- The Business Responsibility and Sustainability Report is based on the nine principles laid down by the National Guidelines on Responsible Business Conduct and applicable to the top 1000 listed companies by market capitalisation.
- Currently, there is huge focus on the governance practices of businesses in the following areas:
  - Environment Protection
  - Social Responsibility
  - General Governance.

- Besides, there are now a number of organisations promoting Corporate Governance in corporations. A few of them are:
  - Organisation for Economic Cooperation and Development
  - International Corporate Governance Network
  - National Foundation for Corporate Governance
  - The Asian Corporate Governance Association

**GLOSSARY**

**Governance:** The exercise of political, economic and administrative authority necessary to manage a nation's affairs and the process by which decisions are made and implemented within Government. It is a process by which public institutions conduct public affairs and manage public resources. (IMF) an essential complement to sound economic policies and central to creating and sustaining an environment which fosters strong and equitable development. (World Bank)

**Company:** an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising therefrom. (Lord Justice Lindley)

**Corporate Governance:** Corporate Governance is concerned with the way Corporate entities are governed. Corporate Governance addresses issues facing the Board of Directors of a Company such as the interaction with top management and relationships with owners and others interested in the affairs of the Company. (Robertlan Tricker)

A set of relationships between the Company's management, its Board, its shareholders and other stakeholders. (OECD)

**Shareholders:** The owners of the Company who hold their capital in the form of equity shares.

**Board of Directors**: The individuals comprising a group, appointed by the shareholders that manages the operations of a Company in order to meet the vision of the shareholders

**Legal Framework:** Various regulatory authorities providing rules and guidelines to companies on corporate governance.

**Companies Act 2013**: An act which oversees the incorporation and activities of a Company.

**SEBI:** The Securities Exchange Board of India is responsible for the safe and efficient operation of the securities market. SEBI works towards ensuring that listed companies are governed well and minority shareholders' interests are protected.

**Risk Management System:** Operational Plans and Policies of an organisation to manage various risks including financial, operational, strategic, political and environmental risks.

**ESG**: Environment, Social and Governance

**Environmental Protection**: Efforts by Organisations to minimise usage of resources, reduce waste and bring down pollution.

**Social Responsibility**: The orientation of the organisation towards society including its employees.

**General Governance:** Measures aimed at improving the governance orientation of the Board members and the overall organisation including better risk and security management.

**Corporate Governance Report**: A Report predominantly detailing the structuring and functioning of the Board including its Committees together with information on shareholders

**BRSR:** The Business Responsibility and Sustainability Report is a Report to be submitted by the top 1000 listed companies by market capitalisation. This report is based on the nine principles outlined in the National Guidelines for Responsible Business Conduct.

## TEST YOURSELF

1. Explain the principles of good governance and corporate governance. Explain the key components of Good Corporate Governance.
2. How do governance practices operate through board structures and stakeholder engagement? What are the attributes of a company with very good governance?
3. Explain the government guidelines for responsible business conduct?
4. Analyse real-world examples of corporate governance failures. What lessons can businesses learn from these cases?
5. Explain the role of major institutions in India that promote corporate governance?

## SUGGESTED READINGS

1. Corporate Governance 5th Edition, by Robert A G Monks and Nell Minow.
2. Corporate Governance Matters, by David F Larcker and Brian Tayan
3. Boards that Deliver, by Ram Charan
4. The Essential Book of Corporate Governance, by G N Bajpai

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**Lord Justice Lindley's definition of a Company:**

https://taxguru.in/company-law/definition-company-features.html#google_vignette

**Corporate Governance – Definition:**

icsi study material Professional Program ESGPP

**OECD and Corporate Governance:**

https://www.oecd.org/en/topics/policy-issues/corporate-governance.html

**Corporate Governance and ancient Hindu texts:**

https://www.icsi.edu/media/webmodules/03082022_SamplePages.pdf

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**National Guidelines on Responsible Business Conduct:**

https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1568750

**Recommendations of the Basel Committee on Banking Supervision:**

https://www.bis.org/bcbs/publ/d328.htm

**Master Directions from RBI on Corporate Governance:**

https://www.rbi.org.in/commonman/english/scripts/Notification.aspx?Id=1421

**IRDAI guidelines on corporate governance**

https://irdai.gov.in/web/guest/document-detail?documentId=4590027

**Case Studies:**

**Embraer:**

https://www.ifc.org/content/dam/ifc/doc/mgrt/case-studies-full-book.pdf

**Eli Lily:**

https://sustainability.lilly.com/governance/corporate-governance

**Shell Plc:**

https://www.shell.com/investors/results-and-reporting/annual-report

**Robert Bosch Gmbh**

https://assets.bosch.com/media/global/sustainability/reporting_and_data/2024/bosch-sustainability-report-2024.pdf

**ITC Ltd**

https://www.itcportal.com/sustainability/corporate-social-responsibility.aspx

**ICICI Bank Ltd**

https://www.icicibank.com/ms/esg-2024/index.html

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https://www.tatamotors.com/corporate-responsibility/sustainability-strategy/

**Reliance Industries Ltd:**

https://www.ril.com/sustainability

**Case Studies on Failed Corporate Governance:**

Respective sites on Wikipedia

**Institutions Promoting Corporate Governance:**

https://www.oecd.org/

https://www.icgn.org/

https://www.nfcg.in/pdf/Final-NFCG-brochure.pdf

https://acga-asia.org

## WARNING

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*It may be noted that according to regulation 2(ia) of the Company Secretaries Regulations, 1982, 'misconduct' in relation to a registered student or a candidate enrolled for any examination conducted by the Institute means behaviour in disorderly manner in relation to the Institute or in or around an examination centre or premises, or breach of any provision of the Act, rule, regulation, notification, condition, guideline, direction, advisory, circular of the Institute, or adoption of malpractices with regard to postal or oral tuition or resorting to or attempting to resort to unfair means in connection with writing of any examination conducted by the Institute, or tampering with the Institute's record or database, writing or sharing information about the Institute on public forums, social networking or any print or electronic media which is defamatory or any other act which may harm, damage, hamper or challenge the secrecy, decorum or sanctity of examination or training or any policy of the Institute.*

# CSEET
# ECONOMIC AND BUSINESS ENVIRONMENT – TEST PAPER
# PAPER 3

*(This test paper is for practice and self-study only and not to be sent to the Institute)*

*Time allowed: 3 hours* *Maximum Mark: 100*

**Note:**

**The contents and structure of this test paper is indicative only.**

## PART A – ECONOMICS (50 MARKS)

***(Attempt: Question No.1 is compulsory and any 2 (two) Questions from Q No .2 to Q.No.4)***

**Question1**

(i) What is price elasticity of demand? Describe the determinants of elasticity and explain why some goods are more elastic than others.

(ii) What is the Balance of Payments (BoP)? Differentiate between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

(iii) Explain the functions and importance of development financial institutions in India. Describe the objectives and roles of IFCI and SIDBI in promoting industries and MSMEs.

(iv) What is the Balance of Payments (BoP)? Differentiate between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

**(5 Marks X 4=20 Marks)**

**Question 2**

(a) What are cooperative banks? Explain their structure and functions. How do they contribute to providing credit to rural areas and small borrowers? Also differentiate between NBFCs and commercial banks.

(b) Define Gross Domestic Product (GDP). How is it different from Gross National Product (GNP)?

(c) Explain the key component or element of Indian Union budget?

**(5 Marks X 3=15 Marks)**

**Question 3**

(a) Define fiscal deficit. Distinguish between capital receipts, capital expenditure, and the major components of Capital budget.

(b) What are cooperative banks? Explain their structure and functions. How do they contribute to providing credit to rural areas and small borrowers?

(c) Explain the importance of primary sector? Discuss the coverage of primary sector.

**(5 Marks X 3=15 Marks)**

**Question 4**

(a) What are the major bottlenecks or challenges in the growth of entrepreneurship in India? Explain any four.

(b) Distinguish between any two of the following:

(i) 'Inferior goods' and 'status related goods.

(ii) 'Cardinal approach' and 'ordinal approach' in utility analysis.

(iii) 'National income at current prices' and 'national income at constant prices.

(c) Describe the main features of a perfectly competitive market. How do these features affect pricing, output, and efficiency?

**(5 Marks X 3=15 Marks)**

## PART B – BUSINESS ENVIRONMENT (50 MARKS)

***(Attempt: Question No.5 is compulsory and any 2 (Two) Questions from Q. No .6 to Q.No.8)***

**Question 5**

(i) What are the key elements of entrepreneurship? Explain the qualities or characteristics that make a successful entrepreneur.

(ii) Describe the major features of business environment. How do these features influence business decisions?

(iii) What are the 7 pillars of effective governance according to NITI Aayog? Explain how they contribute to better policy-making and governance.

(iv) What is meant by the global business environment? Explain its key components and how they influence international trade and investment.

**(5 Marks X 4=20 Marks)**

**Question 6**

(a) Define key concepts such as sustainable development, climate justice, and energy conservation. Explain the interdependence between economic growth, environmental balance, and social responsibility.

(b) What are the main components of a computer system? Explain the role of hardware, software, and peripheral devices.

(c) Explain the principles of good governance and corporate governance. Explain the key components of Good Corporate Governance.

**(5 Marks X 3=15 Marks)**

**Question 7**

(a) How do governance practices operate through board structures and stakeholder engagement?

(b) Explain the evolution and types of Artificial Intelligence. Discuss the challenges and opportunities of AI.

(c) Analyse the causes and impacts of global warming and greenhouse gas emissions. Suggest ways in which businesses and societies can adopt responsible and sustainable practices.

**(5 Marks X 3=15 Marks)**

**Question 8**

(a) Distinguish between liberalization and globalization. How have these processes impacted India's economy and business environment?

(b) Write note on the following.

(i) SFIO

(ii) IBBI

(iii) CCI

(c) What is Ease of Doing Business? Explain how improving the business environment helps promote trade, industry, and investment. Also discuss the significance of trade auxiliaries in supporting business activities.

**(5 Marks X 3=15 Marks)**