

Monthly Policy Review

January 2014

Highlights of this Issue

[Land Acquisition Act notified, Draft Rules released for comments \(p. 2\)](#)

The Draft Rules have been notified and address consent and social impact assessment provisions.

[RBI releases draft report on revising monetary policy framework \(p. 4\)](#)

The report recommended establishing a Monetary Policy Committee to formulate monetary policy decisions, using CPI as the nominal anchor for the monetary policy, and targeting CPI at 4% within a band of +/- 2%.

[Nachiket Mor Committee on financial inclusion submits final report \(p. 6\)](#)

The report proposes opening of universal bank accounts linked with Aadhaar, setting up of payments banks, wholesale banks and a Financial Redressal Agency.

[Guidelines for flexi-funds within centrally sponsored schemes released \(p. 5\)](#)

The guidelines mention that 10% of the CSS budget will be flexi-funds, whose usage will be decided by states. The guidelines also outline the manner in which these funds will be utilised.

[Supreme Court directs government to set up a green regulator \(p. 4\)](#)

The Court has directed the government to appoint an environment regulator to ensure that the Environment Impact Assessment Notification, 2006 and National Forest Policy, 1988 is implemented satisfactorily.

[Cabinet approves the setting up of a Rail Tariff Authority \(p. 13\)](#)

The Cabinet has approved the setting up of a Rail Tariff Authority, as an advisory body, through a government resolution. The Authority will advise the government on fixation of passenger fares and freight tariffs.

[Standing Committee submits report on the Civil Aviation Authority of India Bill \(p. 9\)](#)

The Committee noted that the powers of the proposed Authority will be similar to the existing DGCA, without providing autonomy to the regulator. It recommended bringing in a Bill to address other issues in the sector.

[Delhi High Court allows CAG audit of private telecom service providers \(p. 10\)](#)

The Court ruled that CAG is empowered to audit the financial accounts of private telecom service providers and that the audit will be restricted only to their revenue receipts.

[Supreme Court passes rulings on death sentence and persons accused in trials \(p. 12, 13\)](#)

The Court clarified that persons not named in an FIR or chargesheeted can be summoned for a trial. In a separate ruling, the Court held that a death sentence could be commuted to life imprisonment under certain circumstances.

[Government notifies Domestic Natural Gas Pricing Guidelines, 2014 \(p. 11\)](#)

These guidelines apply to pricing of all natural gas produced domestically for five years starting April 1, 2014. Prices will be linked to the price of imported gas and the market prices of gas in the US, UK, and Japan.

[Standing Committee submits report on the Agricultural Biosecurity Bill \(p. 13\)](#)

It recommended mandatory consultation with states on the Bill and changes in their representation in the authority.

February 3, 2014

Rural Development

Joyita Ghose (joyita@prsindia.org)

Land Acquisition Act and Draft Rules notified

The Right to Fair Compensation and Transparency in Land Acquisition and Rehabilitation and Resettlement Act, 2013 came into force on January 1, 2014.¹ It received the assent of the President on September 27, 2013. The Act regulates the process of land acquisition and provides for rehabilitation and resettlement of affected families.

The Draft Rules for Social Impact Assessment (SIA) and consent were notified on December 31, 2013. Comments were invited up to January 30, 2014. For the previous version of the Draft Rules, please refer to the PRS Monthly Policy Review for October 2013, available [here](#).

Key features of the Draft Rules, as notified are:

- **Social Impact Assessment:** The Act provides for an SIA to examine: (a) whether the acquisition serves a public purpose, (b) the number of families that will be affected, and (c) the social impact of the project. It also mentions certain cases where an SIA need not be conducted.

The Draft Rules specify that state governments will have to identify or establish state SIA Units to ensure that SIAs are carried out. The procedure for conducting the SIA includes: (a) conducting an assessment of the land to be acquired, (b) determining the number of affected families, (c) preparing a socio-economic and cultural profile of the affected area, and (d) preparing a Social Impact Management Plan.

In addition, the process for conducting public hearings to present the finding of the SIA is outlined. Public hearings must be conducted in all gram sabhas where more than 25% of the members are directly or indirectly affected by the acquisition.

An Expert Group will evaluate the SIA within two months from the date of its constitution. The government will examine the SIA report and the recommendations of Expert Group.

- **Consent:** Land is acquired by the government for government, private and public-private partnership projects with public purpose. Consent is not required for

government projects. Private projects require the consent of at least 80% of the affected families. Public-private partnership projects require the consent of at least 70% of the affected families.

The Draft Rules specify the procedure for obtaining the consent of gram sabhas and affected land owners. The responsibilities of the government and the requiring body are also specified. At least 50% of the gram sabha members must be present at the meeting and a majority of those present must pass a resolution giving consent, containing the negotiated terms of compensation and Rehabilitation and Resettlement (R&R).

The government acquiring land must ensure that the following are provided to individuals whose consent is sought: (a) SIA report, (b) initial R&R package being offered, (c) list of rights current enjoyed by the village and its residents under various legislations, and (d) a written statement by the collector stating that there will be no consequences if consent is denied, etc.

For more information about The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, see [here](#).

MoRD directive for 150 days of work under MGNREGA for STs in forest areas

The Ministry of Rural Development (MoRD) has issued a directive to states to provide 150 days of work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) for Scheduled Tribes (STs) living in forest areas.² The additional 50 days of employment, over the regular 100 days, will be given to individuals who have been given pattas under the Forest Rights Act, 2006.

According to the MoRD, the additional days given through this directive will allow households to undertake activities such as land-leveling and plantation on these lands to make them more productive. The directive is expected to benefit eight lakh individuals in the states of Andhra Pradesh, Chhattisgarh, Jharkhand, and Odisha.

Macroeconomic Developments

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Committee submits report to RBI to revise and strengthen the monetary policy framework

An expert committee had been constituted by the RBI Governor on September 12, 2013 to recommend measures to revise and strengthen the current monetary policy framework, with a view of making it transparent and predictable. The Committee (Chairperson: Dr. Urjit Patel) submitted a draft report January 21, 2014.³ The main recommendations are:

- **Choice of nominal anchor:** Currently, RBI uses a ‘multiple indicator approach’ to draw monetary policy perspective. The Committee made the following recommendations:

- (i) Inflation, as measured by Consumer Price Index (CPI) should be the nominal anchor for the monetary policy framework. This is because CPI, as an indicator of retail inflation, is the closest proxy of a true cost of living, and influences inflation expectations of households.
- (ii) Nominal anchor will be targeted at 4% with a band of +/- 2%.
- (iii) CPI inflation should be brought down to 8% over next 12 months, and 6% in the next 24 months before formally adopting the recommended target.

- **Organisational Structure:** Currently, monetary policy decisions are made by the Governor of the RBI, who is accountable to the Government of India.

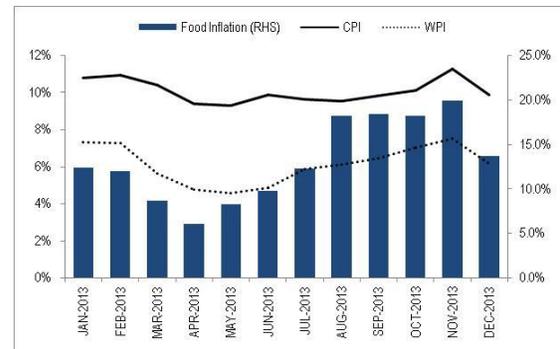
The Committee recommended that monetary policy decision making be vested in a Monetary Policy Committee. This Committee should be composed of five members, with the Governor as its head. The Committee will be held accountable for failure to establish and achieve the nominal anchor.

- **Operating Framework:** Currently, the monetary policy framework operates via changes in repo rate, which sets interest rates for overnight borrowing by banks. The Committee recommended moving towards using term repo rate instead of overnight repo rate.

Industrial productivity declines 2.1%, Inflation declines after six months

The Index of Industrial Production (IIP) declined for the second consecutive month, falling 2.1% in November 2013 below its November 2012 level. This was driven by consumer durables’ production which declined 21.5% compared to November 2012.⁴

Figure 1: WPI and CPI inflations decline due to fall in food inflation



Sources: RBI; PRS.

Wholesale Price Index (WPI) inflation and Consumer Price Index (CPI) inflation, both decreased for the first time in six months in December 2013. WPI inflation declined to 6.2% in December 2013 from 7.5% in November 2013.⁵ CPI inflation for December 2013 declined to 9.9% from 11.2% in November 2013.⁶ The fall in inflation was driven by a decline in food price inflation, especially that of vegetables which fell from 95.3% in November to 57.3% in December 2013.

RBI increases repo rate further; eases restrictions on import of gold

In January 2014, the Reserve Bank of India (RBI) announced the following measures:

- **Monetary Policy decisions:** In its Third Quarter Review of Monetary Policy, RBI increased the policy repo rate from 7.75% to 8.00% to bring inflation under control.⁷ Repo rate is the interest rate at which banks access short term borrowings from the RBI. While Consumer Price Index (CPI) inflation fell in December 2013, RBI said that CPI inflation *excluding food and fuel* remains persistently high with an average of 8% in 2013-14. This is the fourth increase in the repo rate by the RBI since September 20, 2013.
- **Trade regulations:** RBI eased restrictions on gold imports by increasing the amount of

gold that refineries can import.⁸ In addition, RBI extended the time period for completion of certain re-export trade transactions from six months to nine months, and increased their access to short term credit.⁹

- **Foreign exchange transactions:** RBI has increased the flexibility of cancellation and rebooking in forward currency contracts by allowing for all contracts with residual maturity of one year or less to be freely cancelled and rebooked.¹⁰ Forward currency contracts are used to hedge against foreign exchange volatility.
- **Withdrawal of old currency notes:** All old series of banknotes issued prior to 2005 will be completely withdrawn from circulation and will not be accepted for any monetary transaction from April 1, 2014. Banks will provide facility for exchange of old bank notes.¹¹ This is being done to reduce the possibility of counterfeiting as the old notes have fewer security features.¹²

RBI draft report of the committee on financial benchmarks

An expert committee had been constituted by the RBI on June 28, 2013 to study various issues relating to financial benchmarks. The Committee (Chairperson: Mr. Vijaya Bhaskar) submitted a draft report on December 21, 2013, and RBI had requested comments on the same by January 17, 2014.¹³

Major global financial benchmarks came under intense public scrutiny after some cases of their manipulation came to the fore. Several international standard setting bodies, national regulators and central banks are coming up with suggestions to reform these benchmarks. The Committee made the following recommendations:

The Committee made specific recommendations regarding the determination and administration of 22 benchmarks under its consideration. These include the Mumbai Inter-Bank Offer Rate (interest rates) and the RBI Reference Rate (currency exchange rates).

While currently a broader interpretation of the relevant section in the RBI Act 1934 confers requisite power on RBI to regulate financial benchmarks, the Committee felt that suitable amendments should be made to the Act to provide explicit provisions for the same.

Environment

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Supreme Court directs government to set up a green regulator

In 2011, the Supreme Court mandated that a national regulator be appointed for appraising projects, enforcing environmental conditions for approvals and imposing penalties on polluters.¹⁴ The Ministry of Environment and Forests had filed a petition to reverse the same. As per news reports, the Supreme Court has directed the government to appoint an environment regulator.¹⁵

It was reported that the Court was not satisfied with the mechanism of processing, conducting appraisals and granting environmental clearance for projects as specified in the Environment Impact Assessment Notification, 2006. The Court was of the view that a regulator was required at the national level to carry out an independent, objective and transparent appraisal and grant environmental clearances for projects. In addition, a regulator was necessary to monitor the implementation of the conditions laid down in the environmental clearances.

The Court stated that the regulator would be set up under section 3(3) of the Environment Protection Act, 1986 (EPA). Under the EPA, the central government can constitute an authority and delegate the performance of its functions as required in the EPA.

The Court stated that the regulator cannot exercise the powers of the central government under Section 2 of the Forest (Conservation) Act, 1980, (this is the power of the central government to grant prior approval for the de-reservation of forests or use of forest land for non-forest purpose). However, in exercise of powers under the EPA, the regulator can ensure that the National Forest Policy, 1988 is duly implemented.

MoEF modifies norms for environment clearances

Recently, the Ministry of Environment and Forests (MoEF) has modified norms for environment clearances.¹⁶ These are discussed below:

- **Clearance for power stations:** The forest and environment clearance for power stations of ultra-mega power projects will no longer

be linked to the clearance of their captive coal blocks. Before this change, until a coal block received stage-I forest clearance, the power plant was not able to apply for environmental approvals.

- **Linear projects:** Linear projects will receive forest clearance without procuring consent of all gram sabhas of villages that they pass through.¹⁷ The requirement of obtaining such consent was introduced for linear projects like roads, transmission lines and pipelines in July 2013.
- **Expansion of mines:** Coal mines with an annual capacity of up to 8 million tonnes may expand capacity by up to 50% without holding public hearings.¹⁸ This exemption will apply to one-time capacity expansion in projects that do not involve land beyond the existing lease area. Until now, public hearings were required if the capacity was to be expanded by 25% or more.
- **Re-categorisation of projects for grant of clearance:** The Environment Impact Assessment Notification, 2006 (EIA) mandates prior environment clearance for projects listed in its Schedule. Category A projects shall obtain environment clearance from the central government and category B projects from the concerned State Level Environment Impact Assessment Authority. Category B projects are further categorised as B1 and B2. The projects categorised as B1 require an EIA Report for appraisal and have to undergo the process of public consultation. Projects categorised as B2 will require only a pre-feasibility report.

The MoEF had constituted an Expert Committee under the chairmanship of Director, National Environmental Engineering Research Institute (NEERI), Nagpur. Based on the recommendations of the Committee, the MoEF has made certain decisions regarding categorisation of projects. These include:

- (a) Brick earth/ordinary earth mining projects between 5 and 25 hectares and all other minor mineral mining projects with mining lease area of less than 25 hectares have been re-categorised as B2.
- (b) River sand mining projects with mining lease area between 5 to 25 hectares are categorised as B2.
- (c) Thermal power plants smaller than 5 MW would now be listed in B2 category. Those between 5 MW and 500 MW would be in the B1 category.
- (d) Stand alone cement plants that use railways as the primary mode of transportation of raw materials and finished product, chlor alkali plants of less than 300 tonnes per day capacity and new or expanded projects for leather production, in notified industrial areas would fall in the B2 category.

Finance

Guidelines for flexi-funds within centrally sponsored schemes released

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The Ministry of Finance released guidelines for flexi-funds within centrally sponsored schemes (CSS) on January 6, 2014.¹⁹

CSS are schemes, such as Sarva Shiksha Abhiyan, Pradhan Mantri Gram Sadak Yojana, and National Rural Livelihoods Mission that are funded fully or partially by the central government and implemented by states, based on guidelines issued by the centre.

In June 2013, the Cabinet approved the restructuring of CSS (for key changes, see [here](#)). This included a provision for 10% of the budget of CSS to be kept as flexi-funds whose usage could be decided by states.

Key features of the guidelines include:

- **Objectives:** Key objectives of flexi-funds are to: (a) provide flexibility to states to meet local needs and requirements, (b) pilot innovations and improve efficiency within the overall objective of the scheme, and (c) undertake mitigation and restoration activities in case of natural calamities in sectors covered by the CSS.
- **Budgetary allocation:** Central ministries shall keep at least 10% of their plan budget for each CSS as flexi-funds, except for schemes which emanate from legislations (such as MGNREGA) and those where a substantial portion of the budgetary allocation is already flexible (such as the Rashtriya Krishi Vikas Yojana).

Once the plan budget for a CSS has been approved, central ministries shall communicate the tentative state-wise allocation for each CSS to states, including the allocation of flexi-funds. In CSS that are jointly funded by the centre and states, flexi-funds will be also be funded jointly.

Flexi-funds may be released along with the normal releases for CSS, and will be subject to the same audit requirements as the CSS.

- **Monitoring and evaluation:** Flexi-funds may be monitored online and evaluation of flexi-funds may be done through the existing evaluation process for CSS.

Nachiket Mor committee on financial inclusion submits report to RBI

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The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairperson: Dr. Nachiket Mor) submitted its final report on December 31, 2013.²⁰ The Reserve Bank of India (RBI) had appointed the Committee on September 23, 2013 to propose measures for achieving financial inclusion and increased access to financial services. The key recommendations of the Committee were:

- Provide each resident above the age of 18 years with an individual, full-service electronic bank account.
- Improve access to suitable credit, deposit and insurance products to low-income households at reasonable price.
- Set up payments banks whose primary purpose will be to provide payments services and deposit products to small businesses and low income households.
- Set up wholesale banks which will lend to corporates and purchase securitised retail and small-business loans.
- Establish a unified Financial Redress Agency that will handle customer grievances across all financial products in coordination with their respective regulators.

Please see [here](#) for a PRS summary of the report.

RBI brings NBFC restructuring norms on par with banks

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The Reserve Bank of India (RBI), issued a notification to harmonise the guidelines on restructuring of advances of Non Banking Financial Companies (NBFCs) with that of banks, on January 23, 2014.²¹ Restructuring of advances entails extension of the term of the loan or modification of interest rate for the remaining duration of the loan.

For all projects financed by NBFCs, the date of completion and commencement of commercial operations (DCCO) is to be spelt out at the time of sanctioning of the loan. Loans will turn into Non Performing Assets (NPAs) if repayment of the loan does not begin after a certain time period after the DCCO. The key aspects of the revised regulatory norms are:

- **Restructuring through extension of date of commencement:** The newly issued norms contain a provision for such loans to be restructured by extending the DCCO to avoid being classified as NPAs. This will only be allowed if it is established that the delay in commencing operations is for reasons beyond the control of the borrower. These provisions are described for loans made to infrastructure projects and non-infrastructure projects separately as mentioned below:
 - i. **For infrastructure projects:** Loans will turn into NPAs if repayment has not started within two years of the original DCCO. The loan may be restructured by extending the DCCO by up to two years, i.e. a total of four years from the original DCCO. However, if the new DCCO lies within two years of the original DCCO, it will not be considered as restructuring.
 - ii. **For non infrastructure projects:** The NPA classification will apply after the completion of one year from the original DCCO. The loan may be restructured by extending the DCCO for a further period of one year.

Assets are classified as standard, sub-standard or doubtful depending on the amount of delay in repayment and number of times they have been restructured. As the asset classification is downgraded, it will require the lender to undertake additional capital provisioning.

- **Special regulatory treatment:** Special regulatory treatment for asset classification will be accorded to lending to: (a) infrastructure projects, (b) non-infrastructure projects, (c) small and medium enterprises and as part of a consortium lending arrangement. This treatment entails retention of the original asset classification prior to restructuring if the implementation of the same is done within 120 days of approval of the restructuring package.

RBI releases framework for revitalising distressed assets in the economy

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The Reserve Bank of India (RBI) released the framework for revitalising distressed assets in the economy on January 30, 2014.²² The framework outlines the plan for early identification of distressed assets and timely restructuring and sale of unviable accounts. A distressed asset is an asset, usually a loan, whose repayment has been delayed.

In its notification, RBI expressed concern over the recent increase in Non Performing Assets (NPAs) and noted the need for early resolution of such cases. The key provisions of the framework are:

- **Centralised reporting:** Before a loan account turns into an NPA, banks are required to identify prospective stress cases and create a sub-category called Special Mentions Account (SMA). RBI shall set up a Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. Banks are required to furnish information to CRILC on loans in excess of Rs 5 crore and on the SMA status of borrowers.
- **Formation of Joint Lenders' Forum:** As soon as an account is reported to CRILC for delay in repayment anywhere between 61 and 90 days, a lenders' committee must be formed. This committee will be known as the Joint Lenders' Forum (JLF).

The JLF is required to prepare a joint corrective action plan for early resolution of stress in the account. This may include: (a) obtaining a specific repayment commitment from a borrower with identifiable cash flows, (b) restructuring the account based on viability, or (c) determining the most

appropriate recovery process, if the first two options are not feasible.

- **Independent evaluation committee:** The JLF is required to carry out a detailed Techno-Economic Viability study of assets it considers for restructuring. For assets in excess of Rs 500 crore, the study is required to be assessed by an Independent Evaluation Committee which will look into viability aspects after ensuring that the terms of restructuring are fair to lenders.
- **Incentive for quick implementation:** To incentivise quick implementation of a finalised restructuring proposal, accounts will receive special asset classification benefit if the proposal is implemented within a specified time period. This benefit involves retention of the asset classification post-restructuring.
- **Liberal regulatory treatment of asset sales:** Lenders are permitted to spread loss on sale of loan assets over two years provided that the loss is fully disclosed.

RBI notifies revised norms related to lending against gold jewellery by NBFCs

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In keeping with its announcement in the second quarter review of monetary policy on October 29, 2013, the Reserve Bank of India (RBI), on January 8, 2014, notified amendments to the Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.²³ These amendments pertain to lending against gold jewellery by NBFCs. The key amendments are:

- The Loan to Value (LTV) ratio of Non Banking Financial Companies (NBFCs) has been increased from 60% to 75%. LTV is the ratio of the loan disbursed to the value of the gold placed as collateral by the borrower with the NBFC.
- The value of the gold that will determine the maximum loan permissible shall include the intrinsic value of the gold and no other costs.
- Ownership verification is compulsory where gold pledged against a loan exceeds 20 grams. The verification need not necessarily be through original receipts but a suitable document may be prepared to explain how the ownership was determined.

- Certification of purity of gold will still be required to be issued to the borrower. However, NBFCs may have suitable caveats to protect themselves against disputes during redemption.

Draft guidelines for withdrawal of 25% of pension account released

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The Pension Fund Regulatory and Development Authority (PFRDA) released draft guidelines pertaining to withdrawal of 25% of accumulated funds in the National Pension System (NPS) account on January 15, 2014.²⁴ NPS is an account which accumulates over the entire period of a person's working career through contributions from his income.

It was originally envisaged that the accumulated amount can only be withdrawn upon retirement. However, the PFRDA Act, 2013 incorporated a provision that 25% of the amount may be withdrawn before retirement subject to certain conditions. These conditions are specified in the Draft Guidelines and include the following:

- For expenditure related to higher education and marriage of one's children.
- For purchase /construction of a residential house or flat.
- For treatment of certain specified serious illnesses.

Additionally, it has been proposed that a person may only make withdrawals thrice before retirement and with a minimum gap of five years between each withdrawal. An application for withdrawal will only be considered if the person has contributed to the NPS account for at least 10 years. PFRDA is seeking comments on the Draft Guidelines by February 15, 2014.

SEBI releases regulations on consent settlements, and search and seizure

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The Securities and Exchange Board of India (SEBI) released regulations on consent settlements and search and seizure on January 9 and 10 respectively.²⁵ The consent settlement procedure involves SEBI agreeing to the proposal for settlement, on payment of a sum by a defaulter, after taking into consideration the nature, gravity and impact of defaults.

The key features of the Regulations pertaining to consent settlements are:

- Any person against whom any proceedings have been initiated or may be initiated may file an application to SEBI for consent settlements.
- SEBI may decline an application for settlement if the applicant is found to be guilty of commission of insider trading or unfair trade practices.
- SEBI shall constitute a high powered committee to make recommendations on the consent settlement. Based on these recommendations, a panel of whole-time members shall communicate the final decision. The high powered committee shall be assisted by an internal committee.

The Securities Law (Amendment) Ordinance, which was promulgated on July 18, 2013, conferred explicit powers on the SEBI chairman to authorise search and seizure operations on a suspected violator's premises. Under the powers given to SEBI by the Ordinance, the search and seizure regulations were notified.

The Ordinance was re-promulgated on September 20, 2013 and lapsed on January 15, 2014. With the lapse of the Ordinance, the search and seizure regulations will no longer be valid. The Securities Laws (Amendment) Bill, 2013 is currently pending in Parliament. If passed, the Bill will reinstate SEBI's power to issue the following regulations regarding search and seizure operations:

- The Chairman may authorise an investigating authority or any other officer within SEBI (authorised officer) to undertake a search operation within the premises of the person being investigated. The service of a police officer may be requisitioned for assistance.
- The authorised officer has the power to seize documents or books of account, found as a result of the search. He is required to prepare a seizure memo containing details of the seized documents.
- The authorised officer can record on oath the statement of any person who is found in possession of documents or books of account that are relevant to the investigation.

Please see [here](#) for a PRS Legislative Brief on the Securities Laws (Amendment) Bill, 2013.

SEBI releases FPI regulations

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The Securities and Exchange Board of India (SEBI), on January 7, 2014 notified the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014.²⁶ These Regulations shall provide the framework for registration and procedures with regard to Foreign Portfolio Investors (FPIs). FPIs are foreign nationals who are permitted to invest in securities in the Indian market.

The key provisions are as follows:

- **Designated depositories:** No FPI shall deal in securities without obtaining a certificate from the designated depository participant on behalf of SEBI. A designated depository must be registered with SEBI as a participant.
- **Eligibility criteria for FPIs:** FPIs must reside in a country whose securities markets regulator is a signatory to the International Organisation of Securities Commission's Multilateral Memorandum of Understanding. Further, the central bank of that country must be a member of the Bank for International Settlements.
- **Investment restrictions:** FPI investments are restricted to listed securities, mutual funds, exchange traded derivatives, treasury bills, commercial paper, and security receipts.
- **Limitation on issue of offshore derivative instruments:** No FPIs can issue offshore derivative instruments except to persons who are regulated by an appropriate foreign regulatory authority.

IRDA permits insurance companies to invest in Equity Exchange Traded Funds

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The Insurance Regulatory and Development Authority (IRDA), on January 8, 2014, issued a notification permitting insurance companies to invest in Equity Exchange Traded Funds (ETFs).²⁷ Equity ETFs are financial instruments that replicate the performance of equity indices and therefore provide returns that closely correspond to the total returns of the securities represented in the index. The notification contained Draft Guidelines that would govern investment in ETFs by insurance companies. IRDA is seeking public comments on the Draft Guidelines by February 8, 2014.

Civil Aviation

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Standing Committee report on the Civil Aviation Authority Bill, 2013

The Standing Committee on Transport, Tourism and Culture (Chairman: Mr. Sitaram Yechury) presented its 204th report on the Civil Aviation Authority of India Bill, 2013 on January 24, 2014.²⁸ The Bill proposes to establish a Civil Aviation Authority of India (CAA) as the civil aviation safety regulator to replace the Directorate General of Civil Aviation (DGCA).

Key observations and recommendations of the Committee are:

- **Need for comprehensive legislation:** CAA may not be very different from DGCA in form and substance. Therefore, it should be created through a comprehensive legislation after revisiting the Aircraft Act, 1934.
- **Autonomy:** The circumstances under which the government can supersede CAA should be clearly specified in rules and regulations.
- **Selection Committee:** The Selection Committee for the appointment of Chairperson, Director General and whole-time members should include at least three aviation experts.
- **Manpower:** CAA should be vested with the powers to create and select posts without prior government approval. Technical manpower should be offered salaries and allowances as per the industry norms.

Please see [here](#) for a PRS Summary of the Standing Committee report.

MRO industry allowed access to External Commercial Borrowings

The Reserve Bank of India has amended the definition of the infrastructure sector to include aircraft Maintenance, Repairs and Overhaul (MRO) industry as a part of airport infrastructure.²⁹ MRO industry will now be able to avail External Commercial Borrowings from the international markets.

MRO industry in India has the potential to achieve an annual growth rate of 10% for the next 10 years.³⁰ Since the industry is capital intensive and involves long gestation periods, the government feels that access to foreign debt is vital for its development. It believes that access

to cheaper credit will improve viability and facilitate growth of MRO industry in India.

Telecom

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Delhi High Court allows CAG Audit of private sector telecom service providers

The Delhi High Court ruled that the Comptroller and Auditor General (CAG) is empowered to audit the financial accounts of private sector Telecom Service Providers.³¹ It added that the audit should be restricted only to revenue receipts of the service providers.

The Telecom Regulatory Authority of India (TRAI) and Director General of Audit, Post and Telecommunications in 2010 asked the service providers to furnish their books of accounts and other relevant documents for 2006-07, 2007-08 and 2008-09 to CAG.

The service providers, through their industry associations, Cellular Operators Association of India and Association of Unified Telecom Service Providers of India, challenged the CAG's power to audit private sector entities. They argued that under Article 149 of the Constitution, CAG is empowered only to audit statutory authorities, government companies or entities financed by the Union or the state.

The Court ruled that CAG is obliged to audit accounts of any authority or body as prescribed by or under any law made by Parliament. It held that under Article 266, CAG is empowered to audit all revenues of the union government, including taxes, duties or other sources for the payment of the nation's expenses. Hence, the relevant provision in the CAG Act, 1971 and the TRAI Service Provider Rules, 2002 do not violate Article 149 of the Constitution.

In a related development, the government of Delhi has asked CAG to conduct an audit of the three private-sector distribution companies supplying power to Delhi.³²

TRAI releases consultation paper on reserve price for 800 MHz spectrum

The Telecom Regulatory Authority of India (TRAI) has issued a consultation paper on the reserve price for auction of spectrum in the 800 MHz band.³³ The Department of Telecom (DoT)

had requested TRAI to provide its recommendations on the reserve price for the 800 MHz band in all the service areas.

Key issues raised in the paper are:

- Whether the entire spectrum available in the 800 MHz band should be put up for auction.
- Whether the value of the 800 MHz spectrum should be based on the value of 1800 MHz spectrum adjusting for technical efficiency.
- Whether the value of the 800 MHz spectrum should be based upon the potential growth in data services.
- Whether the 800 MHz spectrum should be valued using the producer's surplus method.
- Whether the value of the 800 MHz spectrum should be linked to international prices.
- Alternate spectrum methods.
- The ratio between the reserve price for the auction and the valuation of the spectrum.

Financial support to BSNL and MTNL on surrender of broadband spectrum

The Union Cabinet today gave its approval for financial support to Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL) on surrender of Broadband Wireless Access spectrum by them.³⁴ The amount to be refunded to BSNL is Rs 6,725 crore and Rs 4,534 crore to MTNL.

A licensee can provide voice and/or data services through broadband wireless spectrum using fourth generation (4G) technologies like Worldwide Interoperability for Microwave Access or Long Term Evolution. BSNL holds broadband wireless spectrum in six telecom circles while MTNL holds spectrum in the Delhi and Mumbai circles.

TRAI releases recommendations on guidelines for spectrum trading

The Telecom Regulatory Authority of India (TRAI) has released its recommendations on guidelines for trading of wireless spectrum on January 28, 2013.³⁵ Spectrum trading allows a telecom service provider to transfer the rights to use the spectrum to another service provider.

TRAI had suggested permitting of spectrum trading in its September 2013 recommendations on valuation and reserve price of spectrum. The Department of Telecommunications (DoT) on

October 11, 2013 gave in-principle approval to permit spectrum trading.

Key recommendations are:

- Only outright transfer of spectrum is allowed; spectrum leasing is not permitted.
- A non-refundable transfer fee of 1% of transaction price or prescribed market price, whichever is higher, shall be paid to the government.
- A service provider cannot trade in spectrum if the government has terminated its licence for breach of terms and conditions.
- Spectrum cannot be traded for a particular area of the telecom circle. Only the spectrum obtained through auction or for which the market value has been paid, can be traded.
- The buyer should remain in compliance with the applicable spectrum caps and is required to hold spectrum for at least two years.
- The buyer and seller should inform the Wireless Planning and Coordination Wing (WPC) six weeks before the trade. The guidelines specify situations where WPC may object to the trade and the time limits for responses by WPC, buyer and seller.
- The buyer shall inform the WPC if the traded spectrum is intended to be used for any purpose other than its current usage.
- In case of a loan default by service providers, lenders can seek transfer of spectrum usage rights to a buyer with prior government permission.

Petroleum and Natural Gas

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Government notifies Domestic Natural Gas Pricing Guidelines, 2014

The government has notified the Domestic Natural Gas Pricing Guidelines, 2014.³⁶ The guidelines will apply to all natural gas produced domestically, for the period April 1, 2014 to March 31, 2019, irrespective of the user industry. They will also apply to natural gas from Reliance Industries Ltd's (RIL) Krishna-Godavari D1 and D3 gas fields, subject to submission of bank guarantees (to be notified separately). The

Standing Committee on Petroleum and Natural Gas and Ministry of Finance (MoF) had asked the government to ensure that RIL delivers on its earlier agreement to supply the contracted quantity of gas as per the prevailing contract price of USD4.2/mmbtu.^{37,38}

Under the new guidelines, gas prices will be linked to the price of imported gas and market prices of gas in the USA, UK and Japan. These guidelines shall not apply to cases where: (i) prices have been fixed contractually for a certain period of time, (ii) production sharing contract provides a specific formula for price indexation/fixation, or (iii) natural gas is produced from small/isolated fields in the nomination blocks of public sector companies.

The government had set up a Committee headed by Dr. C. Rangarajan, to suggest the guidelines for pricing of domestically produced gas, and for monitoring actual price fixation. Based on the Committee's report, the government approved the Natural Gas Pricing Guidelines in its meeting held on June 27, 2013.

Kelkar Committee favours continuation of production sharing contracts for offshore oil and gas blocks

News reports suggest that the Committee set-up to suggest a policy on energy security (Chairman: Dr. Vijay Kelkar) has submitted the first part of its report to the Ministry of Petroleum and Natural Gas (MoPNG).³⁹ The Committee is said to have recommended continuing with the Production Sharing Contract (PSC) mechanism for deep offshore oil and gas blocks. However it recommended adopting a revenue-sharing model for onshore and shallow offshore blocks.⁴⁰

The Rangarajan Committee on the other hand had recommended adoption of a revenue-sharing model for all three kinds of blocks.⁴¹ The Rangarajan Committee was set up to review the PSC mechanism. A PSC allows the licensees to recover all capital costs before sharing the profits with the government while the revenue-sharing model ensures payments to the government from the time of commencement of production.

The Committee has reportedly argued that a licensee has little incentive to inflate costs or deliberately under-produce under the PSC.³⁹ The returns to government increase with the returns to the licensee under the PSC. It argued that the revenue-sharing model would discourage

investments as the licensee would be vulnerable to sudden disruptions in market conditions or the properties of the reservoir.

It was also reported that the Committee recommended an income-tax holiday for production of all forms of hydrocarbons. It also suggested that financial oversight of licensees should be with the Department of Income Tax rather than Directorate General of Hydrocarbons.⁴² The Committee added that audit of PSC, either by chartered accountants or the Comptroller and Auditor General, should not include performance or efficiency auditing.

PNGRB draft regulation on establishing and operating LNG terminals

The Petroleum and Natural Gas Regulatory Board (PNGRB) has issued draft Petroleum and Natural Gas Regulatory Board (Registration for Establishing and Operating Liquefied Natural Gas (LNG) Terminal) Regulations, 2013.⁴³ It has invited stakeholders' comments by January 19, 2014. An LNG terminal is defined as infrastructure required to receive, store, regassify and transport regassified LNG.

Key features of the regulations are:

- An entity will need to register with PNGRB for establishing and operating a terminal.
- The certificate of registration will be valid for 25 years and may be extended for a further period of 10 years at a time.
- Any change in ownership or management control of the terminal should be intimated to the board within 60 days.
- A terminal will have to offer 20% of its short-term uncommitted capacity or 0.5 million metric tonnes per annum (whichever is higher) for unrestricted usage by any potential user.
- A terminal will have to adhere to technical standards and specifications including safety standards prescribed by PNGRB.
- Terminal operators would have to furnish a bank guarantee equal to 1% of the project cost or Rs 25 crore, whichever is lower.
- In case of defaults in fulfilling any of the eligibility conditions, PNGRB may suspend the operator's registration for one month.
- If the operator fails to rectify the defaults within the specified period, PNGRB may

terminate the registration after issuing a show-cause notice.

Petroleum Ministry identifies 46 blocks to be offered in NELP-X

The Ministry of Petroleum and Natural Gas has revealed 46 onshore and offshore hydrocarbon exploration blocks which have so far been finalised for auction in the Tenth round of the New Exploration Licensing Policy (NELP-X).⁴⁴ The Minister of Petroleum and Natural Gas added that more blocks will be identified and added to the NELP-X Notice Inviting Offer which would be issued later.

These blocks have received all statutory clearances and include 17 onshore, 15 shallow water and 14 deep water blocks. The number of blocks to be offered may go up to 60 after all inter-ministerial clearances are received.

Law and Justice

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SC holds that death sentence may be commuted to life imprisonment under certain conditions

On January 20, 2014, the Supreme Court passed its verdict in writ petitions filed by convicts awarded death sentence after their mercy petition was rejected by the Governor and President of India.⁴⁵

While the decision of the Governor and President regarding the mercy petition is not subject to judicial review, the Court may examine the manner of exercise of this power.⁴⁶ In light of this, the Supreme Court held that a death sentence could be commuted to life imprisonment after the mercy petition was rejected, under certain circumstances:

- (i) Delay caused by circumstances beyond the prisoners' control,
- (ii) Insanity,
- (iii) solitary confinement,
- (iv) the standards used in the judgment to give a death penalty have since been modified by subsequent court rulings, and
- (v) procedural lapses.

Further, the Court laid down guidelines for the treatment of death row convicts, which include:

- **Solitary Confinement:** Prison manuals across states must be made uniform to ensure that convicts should be placed in solitary confinement only after the rejection of mercy petition and all other avenues of appeal.
- **Procedure to be followed:** When a mercy petition is received, the Ministry of Home Affairs (MHA) and the President should respond in a time bound manner.
- **Communicating rejection of petition:** The rejection of the mercy petition by the Governor and President should be communicated to the convict and his family in writing, and be provided with a copy.
- **Regular mental health evaluations:** Since several death-row prisoners lose their mental balance due to prolonged anxiety, they must receive regular mental health evaluations and care.

SC rules that person not named in FIR can be made an accused in the same trial

The Supreme Court examined various questions that arose in relation to the scope of Section 319 of the Code of Criminal Procedure, 1973 (CrPC), in a matter decided on January 10, 2014.⁴⁷

Section 319 of the CrPC provides for the powers of the court to proceed against persons appearing to be guilty of an offence. This provision empowers the court to proceed against any person, not being an accused, for having committed the offence in the ongoing trial.

In this regard, the Court held that a person: (i) not named in the FIR, (ii) named in the FIR but not been charge sheeted, or (iii) discharged can be summoned under Section 319 CrPC. However, this is provided it appears from the evidence that such person can be tried along with the accused already facing trial.

SC rejects review petition filed on its decision in the Section 377 case

On January 28, 2014, the Supreme Court dismissed review petitions filed by NGOs, and the Government of India, on its earlier judgment that upheld the constitutionality of Section 377 of the Indian Penal Code.⁴⁸ The Court held that it saw no reason to interfere with the order. It also rejected any oral hearing in the matter. An

earlier update on the judgment that upheld the constitutionality of Section 377 is available in our last Monthly Policy Review, available [here](#).

Railways

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Cabinet approves setting up of Rail Tariff Authority

The Cabinet has approved the setting up of Rail Tariff Authority, as an advisory body, through a government resolution.⁴⁹ The Authority shall comprise of a chairperson and four members. It will advise the government on fixation of passenger fares and freight tariff, based on cost of operations and other factors. The government is empowered under the Railways Act, 1989 to fix passenger fares and freight tariffs. Hence, the Authority's role shall be advisory pending a requisite amendment to the Railways Act, 1989.

Agriculture

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Standing Committee submits report on the Agricultural Biosecurity Bill, 2013

The Standing Committee on Agriculture presented its report on the Agricultural Biosecurity Bill, 2013 on December 19, 2013.⁵⁰ The Bill was introduced in the Lok Sabha on March 11, 2013.

The Bill aims to establish an integrated national biosecurity system covering plant, animal and marine issues to combat threats of bio-terrorism from pests and weeds. The Bill repeals the Destructive Insects and Pests Act, 1914 and the Livestock Importation Act, 1898.

Key recommendations of the Standing Committee pertained to increased representation of states in matters relating to biosecurity, removing the bar on the jurisdiction of civil courts, and specifying the authority to which individuals should report the existence of quarantine pests/diseases. The Committee made the following recommendations:

- **Consultation with states:** The Committee noted the lack of consultation with state governments prior to the introduction of the

Bill, despite the fact that ‘agriculture’ is a subject in the State List of the Constitution. It felt that the government should hold wider consultations with all relevant stakeholders before the introduction of a Bill in Parliament, particularly in matters that fall in the State List.

- **Bar of jurisdiction of civil courts:** The Bill mentions that civil courts do not have jurisdiction with respect to any matter under the purview of the Authority or the central government. The Committee recommended restricting the scope of this provision only to technical matters relating to the protection of agricultural biosecurity. This would ensure that the jurisdiction of the courts is not debarred from all matters under the Bill.

For more recommendations of the Standing Committee, refer to the PRS summary of the report [here](#).

Rabi crop sowing update

Rabi crops are sown during the October-March period. The total Rabi sown area for the week ending January 24, 2014 is 635 lakh hectares, a 5% increase over last year’s sowing during the same period.⁵¹ Table 1 shows the crop-wise Rabi sowing during 2013-14 season. As seen below, the sowing of most crops has increased over last year, with the exception of coarse cereals. The sowing of Rabi rice has increased by 37% over last year.

Table 1: Rabi crop sowing until January 24, 2014 (lakh hectares)

Crop	Area sown (2013-14)	Area sown (2012-13)	% change over last year
Wheat	314.78	296.09	6.3
Total Pulses	156.57	149.02	5.1
Rabi Rice	15.26	10.73	42.2
Coarse Cereals	60.12	61.9	-2.9
Oilseeds	88.4	85.65	3.2
Total	635.13	603.39	5.3

Sources: Press Information Bureau; PRS.

The sowing of crops during the Rabi season is dependent on the water level in major reservoirs in the country during the monsoon season. At the end of December 2013, the water storage level in major reservoirs stood at 71% of the designed capacity.⁵² This is 120% higher than last year’s storage and 123% higher than the 10-year average during the same period.

MSP of raw jute hiked by 4%

The Cabinet Committee on Economic Affairs (CCEA) approved the Minimum Support Price (MSP) for the 2014-15 season for the TD-5 grade of jute at Rs 2,400 per quintal.⁵³ This is an increase of Rs 100 or a 4% hike over last year’s MSP.

In order to incentivise farmers to produce higher grades of jute (such as TD-5), the premiums for the TD-3 and TD-4 varieties of raw jute, in relation to the price of TD-5, will be maintained at 20% and 8% respectively. Table 2 shows the increase in MSP over last year.

Table 2: Change in MSP of jute over last year (Rs/qrtl)

Crop	MSP (2014-15)	MSP (2013-14)	% change over last year
TD-5 grade jute	2,400	2,300	4.16

Sources: Press Information Bureau; PRS.

Industry

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Cabinet approves the Amritsar-Kolkata Industrial Corridor project

The Cabinet has approved the Amritsar-Kolkata Industrial Corridor (AKIC) project and formation of the Amritsar-Kolkata Industrial Corridor Development Corporation (AKICDC).⁵⁴ AKICDC will be developed within 150-200 kms of the Eastern Dedicated Freight Corridor in seven states - Punjab, Haryana, Uttarakhand, Uttar Pradesh, Bihar, Jharkhand and West Bengal.

AKICDC will be set up immediately with a total equity base of Rs 100 crore, with 49% stake held by the central government. The remaining equity will be subscribed by the respective state governments and Housing and Urban Development Corporation.

Key features of AKIC are:

- In the first phase, each state will establish at least one Integrated Manufacturing Cluster (IMC) of 10 square km. The IMCs would be entitled to all the benefits available under the National Manufacturing Policy, 2011.
- The public private partnership (PPP) model would be encouraged for infrastructure development.

- The central government would provide grants-in aid for trunk infrastructure not amenable to PPP. It will also provide interest subsidy to states for land acquisition, grant-in-aid for project development and master planning and external connectivity.
- State governments would be responsible for ensuring land availability, creating road and power infrastructure, providing single window clearance mechanism and identifying and facilitating anchor industries in the IMCs.
- The project should be monitored by: (i) an Apex Monitoring Authority, chaired by the Minister for Commerce and Industry, for overall guidance, planning and approvals, (ii) an Inter-Ministerial Group chaired by Secretary, Department of Industrial Policy and Promotion to approve the IMCs, and (iii) AKICDC, for project development and coordination.
- In the first phase, the central government is expected to commit up to Rs 5,600 crore financial support for the development of seven IMCs over 15 years.

Special Incentive Package for Himachal Pradesh and Uttarakhand extended

The Cabinet Committee on Economic Affairs (CCEA) has approved extension of the Special Package of Industrial Incentive for Himachal Pradesh and Uttarakhand from January 7, 2013 to March 31, 2017.⁵⁵ The government expects the decision to encourage manufacturing and Small and Medium Enterprises in these states.

The New Industrial Policy and other concessions for Himachal Pradesh and Uttarakhand were announced on January 7, 2003 for a period of ten years. The policy aims to provide incentives as well as an enabling environment for industrial development, improve availability of capital and increase market access to provide a boost to private investment in these states.

All new industrial units and expansion of existing units will be eligible for a Central Capital Investment Subsidy of 15% of investment in plant and machinery (subject to a ceiling of Rs 30 lakh). The cap on subsidy for Micro, Small and Medium Enterprises will also be raised from Rs 30 lakh to Rs 50 lakh.

Subsidy would be subject to following conditions: (i) they are located in notified areas or belong to one of the “thrust industries”, (ii)

they pre-register under the scheme, (iii) they commence operations before March 31, 2017, and (iv) they file claims within one year of commencement of operations. Incentives on substantial expansion will be available if the value of fixed capital investment in plant and machinery increases by 25% or more. Expenditure on purchase, procurement or installation of second hand plant and machinery will not be eligible for subsidy. A unit cannot avail subsidy both from the central as well as state governments for the same purpose.

DIPP issues guidelines for dispensations and benefits for clusters outside NIMZs

The Department of Industrial Policy and Promotion (DIPP) has issued guidelines for providing benefits and dispensations to the manufacturing industry clusters located outside National Investment and Manufacturing Zones (NIMZs).⁵⁶ The National Manufacturing Policy, (NMP) notified in 2011, provides benefits and incentives to the manufacturing industry with an aim to raise the share of manufacturing in the GDP to 25% and create 100 million jobs.

The policy is applicable to the NIMZs as well as manufacturing clusters promoted by the industry itself. A cluster is defined as a concentration of manufacturing units located within a clearly demarcated geographical area with the land use notified as such by the state government.

Key features of the guidelines are:

- To avail the benefits/dispensations, the cluster should meet the definition as per the guidelines and must be notified by the state governments as a 'cluster' under the NMP.
- The state government should constitute a Special Purpose Vehicle (SPV) for each cluster as a non-profit company. An SPV will prepare a strategy for development and self-regulation of the cluster.
- State governments will need to simplify state level business regulations like clearances, returns, and labour law enforcement.
- All the units in the cluster will be eligible for incentives for developing or manufacturing environment friendly technologies and/or related equipment.
- A standard deduction of 150% of the expenditure would be available to private units skill development projects.

Health

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Cabinet approves CSS for establishment of new medical colleges

On January 2, 2014, the Cabinet Committee on Economic Affairs approved a centrally sponsored scheme for the establishment of new medical colleges attached with existing district hospitals.⁵⁷ The distance between the district hospital and the medical college should be within 10 kms.

The approval allows for the establishment of 58 new medical colleges with 100 MBBS seats each, by upgrading existing district hospitals. This will result in an increase of about 5,800 MBBS seats.

The central share in the scheme will be Rs 8,457 crore and the state/union territory share will be Rs 2,514 crore. The funding ratio between central and state governments will be 90:10 for north eastern states and special category states and 75:25 for all other states.

Health Ministry launches adolescent health programme-Rashtriya Kishor Swasthya Karyakram

On January 7, 2013, the Ministry of Health and Family Welfare launched the Rashtriya Kishor Swasthya Karyakram, a programme for adolescent health care.⁵⁸ According to the Ministry, the programme is expected to comprehensively address the health needs of more than 243 million adolescents, who account for about 21% of India's population.

The programme covers all adolescent boys or girls (between 10-19 years) in urban and rural areas and addresses their health and development requirements. These include mental health, nutrition, sexual and reproductive health, substance misuse, violence and non-communicable diseases. The program aims to:

- Reduce the prevalence of malnutrition and anaemia,
- Improve knowledge, attitudes and behaviour in relation to sexual and reproductive health,
- Improve birth preparedness, complication readiness and provide early parenting support for adolescent parents,

- Address mental health concerns,

The programme will be a component of the National Health Mission being implemented in states and the budget will be reflected in the National Rural Health Mission. Each state is expected to prepare a three year perspective plan for the period 2014-15 to 2016-17.⁵⁹

Youth Affairs

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Cabinet approves the National Youth Policy 2014

On January 9, 2014, the Union Cabinet approved the National Youth Policy 2014, which replaces the 2003 Policy currently in force.⁶⁰ The Policy provides a framework for interventions by the government and other stakeholders to enable the youth to realise their full potential. The Policy covers all youth in the age group of 15-29 years that constitute 27.5% of India's population.

The priority areas suggested in the Policy are education, skill development and employment, entrepreneurship, health, sports, promotion of social values, community engagement, participation in politics and governance, youth engagement, inclusion and social justice.

According to the Ministry, the interventions proposed in the Policy are consistent with the priorities highlighted in the 12th Plan and therefore do not propose any specific programmes or schemes, with financial implications. Relevant ministries and departments are expected to focus on youth issues within their programmes and schemes.

External Affairs

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India signs nine agreements with the Republic of Korea

India and South Korea signed nine agreements during the state visit of the President of the Republic of Korea to India during the period of January 15 to January 18, 2014.⁶¹

Key documents signed include:⁶²

- Agreement on the protection of classified military information.
- Agreement for co-operation in the peaceful uses of outer space.
- Memorandum of Understanding on a Joint Applied Research and Development Programme in Science and Technology.
- Joint declaration of Intent on cooperation in the field of information and communications technology.

Minority Affairs

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Cabinet approves inclusion of Jains as a minority community pending SC decision

The Union Cabinet approved the inclusion of Jains as a minority community under Section 2(c) of the National Commission for Minorities Act, 1992, on January 20, 2014.⁶³

However, this approval for inclusion of Jains in the list of notified minority communities of the Act depends on the outcome of a case before the Supreme Court.

In a 2005 judgment, the Supreme Court had held that the state has to be regarded as the unit for determining linguistic and religious minorities.⁶⁴ Thus, before the central government takes a decision on the claims of Jains as a ‘minority’ under the Act, they have to be identified as a minority at the state level. A review petition filed by the centre in this regard is still pending.

As of now, Jains are regarded as minorities in some states, including Chhattisgarh, Delhi, Karnataka, Uttar Pradesh, Madhya Pradesh and Rajasthan.

At present, five communities, namely, Muslims, Christians, Sikhs, Buddhists and Parsis have been declared as minority communities through a government notification issued in October 1993.

Cabinet approves introduction of Bill related to Waqf properties

On January 30, 2014, the Cabinet approved the introduction of the Waqf Properties (Eviction of Unauthorised Occupants) Bill, 2013.⁶⁵

This proposal was moved by the Ministry of Minority Affairs in consultation with the Ministry of Law, in light of recommendations of the 2006 Sachar Committee Report. The 2006 report had recommended that Waqf property be treated as public premises, and encroachment on these properties be treated as encroachment on government land.

The Bill is expected to be introduced in the upcoming session of Parliament.

Textiles

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Mill Gate Price Scheme modified and renamed Yarn Supply Scheme

The Cabinet Committee on Economic Affairs has approved the continuation of the Mill Gate Price Scheme (MGPS) with minor modifications and renamed it the Yarn Supply Scheme (YSS).⁶⁶ The scheme will provide subsidised yarn to under-privileged weavers and other vulnerable groups so that they might compete with the powerloom and mill sectors.

The MGPS was launched in 1992 with the objective of making yarn available at mill gate prices (prices charged by spinning mills).

The following modifications have been made:

- **Eligibility for 10% subsidy scheme:** Under the MGPS, a 10% subsidy on mill gate prices was available for cotton and silk, up to a certain limit. The limits for cotton have been modified, as outlined in Table 3.

Table 3: Change in quantity up to which subsidy is provided for cotton under YSS

Quantity	MGPS	YSS
30 kg/loom/month	Below 40s	Up to and including 40s
10 kg/loom/month	40s and above	Above 40s

Sources: National Handloom Development Corporation; PRS.

Note: ‘s’ is a unit of textile measurement.

- **Subsidy for wool:** A 10% subsidy for wool on mill gate prices has been introduced, subject to certain quantity restrictions.
- **Establishment of distribution centres:** The National Handloom Development Corporation (NHDC) will establish distribution centres or warehouses to reach out to primary weavers’ societies and

individual weavers. Ten centres are being established to begin with.

- **Increase in service charges:** The service charges of the NHDC will be raised by 0.5% in all states.

Social Justice

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Amendments in list of OBCs in 13 states and three UTs approved by Cabinet

The Cabinet gave its approval for making amendments in the central list of Other Backward Classes (OBCs) for 13 states and three union territories (UTs) on January 31, 2014.⁶⁷ These amendments are related to inclusion, correction and deletion of castes and communities based on the recommendations of the National Commission for Backward Classes.

The Commission examines requests for inclusion and exclusion of backward classes in the central list of OBCs and advises the central government on the same. The central government can modify the central list on the recommendation of the Commission and notify these changes through resolutions, as provided in the National Commission for Backward Classes Act, 1993.

Amendments in the central list of OBCs will be made in the following states and UTs: Andhra Pradesh, Bihar, Chandigarh, Delhi, Goa, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Maharashtra, Puducherry, Punjab, Tamil Nadu, Uttarakhand, Uttar Pradesh and West Bengal.

Labour

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India and Saudi Arabia sign agreement on domestic service workers

India and Saudi Arabia have signed an agreement on Labour Cooperation for domestic service workers recruitment.⁶⁸ The agreement aims to protect the rights of both the employers and domestic service workers and regulate the contractual relation between them.

The government described the agreement as the first step towards a comprehensive agreement on

labour cooperation covering the entire spectrum of Indian workers in Saudi Arabia. At present, there are about 28 lakh Indians working in Saudi Arabia.

Key features of the agreement are:

- Recruitment of workers can be done either directly or through registered agencies.
- Provides for a standard employment contract that stipulates minimum wage, working hours, paid holidays and dispute settlement mechanism.
- Seeks to ensure implementation of the employment contract.
- Provides legal measures against agencies in violation of the laws of either country.
- An agency or employer cannot not charge or deduct recruitment/deployment costs from the salary of the worker.
- Seeks to establish a 24-hour assistance mechanism for the worker.
- Facilitates issuance of exit visas for the repatriation of worker upon completion of contract or in emergencies.

Power

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Southern Grid connected synchronously with the rest of the grid

The Southern Grid was synchronously connected to the rest of the Grid on December 31, 2013 with the commissioning of the 765 kV single circuit Raichur-Solapur line by Power Grid.⁶⁹ Stabilisation of power flow through the line is expected to take three months.

Synchronous integration of the Southern Grid with the rest of the national grid is expected to augment inter-regional power transfer capacity and relieve the congestion being experienced in some of the transmission corridors.

Cabinet approves operationalisation of the Power System Development Fund

The Cabinet has approved the proposal of the Ministry of Power for operationalisation of the Power System Development Fund.⁷⁰ The fund will be operationalised within three months and will be utilised for the following purposes:

- Creation of transmission systems and renovation and modernisation of existing transmission and distribution systems.
- Installation of suggested devices for improvement of voltage profile in the grid.
- Other schemes and projects aimed at protection of the grid.

CEA recommendations on operational norms for thermal power plants

The Central Electricity Authority (CEA) has submitted its recommendations on operational norms for Thermal Power Plants (TPPs) for the period 2014-2019.⁷¹ The Central Electricity Regulatory Commission (CERC) had sought CEA's recommendations on operation norms for TPPs as part of the process of the tariff policy for 2014-2019.

Key recommendations are:

- **Plant Availability Factor (PAF):** CEA has recommended that the normative PAF be retained at 85%.
- **Station Heat Rate:** CEA has suggested an across the board reduction in normative heat rates. It has also provided suggestions to prevent TPPs from overstating the heat rates.
- **Auxiliary Consumption:** The Auxiliary Energy Consumption (AEC) norms for 500 MW and higher sized units installed after April 1, 2009 should be reduced by 0.75 % (currently 6.0-8.5%).
- **Secondary Oil Consumption:** CEA has suggested reducing the Secondary Fuel Oil Consumption (SFC) norms for both coal and lignite based TPPs. It has provided some relaxation for units with high-SFC levels and new units.

Steel

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Classification of steel plants

The Ministry of Steel has issued a notification regarding the classification and certification of steel producers in the private and public domain.⁷² The classification is on the basis of the process/technology adopted and the size/capacity. Based on the process/technology, steel plants may be classified as: (a) primary

steel producers, and (b) secondary steel producers. Based on the size/capacity, steel producers may be classified as: (a) integrated steel plants, and (b) mini steel plants. The notification explains which producers will fall in each category. The certification will be done by the Ministry of Steel on the recommendation of the Joint Plant Committee, Kolkata.

Steel plants are classified on the basis of factors such as the process used, size, and level of integration. As per the Ministry, a number of steel producers have been approaching them to classify them as integrated steel plants or primary steel producers. This is prompted by the user industries' preference for integrated/primary steel plants for steel procurement. This is based on the presumption that only such producers are capable of supplying quality.

Media

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Cabinet approves policy guidelines for television rating agencies

The Cabinet has approved a proposal by the Ministry of Information and Broadcasting to bring out a comprehensive regulatory framework in the form of guidelines for the television rating agencies in India.⁷³ These guidelines cover detailed procedures including registration, eligibility norms, cross-holdings, methodology, complaint redressal mechanism and audit and disclosure. The guidelines are based on the recommendations made by the Telecom Regulatory Authority of India.

Key features of the guidelines are:

- All rating agencies including the existing ones shall obtain registration from the Ministry.
- No company/entity including related entities holding more than 10% stake in a ratings agency can hold more than 10% stake in another ratings agency, broadcaster, advertiser or advertising agency.
- Ratings should be technology neutral and should capture data across multiple platforms.
- The rating agency shall set up a complaint redressal system with a toll free number.

- The rating agency shall set up systems for periodic internal as well as independent audit of its methodology and processes.

Road Transport

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CCEA approves measures to enhance women's security in public vehicles

The Cabinet Committee on Economic Affairs (CCEA) has approved measures to improve safety and security of women in public transport vehicles.⁷⁴ The measures include: (i) setting up a National Vehicle Security and Tracking System and City Command and Control Centre for GPS tracking of, (ii) provide emergency buttons in, and (iii) video recording of incidents, in public transport vehicles.

The project will be implemented in 32 cities with a population above one million as per the 2011 census. The total estimated cost of the project is Rs 1,405 crore. It will be implemented within a period of two years after allocation of funds.

Commerce

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DIPP releases discussion paper on FDI in e-Commerce

The Department of Industrial Policy and Promotion (DIPP) has released a discussion paper on e-commerce.⁷⁵ The paper focuses on Foreign Direct Investment (FDI) in Business to Business (B2B) and Business to Consumer (B2C) e-commerce. DIPP has invited comments, views and suggestions on the discussion paper by January 30, 2014.

Currently, FDI up to 100% under the automatic route is permitted in B2B and 'market-place' B2C (where website only acts as a meeting place for buyers and sellers). However FDI in 'inventory based' B2C (where the website is the seller) is not allowed, given the earlier restrictions on FDI in multi-brand retail.

Key issues discussed in the paper are:

- Whether FDI should be allowed in 'inventory based' B2C companies.

- Whether such FDI should be allowed for all products or only for non-food products.
- Whether there should be a minimum capitalisation limit for such FDI.
- Whether such FDI should be subject to requirements to source a minimum percentage from domestic manufacturers.
- How retail sales by investee companies can be restricted to states that have agreed to FDI in multi-brand retail.
- The entry routes and caps in FDI in 'inventory based' B2C companies.

RBI allows issuance of FDI instruments with optionality clauses

The Reserve Bank of India has amended the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 that govern Foreign Direct Investment (FDI) in India.⁷⁶ The Regulations allow issuance of only equity shares or preference shares/debentures to a person resident outside India.

The amendment allows issuance of shares or convertible debentures containing an optionality clause to such a person, provided there is no option/right to exit at an assured price. Compulsorily convertible debentures and preference shares may be bought-back at a price based on an internationally accepted methodology and certified by a chartered accountant or a merchant banker registered with the Security and Exchange Board of India.

This amendment will enable assured buy-back of securities from the investor at the price prevailing/value determined at the time of exercise of the optionality. However, it does not provide an assured return to the investor. FDI investments would still be subject to a minimum lock-in period of one year or a minimum lock-in period as prescribed under FDI Regulations, whichever is higher.

Shipping

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Guidelines on New Land Policy for Major Ports approved

The Cabinet has approved the Policy Guidelines for Land Management by Major Ports, 2014.⁷⁷ The Policy aims at facilitating leasing/licensing of port land through a transparent tender-cum-auction methodology. It will be applicable to all the major port trusts and Ennore Port Ltd, except for the land relating to the township areas of Kandla, Mumbai and Kolkata ports.

Key features of the Policy are:

- **Land Use Plan:** Every major port shall develop a Land Use Plan for all the land owned and/or managed by the port.
- **Competitive Bidding:** All allotments of land should be made through competitive bidding, subject to the specified exemptions. The reserve price shall be determined by the Land Allotment Committee of the port and approved by the Port trust/board.
- **Licenses:** The land inside customs area can be allocated on a licence basis, for a tenure not exceeding five years.
- **Leases:** The land outside customs area should only be given on a lease basis with certain exceptions. The maximum tenure of the lease is 30 years.
- **Lease Renewal:** In cases of expiry of leases without automatic renewal option, the land should be auctioned. Leases with automatic renewal option can be renewed by the port trust/board as a fresh lease at the updated/latest market value.

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