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1. A legal band-aid on a much deeper wound (HINDUSTAN TIMES)
2. Don't Panic. It's Not 1991 Or 2013 (THE TIMES OF INDIA)
3. SSE: A vital cog in the CSR chain (THE HINDU BUSINESSLINE)
4. Countering resource nationalism (THE HINDU BUSINESSLINE)



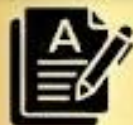
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A legal band-aid on a much deeper wound

The *Andrabi* order's criticism of indefinite pre-trial incarceration is welcome. Justice requires a thorough interrogation of the UAPA, and of all laws that facilitate jailing for long periods based on mere accusations

For a long time, it has been clear that there is something fundamentally broken about the operation of the Unlawful Activities Prevention Act (UAPA). Ostensibly designed to effectively prosecute people accused of terrorist offences, the Act has, instead, become a tool for indefinite pre-trial incarceration of people against whom no charges have been proven.

Two things contribute to this. The first is the general malaise of India's criminal justice system, where criminal trials take years (or even decades) to complete. There are structural reasons for this, which we cannot enter into here.

The second is that the UAPA sets the threshold for the grant of bail extremely high, requiring judges to deny bail if they feel that the police has made out a *prima facie* case against the accused (that is, going by only the materials provided by the

police). A combination of these two factors means that once accused of a UAPA offence, individuals are condemned to long years in jail without trial.

Unfortunately, the basic architecture of the UAPA — which itself is borrowed from previous anti-terror statutes such as the infamous TADA, which, in turn, borrowed it from colonial-era Emergency laws — has largely been sustained by the courts. Within this overall architecture, however, there has emerged a further tussle within the judiciary.

One set of decisions attempts to, at the very least, mitigate some of the worst effects of the UAPA, and provide the constitutional guarantees of life and personal liberty some minimal room to breathe.

Another set of decisions, however, has the effect of turning the UAPA into a rigid charter for endless jail-time.

One crucial arena of contest has been the issue of delay. As noted here, criminal trials in India — and especially, trials under the UAPA — take years or decades to complete. This flies in the face of the guarantee to a fair and speedy trial under Article 21 of the Constitution. In such an event, how long is too long, when it comes to spending time in prison without trial?

In 2021, in a judgment called *KA Najeer*, the Supreme Court acknowledged that at some undefined point,

pre-trial incarceration violates constitutional rights to life and personal liberty. The Supreme Court did not provide a specific time when this was so; perhaps this is for the best, as one can easily see how providing a specific time would encourage judges to simply deny bail as long as that threshold time had not yet passed. In general, however, courts have often tended to grant bail on grounds of delay in trial at around the five-year mark. It is important to note that this is by no means a fair or a just system: Five years of one's life is a long time to lose.

However, certain judgments after the *Najeer* case have attempted to dilute even this minimum standard, by noting that even indefinite pre-trial incarceration may be overridden if the accusations are grave and serious enough (of course, before a trial, one only has the police's word for the seriousness or gravity of accusations).

In this context, the Supreme Court's recent holding in *Andrabi* is an important reaffirmation of the minimum standard. In that judgment, a two-judge bench of the Supreme Court reaffirmed that *Najeer* stands for the proposition that a long delay in a trial triggers an independent, constitutional right to liberty.

While the exact length of time may vary, this right cannot be defeated simply by repeating the



Gautam Bhatia



The *Andrabi* judgment is consistent with constitutional principles and seeks to introduce humanity within the UAPA framework. HT ARCHIVE

accusations against the individuals concerned.

In a rare move — perhaps signalling how uneasy some of the judges of the Court are with the deployment of the UAPA — the bench criticised recent decisions by other judges of the Court, such as the one denying bail to Umar Khalid and Sharjeel Imam in the “Delhi riots cases” for how, in effect, these judgments diluted the force of the constitutional guarantee.

The judgment in *Andrabi* is consistent with constitutional principles, and seeks to introduce an element of humanity within the framework of the UAPA. Soon after, however, another bench of the Court referred this same question, to be resolved by a larger bench. One hopes that the *Andrabi* court's recognition that indefinite pre-trial custody is an affront to constitutional

principles, will be upheld.

At the same time, it is important to reaffirm that this minimum standard does not transform the UAPA into an instrument of justice: The *Andrabi* judgment is, in the end, a band-aid on a much deeper wound.

Justice requires a thorough interrogation of the basic framework of the UAPA, and of all laws that facilitate the jailing of individuals for long periods based on mere accusations alone. Until that happens, judgments like *Andrabi* — although they are important in what they do, and must be defended — will remain necessary, but insufficient.

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- **Key Terms and Explanations**

- **Pre-trial incarceration** – This refers to the period an accused person spends in jail from the moment of their arrest until their trial actually begins. In ordinary circumstances, the law presumes a person is innocent until proven guilty. However, pre-trial detention keeps them behind bars despite this presumption. To understand why this matters, imagine being arrested today but having your trial start five years from now – you would spend those five years in jail even though no court has yet determined your guilt.
- **Prima facie case** – A Latin term meaning "at first sight" or "based on first impression." In legal terms, it means the prosecution has presented enough basic evidence that, if believed, could reasonably lead to a conviction. For bail under UAPA, judges must examine only the police's case file – the First Information Report, witness statements, seized documents – and decide whether this material suggests guilt. The accused is not allowed to present counter-evidence at this stage. Suppose the police claim they found incriminating messages on your phone. The judge looks only at those messages, not at your explanation that someone else used your phone. If the messages appear suspicious, the judge can deny bail.
- **TADA (Terrorist and Disruptive Activities Prevention Act)** – This was India's first comprehensive anti-terror law, enacted in 1985 during the height of militancy in Punjab. TADA became infamous for its widespread misuse – by the time it lapsed in 1995, over 77,000 people had been arrested under it, but conviction rates were abysmally low at around 5 percent. Many accused spent years in jail before being acquitted. TADA contained provisions similar to UAPA's bail restrictions, which is why the article describes UAPA as borrowing from TADA's "basic architecture."
- **Colonial-era Emergency laws** – The reference here is primarily to the Rowlatt Act of 1919, which allowed the British government to imprison individuals without trial. That Act permitted detention for up to two years without judicial review, a power that Indian nationalists protested vehemently. The infamous Jallianwala Bagh massacre occurred partly as a response to protests against the Rowlatt Act. The philosophical thread connecting these laws is the suspension of ordinary legal protections in the name of state security.
- **Constitutional guarantee of fair and speedy trial** – While Article 21 does not explicitly mention "speedy trial," the Supreme Court first read this right into the Constitution in the 1979 case of Hussainara Khatoon. In that landmark judgment, Justice P.N. Bhagwati observed that thousands of undertrials had spent more time in jail than the maximum sentence for their alleged offences. The court declared that the right to a speedy trial flows directly from Article 21. Under UAPA, however, trials are notoriously slow because of witness protection requirements, classification of documents, and the complexity of investigating terror networks.
- **Delay as a ground for bail** – This is the central legal question: after how much time in pre-trial detention does continued incarceration become unconstitutional? Indian courts have not fixed a specific number, but the article mentions that judges often consider around five years as a rough benchmark. The logic is that if the state cannot start or complete a trial within a reasonable period, continuing to hold the accused without conviction becomes punitive rather than preventive. However, this is not an absolute rule – courts also consider the seriousness of allegations, the accused's criminal history, and the likelihood of fleeing.
- **KA Najeeb judgment (2021)** – This is a Supreme Court decision that significantly clarified the law on bail under UAPA. The court held that prolonged pre-trial detention can itself become a violation of Article 21, independent of the strength of the evidence. Even if the police have made out a prima facie case, if the trial is unreasonably delayed, the accused has a constitutional right to bail. The court refused to specify exactly how long constitutes "prolonged," leaving it to judges to decide case-by-case. This flexibility was intentional – a fixed timeline might encourage judges to automatically deny bail until that date passes, regardless of other circumstances.
- **Andrabi judgment (recent)** – This Supreme Court decision reaffirmed and applied the Najeeb principle. The court criticized other judgments (specifically those denying bail to Umar Khalid and Sharjeel Imam) that had effectively diluted the constitutional guarantee by prioritizing the gravity of allegations over the fact of prolonged detention. The Andrabi bench made the unusual move of explicitly disagreeing with decisions by other Supreme Court judges, reflecting deep internal divisions within the judiciary on how to balance security concerns with individual liberty.

- **Main arguments and substantive parts**

- **Core thesis: UAPA as a tool of prolonged pre-trial incarceration**

- The central concern is that UAPA, while designed to combat terrorism, has evolved into a mechanism that permits (and almost encourages) long, often indefinite undertrial detention on the basis of accusations alone.
- The process itself becomes the punishment, regardless of eventual conviction.

- **Dual drivers of the problem**

- First, the **systemic delay** in India's criminal justice system: understaffed courts, investigatory delays, and procedural adjournments mean that trials—especially complex terror trials—take years or decades.
- Second, UAPA's **extra-stringent bail design** (Section 43D(5)) which instructs judges to deny bail once they accept the prosecution's prima facie case, even when the evidence is yet to be properly tested.

- **Judicial tension: liberty-oriented vs security-oriented readings**

- Some Supreme Court decisions emphasise Article 21 and grant bail in cases of inordinate delay, recognising that at some point continued custody becomes unconstitutional irrespective of the "gravity" of allegations.
- Other decisions stress the seriousness of alleged offences and the legislative intent of UAPA to deny bail, effectively endorsing very long undertrial detention as acceptable in terror cases.

- **Emerging doctrinal line: delay as an independent constitutional ground**

- A key doctrinal move has been to treat **prolonged pre-trial detention itself** as an independent ground for bail, even when Section 43D(5) technically bars bail on merits.
- The logic is that constitutional guarantees (Article 21) cannot be trumped indefinitely by statutory bail bars; at some point, the Constitution steps in.

- **Critique of dilution of the constitutional standard**

- After such liberty-affirming rulings, a line of later judgments tried to carve out exceptions, suggesting that even long detention may be justified if allegations are "very grave".
- This effectively allows the seriousness of allegations (which are yet to be proved) to override the constitutional requirement of reasonable, finite pre-trial detention.

- **Inter-Bench debate and reference to larger Bench**

- Some judges have criticised their colleagues' rulings for undercutting Article 21 in UAPA cases, creating an internal judicial debate on how to reconcile national security with personal liberty.
- The question has been referred to a larger Bench: Can constitutional courts grant bail on grounds of prolonged incarceration despite Section 43D(5)?

- **Argument that piecemeal judicial relief is inadequate**

- The "band-aid" critique holds that while granting bail after five or more years of custody is better than nothing, it still normalises the idea that five years in prison without conviction is acceptable.
- Justice, in this view, demands confronting the structural design of UAPA: its broad definitions, reverse burden, bail restrictions, and lack of accountability for wrongful incarceration.

- **Underlying contention: security vs liberty is a false binary**

- The more nuanced view is that genuine security is best achieved when counter-terror laws are precise, proportionate, and rights-respecting.
- Over-broad, draconian laws undermine trust in institutions, alienate communities, and ultimately weaken, rather than strengthen, national security.

- **Historical evolution of the issue**

- **Colonial foundations**

- British India used a host of exceptional laws—Rowlatt Act, Defence of India Acts, public order regulations—to detain political opponents without fair trial.
- These laws normalised preventive detention, wide executive discretion, and weak procedural safeguards, creating a template for post-colonial “national security” legislation.

- **Early post-Independence period**

- The Constitution came with a strong fundamental rights chapter, but also with **preventive detention** provisions (Article 22) acknowledging the State’s security concerns.
- The early decades saw laws like the Preventive Detention Act, MISA (Maintenance of Internal Security Act) during the Emergency, again embedding exceptional measures into ordinary governance.

- **1967: Birth of UAPA**

- UAPA was initially a law focused on “unlawful associations” and secessionist tendencies, enabling the State to ban organisations deemed a threat to sovereignty and integrity.
- It did not originally function as an all-encompassing anti-terror law with extreme bail provisions.

- **1980s–1990s: TADA and the high-water mark of exceptionalism**

- In response to militancy (Punjab, North-East, etc.), TADA introduced broad definitions of “terrorist activities”, special courts, admissibility of confessions to police, and stringent bail norms.
- Rampant misuse, very low conviction rates, and widespread rights violations led to TADA’s eventual lapse in 1995.

- **Early 2000s: POTA, its repeal, and shift to UAPA**

- Post-Parliament attack and global “War on Terror”, POTA (2002) reintroduced many of TADA’s features.
- Massive criticism and political change led to its repeal in 2004, but many of its core provisions were quietly migrated into UAPA through amendments.

- **2004, 2008, 2012 amendments: UAPA becomes anti-terror backbone**

- Amendments expanded the definition of “terrorist act”, enhanced police powers, and added stringent bail provisions (Section 43D(5)) and extended investigation periods (up to 180 days before chargesheet).
- After the 26/11 Mumbai attacks, there was strong political consensus for tougher laws, further entrenching UAPA.

- **2019 amendment: designation of individuals as terrorists**

- The law was expanded to allow the Government to list individuals as terrorists and to attach their properties.
- This deepened concerns about stigmatic labelling without adequate judicial oversight.

- **Recent years: data, judicial responses, and international criticism**

- NCRB and MHA data show a rising number of UAPA cases but low conviction rates, indicating over-breadth and possible misuse.
- UN bodies and human rights organisations have criticised UAPA for vague definitions, lengthy pre-trial detention, and difficulty in securing bail.
- Indian courts have oscillated between deference to State’s security claims and more assertive protection of liberty, leading to the current doctrinal churn around delay-based bail.



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RISE ABOVE THE REST

UAPA DEEP ANALYSIS: BALANCING NATIONAL SECURITY & PERSONAL LIBERTY

THE CORE CONFLICT: UAPA'S BROKEN OPERATION

SYSTEMIC DELAY
(Years/Decades)
→ Criminal Justice System

PRE-TRIAL INCARCERATION: PRIME LIFE LOST
(Process = Punishment)

HIGH BAIL THRESHOLD
(Section 43D(5))

HISTORICAL EVOLUTION: LINEAGE OF PREVENTIVE DETENTION



JUDICIAL TUSSLE: THE CLASH OVER DELAY



WAY FORWARD: BALANCED REFORMS



"Rise Above the Rest"

- **Logical and philosophical base**

- **Presumption of innocence vs presumption of guilt**

- Classical liberal criminal law is built on the presumption of innocence and the requirement that the State prove guilt beyond reasonable doubt.
- UAPA's reverse burden provisions, near-prohibitive bail rules, and reliance on prima facie material invert this ethos, moving closer to a **presumption of dangerousness**: you are treated as dangerous until you prove otherwise.

- **Utilitarian national security logic**

- The pro-UAPA logic is utilitarian: it is better to detain a potentially dangerous person for long, even if some innocents suffer, than to risk a catastrophic terror attack.
- This rests on assumptions about the reliability of intelligence, infallibility of the State, and the belief that extraordinary threats justify extraordinary curtailment of rights.

- **Constitutionalism and limited government**

- The counter-logic is grounded in constitutionalism: the State's power is not absolute; it is constrained by fundamental rights, due process, and the basic structure.
- Article 21 and 22, combined with the Preamble's emphasis on **justice** and **liberty**, require that security measures be proportionate, precise, and reviewable.

- **Rule of law vs rule by law**

- Philosophically, the debate is between "rule of law" (law as a check on power, with equality and fairness) and "rule by law" (law used as an instrument to justify power).
- Critics argue that UAPA, in practice, is often rule-by-law: the existence of statutory language is used to legitimise what would otherwise be arbitrary detention.

- **Human dignity and the value of time**

- Five or more years in jail for someone later acquitted is not just a "delay"; it is a permanent loss of life-opportunities, family ties, and dignity.
- Philosophically, the idea that such losses are acceptable collateral for security reflects a deeply instrumental view of individuals, contrary to the dignity-centric reading of the Constitution.

- **Judicial role: sentinel vs secondary actor**

- One vision sees courts as "sentinels on the qui vive", actively patrolling the borders of State power and protecting individuals, especially unpopular minorities and dissenters.
- Another vision is of judicial restraint in "sensitive matters" like national security, deferring to Executive assessments; UAPA jurisprudence is a tug-of-war between these two visions.

- **Multidimensional analysis**

- **Social dimension**

- Prolonged detention of breadwinners devastates families, increases poverty, and disrupts education of children.
- Perception of targeted use against certain communities or activists erodes social cohesion and trust in the State.

- **Political dimension**

- UAPA can be used to quell protests, student movements, or opposition voices, blurring lines between security and political control.
- Centralisation of power (NIA, central agencies) has implications for Centre-State relations and federal balance in internal security.

- **Legal dimension**

- Raises questions about due process, proportionality, and separation of powers (Parliament designing harsh laws vs courts reading in safeguards).
- Tests the robustness of constitutional remedies like writs of habeas corpus when statutes enable long custody within “legal” bounds.

- **Ethical dimension**

- Balances the ethical duty to prevent harm to many against the duty not to unjustly harm the individual.
- Challenges the moral legitimacy of a system that effectively punishes without proof.

- **International dimension**

- India’s counter-terror regime is assessed in light of international human rights obligations (ICCPR, UDHR), especially on arbitrary detention and fair trial rights.
- Comparative perspectives: many democracies have special terror laws, but the length of pre-trial detention and bail thresholds differ significantly.

- **Economic dimension**

- Long undertrial detention increases prison expenditure and opportunity costs (lost productivity of detainees).
- Economic marginalisation of affected families may contribute to inter-generational poverty and, in some contexts, vulnerability to radical narratives.

Linkages with NCERTs

Class 9–10 Social Science (Democratic Politics)

- Chapters on “Working of Institutions”, “Democratic Rights”, and “Judiciary” help students understand rule of law, fundamental rights, and judicial review.
- The tension between security laws and rights can be used as an advanced classroom example.

Class 11 Political Science – “Constitution at Work”

- Chapters on Fundamental Rights, Directive Principles, and Judiciary directly relate to Article 21, Article 22, and the role of the Supreme Court in safeguarding liberty.
- The idea of limits on State power and emergency provisions can be linked to historical exceptional laws and current anti-terror statutes.

Class 12 Political Science – “Contemporary World Politics” & “Politics in India since Independence”

- Sections on internal security, rise of insurgencies, and State responses provide context for why such laws were enacted.
- Debates on civil liberties during the Emergency resonate strongly with today’s debates on UAPA.

Class 11–12 History

- Nationalism in India and the use of colonial repressive laws (Rowlatt Act, sedition) provide a historical template for understanding post-colonial continuities in law.
- Emergency, MISA, and civil liberties movements are historical parallels to current rights discourse.

Class 11–12 Economics (for broader context)

- While not directly about UAPA, discussions on development, inequality, and poverty connect to the socio-economic impact of wrongful and prolonged detention on households and regions.

Linkages with UPSC CSE syllabus

GS-II (Polity and Governance)

- “Functions and responsibilities of the Union and the States in areas such as public order and security.”
- “Structure, organisation and functioning of the Executive and the Judiciary... issues and challenges pertaining to the federal structure.”
- “Salient features of the Representation of People’s Act” (for broader electoral context) and “Important aspects of governance, transparency and accountability.”

GS-II (Constitution and Rights)

- Fundamental Rights, especially Articles 14, 19, 21, and 22; judicial review; recent Supreme Court judgments on personal liberty.
- Role of National Human Rights Commission and other bodies.

GS-III (Internal Security)

- “Role of external state and non-state actors in creating challenges to internal security.”
- “Challenges to internal security through communication networks, media and social networking sites” and legislative responses.
- “Various security forces and agencies and their mandate.”

GS-I (Modern History and Society)

- Colonial laws, civil disobedience, Emergency; continuity and change in the State’s attitude to dissent.
- Social impact on vulnerable groups and regional disparities.

GS-IV (Ethics, Integrity, Aptitude)

- Ethical dilemmas in public service: balancing national security and human rights.
- Case studies on misuse of power, wrongful incarceration, and whistleblowing.

- **Way forward**

- **Legislative reforms to UAPA**

- Narrow and clarify the definition of “terrorist act” and “unlawful activity” to meet the tests of precision and foreseeability, reducing scope for arbitrary use.
- Revisit Section 43D(5) to align bail thresholds more closely with general criminal law, at least after a certain period of custody.

- **Time-bound trial mechanisms**

- Statutorily mandate outer time-limits for completion of investigation and trial in UAPA cases, with consequences (including default bail) for non-compliance, barring narrowly defined exceptional circumstances.
- Increase special courts, appoint dedicated prosecutors and investigators, and ensure day-to-day hearings for long-pending cases.

- **Strengthening safeguards and oversight**

- Require periodic judicial review of continuing detention, with detailed reasons recorded and an obligation on the prosecution to show progress in investigation and trial.
- Establish independent oversight bodies or parliamentary committees to review UAPA’s use, with public reporting of data on arrests, charge-sheets, and convictions.

- **Accountability and compensation**

- Introduce mechanisms for holding investigating officers and superiors accountable for egregiously weak or mala fide cases that collapse after years of incarceration.
- Provide structured compensation and rehabilitation packages (education, employment assistance) for those acquitted after long UAPA detention.

- **Improving investigation quality**

- Invest in forensic capabilities, cyber-investigation training, and inter-agency coordination to build robust, court-worthy evidence quickly, reducing dependence on long preventive detention.
- Encourage judicial scrutiny of confessions, disclosure statements, and use of digital evidence, to avoid over-reliance on uncorroborated police narratives.

- **Normative and cultural shifts**

- Encourage a rights-respecting security culture within police and bureaucracy through training, evaluation metrics, and leadership messaging.
- Promote responsible media reporting to reduce trial by media and respect the presumption of innocence, especially in terror cases.

UPSC CSE Mains – GS-II / GS-III

- Questions on “Preventive detention and Fundamental Rights” (e.g., debates on Article 22 and misuse of preventive detention laws).
- Questions on “Criminal justice system reforms” and “Undertrial prisoners and overcrowding in jails.”
- GS-III questions on “Challenges to internal security”, “Role of NIA and central agencies”, and “Misuse of laws like AFSPA and UAPA” in affecting human rights.
- Essay topics around “National security and human rights”, “Real development must mean development of all”, or “Justice delayed is justice denied”.

UPSC Prelims

- Questions on features of UAPA (e.g., power to declare organisations as terrorist organisations, later expanded to individuals).
- Questions on Fundamental Rights, especially Articles 14, 19, 21, 22 and doctrines like “procedure established by law” vs “due process”.

Don't Panic. It's Not 1991 Or 2013

For fuel, price hikes will do the job. For rupee, a hike in interest rates, one-time dollar bonds issue for NRIs & capital gains tax rejig will do the trick. Remember, our macros are just fine

Somnath Mukherjee



Media (and social media) headlines are near-apocalyptic. They tell you that an incessant fall in the value of rupee (against dollar) suggests an impending economic disaster. They beg the question, have we muddled into a 1991 (or 2013) taper tantrum/redun?

No, is the blunt answer. Not by a very long mile. Finance minister Nirmala Sitharaman indexed the issue to 3Fs (fertiliser, fuel, FX). Getting further down to brass tacks, it's really a currency market issue, centred on the global demand-supply of dollars.

First, here are the key macroeconomic markers.

- GDP growth at estimated 6.5%, fastest growing major economy - check.
- CPI inflation at 3.5%, well within RBI's inflation targeting mandate of 4% - check.
- Current account deficit at 0.9% of GDP for FY2026, and a bad-case estimate of 2% for FY2027, within the 2.5% generally accepted level - check.
- Fiscal deficit commitment at 4.3% of GDP; on track from a govt with a good record on fiscal rectitude - check.
- Foreign exchange reserves, at \$690bn, represent 30 years of cover for FY27's projected BoP deficit of \$60-70bn - check.

In short, India's macro indicators remain stable, nothing like 1991 or 2013, when macro-markers were truly in crisis territory. Then, why is rupee in such sharp decline? Popular commentary has identified the reasons - structural trade deficit, lack of AI play leading to foreign investor apathy low investment rates.

But then, look at South Korea. This is a country with strong structural trade surpluses, home to two of the world's hottest beneficiaries of the AI boom, and has enjoyed significant foreign investor interest over the last couple of years.

Yet, since 2024, Korean won has declined more against dollar than rupee has. This, despite KOSPI (South Korea's headline equity index) producing a 180% increase in that period. At the other end of the continuum, Pakistani rupee has appreciated a tad, around 1%, in the same period. But this is a country that has transitioned from one IMF bailout to yet another during this time - hardly an imprimatur of great

macroeconomic performance.

In short, the hand-waving prescriptions bandied about - "lack of reforms", "lack of domestic capex", "Indian promoters exiting India" - are poor explanations. Yes, some of these factors are of real concern, but they have remained the same for several years, decades even, without sparking off a currency depreciation. Indeed, countries with exactly an inverse set of markers have also been hit with sharp currency depreciation, in the current round.

The real reason is hyper-technical and specific.

- One, India-US yield spread. For a while now, the difference between US and Indian interest rates has started to compress. 10-year G-Sec yields, widely acknowledged to be the bellwether index of interest

mutual funds (MFs) and pension products (EPFO/NPS). When rupee looks overvalued to foreign investors, they sell, usually engendering a depreciation. Price correction acts as the shock absorber to currency overvaluation. Foreign investors have sold, net capital account flows have been close to zero or even negative for a year-and-a-half, rupee has depreciated over 10% in the last one year.

Consequently, in REER (real effective exchange rate, a relative-value index comprising major trading currencies) terms, rupee today looks really undervalued. But that's not the case for equity market valuations. Despite massive FPI selling - 1.7L cr in 2025 and over 2L cr this year already - Nifty 50 is down barely 30% from all time highs. This is on account of the "liquidity put" of SIPs, EPFO and NPS.

A usually virtuous cycle of risk capital supply has turned temporarily vicious for INR. FPIs sell as they feel Indian valuations are relatively high, but the domestic flows fund an orderly exit, relative equity valuations remain high. FPIs sell some more, putting further pressure on the capital account and rupee. The price-correction mechanism of currency markets isn't transmitted to equity markets.

What's needed are technical currency market solutions. Raising Indian interest rates to widen the spread against dollar, a one-time dollar bond issuance as confidence capital (like 3-year foreign currency non-resident bonds in 2013), and some rejigs in the capital gains tax regime are the real tools to use.

Ditto for passing on price impulses of higher global crude prices to the retail pump - allowing price to be the demand-healing mechanism.

But, no austerity measures. Austerity depresses consumption, and consumption is 60% of India's GDP. It's the primary driver of growth. Reducing growth will further drive away foreign capital.

We, right now, don't need a bunch of blue ribbon "reforms" either. These are motherhood wishes needing impossible Bolshevik Ballet level finesse in political economy execution.

Falling rupee is not a national crisis. It simply demands relatively easy policy responses. To repeat, we are not in 1991, or 2013.

The writer is Chief Investment Officer of an asset and wealth management firm. Views are personal.



rates, have declined from a long-period average of 3.5-4% to around 2.5% today.

Part of this is due to India's improving macros, especially inflation. No longer is Indian inflation much higher than US's. In fact, as of today it's the other way round! Which has meant that RBI has hiked rates a lot lesser than US Fed, even when all central banks were raising interest rates (in 2022). While sound in theory, this has built in a potential vulnerability into rupee, as foreign investors now get paid a relatively smaller premium over dollar rates. This is a long-term good, as India always runs a trade deficit, but it leaves dollar demand-supply vulnerable to shocks in a global disruption scenario, like today's.

- Two, India's most successful atmanirbhar initiative in the last decade - mobilising risk capital via

• Key Terms and Explanations

- **Rupee Depreciation vs. Devaluation:** Depreciation is a market-driven fall in the value of the rupee against a foreign currency (like the dollar) due to demand and supply. Devaluation is a deliberate, policy-driven downward adjustment of the currency's value by the central government in a fixed exchange rate regime. India currently follows a managed floating regime, so we witness depreciation. *Example: If \$1 could buy ₹70 yesterday but can buy ₹80 today, the rupee has depreciated, even if RBI intervened to smooth the fall.*
- **Real Effective Exchange Rate (REER):** This is not the market rate you see on a screen. REER is a weighted average of the rupee's value against a basket of 40 major trading partner currencies, adjusted for inflation differentials. It's a measure of true competitiveness. A REER of 100 indicates the currency is fairly valued; above 100 means it's overvalued (hurting exports), and below 100 means it's undervalued (boosting exports but making imports expensive). The argument is that while the nominal rupee is falling, the REER suggests it has become competitive, possibly even undervalued.
- **India-US Yield Spread:** This is the difference between the interest rate on a benchmark Indian government bond (say, 10-year G-Sec) and a similar US Treasury bond. An investor seeking returns will compare these. If Indian bonds offer 6.5% and US bonds offer 4.5%, the spread is 2%. This extra 2% is the "risk premium" for investing in India. When this spread compresses—as it does when Indian yields fall or US yields rise—the incentive for foreign capital to flow into India diminishes, reducing demand for the rupee. It's like a shop lowering its discount; fewer customers come.
- **“Liquidity Put” of Domestic Savings:** A "put option" in finance is insurance against a price fall. The article uses this metaphor. It refers to the massive, steady flow of household savings into the stock market via Systematic Investment Plans (SIPs), EPFO, and NPS. This wall of domestic money acts as a shock absorber, buying up the shares that Foreign Portfolio Investors (FPIs) are selling. It prevents a stock market crash but, paradoxically, allows FPIs to exit at good prices, prolonging their selling spree and the pressure on the rupee.
- **Atmanirbharata in Risk Capital:** This frames the channelling of domestic savings into equity markets as a form of strategic self-reliance. Traditionally, Indian markets were dependent on the whims of foreign capital. The rise of the domestic mutual fund industry and pension fund management has created an internal engine of capital formation, insulating the equity market's valuation, though not the currency, from external shocks.
- **Taper Tantrum (2013):** A term coined to describe the panic and massive capital outflows from emerging markets like India, triggered by the US Federal Reserve's mere hint that it would gradually reduce ("taper") its quantitative easing programme. It exposed India's vulnerability to external liquidity, then characterized by high inflation and a massive current account deficit. The article argues we are nowhere near that situation today.
- **Capital Account and FPI Flows:** The capital account records transactions in financial assets—like FPI buying Indian stocks or bonds. When an FPI sells ₹100 crore worth of stocks and repatriates the dollars, it creates a supply of rupees and a demand for dollars, pushing the rupee down. Sustained negative or near-zero net capital flows mean the capital account cannot finance even a modest current account deficit, leading to persistent pressure on the currency.

• Main Arguments and Substantive Parts

- The core argument is a bold contrarian one: the rupee's fall is a loud, clanging alarm for a fire that isn't a national macroeconomic crisis. It's a technical currency market plumbing problem, not a structural failure.
- **Thesis: Distinguishing Symptom from Disease:** The article posits that the near-apocalyptic headlines confuse a sectoral currency market imbalance for a systemic economic collapse. The disease in 1991 was a balance of payments crisis and fiscal profligacy. Today, the disease is a specific, manageable misalignment in the capital account, amplified by a very success story.
- **Evidence of Macroeconomic Stability:** The argument constructs a fortress of data points to prove the economy's inherent strength: robust GDP growth (6.5%), a benign inflation regime (CPI at 3.5%), a remarkably contained current account deficit, a government committed to fiscal consolidation, and a war-chest of \$690 billion in forex reserves. This is contrasted starkly with the crisis-era markers of 1991 (fiscal deficit >8%, reserves barely covering 3 weeks of imports) and 2013 (CAD at 4.8% of GDP, high inflation).

- **The Paradoxical Case of South Korea and Pakistan:** This is the masterstroke of the argument. South Korea, with its structural trade surplus, leadership in AI chips, and booming equity market, has seen its currency (Won) fall *more* than the rupee. Conversely, Pakistan, a serial IMF borrower with far weaker macros, saw its currency appreciate slightly. This international comparison directly falsifies the narrative that India's falling rupee is a unique punishment for its "lack of reforms." It points to a common, global force—the relentless strength of the US dollar.
- **The Unintended Consequence of Success (The Double-Edged Sword):** This is the most nuanced part. Two pillars of India's modern economic resilience have birthed the current currency weakness:
 - **The Compressed Yield Spread:** India's success in anchoring inflation has, logically, led to lower interest rates relative to the US. This is a sign of maturity and stability. However, it reduces the compensation for foreign bond investors, making Indian debt less attractive, thus reducing a source of dollar inflow.
 - **The Domestic Liquidity Fortress:** The SIP-driven retail revolution is a crowning achievement of financial inclusion and self-reliance. It has created a decoupling where stock valuations remain expensive, even as foreign investors exit. This prevents the normal shock-absorber mechanism of a market crash that would make assets cheap enough to attract a fresh wave of foreign buying, which would support the currency. The virtuous cycle of domestic savings has temporarily become a vicious cycle for the rupee, facilitating a frictionless FPI exit.
- **Diagnosis and Prescription:** The diagnosis is that the price-correction mechanism of the currency market is not being transmitted to the equity market due to domestic flows. The prescription, therefore, is not grand, politically impossible structural reforms or economy-crushing austerity. It calls for precise, technical currency-market tools: temporarily widening the yield spread, a confidence-building dollar bond issuance (like the FCNR(B) deposits of 2013), and rejigging capital gains tax to influence investment holding periods.



- **Historical Evolution of the Issue**

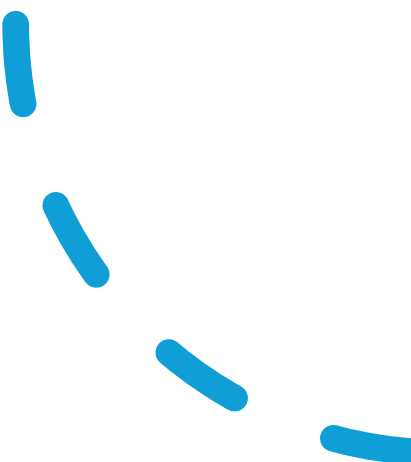
- The rupee's journey from a defined sterling peg to its current market-determined, yet managed, float is a chronicle of India's economic opening and its recurring face-offs with global volatility.

- **Pre-1991: The Era of Fixed Exchange Rate.** The rupee's external value was a derivative of its peg to the British pound sterling. It was a managed, political number, not a market signal. The cracks appeared by the late 1980s as overvaluation, combined with a widening trade deficit and fiscal indiscipline, created a classic balance of payments crisis. The trigger was the Gulf War's oil shock, but the stage was set by deep structural problems.

- **1991: The Existential Crisis and a Paradigm Shift.** Foreign reserves fell to a catastrophic low (covering barely 3 weeks of imports). India was forced to airlift gold to the Bank of England as collateral for a loan. This humiliation triggered a fundamental break. The government devalued the rupee in two sharp tranches (around 18-19% against the dollar) as a precondition for IMF assistance. This was devaluation, a forced policy act. It was followed by the launch of the Liberalization-Pivatisation-Globalisation (LPG) reforms and the transition to a market-determined exchange rate system, the Liberalized Exchange Rate Management System (LERMS), by 1993.

- **2013: The Taper Tantrum and Fragility of Dependence.** A decade of strong capital inflows had masked India's structural vulnerabilities—a ballooning current account deficit (CAD), high and sticky inflation, and a reliance on "hot money" portfolio flows to finance the CAD. When the US Fed merely signalled a future slowdown of its bond-buying program, the mere whisper caused an exodus of capital from emerging markets. The rupee plunged from around ₹54 to a dollar to near ₹69. The crisis was arrested by extraordinary measures: RBI Governor Rajan's special window to swap Foreign Currency Non-Resident (Bank) deposits, which attracted about \$34 billion, and tough measures to curb gold imports. The lesson was clear: a high CAD and dependence on fickle portfolio flows are a toxic combination.

- **2022-2024: The Era of Dollar Dominance.** The post-COVID global landscape is characterized by aggressive rate hikes by the US Federal Reserve to combat its own domestic inflation. This strengthens the dollar relentlessly against virtually every currency, a phenomenon termed the "King Dollar" era. It's an indiscriminate force. India's current situation is a strange mix: our macro fundamentals are vastly superior to 2013, yet we face similar currency pressure. The cause is less our own riskiness and more the attractiveness of the dollar, compounded by the India-US yield spread compression. This is a new kind of challenge: a currency crisis without a macroeconomic crisis.





AXIA
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RISE ABOVE THE REST

**MEDIA NARRATIVES ARE NEAR-
APOCALYPTIC, BEGGING QUESTIONS:
ARE WE IN A 1991 REDUX?
THE BLUNT ANSWER IS NO.**



WHAT'S NEEDED (TECHNICAL SOLUTIONS)

- Raising Indian interest rates to widen spread
- One-time dollar bond issuance
- Rejig capital gains tax regime
- Fuel price pass-through

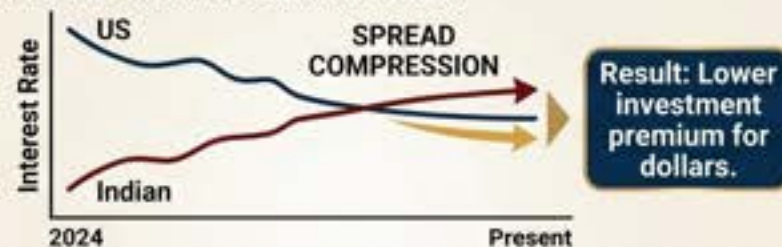
COMPREHENSIVE INDIAN RUPEE ANALYSIS: DEPRECIATION OR CRISIS? THE BRUTAL TRUTH.

KEY MACROECONOMIC MARKERS (STABLE CHECKS)

- GDP Growth (~6.5% - fastest)** ✓
- CPI Inflation (~3.5% - within target)** ✓
- Current Account Deficit (0.9% → 2% bad case)** ✓
- Fiscal Deficit commitment (4.3%)** ✓
- FX Reserves (~\$690bn - huge cover)** ✓

THE REAL TECHNICAL REASONS (NOT CAUSAL CLICHES)

1. YIELD SPREAD COMPRESSION

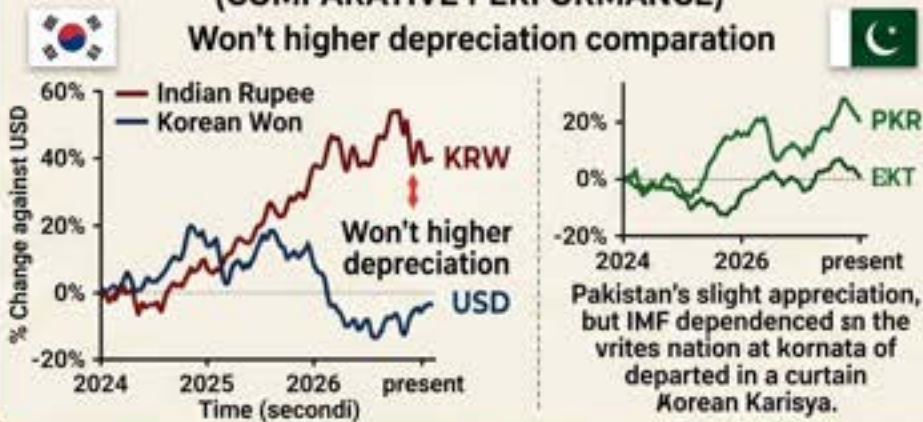


2. ATMANIRBHARTA (MUTUAL FUNDS) PARADOX CYCLE



THE SOUTH KOREA/PAKISTAN PARADOX (COMPARATIVE PERFORMANCE)

Won't higher depreciation comparison



NO AUSTERITY OR MAJOR 'REFORMS'

- AUSTERITY** • AUSTERITY DEPRESSES CONSUMPTION (60% GDP Driver) → Reducing Growth → Driving away Capital
- BLUE-RIBBON REFORMS** • REFORMS ARE POLITICALLY DIFFICULT (Motherhood Wishes)

CONCLUSION: FALLING RUPEE IS NOT A NATIONAL CRISIS. IT SIMPLY DEMANDS EASY POLICY RESPONSES. TO REPEAT, WE ARE NOT IN 1991, OR 2013.

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- **Logical and Philosophical Base**

- The reasoning of the analysis rests on distinct logical and philosophical pillars that challenge conventional commentary.

- **Logic of Concomitant Variation and Counterfactual Proof:** The argument uses Mill's method of concomitant variation. If factor X (lack of AI play, structural trade deficit) is the cause of currency fall Y, then a country with the *opposite* of X (South Korea with AI boom and trade surplus) should not experience Y. Since the opposite outcome does not hold, the proposed cause is falsified. This is a powerful empirical logic that demands we look for another, common cause: the strength of the dollar itself.

- **The Mantra of J.S. Mill's "Fallacy of Composition":** The piece implicitly warns against committing the fallacy of composition—assuming what is true for a part is true for the whole. Just because the rupee is falling, it doesn't mean the entire macroeconomic framework is crumbling. The macroeconomic whole is stable; the problem is localized in the capital account dynamics. Similarly, the hand-wringing about "lack of reforms" is a micro-truth elevated to a false macro-explanation.

- **Philosophy of Unintended Consequences and Systemic Feedback Loops:** This is a deep systems-thinking philosophy. The piece argues that a virtuous intervention (financial inclusion via SIPs) can create a negative, second-order feedback loop (propping up valuations, facilitating FPI exit, weakening the rupee). This is a profound rejection of linear, simplistic policy analysis. It suggests that in complex adaptive systems like an economy, solving one problem can often create a new, unforeseen vulnerability that requires a new set of technical solutions.

- **Assumption of Rational Investor Behavior:** The underlying model assumes global capital flows are driven by rational comparison of risk-adjusted returns. The compression of the India-US yield spread is a variable that a rational, global capital allocator would consider. This assumption allows the argument to bypass "sentiment" as a primary cause and focus on concrete, technical parameters.

- **Multidimensional analysis**

- **8.1 Social dimension**

- Rupee depreciation can raise prices of imported essentials (fuel, fertilizers, some food items), indirectly affecting real incomes, especially of the poor.
- Fuel price pass-through, while macro-rational, can be regressive unless accompanied by targeted safety nets for vulnerable groups.

- **8.2 Political dimension**

- Exchange rate movements often become political talking points, used to attack or defend governments, sometimes overshadowing technical realities.
- Choices around rate hikes, fuel pricing, and external borrowing are deeply political, involving trade-offs between short-term popularity and long-term stability.

- **8.3 Legal dimension**

- RBI's autonomy and its inflation-targeting mandate create a legal-institutional frame for interest-rate decisions that also affect the rupee.
- Issuance of external sovereign or quasi-sovereign dollar bonds must comply with legal norms on borrowing limits, parliamentary approval, and disclosure.

- **8.4 Ethical dimension**

- Policy must balance the interests of savers, borrowers, consumers, and investors; privileging one group (e.g., FPIs) at the expense of others raises ethical questions.
- An ethical macro framework demands transparency in communication about risks and policy choices, rather than hiding behind opaque interventions.

- **8.5 International dimension**

- Rupee movements influence India's competitiveness, trade balances, and its role in global value chains.
- India's macro credibility affects its bargaining power in multilateral institutions, rating negotiations, and initiatives like rupee-trade arrangements with partners.

- **8.6 Economic dimension**

- Exchange rate is a key price that affects inflation, growth, external debt servicing, and financial stability.
- The interaction of yield differentials, FPI flows, domestic financial deepening, and external shocks makes rupee management a central economic policy challenge.

- **Linkages with NCERTs**

- **Class 12 Economics (Introductory Macroeconomics)**

- Chapters on “Money and Banking” and “Open Economy Macroeconomics” provide foundations for understanding exchange rates, BoP, and interest rates.
- Students can directly map concepts like CAD, BoP, and capital flows to the present rupee episode.

- **Class 11 Economics (Indian Economic Development)**

- Chapters on “Indian Economy 1950–1990” and “Economic Reforms since 1991” contextualize the 1991 crisis and subsequent liberalization.
- They help contrast current conditions with earlier crises, reinforcing historical perspective.

- **Class 12 Macroeconomics: Government Budget and Economy**

- Explains fiscal deficit, public debt, and their macro implications—useful when analysing why austerity is being rejected as a solution.

- **Class 10 Social Science Economics**

- Basic discussions on globalization, foreign trade, and MNCs help students grasp how external shocks transmit to domestic economies.



- **Linkages with UPSC CSE syllabus**

- **GS Paper III (Economy)**

- Topics: “Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment”, “Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth”, “Inclusive growth and issues arising from it”, “Investment models”, “Government Budgeting”.
- Direct linkage: rupee depreciation, BoP, FPI flows, monetary-fiscal coordination, and growth–stability trade-offs.

- **GS Paper II (Governance, Policy)**

- Topics: “Functions and responsibilities of the Union and the States”, “Government policies and interventions for development”, “Role of regulators”, “Parliament and state legislatures—structure, functioning, conduct of business”.
- Linkage: RBI–Government roles, fuel pricing policy, external borrowing decisions, regulatory oversight of markets.

- **GS Paper I (Modern Indian History)**

- Topics: “Post-independence consolidation and reorganization within the country”, economic transitions post-1991.
- Linkage: 1991 crisis as a watershed, continuity and change in India’s external sector.

- **GS Paper IV (Ethics, Integrity)**

- Topics: “Ethics in public administration”, “Values of impartiality, non-partisanship, objectivity”, “Ethical issues in international relations and funding”.
- Linkage: ethical dimensions of austerity, subsidy design, inter-generational equity in external borrowing.



Way forward

Maintain macro fundamentals, avoid panic

- Continue prudent fiscal consolidation, credible inflation targeting, and reserve adequacy.
- Communicate clearly that rupee flexibility is part of the adjustment mechanism, not evidence of systemic weakness.

Calibrated interest-rate policy

- Consider modest rate hikes or signalling changes to re-widen the India–US yield spread, while carefully assessing impacts on growth, credit, and investment.
- Use forward guidance and data-based communication to anchor expectations.

Targeted external borrowing as confidence capital

- If pressures intensify, deploy one-off FCNR-type or sovereign dollar bonds with prudent size, tenor, and cost.
- Ensure transparency and avoid creating excessive future rollover risk.

Rational fuel pricing with social cushions

- Move towards greater pass-through of global crude prices to domestic pump prices to reduce demand and external vulnerability.
- Simultaneously strengthen targeted support (DBTs, transport subsidies, fertilizer support) to protect vulnerable groups and farmers.

Deepen domestic financial markets further

- Continue promoting SIPs, EPFO, NPS, and bond-market development, while monitoring for valuation excesses.
- Encourage wider retail participation in government bonds to diversify funding and reduce dependence on external debt.

Address structural external vulnerabilities

- Push for export diversification, higher value-added manufacturing, services exports, and gradual reduction in energy import dependence via renewables and efficiency.
- Promote domestic electronics and critical imports manufacturing in a realistic, phased manner.

Strengthen data, oversight, and literacy

- Improve surveillance of FX markets, derivatives, and offshore NDF segments to better anticipate pressures.
- Integrate financial literacy into public communication so that citizens understand rupee movements without panic.

UPSC CSE Mains – GS III

2013/2014: Questions on “Capital account convertibility and its implications for the Indian economy.”

2014: “Examine the impact of FDI and FII on India’s economy.”

2018: “Assess the role of RBI in maintaining the stability of rupee exchange rate.”

2019: Question on BoP and external sector stability.

2020–2023: Repeated questions on fiscal deficit, growth, and external vulnerabilities.

UPSC CSE Mains – GS II & Essay

Essay topics related to “Economic growth and development”, “Crisis and resilience”, “Globalization and its discontents.”

UPSC Prelims

Multiple questions on BoP, current vs capital account, effects of rupee depreciation on exports/imports, FPI vs FDI, FCNR deposits, role of RBI in forex management.

SSE: A vital cog in the CSR chain

WORTH TRYING. Channelling CSR funds through Social Stock Exchange can unlock large funds, and be deployed transparently



K GOWRI SHANKAR

India is the only country in the world to have a mandated 2 per cent corporate spending of CSR. This generates on average ₹14,509 crore in funds every year, making it one of the largest pools of mandated social impact capital in the world. In 2022, India built a regulated social capital platform inside NSE and BSE: the Social Stock Exchange (SSE). This initiative was designed to connect verified non-profit organisations with investors who would want to invest in the social development of the country.

The idea was sound, but the largest pool of social impact capital still cannot use this infrastructure as it is limited only to retail investors and excludes corporates. Since 2022, the SSE has registered around 179 NPOs and mobilised ₹42.56 crore through its projects (BSE SSE and NSE SSE combined data, 2024-25), while India's CSR ecosystem deployed over ₹1,00,000 crore in the same period (PIR, 2023; PRIME Database, 2024). Allowing CSR funds to flow through the SSE could be the key reform that can turn India's social capital into a powerful engine for Viksit Bharat.

THE WORLD HAS TRIED THIS

The Social Stock Exchange is not a new idea. Brazil, South Africa, Portugal, the UK, Canada and Singapore have all tried it, and most failed. Their common weaknesses were simple: no funding source, weak regulation and thin NGO pipelines (ICNL, Sunshin Global Review, 2024).

India has what these countries did not have. A mandatory annual CSR obligation, SEBI regulation, and the institutional homes of BSE and NSE. No other SSE has had these, making it very possible for India to succeed if used correctly.

At present, CSR funds directed to SSE-listed NPOs through Zero Coupon Zero Principal (ZCZP) bonds or Social Impact Funds do not qualify as CSR expenditure under Ministry of Corporate Affairs (MCA) rules. This gap should be addressed.

The MCA should recognise subscription by corporates to instruments offered through the SSE as CSR expenditure. This will immediately unlock ₹14,509 crore of mandated capital that can be deployed



KEY REFORM. Allowing CSR funds through Social Stock Exchange can turn India's social capital into a powerful engine for Viksit Bharat

transparently through the SSE platform. SEBI has already recommended that ZCZP investments be given CSR equivalence. The CBDT has confirmed 80G benefits for donors. No new legislation is required and there is no cost to the exchequer. A single notification from the MCA will make the SSE a live functioning market overnight.

But two structural challenges will remain. The NGO pipeline needs to deepen so that the capital, once unlocked, has credible and capable organisations to absorb it. And the regulatory framework needs to be optimised so that the platform works efficiently at scale. SEBI has already moved in the right direction by extending NPO registration validity to three years and reducing the minimum ZCZP subscription threshold.

Activate idle capital. In FY24, ₹2,600 crore sat in unspent CSR accounts even as many government welfare schemes continue to underperform because delivery capacity is uneven. SSE-listed NPOs, independently verified and already working in target geographies, could help put this capital to immediate

The NGO pipeline needs to deepen so that the capital, once unlocked, has credible and capable organisations to absorb it

use. A cross-ministry notification recognising SSE as an eligible implementation channel would turn idle allocations into active, outcome-linked development finance.

One rating to replace four registrations. An NGO today must maintain CSR-1 rating with MCA, secure FCRA clearance with the Home Ministry, get LDA and 80G eligibility clearances from the Income Tax Department, and register with the DARPAN portal of NITI.Aayog. Yet, a company still has no standardised signal of whether the NGO delivers results on the ground.

A SEBI-mandated Social Performance Rating, administered by ICRA or CARE and renewed every three years, can replace this fragmented architecture with one market-readable quality signal. SSE listing will then become the only credential a CSR team will need. It will reduce compliance burden for companies, lower partner-verification costs, and improve trust. For NGOs, it will turn compliance into credibility and credibility into capital, giving them a clear reason to pursue listing on SSE.

Map money to need. Six states have absorbed roughly 60 per cent of all CSR spend over a decade (MCA CSR Data, CSRBox 2023). Aspirational districts received just 2.15 per cent of cumulative CSR since 2014 (NITI.Aayog, 2023). What we need is a national CSR Registry maintained by NITI.Aayog, geo-tagged

by district and updated in real time. This will give every CSR committee a live heat map of where India's development capital is most needed. The registry listings can be matched to pre-verified SSE-listed organisations already operating there. State governments can also feed a Demand Registry into this platform, signalling priority needs at block level.

Measure outcomes, not activity. India counts outputs: trees planted, toilets built, hospitals constructed, students enrolled. Outcomes are a different question: are those schools staffed, patients treated well, those trees alive? The SSE's Social Impact Assessor framework already mandates outcome reporting. A National Social Return On Investment framework assigning evidence-based economic proxies to social change would allow policymakers to quantify the impact of CSR on GDP. This will help change the conversation from compliance to national investment.

Finally, a dedicated CVC vigilance cell for CSR, a SCORES-style public whistleblowers portal, and proportionate penalties for misreporting will help establish credibility of the entire system. When funds flow through a SEBI-regulated platform, irregularities become structurally harder to conceal.

The writer is Global Coordinator, One World One Family Mission

- **Key Terms and Explanations**

- **Corporate Social Responsibility (CSR):** Under Section 135 of the Companies Act, 2013, profitable companies must spend at least 2% of their average net profit over the preceding three years on socially beneficial activities. It shifted corporate philanthropy from a voluntary act to a statutory obligation.

- **Social Stock Exchange (SSE):** A regulated platform hosted on existing stock exchanges (like BSE and NSE). It acts as a bridge, allowing verified Non-Profit Organisations (NPOs) and social enterprises to raise capital directly from investors who are seeking social impact alongside, or instead of, financial returns.

- **Zero Coupon Zero Principal (ZCZP) Bonds:** A unique financial instrument used on the SSE. "Zero coupon" means no interest is paid, and "Zero principal" means the initial investment is not returned. Essentially, it is a highly regulated, transparent donation mechanism masquerading as a bond, ensuring the money is tied strictly to project outcomes.

- **Social Return on Investment (SROI):** A metric used to quantify the social, environmental, and economic value created by an investment. For example, instead of just counting how many schools were built, SROI measures the long-term economic benefit of girls staying in school and joining the workforce.

- **Aspirational Districts Programme:** Driven by NITI Aayog, this initiative targets the socio-economic upliftment of India's most backward districts. They are prime candidates for targeted developmental capital.



- **Main Arguments and Substantive Parts**

- The core proposition revolves around unlocking idle capital and reforming the architecture of social welfare funding in India. Let us break down the primary arguments:

- **The Paradox of Plenty and Scarcity:** India sits on a massive pool of mandated CSR capital, yet its highly regulated Social Stock Exchange struggles with low trading volumes and capitalization. The argument posits that connecting these two—allowing CSR to flow through the SSE—would revolutionize developmental finance.

- **Global Failures vs. India's Advantage:** Several developed nations attempted to build SSEs and failed primarily because they lacked a guaranteed pipeline of funding. India possesses what they lacked: a legally mandated, recurring pool of corporate capital that can sustain the market.

- **The Compliance Labyrinth:** NPOs currently drown in a sea of overlapping compliance requirements involving multiple ministries (Home Affairs, Corporate Affairs, Finance). A unified "Social Performance Rating" mandated by the market regulator could replace this, improving ease of doing good.

- **Geographical Imbalance in Welfare:** Market forces currently dictate CSR spending, leading to a heavy concentration of funds in industrialized states, while the most vulnerable regions remain starved of capital. A tech-driven, geo-tagged registry is proposed to correct this market failure.

- **Transitioning from Output to Outcome:** The prevailing system measures physical activity (infrastructure built). The necessary shift is toward measuring tangible human outcomes (quality of life improved), which an SSE framework naturally enforces through mandatory impact assessments.



- **Historical Evolution of the Issue**
- Understanding the trajectory of corporate philanthropy in India provides essential context for GS Paper 1 (Society) and GS Paper 4 (Ethics).
- **The Pre-Independence Era:** Social welfare was driven largely by wealthy merchant families and industrialists. This era was deeply influenced by Mahatma Gandhi's concept of 'Trusteeship', which argued that wealth belongs to the society and industrialists are merely its custodians.
- **The Post-Independence State-Led Era (1947–1990):** The state assumed the primary role of the welfare provider. Public Sector Undertakings (PSUs) were the main engines of social infrastructure, building townships, schools, and hospitals around their plants.
- **The Liberalization Era (1991–2012):** Economic reforms generated massive private wealth. The government recognized the need for corporate participation in inclusive growth, leading to the introduction of voluntary CSR guidelines in 2009.
- **The Statutory Mandate (2013):** India became the first country to legally mandate CSR through the Companies Act, 2013. This formalized corporate participation in national development but also led to a fragmented, activity-based spending culture.
- **Institutionalization and Market Integration (2019–Present):** The concept of the Social Stock Exchange was first mooted in the 2019 Union Budget. By 2022, the regulatory framework was established, setting the stage for the current debate on integrating the statutory mandate with market mechanisms.



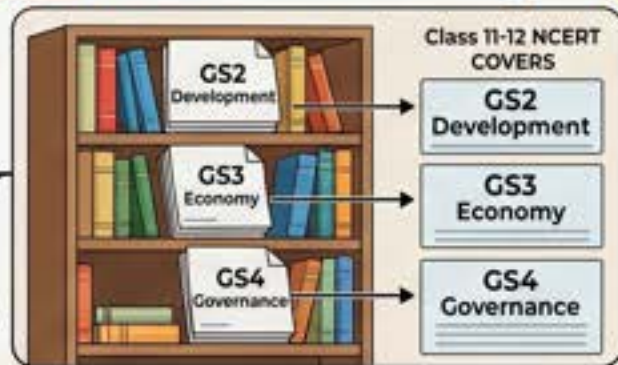
PNL 1: INDIA'S MASSIVE CSR POOL



REFORMING INDIA'S SOCIAL CAPITAL: INTEGRATING CSR & THE SOCIAL STOCK EXCHANGE (SSE) FOR VIKSIT BHARAT

A Comprehensive UPSC CSE Analysis by AXIA IAS ACADEMY

PNL 5: NCERT & SYLLABI LINKAGES



PNL 2: THE PARADOX & THE DISCONNECT

PNL 3: THE KEY REFORM PATHWAY

Re-plumbing the System



PNL 4: MULTIDIMENSIONAL IMPACT FOR UPSC

- SOCIAL**
 - Social funds, and for social wutoritts
 - Political collaborations
- POLITICAL**
 - Political comwamant and understandy constructories
 - Legal mialysis
- LEGAL**
 - Legal and coltical, ethicals and economic
 - Ethical economic
- INTERNATIONAL**
 - Goverames mestvships, Economic Reenoline
 - International integration

PNL 5: NCERT & SYLLABI LINKAGES



PNL 6: WAY FORWARD & POLICY ACTION

- Direct Notification**
Direct Notification & Direct notification
 - Capacity Building**
Promote instalitant & Capacity Building
 - Regional Incentives**
Regional Incentives & kngonal Incentives
 - Vigilance Cell**
Actionable points ama, Vigilance Cell
- RELEVANT PREVIOUS YEAR QUESTIONS

- **Logical and Philosophical Base**

- The proposition rests on a blend of economic philosophy and principles of governance.

- **Logic of Efficient Allocation:** The core premise is a market-based solution to a public good failure. Markets are efficient allocators of capital via price and information signals. By routing CSR through an SSE, the logic posits that capital will flow not on whims or personal connections but towards NPOs with verified social performance, ensuring maximum impact per rupee.

- **Stakeholder Capitalism:** The argument moves beyond the shareholder primacy model to a stakeholder model. CSR is not just a cost of doing business but a formal instrument of corporate citizenship. The SSE deepens this by integrating social returns into a regulated market framework, treating social impact as a measurable asset class.

- **Trusteeship 2.0:** Philosophically, this is an evolved form of Gandhian trusteeship. Instead of unaccountable discretion, it enforces accountability through SEBI oversight. The "trust" is no longer just moral but institutional, monitored by a rating agency and disclosed on a public platform.

- **Utilitarian Underpinning:** The outcome-measurement framework—Social Return on Investment (SROI)—is deeply utilitarian. It seeks to maximize the social "utility" or well-being per unit of corporate capital, quantifying social change to make it comparable and thus optimizable.

- **Philosophical Assumptions:** The proposal assumes that making social impact transparent and comparable will inherently improve it. It trusts that "good money" (CSR) will drive out bad practices, and that the corporate need for clean, auditable impact will force a systemic upgrade in the entire NGO sector. The risk, of course, is that it could commodify social good and exclude small, unrated grassroots organisations that do profound but hard-to-quantify work.

- **Multidimensional Analysis**

- **8.1 Social Dimension**

- The reform can improve access to education, health, livelihoods, sanitation, nutrition and skill development. If funds are mapped to backward districts, it can help reduce regional and social inequalities. It can also strengthen community-based organisations working among women, tribal communities, persons with disabilities and marginalised groups.

- **8.2 Political Dimension**

- CSR-SSE integration can improve cooperative governance. Union ministries, state governments, regulators, corporates and civil society can work through a common platform. However, political influence over NGO selection and project location must be carefully prevented.

- **8.3 Legal Dimension**

- The reform requires harmonisation between CSR law, securities regulation, tax provisions and NGO compliance rules. Legal clarity is essential so that corporates know whether their SSE-based contributions qualify as CSR expenditure.

- **8.4 Ethical Dimension**

- The ethical concern is whether CSR serves communities or corporate image. A transparent SSE framework can reduce tokenism by linking funds with verified outcomes. However, the dignity and agency of beneficiaries must remain central.

- **8.5 International Dimension**

- Several countries experimented with Social Stock Exchanges but struggled due to lack of stable funding and weak pipelines. India has a unique advantage because of mandatory CSR and stronger securities regulation. If successful, India can offer a Global South model for social finance.

- **8.6 Economic Dimension**

- CSR-SSE integration can convert idle social allocations into productive development finance. It may improve human capital, local livelihoods, health outcomes and productivity. In the long run, social spending can support inclusive growth and reduce fiscal pressure on the state.

- **Linkages with NCERTs**

- **Class 6–8: Social and Political Life**

- Chapters on diversity, government, local self-government, equality and public facilities help students understand why social spending must reach all citizens, especially vulnerable groups.

- **Class 9 Political Science: Democratic Politics-I**

- Topics such as democracy, constitutional design and rights connect with the idea that development finance must be accountable, inclusive and rights-oriented.

- **Class 10 Political Science: Democratic Politics-II**

- Chapters on federalism, gender, power-sharing and outcomes of democracy are directly linked. CSR-SSE reform requires Centre-State coordination and should improve democratic outcomes.

- **Class 11 Political Science: Indian Constitution at Work**

- Directive Principles, rights, executive accountability, legislature and federalism provide the constitutional base for welfare governance and social justice.

- **Class 11 Economics: Indian Economic Development**

- Chapters on poverty, human capital formation, rural development, employment and infrastructure directly relate to CSR deployment and outcome-based development.

- **Class 12 Political Science: Politics in India Since Independence**

- Themes such as planned development, decentralisation, social movements and welfare politics help students understand how development delivery has evolved.

- **Class 12 Sociology: Indian Society and Social Change**

- Civil society, marginalisation, social inequality, community development and social movements connect strongly with NGO-led development and social accountability.

- **Class 12 Economics: Development Experience**

- Comparative development, liberalisation, public finance and human development provide the economic foundation for understanding social impact capital.

- **Linkages with UPSC CSE Syllabus**

- **GS Paper II**

- This issue connects most strongly with governance, transparency, accountability, civil society, NGOs, welfare schemes, pressure groups, citizen charters and institutional mechanisms for public service delivery.

- **GS Paper III**

- It links with inclusive growth, mobilisation of resources, capital markets, Indian economy, investment models, employment, social infrastructure and regional development.

- **GS Paper IV**

- It has strong relevance for ethics in governance, corporate ethics, probity, accountability, public service values, transparency and ethical use of public-purpose funds.

- **Essay Paper**

- The theme is useful for essays on inclusive development, ethical capitalism, welfare state, technology and governance, civil society, philanthropy, social justice and the future of development finance.

- **Public Administration Optional**

- It connects with New Public Management, public-private partnership, social audit, accountability institutions, governance networks and citizen-centric administration.

- **Sociology Optional**

- It connects with civil society, voluntary organisations, social capital, inequality, development, state-society relationship and marginalised communities.



- **Way Forward**

- **12.1 Recognise SSE-Based CSR Spending**

- Corporate subscription to eligible instruments issued by SSE-listed non-profit organisations should be recognised as valid CSR expenditure. This single reform can connect mandated CSR capital with a regulated social finance platform.

- **12.2 Create a Unified Social Performance Rating**

- A SEBI-recognised rating system can help companies identify credible organisations. However, the rating must be affordable, transparent and sensitive to small grassroots NGOs.

- **12.3 Build NGO Capacity**

- Capacity-building grants should be given to smaller NGOs for audit, disclosure, digital reporting, impact assessment and governance training. Without this, the SSE may become an elite platform.

- **12.4 Establish a National CSR Registry**

- A real-time district-wise CSR registry should map where money is going and where development needs are highest. This can help reduce regional concentration.

- **12.5 Link State Demand Registries**

- State governments and district administrations should upload priority development needs. CSR committees can then align funds with verified local demands.

- **12.6 Strengthen Outcome Measurement**

- A National Social Return on Investment framework should be created, but it must combine quantitative indicators with qualitative field verification.

- **12.7 Promote Aspirational District Funding**

- CSR funds routed to backward districts may be given recognition, ranking benefits or disclosure advantages. The aim should be to move money from already-developed clusters to high-need areas.

- **12.8 Ensure Vigilance and Public Oversight**

- A complaint portal, independent audits, proportionate penalties and whistleblower protection can prevent misuse.

- **12.9 Keep Community Participation Central**

- Local communities should help define needs, monitor delivery and verify outcomes. Development cannot be imposed from boardrooms alone.

- **UPSC CSE Mains – GS Paper II**

- **2014 – NGOs and Development**

Question theme: Role of NGOs in development activities and concerns about their functioning, accountability and external influence.

- **2015 – SHGs and Poverty Alleviation**

Question theme: Role of self-help groups and voluntary organisations in poverty reduction and women empowerment.

- **2017 – Welfare Delivery and Outcomes**

Question theme: Effective implementation of welfare policies and the need to synchronise beneficiary identification with outcomes.

- **2020 – Microfinance, Women and Poverty**

Question theme: Whether microfinance can help break the vicious cycle of poverty, gender inequality and malnutrition.

- **2021/2022 – Governance and Welfare**

Question themes: Delivery of welfare schemes, accountability, vulnerable sections and the role of institutional mechanisms.

- **UPSC CSE Mains – GS Paper III**

- **Inclusive Growth and Resource Mobilisation**

Repeated themes: Inclusive growth, mobilisation of resources, investment models, infrastructure, human capital and public-private partnerships.

- **Economic Development and Social Sector**

Repeated themes: How economic growth must translate into education, health, employment, skill development and regional balance.

- **UPSC CSE Mains – GS Paper IV**

- **Corporate Governance and Ethics**

Question themes: Corporate governance, ethical responsibility of business, probity, accountability and transparency.

- **Public Service Values**

Question themes: Integrity, objectivity, accountability, compassion, public interest and ethical governance.

- **Probity in Governance**

Question themes: Measures to ensure transparency, accountability and prevention of misuse of public resources.

Countering resource nationalism

Indonesia's move to channelise coal exports through a state entity must make India calibrate its energy strategy

CAPITAL
IDEAS.



RICHA MISHRA

The current geopolitical uncertainty has triggered an energy market disruption that is benefiting coal.

No surprises then that the major coal-exporting nations are aggressively leveraging the current crisis to maximise revenue, capture market share, and more importantly dictate trade terms, as the Asian and European utilities swivel away from expensive, bottlenecked natural gas.

Indonesia's move to "nationalise coal export activity" has caught media attention. According to reports, Jakarta is moving to become the single selling point for Indonesia's thermal coal exports. If and when implemented this would end the current mechanism of international buyers negotiating directly with the miners and traders in that country.

It aims to centralise exports of natural resources, including coal, crude palm oil and nickel ferro alloys. According to reports, all Indonesian coal exports to foreign buyers will be handled by a single state-owned enterprise (SOE).

Should Indian players worry about this move?

Historically, Indian power plants and traders have negotiated directly with private Indonesian miners to secure low-cost, low-ash thermal coal. Reports last week said, Indonesian President Prabowo Subianto has said that his government will mandate that exports of palm oil, coal, and ferroalloys be conducted through a state agency, as the country seeks to tighten its control over its natural resources and boost state revenue.

Though Indonesia is among the largest suppliers of thermal coal to India, Jakarta's plans will not fructify overnight. To minimise an immediate trade freeze, the Indonesian government has structured a strict, highly compressed three-month transition window, according to reports.



ENERGY SECURITY. India must work towards ramping up domestic coal production

India relies on Indonesia to sustain its grid and vital industrial sectors, making the volume, quality, and logistics of this trade highly critical. Unlike Australia, which sells premium coking coal for Indian steelmaking, Indonesia exports low-to-medium calorific value non-coking coal. This is used exclusively for electricity generation in Thermal Power Plants (TPPs) and kiln-firing in cement factories. Several coastal Indian power plants are designed and configured specifically to run on imported coal mixtures.

The Power Ministry routinely mandates utilities to import coal for blending up to 10 per cent of their total fuel mix to safeguard against domestic mine flooding during monsoon seasons.

INDIA'S MOVES

India must maximise domestic alternatives and widen its supplier base to shield itself from potential Indonesian supply chain shocks, price floor enforcement, and newly proposed

Historically, Indian power plants and traders have negotiated directly with private Indonesian miners to secure low-cost, low-ash thermal coal

export tariffs. India has successfully pushed its domestic coal production over 1 billion tonnes. Coal India Ltd (CIL) is actively working to displace imported thermal volumes by flooding local auctions and expanding production pathways.

According to Tracy Shuchart, Senior Economist, NinjaTrader Group, LLC, "India is less exposed to this than the headline numbers suggest."

According to Coal Ministry data, total coal imports fell 7.9 per cent in FY25 to 243.62 million tonnes, saving roughly \$7.93 billion in foreign exchange. "The number that matters most for the Indonesian story is buried inside that release.

Coal imports for blending by thermal power plants dropped 41.4 per cent year-on-year in FY25 even as coal-based power generation grew 3 per cent. That is the precise demand category Indonesian low CV coal serves, and India already cut it by more than 40 per cent in a single year," she pointed out.

Domestic production crossed 1 billion tonnes in FY25 and the government's stated target is zero substitutable coal imports by FY26. "On supplier mix, Bascosta vessel data shows Indonesia's share of India's seaborne imports fell from roughly 60 per cent in 2024 to 40.3 per cent in the first nine months of 2025, with Russian and South African cargoes hitting record highs to replace Indonesian volumes,"

Shuchart said. The government must be credited for working towards a policy to safeguard against such policy disruptions.

"If Jakarta's single SOE model creates supply disruption or enforces price floors above market, India accelerates a substitution already well underway. The buyers genuinely cornered by this policy are the Philippines and Bangladesh, where Indonesian dependency runs much deeper," she said.

The proposed move by Indonesia reflects a growing trend of resource nationalism across commodity-exporting economies, where governments are seeking greater control over pricing, revenues, and strategic natural resources.

Mexico and Chile are tightening state control over lithium, and oil-producing nations are using state entities to influence hydrocarbon production and pricing.

Energy and mineral resources are increasingly being viewed not just as commercial commodities, but as strategic national assets linked to economic security and geopolitical influence.

This may improve tax revenues and national bargaining power, but it also creates execution risk, say critics. The success of this policy will depend on whether it can be implemented without disrupting shipments, politicising allocations, scaring buyers, and making coal pricing less transparent.

The Coal Ministry estimates that overall domestic coal demand will scale up to 1.5 billion tonnes by 2029-30. Major Indian buyers of Indonesian coal are divided into two groups: conglomerate power producers that burn the coal directly in their coastal mega-plants, and specialised commodity trading firms that import the coal in bulk to distribute to mid-sized domestic industries.

Indian procurement strategies will have to pivot heavily toward alternative origins, such as Australia or South Africa, or sharply accelerate domestic coal production.

India's push to reduce dependence on imported coal to strengthen energy security is also crucial.

- **Key Terms and Explanations**

- **Thermal Coal (or Non-Coking Coal):** This is the grade of coal used primarily for electricity generation in thermal power plants. Its energy content is measured in calorific value (low to medium). Unlike coking coal, it cannot be used for steelmaking due to its impurities. *Example: The coal Indonesia exports to India for power generation is thermal coal.*
 - **Coking Coal (or Metallurgical Coal):** This is a high-grade, low-impurity coal that is heated in the absence of air to produce coke. Coke is a crucial fuel and reducing agent in blast furnaces for steel manufacturing. *Example: Australia is a major supplier of premium coking coal to India's steel industry.*
 - **Resource Nationalism:** It is a political and economic tendency where a country seeks greater state control over its natural resources. This often involves renegotiating contracts, increasing royalties, export restrictions, or outright nationalisation to capture more revenue or assert strategic sovereignty. *Example: Indonesia's move to centralise coal exports is a classic case of resource nationalism.*
 - **State-Owned Enterprise (SOE):** A legal entity created by a government to undertake commercial activities on its behalf. The SOE can be either wholly or partially owned by the government. In this context, the Indonesian SOE would become the single seller of all thermal coal exports. *Example: Coal India Limited (CIL) is an Indian SOE in the coal sector.*
 - **Import Blending:** A practice, especially in India, where thermal power plants are mandated to mix a certain percentage (e.g., 4-10%) of imported coal with domestic coal. This is done to improve the overall calorific value and reduce the ash content of the fuel mix, ensuring optimal boiler efficiency and reducing fly-ash disposal issues. It is a strategic tool to manage domestic coal quality constraints.
 - **Seaborne Imports:** This refers to goods, particularly commodities like coal and oil, that are transported across oceans via bulk carrier vessels. The dynamics of seaborne trade are heavily influenced by freight rates, port infrastructure, and geopolitical control of strategic chokepoints (e.g., Malacca Strait).
 - **Low-Calorific Value (CV) Coal:** Coal with a lower energy output per kilogram. Indonesian coal typically has a low to medium CV (3,500-5,500 kcal/kg). It is cheaper but requires larger volumes to generate the same amount of power as high-CV coal from sources like Australia or South Africa.
 - **Zero Substitutable Coal Imports:** A policy target where a nation aims to eliminate imports of coal that can be replaced by domestic production. The term "substitutable" is key, as it implies imports for which the country has a domestic alternative. This is different from "zero total imports," as some specialized grades (like low-ash coking coal) may still need to be imported.
-

- **Main Arguments and Substantive Parts**

- **Core Argument**

- The central issue is that energy commodities are no longer functioning only through market logic. Exporting countries are trying to use natural resources as instruments of revenue, control and geopolitical influence. A state-controlled coal export system may allow Indonesia to bargain harder, regulate export prices, and extract more value from foreign buyers.

- **India's Immediate Concern**

- India has historically relied on Indonesia for low-cost thermal coal. Many Indian coastal power plants and industrial users are accustomed to Indonesian supply because of its quality profile, shipping convenience and commercial flexibility. If Indonesia shifts to a centralised export model, Indian buyers may face less direct negotiation power, tighter contractual conditions and possible price rigidity.

- **Why India Is Not Fully Vulnerable**

- India's vulnerability is real but not extreme. Domestic coal production has crossed a major threshold, and imports for blending by thermal power plants have sharply declined. This suggests that India has already begun reducing dependence on imported thermal coal.

- **Hidden Strategic Message**

- The real lesson is not only about coal. It shows that **energy security depends on domestic capacity, supplier diversification, logistics resilience and policy foresight**. A country that depends excessively on one supplier becomes vulnerable to that supplier's domestic policy choices.

- **Counterargument**

- Some may argue that state control can stabilise exports, reduce illegal trade, and ensure predictable supply. But from a buyer's perspective, it can also create opacity, bureaucratic delay and political bargaining.

- **Historical Evolution of the Issue**

- **Colonial Period**

- Coal became central to India's economic geography during the colonial period. Coalfields such as Raniganj, Jharia and Bokaro supported railways, industry and colonial extraction. The objective was not national energy security but imperial economic utility.

- **Post-Independence Phase**

- After 1947, coal became a foundation of India's industrialisation. The state emphasised heavy industry, public sector expansion and energy infrastructure. Coal was seen as essential for steel, railways, electricity and planned economic development.

- **Nationalisation Era**

- In the 1970s, coal mining was nationalised to prevent unscientific mining, labour exploitation and private profiteering. Coal India Limited emerged as the dominant public sector entity. This reflected the Nehruvian-socialist belief that strategic sectors should remain under public control.

- **Liberalisation and Captive Mining**

- After 1991, India gradually opened parts of the coal sector to captive mining for power, steel and cement industries. The objective was to reduce shortages and support industrial growth. However, coal block allocation controversies later exposed governance weaknesses.

- **Post-2014 Reforms**

- After the cancellation of coal block allocations by the Supreme Court, India moved towards auction-based allocation. The Coal Mines Special Provisions framework strengthened transparency. Later, commercial coal mining was opened to private players.

- **Contemporary Phase**

- Today, India is balancing three goals: energy security, environmental responsibility and economic growth. Domestic production is rising, imports are being rationalised, and renewable energy is expanding. Yet coal remains the backbone of electricity generation.

- **Global Context**

- Globally, commodity exporters are becoming more assertive. From oil to lithium and coal to nickel, states are increasingly treating resources as strategic assets rather than ordinary commodities.



ANALYSIS: GLOBAL ENERGY SHIFT & RESOURCE NATIONALISM: THE COAL DISRUPTION

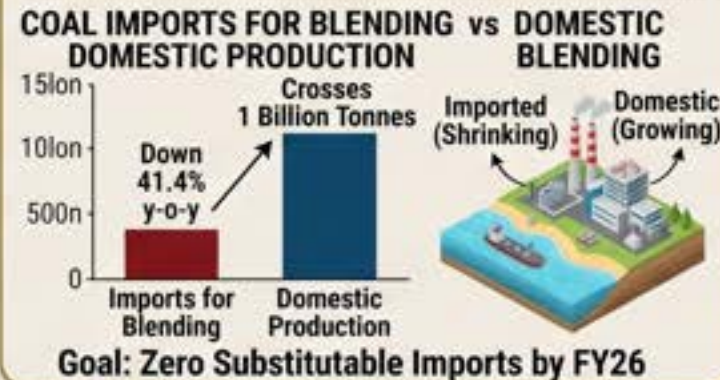
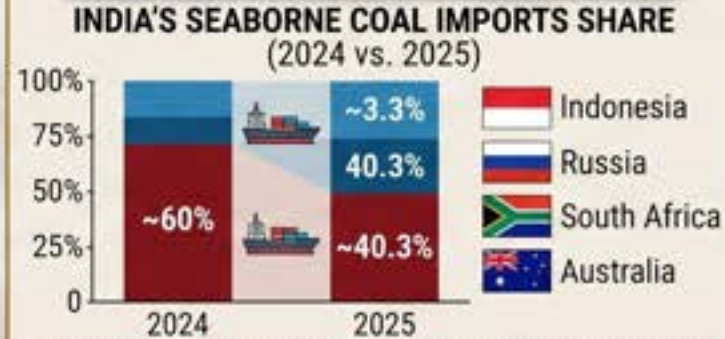
GLOBAL ENERGY CONTEXT



INDONESIA'S STATE MONOPOLY MODEL



INDIA'S STRATEGIC MITIGATION



WAY FORWARD & KEY TAKEAWAYS

- Maximize Domestic Alternatives
- Widen Supplier Base (Diversification)
- Pivots in Procurement Strategies (Conglomerates & Traders)
- Execution Risk in SOE Models (Logistics, Politics)
- UPSC Relevance: GS Paper 2 & 3 (Policies, Energy)

- **Logical and Philosophical Base**
- **Logic of the Exporting Country**
 - A resource-rich country may ask: why should private traders capture profits when national resources belong to the people? From this perspective, centralising exports through a state agency appears logical. It can increase revenue, improve monitoring, and strengthen bargaining power.
- **Logic of the Importing Country**
 - A resource-importing country like India thinks differently. Its concern is affordable and predictable access. If the exporting country controls prices and contracts, the importer faces strategic uncertainty. Therefore, India must avoid overdependence on any one country.
- **Philosophical Base: Sovereignty Over Resources**
 - The policy reflects the principle of **permanent sovereignty over natural resources**. States claim the right to control resources located within their territory. This is especially important for developing countries that historically saw their resources exploited by foreign firms.
- **Market Versus State Debate**
 - The issue revives an old debate: should strategic commodities be left to market forces, or should the state control them? Markets provide efficiency and flexibility. States provide strategic direction and revenue control. The ideal model depends on governance quality.
- **Ethics of Development**
 - There is also an ethical angle. Natural resources belong not just to present governments or companies, but to citizens and future generations. Revenue extraction must therefore be balanced with transparency, environmental responsibility and intergenerational equity.
- **Indian Philosophical Angle**
 - For India, the principle may be understood through a pragmatic lens: energy policy must serve **lok kalyan**, or public welfare. Electricity affordability, industrial stability and household access matter as much as market efficiency.

- **Multidimensional Analysis**

- **Social Dimension**

- Coal supply affects ordinary citizens through electricity availability and tariffs. A disruption in imported coal may increase generation cost, which can eventually affect households, small businesses and farmers. Reliable power is also essential for hospitals, schools, cold storage and digital services.

- **Political Dimension**

- Energy security is politically sensitive. Power shortages can create public dissatisfaction. Governments therefore prefer maintaining coal stocks, diversifying suppliers and ensuring domestic production. Resource nationalism abroad also pushes India towards strategic self-reliance.

- **Legal Dimension**

- Export centralisation, price control and state trading raise legal issues related to contracts, trade commitments and dispute resolution. For India, procurement must follow transparent procedures while protecting public interest.

- **Ethical Dimension**

- There is a moral balance between affordable energy today and environmental responsibility for tomorrow. India cannot deny energy access to its people, but it must avoid careless coal expansion. The ethical path is a just transition, not abrupt abandonment.

- **International Dimension**

- The issue reflects a changing global order where commodity exporters are gaining bargaining power. India must use diplomacy, trade agreements, long-term contracts and strategic partnerships to reduce vulnerability.

- **Economic Dimension**

- Coal import disruption can affect foreign exchange outgo, power generation cost, industrial competitiveness and inflation. Domestic substitution saves forex but requires investment in mining, railways, washeries, cleaner technology and environmental management.

- **Strategic Dimension**

- Energy independence strengthens national autonomy. A country that controls its energy supply has greater freedom in foreign policy and economic planning.

- **Linkages with NCERTs**
- **Class 8 Geography: Resources**
 - This chapter explains natural resources, their distribution, conservation and responsible use. Coal can be linked to the idea that resources become valuable due to technology, demand and accessibility.
- **Class 10 Geography: Minerals and Energy Resources**
 - This is the strongest NCERT linkage. It covers coal, petroleum, natural gas, thermal power, energy conservation and non-conventional sources. Students can connect this issue directly with India's coal dependence and energy transition.
- **Class 10 Economics: Sectors of the Indian Economy**
 - Coal supports the secondary sector through power, cement, steel and manufacturing. Energy disruptions affect industrial output and employment.
- **Class 11 Indian Economic Development**
 - Themes such as infrastructure, sustainable development and economic reforms are relevant. Coal policy can be linked with growth, poverty reduction, power access and environmental limits.
- **Class 11 Geography: India — Physical Environment**
 - Coalfields, resource distribution, monsoon impact on mining and regional development can be connected here.
- **Class 12 Geography: India — People and Economy**
 - This book discusses resources, industries, transport and regional planning. Coal logistics, ports and railway evacuation are highly relevant.
- **Class 12 Political Science: Contemporary World Politics**
 - Energy geopolitics, resource nationalism and strategic autonomy can be connected with global power politics.
- **Class 12 Economics: Macroeconomics**
 - Coal imports affect current account balance, inflation, exchange rate pressure and public finance. Energy price shocks can disturb macroeconomic stability.



- **Linkages with UPSC CSE Syllabus**
- **GS Paper 1**
 - Resource distribution, industrial location and human-environment interaction are relevant. Coalfields, coastal power plants and energy corridors can be mapped geographically.
- **GS Paper 2**
 - International relations is a strong linkage. The issue connects with India–Indonesia relations, trade diplomacy, resource nationalism, strategic autonomy and global energy governance.
- **GS Paper 3**
 - This is the strongest paper. It directly links with energy security, infrastructure, Indian economy, industrial growth, environment, disaster resilience, logistics, and external sector vulnerability.
- **GS Paper 4**
 - Ethics enters through intergenerational equity, environmental responsibility, public welfare, transparency in resource governance and balancing development with sustainability.

- **Way Forward**
- **1. Reduce Substitutable Coal Imports**
 - India should identify coal imports that can be replaced by domestic production without affecting plant efficiency. The focus should be on substitutable thermal coal, not critical coking coal.
- **2. Diversify Supplier Base**
 - India must avoid excessive dependence on one supplier. South Africa, Russia, Australia and other sources can be part of a diversified procurement basket, depending on price, freight and quality.
- **3. Strengthen Domestic Coal Logistics**
 - Production alone is not enough. Railway corridors, port handling, first-mile connectivity, washeries and storage infrastructure must improve. Coal lying at pithead without transport is not energy security.
- **4. Build Strategic Coal Resilience**
 - India can maintain calibrated coal stocks at power plants, especially before monsoon. Stocking policy should be based on plant location, import dependence and grid importance.
- **5. Promote Cleaner Coal Use**
 - While coal remains necessary, India should reduce its environmental cost through coal washing, supercritical technology, emission control systems and mine reclamation.
- **6. Accelerate Renewable Energy and Storage**
 - The long-term answer is not more coal alone. India must expand solar, wind, pumped hydro, battery storage and green hydrogen. Renewable expansion reduces future vulnerability to coal diplomacy.
- **7. Use Energy Diplomacy**
 - India should engage Indonesia through diplomatic and trade channels to protect long-term supply stability. Energy diplomacy must become as important as defence and trade diplomacy.
- **8. Protect Consumers**
 - Any rise in coal cost should not be blindly passed to poor consumers. Tariff policy must balance utility viability and consumer welfare.
- **9. Develop Better Data Systems**
 - India needs real-time coal demand, stock, import, freight and price dashboards. Good policy begins with good information.
- **10. Just Transition Planning**
 - Coal-producing regions need future planning. As renewables rise, coal workers and mining districts must be supported through skilling, diversification and local development.

- **UPSC CSE Mains — GS Paper 3**

- **2013 — Energy Security**

Question theme: Importance of atomic energy in the context of fossil fuel scarcity; raw material and safety issues.

Relevance: Helps compare coal dependence with alternative energy pathways.

- **2014 — Climate and Energy Needs**

Question theme: Carbon credits, clean development mechanism and India's energy needs.

Relevance: Useful for linking coal use with climate responsibility.

- **2015 — Solar Energy and Thermal Power**

Question theme: Falling solar costs and implications for thermal power producers.

Relevance: Directly connects coal-based power with renewable transition.

- **2016 — Renewable Energy Targets**

Question theme: Status and targets of renewable energy in India.

Relevance: Helps frame coal as a bridge fuel, not a permanent solution.

- **2017 — Energy Security and West Asia**

Question theme: India's energy security and cooperation with West Asian countries.

Relevance: Though focused on oil and gas, the logic applies to coal import dependence too.

- **2018 — Affordable and Sustainable Energy**

Question theme: Access to affordable, reliable, sustainable and modern energy as a condition for development.

Relevance: Strongly connected with SDG 7 and India's coal-renewable balance.

- **2021 — COP26 and India's Commitments**

Question theme: Outcomes of COP26 and India's commitments.

Relevance: Coal policy must be understood alongside climate commitments.

- **2022 — Renewable Energy by 2030**

Question theme: Whether India can meet 50% of energy needs from renewable energy by 2030.

Relevance: Directly relevant to reducing coal dependence.

- **2023–2024 — Economy, Infrastructure and Sustainability Themes**

Question themes: Infrastructure financing, climate resilience, growth, manufacturing and environmental governance.

Relevance: Coal links with power supply, manufacturing competitiveness and climate transition.



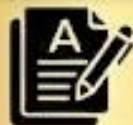
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