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ARBITRATION IN INDIA: RECENT DEVELOPMENTS AND KEY CHALLENGES

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ABSTRACT

Arbitration has gained significant importance in India as an alternative method for resolving commercial disputes. In recent years, the Indian government has taken several initiatives to promote arbitration and make the country a preferred arbitration hub. This research explores the recent developments in arbitration in India and identifies the key challenges that need to be addressed for its successful implementation. It provides an overview of the legal framework, institutional support, and judicial approach towards arbitration, highlighting the changes introduced to streamline the arbitration process. Additionally, it analyzes the challenges faced by the Indian arbitration system, including issues related to enforcement, judicial intervention, excessive delays, and the need for capacity building. The article concludes with recommendations to address these challenges and further strengthen the arbitration regime in India.

KEYWORDS: Arbitration, India, Commercial Disputes, Legal Framework, Institutional Support, Judicial Intervention, Enforcement, Delays, Capacity Building

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INTRODUCTION

Arbitration has emerged as an important alternative dispute resolution mechanism globally, including in India. Over the past few decades, India has made significant efforts to promote arbitration as a preferred method for resolving commercial disputes. The aim has been to provide a quicker, more efficient, and cost-effective means of settling disputes, thereby attracting foreign investments and improving the ease of doing business in the country.

In recent years, India has witnessed several key developments in its arbitration landscape. These developments have been driven by both legislative reforms and judicial interventions, which seek to align the country's arbitration framework with international standards and address some of the longstanding challenges faced by parties involved in arbitration proceedings.

This paper aims to explore the recent developments and key challenges surrounding arbitration in India. It will examine the significant legislative changes introduced by the Indian government, such as the Arbitration and Conciliation (Amendment) Act, 2019, which aimed to enhance the efficiency and credibility of the arbitration process. Additionally, it will analyze landmark judicial decisions that have shaped the arbitration jurisprudence in the country.

Despite these positive developments, several challenges persist in India's arbitration regime. This paper will shed light on some of the key challenges faced by parties engaging in arbitration proceedings, such as delays in the enforcement of arbitral awards, the issue of excessive judicial intervention, and the lack of adequate infrastructure and expertise.

By analyzing the recent developments and challenges, this paper aims to provide a comprehensive understanding of the arbitration landscape in India. It will highlight the progress made, the areas that require further attention, and the potential implications for businesses and investors seeking to resolve disputes through arbitration in India.

HISTORICAL BACKGROUND

Arbitration in India has a long historical background that has evolved over time. Let's explore the key milestones and developments in the history of arbitration in India:

Ancient and Medieval Periods: Arbitration as a method of dispute resolution has deep roots in ancient India. During this time, disputes were often resolved through the intervention of a neutral third party or a council of elders who would hear both parties and render a decision. The process was based on principles of fairness and justice. 2

¹ Evolution of Arbitration - Gravitas Legal

² Ancient History of Arbitration | VIA Mediation Centre

British Colonial Era: The modern arbitration framework in India can be traced back to the British colonial era. The British introduced formal legal mechanisms for arbitration through the Indian Arbitration Act of 1899. This legislation incorporated the provisions of the English Arbitration Act of 1889, which emphasized the enforceability of arbitration agreements and the finality of arbitral awards.³

Independence and Post-Independence Era: After India gained independence in 1947, the Indian Arbitration Act of 1940 came into force. This act was largely based on the English Arbitration Act of 1934 and continued to govern arbitration in India until it was repealed and replaced by the Arbitration and Conciliation Act, 1996.⁴

The Arbitration and Conciliation Act, 1996: The Arbitration and Conciliation Act, 1996 is the current governing legislation for arbitration in India. It was enacted to align Indian arbitration laws with international standards, particularly the UNCITRAL Model Law on International Commercial Arbitration. The act provides a comprehensive framework for domestic and international arbitrations, and it also recognizes and enforces foreign arbitral awards.⁵

Judicial Interpretation: The Indian judiciary has played a crucial role in shaping arbitration law in India through various landmark judgments. The Supreme Court of India has consistently adopted a pro-arbitration approach and has interpreted the provisions of the Arbitration and Conciliation Act, 1996, in a manner that promotes party autonomy and limits judicial interference in arbitration proceedings.⁶

Amendments and Reforms: Over the years, the Arbitration and Conciliation Act, 1996, has undergone amendments to address practical challenges and improve the efficiency of arbitration proceedings. In 2015, significant amendments were made to the act to expedite arbitration, reduce court intervention, and promote institutional arbitration.⁷

International Arbitration Centers: In recent years, India has witnessed the establishment of international arbitration centers to promote India as a hub for international commercial arbitration. These centers, such as the Mumbai Centre for International Arbitration (MCIA) and the Delhi International Arbitration Centre (DIAC), aim to provide world-class arbitration facilities and institutional support for resolving international disputes.⁸

The historical background of arbitration in India demonstrates its evolution from traditional dispute resolution practices to a modern legal framework aligned with international standards. The Indian government's efforts to promote arbitration and the judiciary's pro-arbitration approach have contributed to the growth and development of arbitration in India.

³ Merchant Courts, Arbitration, and the Politics of Commercial Litigation in the Eighteenth-Century British Empire on JSTOR

⁴ History of Arbitration in India - Social Laws Today

⁵ India Code: Arbitration and Conciliation Act, 1996

⁶ Judicial interpretation - Wikipedia

⁷ HFW | Legislative reforms to the Indian Law on Arbitratio...

⁸ International Arbitration Institutions / Different Forums | international arbitration.in

RECENT DEVELOPMENTS IN ARBITRATION IN INDIA

Arbitration and Conciliation (Amendment) Act, 2019: The Indian government introduced significant amendments to the Arbitration and Conciliation Act in 2019 to make arbitration a more efficient and cost-effective dispute resolution mechanism. The amendments aimed to promote institutional arbitration, streamline the arbitration process, and minimize judicial intervention.⁹

Creation of the New Delhi International Arbitration Centre (NDIAC): The New Delhi International Arbitration Centre Act, 2019 was enacted to establish the NDIAC as an independent and autonomous institution for the promotion of institutional arbitration. The NDIAC aims to provide world-class infrastructure and facilities for conducting international and domestic arbitration.¹⁰

Setting up of the Mumbai Centre for International Arbitration (MCIA): The MCIA was established in 2016 as an independent, not-for-profit organization to promote institutional arbitration in India. It provides a framework for the conduct of international and domestic commercial arbitration and aims to position Mumbai as a major arbitration hub.¹¹

Fast-track procedure for arbitration: The 2019 amendment introduced a fast-track procedure for arbitration cases where the value of the dispute does not exceed INR 3 crore (approximately USD 400,000). This expedited process aims to resolve disputes within six months.¹²

Online filing of arbitration cases: The COVID-19 pandemic accelerated the adoption of technology in dispute resolution. Indian courts and arbitration centers embraced online platforms for filing arbitration cases and conducting virtual hearings, allowing parties to participate remotely.¹³

Expansion of the scope of public policy: The 2019 amendment clarified that an award can be set aside if it is contrary to the fundamental policy of Indian law or the most basic notions of morality or justice. This provision expands the scope of public policy as a ground for challenging an arbitral award.

Pre-arbitration mediation: The Indian government has encouraged parties to attempt mediation before initiating arbitration proceedings. The 2019 amendment provides that if a party files an application for arbitration, the court must refer the parties to mediation, unless it finds that the dispute is not capable of settlement by mediation.¹⁴

⁹ The Arbitration and Conciliation (Amendment) Bill, 2019 (prsindia.org)

¹⁰ The New Delhi International Arbitration Centre Bill, 2019 (prsindia.org)

¹¹ mcia.org.in/wp-content/uploads/2016/05/MCIA-Report-4th-Edition.pdf

¹² An Overview of Fast Track Arbitration Proceedings in India | VIA Mediation Centre

¹³ File your Request for Arbitration - ICC - International Chamber of Commerce (iccwbo.org)

¹⁴ Pre-Arbitration Procedure: Mandatory or Directory? | SCC Blog (scconline.com)

International Commercial Arbitration: The Indian judiciary has shown an increased pro-arbitration approach by recognizing and enforcing foreign arbitral awards in line with international conventions such as the New York Convention. This approach has bolstered India's reputation as an arbitration-friendly jurisdiction.¹⁵

The Arbitration and Conciliation (Amendment) Bill, 2021: It seeks to amend the Arbitration and Conciliation Act, 1996 to

- (i) provide for automatic stay of awards in certain cases and
- (ii) to specify by rules the qualifications, experience and criteria for recognition of arbitrators.
 - It has sought to provide that interested parties may seek an unconditional stay on the enforcement of arbitral awards in cases where "the arbitral agreement or contract is motivated by fraud or corruption".
 - Also, the 8th Schedule of the Act which contained the qualifications required for recognition of arbitrators has also been removed.¹⁶
 - A proviso has been added to section 36 of the Arbitration Act and will be applicable retrospectively from 23rd October, 2015. As per this amendment, if the Court is satisfied that a prima facie case is made out that the arbitral agreement or contract which is the basis if the award has been induced or affected by fraud or corruption, it shall be set aside without delay till the disposal of the challenge to the award under section 34. The bet will bar the prize.¹⁷

LEGAL FRAMEWORK FOR ARBITRATION IN INDIA

In India, the legal framework for arbitration is primarily governed by the Arbitration and Conciliation Act, 1996 (the Act). The Act is based on the UNCITRAL Model Law on International Commercial Arbitration and provides a comprehensive set of rules and regulations for both domestic and international arbitration proceedings in India.¹⁸

Key provisions and features of the legal framework for arbitration in India include the following:

Arbitration Agreement: The Act recognizes the autonomy of parties to choose arbitration as a method of dispute resolution. An arbitration agreement must be in writing and can be in the form of an arbitration clause in a contract or a separate agreement.¹⁹

Arbitral Tribunal: The Act provides for the establishment of an arbitral tribunal, which is responsible for resolving disputes through arbitration. The tribunal can be a sole arbitrator or a panel of arbitrators, as agreed upon by the parties.

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¹⁵ International commercial arbitration system : a critical analysis - iPleaders

¹⁶ The Arbitration and Conciliation (Amendment) Bill, 2021 (prsindia.org)

¹⁷ Ibid

¹⁸ Arbitration law in India: Everything you want to know | VIA Mediation Centre

¹⁹ Arbitration Procedures and Practice in India: Overview | Practical Law (thomsonreuters.com)

Appointment of Arbitrators: The Act sets out procedures for appointing arbitrators. If the parties fail to agree on the appointment of an arbitrator, the court can intervene and make the appointment. The Act also contains provisions for challenging the appointment of an arbitrator in certain circumstances.

Conduct of Arbitral Proceedings: The Act outlines the conduct of arbitral proceedings, including the powers of the tribunal, submission of statements and evidence, oral hearings, and the conduct of witnesses and experts. The Act provides flexibility to the tribunal to determine the procedure to be followed, subject to the agreement of the parties.²⁰

Enforcement of Arbitral Awards: The Act provides for the recognition and enforcement of arbitral awards, both domestic and international. An award, once rendered, can be enforced in the same manner as a court decree. Limited grounds for challenging an arbitral award are provided under the Act.

Court Assistance: The Act allows parties to seek certain forms of court assistance in relation to arbitration proceedings. This includes the power of the court to grant interim measures, assist in the appointment of arbitrators, and assist in the collection of evidence.

Institutional Arbitration: In addition to the provisions of the Act, India has several institutional arbitration bodies, such as the Mumbai Centre for International Arbitration (MCIA) and the Delhi International Arbitration Centre (DIAC), which provide administrative services and facilities for arbitration proceedings.²¹

INSTITUTIONAL SUPPORT FOR ARBITRATION

Institutional support for arbitration plays a crucial role in ensuring the effective and efficient resolution of disputes through arbitration. Various organizations provide institutional support by establishing rules, procedures, and services that facilitate the arbitration process.²² Here are some key aspects of institutional support for arbitration:

Arbitral Institutions: These organizations, such as the International Chamber of Commerce (ICC), the London Court of International Arbitration (LCIA), and the American Arbitration Association (AAA), offer institutional support by administering arbitration cases. They provide a framework for the arbitration process, including appointment of arbitrators, case management, and administration of fees.²³

Rules and Procedures: Arbitral institutions develop and maintain sets of rules and procedures that govern the arbitration process. These rules address various aspects of arbitration, including the appointment and qualifications of arbitrators, the conduct of proceedings, the determination of arbitral awards, and the enforcement of awards.

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²⁰ Ibio

²¹ AN OVERVIEW OF THE LAW ON ARBITRATION (wire-icai.org)

²² Access LexisNexis guidance content | LexisNexis UK

²³ Institutional Arbitration (jusmundi.com)

Case Administration: Institutional support includes administrative services to manage the arbitration process effectively. This may involve maintaining case files, organizing hearings, facilitating communication between parties and arbitrators, and managing the financial aspects of the arbitration, such as the collection and distribution of fees.²⁴

Appointment of Arbitrators: Many arbitral institutions maintain panels of qualified arbitrators from various jurisdictions and fields of expertise. They offer assistance in the appointment of arbitrators, ensuring that parties have access to competent and impartial individuals to hear their disputes.

Facilities and Resources: Arbitral institutions often provide physical facilities, such as hearing rooms and conference spaces, to conduct arbitration proceedings. They may also offer access to research resources, libraries, and other amenities to support the arbitration process.

Mediation and Alternative Dispute Resolution (ADR) Services: Some arbitral institutions also provide mediation and other ADR services alongside arbitration. These mechanisms offer parties additional options to resolve their disputes outside of formal arbitration proceedings.²⁵

Training and Education: Many institutions offer training programs, workshops, and seminars to educate practitioners, arbitrators, and parties on various aspects of arbitration. These initiatives help enhance the understanding of arbitration procedures, rules, and best practices.

Code of Ethics and Professional Standards: Arbitral institutions often have codes of ethics and professional standards that arbitrators and parties are expected to follow. These guidelines help maintain integrity, professionalism, and fairness in the arbitration process.²⁶

Institutional support for arbitration contributes to the credibility and efficiency of the process, as well as the enforceability of arbitral awards. Parties benefit from the expertise, neutrality, and administrative services provided by arbitral institutions, leading to a more reliable and effective means of resolving disputes.

JUDICIAL APPROACH TOWARDS ARBITRATION

The judicial approach towards arbitration varies across different jurisdictions, as it is influenced by national laws and legal systems. However, there are some general principles and trends that can be observed.²⁷

Supportive of Arbitration: In many jurisdictions, courts tend to be supportive of arbitration as an alternative dispute resolution mechanism. This is because arbitration offers parties the flexibility to resolve their disputes outside of the traditional court system, and it is seen as promoting efficiency and party autonomy.²⁸

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²⁴ Ibid

²⁵ What is ADR? | NYCOURTS.GOV

²⁶ Code of Ethics: Understanding Its Types, Uses Through Examples (investopedia.com)

²⁷ Judicial Intervention in Arbitration (readcube.com)

²⁸ Arbitration Services | PCA-CPA

Limited Judicial Intervention: Courts generally adopt a policy of limited intervention in arbitration proceedings. They respect the principle of party autonomy, which means that parties are free to choose their arbitrators, determine the procedure, and agree on the applicable law. Courts are reluctant to interfere with the decisions of arbitrators, including their findings of fact and interpretation of the law.²⁹

Enforcement of Arbitral Awards: Courts play a crucial role in the enforcement of arbitral awards. The primary purpose of arbitration is to obtain a final and binding award, and courts typically uphold this principle by enforcing arbitral awards in accordance with national and international laws. The grounds for setting aside or refusing enforcement of an arbitral award are generally limited and specified by law.³⁰

Judicial Review of Arbitration Agreements: Courts may review the validity and enforceability of arbitration agreements. They ensure that the agreement meets the requirements of the applicable arbitration law and that it is not unconscionable or tainted by fraud or duress. If a court finds an arbitration agreement to be valid, it will generally stay any court proceedings and refer the parties to arbitration.³¹

Assistance in Arbitral Proceedings: Courts may provide assistance to arbitrators and parties in conducting arbitration proceedings. This includes granting interim measures, such as injunctions or the appointment of emergency arbitrators, and ruling on procedural matters when necessary. However, such assistance is typically limited and designed to support the arbitration process rather than substitute for it. 32

Set Aside Proceedings: In some jurisdictions, parties may seek to set aside an arbitral award before the national courts. The grounds for setting aside an award are generally limited and may include procedural irregularities, lack of jurisdiction, or violation of public policy. Courts conduct a review of the award but do not engage in a full re-examination of the merits.³³

KEY CHALLENGES IN INDIAN ARBITRATION

Indian arbitration faces several key challenges that hinder its efficient and effective functioning. Some of the prominent challenges include:

Overburdened judicial system: The Indian judiciary is burdened with a high volume of cases, resulting in delays in resolving arbitration-related matters. The backlog of cases often leads to significant delays in the enforcement of arbitral awards and defeats the purpose of arbitration as a quick and efficient dispute resolution mechanism.34

²⁹ Scope of Judicial Interpretation in Arbitration - iPleaders

³⁰ Enforcement of Arbitral Awards (mondag.com)

³¹ Judicial review on arbital awards in india (legalservicesindia.com)

³² Court Assistance in taking evidence | Arbitration Act, 1940 | Bare Acts | Law Library | AdvocateKhoj

³³ Court Discretion in Indian Setting-aside Proceedings: Modification v. Doing "Complete Justice" - Kluwer Arbitration Blog

³⁴ Challenges for Arbitration in India - iPleaders

Lack of specialized arbitration benches: Arbitration-related matters in India are generally handled by regular courts, which may lack specialized knowledge in arbitration law and practice. This can lead to inconsistent decisions and delays in the resolution of disputes, as judges may require time to familiarize themselves with the intricacies of arbitration.³⁵

Judicial intervention and excessive court control: Indian courts have often been criticized for excessive interference in arbitration proceedings. Frequent challenges to arbitral awards on various grounds and intervention in the appointment of arbitrators by courts undermine the autonomy and finality of arbitral proceedings, adding to the delays and costs involved.³⁶

Limited availability of skilled arbitrators: India faces a shortage of qualified and experienced arbitrators, particularly in specialized sectors such as construction, infrastructure, and international arbitration. The limited pool of arbitrators affects the quality and efficiency of arbitration proceedings, and parties may struggle to find suitable arbitrators for their disputes.³⁷

Lack of institutional support: While India has a few well-established arbitral institutions, such as the Mumbai Centre for International Arbitration (MCIA) and the Delhi International Arbitration Centre (DIAC), the overall institutional infrastructure for arbitration is relatively underdeveloped. This results in a lack of standardized procedures, administrative support, and specialized rules for different sectors, thereby affecting the credibility and efficiency of the arbitration process.³⁸

Inadequate enforcement of arbitral awards: Despite India being a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, challenges often arise in enforcing both domestic and foreign arbitral awards. This can be attributed to the complex enforcement procedures, lack of awareness among courts, and occasional protracted court battles.³⁹

Public policy considerations: Indian courts have broad discretion to set aside arbitral awards if they are found to be contrary to public policy. However, the interpretation and application of the public policy exception have been subject to differing views, leading to uncertainty and potential abuse of this ground for challenging awards.⁴⁰

Cost and time considerations: Arbitration in India can be time-consuming and expensive. Lengthy proceedings, frequent court intervention, and the involvement of senior counsel contribute to increased costs. This can deter parties, especially smaller businesses, from choosing arbitration as a preferred dispute resolution mechanism.⁴¹

³⁵ Ibid

³⁶ Judicial Control Over Administrative Action (legalserviceindia.com)

³⁷ Arbitration in India (studyiq.com)

³⁸ Ibid

³⁹ Enforcement of Arbitral Awards - iPleaders

⁴⁰ Public policy consideration – Arbitration Info (missouri.edu)

⁴¹ Ibid

Efforts are being made to address these challenges, including legislative reforms such as the Arbitration and Conciliation (Amendment) Act, 2019, which aims to streamline the arbitration process and promote institutional arbitration. However, significant progress is still required to ensure a robust and efficient arbitration ecosystem in India.

RECOMMENDATIONS FOR STRENGTHENING THE ARBITRATION REGIME

To strengthen the arbitration regime, here are some recommendations:

Enactment and Modernization of Arbitration Laws: Governments should enact comprehensive and modern arbitration laws that align with international standards, such as the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration. These laws should provide clear guidelines on arbitration procedures, enforceability of arbitral awards, and remedies available to parties.⁴²

Judicial Support and Non-Interference: Courts should adopt a pro-arbitration stance and minimize judicial interference in the arbitration process. This includes respecting party autonomy, enforcing arbitration agreements, and refraining from unnecessary intervention in the arbitral proceedings. Clear guidelines should be provided to ensure judicial support for arbitration.⁴³

Specialized Arbitration Institutions: Governments should establish or strengthen specialized arbitration institutions that can administer arbitration proceedings efficiently. These institutions should have well-defined rules, experienced arbitrators, and effective case management procedures to ensure the smooth conduct of arbitrations.44

Training and Accreditation of Arbitrators: Governments should promote the training and accreditation of arbitrators to enhance their competence and professionalism. Establishing educational programs, workshops, and certification processes for arbitrators will help ensure quality and consistency in arbitration proceedings. 45

Transparency and Efficiency: Arbitration proceedings should be conducted with transparency and efficiency. Parties should have access to relevant information, and hearings should be conducted in a timely manner. Implementing technological advancements, such as e-filing and videoconferencing, can significantly improve the efficiency of arbitration proceedings.

Mediation and Conciliation Support: Encouraging the use of mediation and conciliation alongside arbitration can help parties reach amicable settlements and reduce the burden on arbitration. Governments should promote mediation and conciliation mechanisms, provide training, and establish mediation centers to facilitate alternative dispute resolution.46

⁴⁴ Jus Mundi • Search Engine for International Law and Arbitration (jusconnect.com)

⁴² A Critical Analysis Of Arbitration Law In India (legalserviceindia.com)

⁴⁵ Arbitrato<u>r Accreditation Rules – APCAM</u>

⁴⁶ Mediation & Concilation (mca.gov.in)

Recognition and Enforcement of Awards: Governments should ensure the effective recognition and enforcement of arbitral awards. Domestic courts should uphold their obligations under international conventions, such as the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and enforce arbitral awards promptly and without undue scrutiny.⁴⁷

International Cooperation and Harmonization: Governments should promote international cooperation and harmonization of arbitration laws. Participating in international forums, supporting initiatives for harmonization of arbitration rules, and engaging in bilateral and multilateral agreements can enhance the effectiveness and consistency of the arbitration regime.⁴⁸

Investor-State Arbitration: In the context of investor-state disputes, governments should ensure the fair and transparent resolution of disputes while preserving the right to regulate in the public interest. Incorporating safeguards against frivolous claims and addressing issues related to transparency and diversity in arbitrator appointments can strengthen the investor-state arbitration regime.⁴⁹

Public Awareness and Education: Governments should undertake initiatives to raise public awareness about arbitration as a reliable and efficient method of dispute resolution. Education programs, public campaigns, and collaborations with academic institutions can help promote a better understanding of arbitration among businesses and the general public. 50

CONCLUSION

Finally, Arbitration in India has witnessed positive developments, including legislative reforms, institutional support, and a pro-arbitration approach by the judiciary. These efforts have been instrumental in promoting arbitration as a viable alternative to traditional litigation. However, challenges such as judicial delays, limited awareness, infrastructure gaps, and enforcement issues need to be addressed for India to become a global arbitration hub.

To overcome these challenges, continued efforts should focus on streamlining court processes, enhancing awareness and training programs, investing in infrastructure and technology, and strengthening enforcement mechanisms. By addressing these issues, India can further enhance its position as an attractive seat for arbitration, attracting international businesses and fostering a robust arbitration ecosystem within the country.

⁴⁷ Recognition and enforcement of Arbitral Awards in India (legalserviceindia.com)

⁴⁸ International Cooperation on Harmonisation of Technical Requirements for Registration of Veterinary Medicinal Products (VICH) | European Medicines Agency (europa.eu)

⁴⁹ UNCTAD/ITE/IIT/30

⁵⁰ Public awareness and education (endvawnow.org)