



**Economy**  
Classroom Study Material 2020

(September 2019 to September 2020)



# ECONOMY

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# 1. EMPLOYMENT, SKILL DEVELOPMENT AND LABOUR REFORMS

## 1.1. EMPLOYMENT

### Introduction

Employment is one of the key economic variables and consequently has a direct impact on economic growth and indirect effect on overall well-being of the populace.

### Status of Employment in India: Periodic Labour Force Survey Findings 2018-19

- The **Labour Force Participation Rate (LFPR)** in India has declined to 37.5% in 2018-19 from 39.5% in 2011-12 (NSSO).
- The **Worker Population Ratio (WPR)** in India has declined to 35.3% in 2018-19 from 38.6% in 2011-12 (NSSO).
- **Large Gender Gap** in labour participation and worker to population ratio:
  - For males, the LFPR is 55.6% whereas for females it is 18.6%.
  - For males, the WPR is 52.3% whereas for females it is 17.6%.
- **Average Unemployment rate** hovers around 5.8% with male unemployment rate at 6.0% and female at 5.2%.
- **Employment status of workers:**
  - **Rural areas** have higher percentage of self-employed people: About 58% of the rural workers and 37% of the urban workers are self-employed.
  - **Urban areas** have higher percentage of regular wage employees: About 13% of the rural workers and 50% of the urban workers are regular wage/salaried employees.
  - **Casual workers in rural areas** are more than double of casual workers in urban areas.

### Periodic Labour Force Survey

- It was launched in April 2017 by the Ministry of Statistics & Programme Implementation
- It was launched as a **new regular employment-unemployment survey with certain changes** in survey methodology, data collection mechanism and sampling design.
- It has been launched with an objective of measuring quarterly changes of various labour market statistical indicators in urban areas as well as generating annual estimates of these indicators.



### Persistent Challenge

Despite **improvements over the 2017-18 survey** in indicators like Labour Force Participation, Female Participation rate and unemployment rate, experts feel **it would be a challenge to retain the falling trend in unemployment rate in 2019-20.**

This skepticism is due to the long nationwide lockdown between March and June to prevent the spread of Covid-19, resulting in job losses across sectors. For instance, according to monthly data from the **Centre for Monitoring Indian Economy**, unemployment rate in India shot up significantly from **7.87% in June 2019 to 23.48% in May 2020.**

### Global Employment Scenario: World Employment and Social Outlook: Trends 2020 (WESO) report by ILO.

- **Slow Pace and skewed structure of economic growth in low-income countries:** Between 2000 and 2018, the employment share of agricultural and elementary occupations declined by only 6 percentage points in low-income countries.
- **Labour Underutilization:** More than 470 million people worldwide lack adequate access to paid work.
- **Shortage of job expected to continue:** Global unemployment is projected to increase by around 2.5 million in 2020.
- **Issue of getting decent work:** Currently working poverty (a parameter of having decent work) affects one in five of the global working population. (Working Poverty is defined as earning less than USD 3.20 per day in purchasing power parity terms.)
- **Rise in Inequalities:** Related to gender, age and geographical location continue to plague the job market, with these factors limiting both individual opportunity and economic growth.

- **Obstacle to women and young people:** In 2019, the female labour force participation rate was just 47 per cent, 27 percentage points below the male rate (at 74 per cent). There is strong regional variation in gender disparities in access to employment.
- **Future risks:** The rise in trade restrictions and protectionism, which could have a significant impact on employment.

**Effect of COVID-19 on the World of Work: Findings of ILO Monitor Report**

- **Currently 81 per cent of employers and 66 per cent of own-account workers** live and work in countries affected by recommended or required workplace closures.
- **Global working hours declined in the first quarter of 2020** by an estimated **4.5 per cent** (approximately **130 million full-time jobs**).
- **Enterprises at risk:**
  - **Hardest-hit sectors** identified were accommodation and food services, manufacturing, wholesale and retail trade, and real estate and business activities. These sectors account for more than **30 per cent of national GDP** on average and **436 million enterprises worldwide**.
  - **The number of small businesses in advanced economies is expected to decline** as they often lack access to credit, have fewer assets and are the least likely to benefit from fiscal measures taken by governments.
- **Informal economy:** More than **2 billion people worldwide work in the informal economy**.
  - **Almost 1.6 billion informal economy workers** (76 per cent of informal employment worldwide) are significantly impacted by lockdown measures and/or working in the hardest-hit sectors.
    - ✓ **Women are overrepresented in high-risk sectors:** 42 per cent of women workers are working in those sectors, compared to 32 per cent of men.
    - ✓ **Close to 1.1 billion informal economy workers live and work in countries in full lockdown:** and an additional 304 million in countries in partial lockdown.
  - **The earnings of informal workers** are estimated to **decline by 60 per cent globally** due to the crisis.
  - **The rate of relative poverty (RP) for informal workers** is expected to **increase by almost 34 percentage points globally**.
    - ✓ RP is the proportion of workers with monthly earnings that fall below 50 per cent of the median earnings in the population.

**POLICY FRAMEWORK: FOUR KEY PILLARS TO FIGHT COVID-19 BASED ON INTERNATIONAL LABOUR STANDARDS**

**PILLAR- 1 STIMULATING THE ECONOMY & EMPLOYMENT**

- Active fiscal policy
- Accommodative monetary policy
- Lending and financial support to specific sectors, including the health sector

**PILLAR- 2 SUPPORTING ENTERPRISES, JOBS & INCOMES**

- Extend social protection for all
- Implement employment retention measures
- Provide financial/tax and other relief for enterprises
- Income support to Vulnerable sections

**PILLAR- 3 PROTECTING WORKERS IN THE WORKPLACE**

- Strengthen OSH measures
- Adapt work arrangements (e.g. teleworking)
- Prevent discrimination and exclusion
- Provide health access for all
- Expand access to paid leave

**PILLAR- 4 RELYING ON SOCIAL DIALOGUE FOR SOLUTIONS**

- Strengthen the capacity and resilience of employers' and workers' organizations
- Strengthen the capacity of governments
- Strengthen social dialogue, collective bargaining and labour relations institutions and processes

### 1.1.1. INFORMAL EMPLOYMENT

#### Why in news?

The Pandemic has been pushing the informal workers to stay at home, but not working and staying at home means losing their jobs and their livelihoods. This has created a cruel dilemma for them- **“To die from hunger or from the virus.”**

#### What is informal economy and why is it important?

**Informal economy** broadly comprises of two parts- **informal enterprises** as economic entities and **informal employees (employed both in formal and informal enterprises)**. Although, there is no standard definition for informal sector and informal employment in India, different institutions adopt different criterion to understand its extent.

Despite their small size and limited individual impact, informal sector assumes importance due to the following reasons:

- **Backbone of the Economy:** Informal Economy employs more than 90% of workforce and contributes about 50% of the gross national product.
- **Important for rural development:** Share of informal sector in rural areas is significantly large (~75%) mainly in areas like agriculture and non-farm economy including low end services.
- **Witnessed substantial growth** in terms of output, share of employment and earnings. For instance, in 2017-18 the share of informal sector employment increased by 3.6% while on the other hand the share of formal employment increased by only 0.9%.
- **Forward and Backward linkages:** Informal sector is becoming increasingly interlinked with the formal sector, fulfilling the supply chain gaps and providing essential services.

#### What led to the growth of the informal economy?

- After independence, India adopted a **state-led industrialization model** which could not absorb large labour force and as a result, the **increased labour was nudged towards informal sector**.
- **Poor incentives structure for small enterprises** encouraged them to remain small in turn stalling the possible growth of formal workforce in those firms.
  - Encouraging small firms to remain small creates a market dominated by tiny firms and large firms, with the share of medium sized firms being very small. This is referred as the **problem of 'missing middle'**.
  - The long-term consequences of this problem are economic inequality and persistent unemployment thus **encouraging a scenario of jobless economic growth**.
- Most of the state and central **labour laws** were applicable to larger enterprises.
  - This indirectly forced formal enterprises to be **become more technology-intensive rather than labour intensive**.
  - It also **disincentivized informal firms** to move to the formal sector.
- From the supply side, majority of the workforce then (and even now) **does not possess the requisite education and skills required** to enter the formal workforce. For instance, as recently as 2017-18, only 2.4% of the workforce has formally acquired any vocational education or training.

#### What are the issues faced by informal workers and how COVID-19 has aggravated them?

- **Large-scale unemployment:** According to some estimates, more than **80 percent workers** in the informal sector **lost employment** in India. Also, even where work is still available, there is likely continued **loss of wages because working hours have decreased drastically**.
- A direct corollary of increased unemployment was the **migrant crisis**. **Increased Poverty:** The **'Hand to Mouth' nature of informal employment** creates a scenario where any loss of income directly affects the consumption levels. It is estimated that, **lost labour income** will result in an increase in relative poverty for informal workers and their families.
  - Also, absence of income combined with little or no health coverage could result in a **high incidence of indebtedness** among these workers.
- **Increased food insecurity:** Informal food markets play an essential role in ensuring food security, both as a **source of food and a place for smallholder farmers** to sell their products, and their closure could lead to increased food insecurity.
- **Disproportionate impact on Women in informal sector:** Women are more exposed to informality and are often in more vulnerable situations than their male counterparts.
  - For example, the new **'social restrictions' imposed to domestic workers** have resulted in financial as well as psychological setbacks for them — the restrictions have led people to ostracize them.

*Several efforts were made by the Government to ameliorate these issues like Pradhan Mantri Garib Kalyan Yojana, Affordable Credit Scheme etc. For details, refer the section on Atmanirbhar Bharat in Mains 365 on Social Issues.*

#### How can this crisis be converted into an opportunity?

- **Strengthening health systems to ensure access and financial protection for all** by closing gaps in health coverage and ensuring equity in the use of services, capacity building of healthcare systems and increased allocation in the health sector.
- **Building universal social protection:**
  - **Employment security:** The positive impact created by MGNREGA over the years and especially during the pandemic has reignited the **idea of an urban equivalent of MGNREGA**.
    - ✓ Such a programme could help **mitigate any further shocks to urban economy** in the future.

- ✓ **Several states have already taken the first steps** in this direction. For instance, Kerala, Odisha and Himachal Pradesh run urban employment programmes.
- **Adequate social protection** coverage for workers in **all forms of employment, adapted to their circumstances**. In particular, in the areas of sickness and social assistance benefits in the form of both cash transfers and food support.
- **Building Back Better-Informal Economy:** In supporting the recovery of productive economic units, there is an opportunity to step up their productivity, resource utilization and networking ability through a conducive business environment, adequate incentives and technical assistance and reaching and connecting with informal units.
- **Strengthening representative workers' and employers' organizations:** The current crisis is an opportunity to strengthen these organizations by **fostering dialogue** between workers and enterprises in the informal sector.
- **Facilitating the transition to formality:** The urgency created by COVID-19 could be used in following way:
  - **Further strengthening various efforts made by the government** to increase formalization in the form of Goods and Services Tax, Demonetization, EPF reforms, Skill India initiatives, Fixed Term Contract Reform, as well as the Maternity Benefit reform.
  - **Measures to mitigate the contraction of the formal economy**, especially micro and small enterprises, are critical to prevent further “informalization”.
  - **Special attention should be paid to those enterprises hovering on the edge of informality**, as they could easily shift to the informal economy in order to survive.
  - **Employers' and workers' organizations can play a critical role** in delivering or advocating for support services, such as access to technologies, finance and business development services, and fostering linkages with formal enterprises as an incentive for formalization.

### 1.1.2. SELF EMPLOYMENT

#### Why in news?

Recently there were renewed talks on Self-employment after the data reported by Periodic Labour Force Survey Report.

#### Self-employment in India

- **Definition:** Self-employment jobs are the jobs where **the remuneration is directly dependent upon the profits** derived from the goods and services produced.
- As per latest Periodic Labour Force Survey (PLFS) report, self-employment between 2009-10 to 2017-18 increased in rural workforce and decreased in urban workforce.
- In the urban areas, there is a decline in the percentage of self-employed or casual labour due increase in the percentage of people working on regular wage or salary.
- Recently, **ILO's latest report titled 'Small Matters'** highlighted that 85 per cent of workers in India are self-employed or do casual work.
- **Significant role played by self-employment:**
  - Multiplier effect in job creation
  - Diversification in jobs making economy resilient and competitive.
  - Indigenization of manufacturing activities providing a boost to make in India.
  - Fostering a culture of innovation
  - Women empowerment

#### Factors contributing to growth of self-employment in India

- **Government schemes and policies:** The government has launched many schemes to incentivize and promote self-employment in India such as **Pradhan Mantri Mudra Yojana (PMMY), Pradhan Mantri Rojgar Protsahan Yojana, Skill India Mission** etc.
- **Growth led by services industry:** This growth led to the creation of many highly skilled jobs. without a parallel focus on improving skill-level across the workforce. Resultantly, a large section of this unskilled populace turned to self-employment.
- **Underdeveloped macro-financial system in India:** Low returns on bank deposits, risk related to investments in stock market and real estate etc. force people to use their personal wealth for starting their own business.

## Issues related to self-employment in India

- **Dominated by agriculture:** About 60% of self-employed are engaged in agriculture which is less productive and this share is significantly higher in rural areas than urban ones.
- **Only a small fraction acts as job creators:** As the data reveals, only 4 % of India's self-employed actually hire workers from outside.
- **Below average earnings:** According to PLFS report, the average monthly earnings for all self-employed workers stood at ₹8,000 per month, much lower than the average monthly earnings of regular workers.
- **Gender pay gap** is highest in the category of those who are self-employed: On an average, male workers earn about 3 times more than the female workers.
- **Mostly remain unregistered:** The self-employed are tagged 'formal' only after they've registered with some branch of the government and /or pay taxes.
- According to a National Sample Survey Organization report, **63 million enterprises in India have no registration**, out of which 96% are run by individuals and most of them pay no GST as their volume of business is below Rs 20 lakh.

## Way Forward

Attempt should be made to holistically reform address the issues of self-employment by increasing **formalization of the economy**, improving **access to credit**, **simplifying the taxation policy** and simultaneously **addressing the regulatory issues** like labour laws and registration processes.

## 1.2. SKILL DEVELOPMENT

### Introduction

Given the **paradigm shift in economic and entrepreneurial ecosystem globally**, it becomes imperative that skill development of the workforce keeps pace with this change.

### Skilling in India: Status

- According to NSSO Report 2011-12, India's **formally trained workforce stand at merely 2.3%** in comparison to economies like South Korea which are at a mammoth share of 96%.
- According to **Periodic Labour Force Survey (PLFS) 2017-18**, only **1.8% of the population** reported receiving **formal vocational/technical training**. **5.6% reported receiving informal vocational training** (such as hereditary, self-learning, and on the job training).
  - The bulk of the trainees were in the fields of electronics, IT/ ITeS sector, apparels, and mechanical engineering.
  - Moreover, **around 33% of the formally trained youth was unemployed in 2017-18**. Nearly a third of trained young men and more than a third of trained young women were unemployed.

### Key Findings of India Skills Report 2020

- **Employability of India's youth has remained stagnant** for the past three years, lingering at 46.21% of participants who are job-ready.
- **Female employability witnessed an upward trend** at 47% while that of male workforce declined from 47.39% in 2019 to 46% this year. This reflects the opportunity for the industries to leverage female resource pool.
  - However, Hiring Intent Survey for 2020 reflects a likely hiring ratio of 71:29 for Male to Female candidates.
- It also indicated the **rising share of gig workers** in the economy at 13% share in the overall hiring intent by employment type.
- **Top 5 skills that Employers emphasize on** are domain knowledge, adaptability to the environment, learning agility and positive attitude and interpersonal skills.
- Only **60% of students were aware of the National Apprenticeship Promotion Scheme (NAPS)**.
- About **50% of employers acknowledge the role of government initiated programmes** in recruitments, of which almost 9 in 10 employers admit that candidates meet their requirements.

### Need for Skill Development

- **High unemployment rates:** There is a direct link between India's under skilled workforce and high unemployment rates.
- **Demographic dividend:** India is expected to have the largest workforce in the world by 2025. To utilize this demographic dividend effectively, skill development must take primacy.
- **Moving towards innovation:** As we aspire to become a knowledge-based economy, development of highly skilled human capital is the key to raise innovation quotient of the workforce.



### Issues with Skill Development in India

- **Poor accreditation process**- The Quality Council of India (QCI) has often compromised with the quality of accreditation and affiliation process.
  - For e.g.- It had not followed the prescribed National Council for Vocational Training norms with respect to building infrastructure, equipment, and faculty.
- **Multiplicity of norms, procedures, curricula, certification**- Policies and initiatives related to skill development are spread across nearly 20 ministries and hence lacks coherency and holistic approach.
- **Reluctance of the industry in providing a wage differential for skilled workers**, leading to low absorption of skilled manpower.
- **Poor Industry interface**- For instance, there are too many sector skill councils (industry bodies mandated to ensure that skill development efforts are in accordance with the actual needs of the industry), each trying to maximise their business. Also, there is no of credible assessment board to uphold the accountability of these sector skill councils
- **Lack of integration with formal education** and lack of focus on outcomes.

#### 1.2.1. SKILL DEVELOPMENT INITIATIVES

The primary objective of these efforts is to meet the challenge of **skilling at scale with speed, standard (quality) and sustainability**, to align them to common standards and link skilling with demand centres.

##### Flagship Schemes

Initiatives	Objectives
Pradhan Mantri Kaushal Vikas Yojana	Mobilize youth to take up industry relevant skill training. Targets to train 1 crore youth by 2020. <b>Recognizes and certifies prior learning</b> PMKVY version 2 has <b>mandatory provisions for placement tracking</b> .
Pradhan Mantri Kaushal Kendra (PMMK), 2015	Aspirational Model Training Centers to be opened in every district.
National Apprenticeship Promotion Scheme, 2016	To promote apprenticeship. Consists of Basic Training and On-the-Job Training/ Practical Training at workplace.
SANKALP, 2017	<b>Creating convergence</b> among all skill training activities, improving quality of skill development programmes, creating industry led and demand driven skill training capacity.
STRIVE, 2017	Creating awareness through industry clusters, integrating and enhancing delivery quality of ITIs.

##### Other recent initiatives taken by the Government:

- **Future Skills Prime**: In February 2018, **Future Skills Initiative** was announced at Hyderabad to reskill the IT industry workforce in emerging technologies and job roles. The Future Skills platform currently offers reskilling/ upskilling in 10 emerging technologies like Artificial Intelligence, Cyber Security, Blockchain, etc. across 70 new job roles and 155 new skills.
  - Now, **Future Skills initiative is extended as PRIME to industry professionals** across different segments, higher education students and government officials, with the goal to train 4 lakh professionals in next three years.
- **WEF's Reskilling Revolution: Reskilling Revolution** is an initiative by the WEF to provide **one billion** people with better education, skills and jobs by 2030. India recently joined this initiative as a founding member.
- **SWADES (Skilled Workers Arrival Database for Employment Support)**: This is an initiative to **conduct a skill mapping exercise of returning citizens** under Vande Bharat Mission.
  - It aims to **create a database of qualified citizens** based on their skill sets and experience to tap into and **fulfil demand of Indian and foreign companies**
- **Skills Build Reignite (SBR) and Skills Build Innovation Camp (SBIC)**: SBR seeks to **provide job seekers and entrepreneurs, with access to free online coursework and mentoring support** designed to help them reinvent their careers and businesses.

### 1.3. LABOUR LAW REFORMS

#### Introduction

Labour legislations that are adapted to the economic and social challenges of the modern world of work fulfil three crucial roles:

- **redistribute legal power, wealth and more importantly, bargaining power** in an economy.
- establish a legal system that **facilitates productive individual and collective employment relationships**, and therefore a productive economy.
- **provide a clear and constant reminder and guarantee of fundamental principles and rights** at work which have received broad social acceptance.

### Labour Laws framework in India

- Labour is subject in the **Concurrent List of the seventh schedule**, thus allowing both the Centre and states to legislate on labour related issues.
- Currently, there are **44 labour laws under the purview of Central Government** and **more than 100 under State Governments**, which deal with a host of labour issues.

### Why was there a need to reform and codify India's labour laws?

- **Complexity and plethora of laws:** Numerous labour laws, both at the centre (>40) and in states (>100) and that too added in a piecemeal manner, has resulted in these laws being ad-hoc, complicated, mutually inconsistent with varying definitions, and containing outdated clauses.
- **Poor enforcement of laws:** In a performance audit, CAG noted that the **effectiveness of the adjudication process was diluted by various factors**, such as (i) routine delays by the government in referring labour disputes for adjudication, (ii) delay in disposal of cases (iii) delay in publication of court awards in the gazette and (iv) delay in implementation of awards.
- **Constrained growth of firms:** It has been argued that firm sizes have remained small in India mainly because of **high administrative burden of larger firms** and **absence of an easy exit option for firms**.
- **Contractualization of labour:** Labour compliances and economic considerations have resulted in **increased use of contract labour**. For instance, the **share of contract workers in factories** among total workers **increased from 26% in 2004-05 to 36% in 2017-18**.
- **Impacts the collective bargaining rights of workers:** As of 2015, there were 12,420 registered trade unions in India with an average membership of 1,883 persons per union. A **large number of unions** within an establishment along with their **lack of formal recognition** hampers the process of collective bargaining as it is **difficult to reach a settlement with all** of them.
- **Inadequate coverage hiking social issues:** Labour laws only covered the organized sector that accounts for just 7% of the workforce, and the remaining 93% of the total workforce is informal that is left uncovered.
  - This includes migrant labour, gig economy workers, taxi drivers, house helps etc. They are typically **very vulnerable and can easily slip back into poverty** when faced with even a single contingency giving rise to other social crimes such as domestic violence, alcoholism, rape, theft, suicides etc.

In this context, the **second National Commission of labour** had recommended simplification, amalgamation and rationalisation of Central Labour Laws and following 4 Labour Codes have been drafted on the same lines:

- Labour Code on Wages Bill,
- Labour Code on Industrial Relations Bill
- Labour Code on Social Security & Welfare, and
- Labour Code on Occupational Safety, Health & Working Conditions,

#### Steps taken by various states:

As the subject of labour falls under concurrent list of the constitution, many states have utilised this opportunity to amend their labour laws by either suspending or relaxing many of them.

- **Rajasthan has increased the threshold of applicability of the Factories Act, 1948.** The Economic Survey (2018-19) validated this step by highlighting that increased thresholds for certain labour laws in Rajasthan resulted in an increase in growth of total output in the state and total output per factory.
- **Madhya Pradesh and Uttar Pradesh**, in particular, have carried out significant changes in the labour laws, largely **contracting the scope of Factories Act, 1948**.
- To increase industrial productivity, states such as **Gujarat, Madhya Pradesh and Himachal Pradesh have proposed to extend the working hours** of factory workers from eight to 12 hours a day.

While the **Code on Wages, 2019 has been passed by Parliament**, Bills on the other three areas were referred to the Standing Committee on Labour. The Standing Committee has submitted its report on all three Bills. The government has replaced these Bills with new ones in September, 2020.

#### Code on Wages, 2019

It seeks to regulate wage and bonus payments in all employments where any industry, trade, business, or manufacture is carried out.

Following are some of its salient features:

- **Floor wage to be fixed by the Central Government** taking into account living standards of workers.
- **Fixing the minimum wage:** The minimum wages decided by the central or state governments **must be higher than the floor wage** and will be revised and reviewed by the central or state governments at an interval of not more than five years.
- **Overtime Wages:** Employees working in excess of a normal working day will be entitled to overtime wage, which **must be at least twice the normal rate of wages.**
- **Wage deduction of an employee** (on certain grounds such as fines, absence from duty etc.) **should not exceed 50% of the employee's total wage.**
- **Determination of bonus:** All employees whose wages do not exceed a specific monthly amount, notified by the central or state government, will be entitled to an annual bonus that will be at least: (i) 8.33% of his wages, or (ii) Rs 100, whichever is higher. An employee can receive a **maximum bonus of 20% of his annual wages.**
- **Prohibition of Gender discrimination:** in matters related to wages and recruitment of employees for the same work or work of similar nature.

Recently, Parliament has passed the three **LABOUR CODE bills** – the Occupational Safety, Health and Working Conditions CODE, 2020; the Industrial Relations CODE, 2020; and the CODE on Social Security, 2020 in a major boost to LABOUR reforms.

### 1.3.1. CODE ON INDUSTRIAL RELATIONS, 2020

The code combines the features of three erstwhile laws: Trade Unions Act 1926, Industrial Employment (Standing Orders) Act, 1946 and Industrial Disputes Act, 1947

**Major provisions under the code:**

- **Definition of worker:** It defines a 'worker' as any person who work for hire or reward. It excludes persons employed in a managerial or administrative capacity, or in a supervisory capacity with wages exceeding Rs 18,000.
- **Standing Orders:** All industrial establishment with 300 workers or more must prepare standing orders on the matters relating to:
  - classification of workers,
  - manner of informing workers about work hours, holidays, paydays, and wage rates
  - termination of employment, and
  - grievance redressal mechanisms for workers.
- **Prior permission of the government for closure, lay-off and retrenchment:** It is required for an establishment having at least 300 workers to seek prior permission of the government before closure, lay-off, or retrenchment. Central government is **empowered only to allow an increase in the threshold** through notification.
- **Negotiating Union and Council**
  - **Sole Negotiating Union:** If there are more than one registered trade union of workers functioning in an establishment, the trade union having more than 51% of the workers as members would be recognised as the sole negotiating union.
  - **Negotiation Council:** In case no trade union is eligible as sole negotiating union, then a negotiating council will be formed consisting of representatives of unions that have at least 20% of the workers as members.
- **Tribunals for settlement of disputes:** for the settlement of industrial disputes. Each Industrial Tribunal will consist of a Judicial member and an Administrative member.
  - The code **classifies any dispute** in relation to discharge, dismissal, retrenchment, or otherwise termination of the services of an individual worker to be an industrial dispute.
- **Fixed term employment:** Fixed term employment refers to workers employed for a fixed duration based on a contract signed between the worker and the employer. It may allow employers the flexibility to hire workers, reduce the role of a middleman such as an agency or contractor, and also benefit the worker and help improve the conditions of temporary workers in comparison with contract workers who may not be provided with such benefits.
- **Re-skilling fund:** To re skill those workers who are fired from their jobs. Contributions for the fund will be made from the employer of an industrial establishment amounting to fifteen days wages last drawn by the worker immediately before the retrenchment along with the contribution from such other sources.

### Key issues with the code

- **May impact ability of workers to strike & employers to lock out workers:**
  - The code has expanded to cover all industrial establishments for the required notice period and other conditions for a legal strike. A prior notice of 14 days is required before a strike or lock-out and prohibits strikes and lockouts under certain conditions.
  - **Earlier these provisions were applicable only for public utility services** (railways, airlines, and establishments that provide water, electricity, and telephone service) under the Industrial Disputes Act, 1947. The **rationale for extending the provisions on notice to all establishments is unclear.**
  - The National Commission on Labour (2002) had justified the rationale of treating such industries differently, considering their impact on the lives of a vast majority of people.
- **Violation of the principle of separation of executive and judiciary:**
  - The code gives extensive **power to government to modify or reject tribunal awards through executive action and raises a question of conflict of interest.**
  - It states that the awards passed by a Tribunal will be enforceable on the expiry of 30 days. However, the government can defer the enforcement of the award in certain circumstances on public grounds affecting national economy or social justice.
- **Impact on formation of trade unions:** It is unclear as to what will happen in case there are multiple registered trade unions which enjoy this support (of 10% of members) but no union has the required support of at least 20% workers to participate in the negotiating council.
- **Provisions on fixed term employment**
  - Power to renew such contracts lies with the employer. This **may result in job insecurity** for the employee and may deter him from raising issues about unfair work practices, such as extended work hours, or denial of wages or leaves.
  - Does not restrict the type of work in which fixed term workers may be hired. Therefore, they may be hired for roles offered to permanent workmen.
    - ✓ 2<sup>nd</sup> National Commission on Labour (2002) had recommended that no worker should be kept continuously as a casual or temporary worker against a permanent job for more than two years.
    - ✓ The Standing Committee on Labour also recommended the conditions under which, and areas where fixed term employment may be utilised should be clearly specified.
- **Certain terms not defined in the Code:** it does not define the terms 'manager', 'supervisor', 'contractor' and 'establishment' leaving them open to wider interpretation.

### 1.3.2. CODE ON SOCIAL SECURITY, 2020

The Code replaces nine laws related to social security. These include the Employees' Provident Fund Act, 1952, the Maternity Benefit Act, 1961, and the Unorganised Workers' Social Security Act, 2008 among others.

#### Major provisions of the code

- **Applicability:** The code is **applicable to any establishment** (subject to size-threshold as may be notified by the central government).
- **Social security fund:** The code states that the central government will set up such a fund **for unorganised workers, gig workers and platform workers.** Further, state governments will also set up and administer separate social security funds for unorganised workers.
- **Provisions for registration** of all three categories of workers - unorganised workers, gig workers and platform workers.
- **National Social Security Board:** for the purposes of welfare of above three categories of workers and recommend and monitor schemes for them.
- **Contribution for Schemes:** schemes for gig workers and platform workers may be funded through a combination of contributions from the central government, state governments, and aggregators.
- **Changes in definitions:** These include expanding the definitions of (i) 'employees' to include workers employed through contractors, (ii) "inter-state migrant workers" to include self-employed workers from

**Gig workers** refer to workers outside the traditional employer-employee relationship.

- According to the Oxford Internet Institute's 'Online Labor Index', **India leads the global gig economy with a 24% share of the online labour market**, with demand for software developers, creative and marketing professionals.

**Platform workers** are those who access organisations or individuals through an online platform and provide services or solve specific problems.

another state, (iii) “platform worker” to additional categories of services or activities as may be notified by the government, (iv) audio-visual productions to include films, web-based serials, talk shows, reality shows and sports shows

- **Term of eligibility for gratuity for journalists:** The code reduces the gratuity period from five years to three years for working journalists.
- **Offences and penalties:** The code changes the penalties for certain offences. For example, the maximum imprisonment for obstructing an inspector from performing his duty has been reduced from one year to six months.
- **Additional powers during an epidemic:** The code adds new clauses which may become applicable in the cases of an epidemic. For example, the central government may defer or reduce the employer’s or employee’s contributions (under PF and ESI) for a period of up to three months in the case of a pandemic, endemic, or national disaster.

#### Key issues with the code

- **No Universal social security:**
  - Benefits, such as **pension and medical insurance, continue to be mandatory only for establishments with a minimum number of employees** (such as 10 or 20 employees). All other categories of workers (i.e., unorganised workers), such as those working in establishments with less than 10 employees and self-employed workers may be covered by discretionary schemes notified by the government. A large number of workers may continue to be excluded.
    - ✓ Periodic Labour Force Survey Report (2018-19) indicates that 70% of regular wage/salaried employees in the non-agricultural sector did not have a written contract, and 52% did not have any social security benefit.
  - The code **continues to treat employees within the same establishment differently** based on the amount of wages earned. For instance, provident fund, pension and medical insurance benefits are only mandatory to employees earning above a certain threshold (as may be notified by the government) in eligible establishments.
  - The code **continues to retain the existing fragmented set up for the delivery of social security benefits**. These include: (i) a Central Board of Trustees to administer the EPF, EPS and EDLI Schemes and (ii) an Employees State Insurance Corporation to administer the ESI Scheme.
- **Provisions on gig workers and platforms workers are unclear:** The code introduces definitions for different categories of workers, however, **there may be some overlap between their definitions**. For example, a driver working for an app-based taxi aggregator is a gig worker, a platform worker and an unorganised worker at the same time due to his nature of job. With such overlap across definitions, it is unclear how schemes specific to these categories of workers will apply.
  - The Standing Committee on Labour recommended (i) expanding the definition of “unorganised workers” to include gig and platform workers, (ii) making the definition of “gig worker” more specific to avoid misinterpretation but it was not incorporated in the code.
- **Mandatory linking with Aadhaar may violate Supreme Court judgement:** The code mandates an employee or a worker (including an unorganized worker) to provide his Aadhaar number to receive social security benefits or to even avail services from a career centre. This may violate the Supreme Court’s Puttaswamy judgement.
  - In its judgement, the Court had ruled that the Aadhaar card/number may only be made mandatory for expenditure on a subsidy, benefit or service incurred from the Consolidated Fund of India.

The **National Commission on Labour (2002)** (NCL) had emphasised the **need for universal and comprehensive social security** coverage to avoid deprivation of basic needs of workers

The Standing Committee on Labour (2020) had also made following recommendations in this regard that includes: (i) expanding the definition of “establishment” to include agricultural and own account enterprises, (ii) expanding definitions of “employees” to include Asha and Anganwadi workers, and “unorganised workers” to include agricultural workers and (iii) creating a separate fund for inter-state migrant workers.

### 1.3.3. CODE ON OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS, 2020

It consolidates 13 existing acts regulating health, safety and working conditions. These include the Factories Act, 1948, the Mines Act, 1952, and the Contract Labour (Regulation and Abolition) Act, 1970.

### Occupational Safety Architecture in India

- **Constitutional Provisions**- ensures occupational health and safety for workers in the form of three Articles i.e. **24, 39(e)** (health and strength of workers are not abused) **and 42** (just and humane conditions of work and maternity relief).
- **Union List**- The regulation of labour and safety in mines and oil fields.
- **Concurrent List**- The welfare of labour including conditions of work, provident funds, employers' invalidity and old age pension and maternity benefit.
- The Union **Ministry of Labour** and Labour Departments of the States and Union Territories are responsible for safety and health of workers.
- **National Safety Council (NSC)**- It is an apex **non-profit making** to generate, develop and sustain a **voluntary movement** on Safety, Health and Environment (SHE) at the national level. It works under the overall guidance of **Ministry of Labour**. It is registered under the **Societies Registration Act 1860** and the **Bombay Public Trust Act 1950**.
- Directorate General of Mines Safety (**DGMS**) and Directorate General Factory Advice Services & Labour Institutes (**DGFASLI**) assist the Ministry in technical aspects of occupational safety and health in mines and factories & ports sectors, respectively.

### Major provisions under the code:

- **Threshold for coverage of establishments**
  - **Factory:** It defines a factory as any premises where manufacturing process is carried out and it employs more than: (i) 20 workers, if the process is carried out using power, or (ii) 40 workers, if it is carried out without using power.
  - **Establishments engaged in hazardous activity:** It **includes all establishments** where any hazardous activity is carried out **regardless of the number of workers**.
  - **Contract workers:** Code will apply to establishments or contractors (including the offices of the central and state governments) employing 50 or more workers (on any day in the last one year) and prohibits contract labour in core activities (to be determined by the appropriate government). It also defines a list of non-core activities comprising 11 works including: (i) sanitation workers, (ii) security services, and (iii) any activity of intermittent nature.
- **Work hours and employment conditions**
  - **Daily work hour limit:** fixes the maximum limit at eight hours per day.
  - **Employment of women:** women will be **entitled to be employed in all establishments for all types of work**. In case they are required to work in hazardous or dangerous operations, the **government may require the employer to provide adequate safeguards** prior to their employment.
- **Exemption:** The code **empowers the state government to exempt any new factory** from the provisions of the Code in order to create more economic activity and employment.
- **Inter-state migrant workers**
  - **Definition of inter-state migrant worker:** any person who moves on his own to another state and obtains employment there and is earning a maximum of Rs 18,000 per month, or such higher amount which the central government may notify.
  - **Benefits for inter-state migrant workers:** include: (i) option to avail the benefits of the public distribution system either in the native state or the state of employment, (ii) availability of benefits under the building and other construction cess fund in the state of employment, and (iii) insurance and provident fund benefits available to other workers in the same establishment.
  - **The code removed the provision for Displacement allowance which was there in the 2019 bill** to pay a displacement allowance to inter-state migrant workers at the time of their recruitment, which was equivalent to 50% of the monthly wages.
  - **Database for inter-state migrant workers:** the central and state governments to maintain or record the details of inter-state migrant workers in a portal and the migrant worker can register himself on the portal on the basis of self-declaration and Aadhaar.
  - **Social Security Fund for the welfare of unorganised workers:** The amount collected from certain penalties under the Code will be credited to the Fund. The government may prescribe other sources as well for transferring money to the Fund.

**Key Issues with the code:**

- **Rationale for some special provisions unclear**
  - The code includes additional provisions that apply to specific type of workers such as those in factories and mines, or as audio-visual workers, journalists, sales promotion employees, contract labour and construction workers.
  - While special provisions for hazard-prone establishments such as factories and mines and categories of vulnerable workers such as contract labour seems justified, the **rationale for mandating special provisions for other workers is not clear.**
- **Civil Court barred from hearing matters under the Code**
  - Under the existing 13 health and safety laws, claims which affect the rights of workers such as wages, work hours, and leave, are heard by labour courts and industrial tribunals.
  - However, the code bars the jurisdiction of civil courts. The only recourse available would be to directly file a writ petition before the relevant High Court. It can be argued that the bar on civil courts may deny aggrieved persons an opportunity to challenge certain issues before a lower court.

**Issues in Occupational Safety in India**

- **Lack of implementation of National Policy on Safety, Health and Environment at the Workplace (NPSHEW)-** which had called for a comprehensive legal framework. However, only the manufacturing, mining, ports and construction sectors are covered by existing laws
  - **Many acts not implemented in right spirit.**
  - **Inadequate Legal framework for Agriculture.**
  - **Dilution of laws some laws.**
- **Limited research on occupational safety-** as there are less research institutions, which are also not equipped for carrying out their activities effectively.
- **Lack of effective coverage-** In India, occupational health is not integrated with primary health care.

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## 2. ECONOMIC GROWTH, POVERTY ALLEVIATION AND FINANCIAL INCLUSION

### 2.1. ECONOMIC GROWTH

#### Introduction

With an increasing number of coronavirus cases, the government has locked down transport services, closed all public and private offices, factories and restricted mobilization. In this time, when pre-existent economic slowdown is further aggravated by COVID-19, the economy has moved towards recession as the it shrank for a second straight quarter. This situation especially affects the unorganized sector and semi-skilled jobholders alongside the overall economy.

Concerns have also been raised that India may enter a stagflationary phase. Retail inflation in India touched 7.35% in December last year, the highest in five-and-a-half-years with food inflation surging to 14.12%. Simultaneously, the Index of Industrial Production (IIP) data highlighted that 18 of the 23 industry groups in the manufacturing sector showed negative growth.

#### Possible reasons for slow economic growth

- **Lingering weakness in some Non-Bank financial companies (NBFCs):** Following ILFS crisis last year, abrupt reduction in NBFC's credit expansion took place, leading to the associated broad-based tightening of credit conditions.
- **Lesser consumption demand:** Weak income growth, especially rural, has been affecting private consumption.
- **Corporate and Environmental regulatory uncertainty:** Private investment has been hindered by the financial sector difficulties (including in the public sector banks (PSBs)) and insufficient business confidence.
- **Implementation issues with some structural reforms** like goods and services tax (GST).

To combat slow economic growth and the impact of COVID-19, various **measures have been announced by the government** to revive the economy-

Monetary Policy Measures	
Repo rate cut	Repo rate has been brought down to 5.4% to spur credit growth
Monetary Policy Transmission	Linking floating rate loans extended to both retail consumers as well as MSMEs to external benchmarks to improve monetary policy transmission.
Higher flow of funds to NBFC sector	RBI relaxed liquidity norms to allow more lending to non-banking finance companies (NBFCs) by banks.

Measures to boost exports	
Exports	<ul style="list-style-type: none"> <li>• Scheme for <b>Remission of Duties &amp; Taxes on Export Product to replace Merchandise Exports from India Scheme (MEIS)</b> for all goods exported. It will provide more incentives to the exporters than existing schemes put together.</li> <li>• Fully automated electronic refund for exporters.</li> </ul>
Exports Finance	<ul style="list-style-type: none"> <li>• Under the expanded Export Credit Insurance Scheme (ECIS), <b>Export Credit Guarantee Corporation will offer higher insurance</b> cover to banks, lending working capital for exports. Govt. will provide ₹1700 cr annually.</li> <li>• <b>Priority Sector Lending norms for Export Credit revised</b> to make available to banks an additional ₹36,000 cr to ₹68,000 cr for lending to the export sector.</li> <li>• <b>Effective monitoring of export financing</b> by an inter-ministerial working group under Department of Commerce, tracking disbursement of export credit through a public dashboard.</li> </ul>
Export Facilitation	<ul style="list-style-type: none"> <li>• <b>Leverage technology to reduce Turn Around Time (TAT)</b> at airports/ports/customs through process digitization and elimination of offline/manual services.</li> <li>• Annual mega shopping festivals to be organized in 4 places across 2020 March in 4 themes (G&amp;J, Handicrafts/Yoga/Tourism, Textiles and Leather) on the lines of Dubai.</li> </ul>
Free Trade Agreements	<ul style="list-style-type: none"> <li>• <b>Special FTA Utilisation Mission</b> to promote awareness of preferential duties among Indian exporters and facilitate compliance requirements (Rules of Origin/Certificate of Origin etc.)</li> <li>• <b>Online "Origin Management System"</b> for exporters to enable them to obtain Certificates of Origin – CoO (under Rules of Origin) to be launched by Directorate General of Foreign Trade (DGFT).</li> </ul>



<b>Engineering Standards</b>	<ul style="list-style-type: none"> <li>• <b>Time bound adoption of mandatory technical standards</b> and their effective enforcement by setting up a Working Group on Standards in Department of Commerce.</li> <li>• <b>Affordable testing and certification infrastructure</b> to be adequately expanded and developed in PPP mode to enable exporters to get all internationally accepted tests done within India.</li> </ul>
<b>Handicraft Export</b>	Enable handicrafts industry to effectively harness e-commerce for exports through <b>mass enrolment of handicraft artisans and cooperatives directly on e-commerce portals.</b>

Measures to boost manufacturing sector	
<b>Lower Corporate Tax</b>	<ul style="list-style-type: none"> <li>• An amendment in Income Tax Act 1961 to give any domestic company an <b>option to pay income-tax at the rate of 22%</b> subject to condition that they will not avail any exemption/incentive.</li> <li>• Effective corporate tax rate for such companies shall be 25.17% and they will not be required to pay Minimum Alternate Tax (MAT).</li> </ul>
<b>Boost Make in India</b>	A new provision inserted in Income Tax Act'1961 allows any new domestic company, incorporated on or after 1 <sup>st</sup> October 2019 & making <b>fresh investment in manufacturing, an option to pay income-tax at the rate of 15%.</b>

#### How will these reforms help?

- **Improve private investment:** Tax cuts, by putting more money in the hands of the private sector, can offer people more incentive to produce and contribute to the economy, which, in turn, will create employment.
- **Helps to attract investors:** A cut in corporate taxation rate will India at parity with East Asian economies and will make India more competitive on the global stage
- **Boost consumer demand:** With lower tax rates in place, the firms may cut prices in order to attract consumers, which in turn will boost consumer demand
- **Increase in fiscal capacity:** The reforms have the potential to revive the economy, help boost tax collections and compensate for the loss of revenue.

#### Challenges associated

- Tax cut is expected to cause a yearly **revenue loss** of ₹1.45 lakh crore to the government which is struggling to meet its fiscal deficit target.
- **Income tax cut should be preferred** as it would leave consumers with more disposable income and boost consumption demand. Although, the impact of an income tax cut would be limited as the number of tax payers in the country are few.
- To ensure operational profitability while making lending rates cuts, banks may start **cutting the interest rate they pay to deposit holders.** This might push the depositors towards non-liquid investments such as gold, real estate etc.
- **Limited target:** The proposed special fund for housing sector, primarily targeted at affordable & mid-level housing projects that are 60% complete, has left out majority of the pending projects.
- **Tax issues:** Recent measures don't address the key demands of developers such as tax rebate and lower interest rate for home buyers and developers.

#### Way Forward: Policy measures recommended by IMF to combat economic slowdown

- **Financial sector:** these reforms are needed in the short term as per IMF, such as:
  - **Resolution of balance sheet issues** including in the commercial banks, the corporate sector, and the NBFCs including housing finance companies.
  - More **information on smaller NBFCs** is needed to better understand the impact of reduced credit on private demand, especially micro, small, and medium-sized enterprises and in rural areas.
- **Fiscal policy** suggestions:
  - **In the short term,** focus on the composition of expenditures and rationalizing GST.
  - **Over the medium-term,** focus on domestic revenue **mobilization like increasing personal income tax** collections by ending exemptions, **reducing the minimum threshold for taxpayers** and by **raising contributions by top earners,** decreasing expenditures on subsidies, and **enhancing fiscal transparency** and thus reducing uncertainty.

### 2.1.1. INEQUALITIES AND INCLUSIVE GROWTH

#### Why in news?

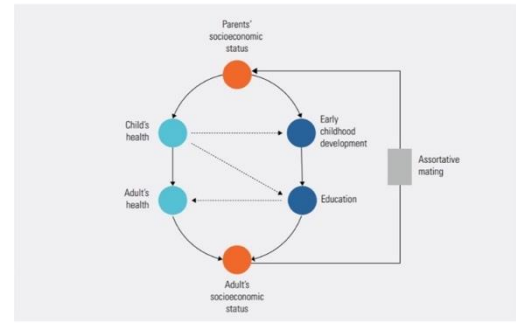
A new study **published by Oxfam recently** highlighted rising inequalities in India.

### Status of Inequality in India

- **Income Inequality:** India's top 10% of the population holds 74.3% of the total national wealth
  - India's richest 1% of the population hold 42.5% of national wealth while the bottom 50%, the majority of the population, owns a mere 2.8%
- **Wealth Inequality: Wealth inequality in India is rising** with the Gini wealth coefficient having risen to 83.2% in 2019 from 81.2% in 2008.
  - The wealth of the top 1% increased by 46% in 2018 while the bottom 50% saw wealth increase at just 3%.1
- **Social Inequality:** In India, one of the most distinctive forms of social inequity come within the spheres of **gender and caste**, where, people coming from the marginalized sections of these social categories, are directly impacted in terms of their opportunities, access to livelihood, education and health facilities.
  - For example: In India, **poor women and girls put in ₹19 trillion of unpaid care work every year.** The unequal distribution of unpaid care work, effectively, allows men to participate in the labour market while limiting a woman's capacity to do the same.
- A **new generation of inequalities** is emerging, with divergence in **enhanced capabilities.** For instance, access to more advanced knowledge and technology are widening.
  - E.g. the proportion of the **adult population with tertiary education is growing more than six times faster** in very high human development countries than in low human development countries, and fixed broadband subscriptions are growing 15 times faster.

### Inequalities accumulate through life.

- **Inequalities can start before birth**, and many of the gaps may compound over a person's life.
- Income and wealth inequalities are often **translated into political inequality and power asymmetries** among various groups (which may be defined by ethnicity, language, gender or caste etc.) potentially leading to even more inequalities.



### What is Social Mobility?

It can be understood as the movement in personal circumstances either **“upwards”** or **“downwards”** of an individual in relation to those of their parents.

### India's Status

- As per **Global Social Mobility Index**, released by the World Economic Forum (WEF), **India ranks 76th out of 82 economies.**
- **Factors detrimental to the social mobility of Indian population:**
  - low life expectancy and a low health access and quality
  - low overall social protection expenditure
  - low female labour participation rate
  - high level of workers in vulnerable employment
  - high pupil-to-teacher ratios across pre-primary, primary and secondary levels
  - low Social protection coverage

### What are the consequences of these Inequalities?

- **Low social mobility and slower poverty reduction:** Extreme inequality **inhibits social mobility** which means that children of poor parents will stay poor. It results in **inequality in opportunities** due to lack of proper education, training in skills, lack of connections and assets.
- **Social unrest**, as high inequality is likely to undermine democracy, promote corruption and cronyism. The gap between rich and poor is helping to fuel **authoritarianism.**
- **Inequality and the climate crisis are interwoven. E.g.**
  - Developing countries and poor communities have less capacity than their richer counterparts to adapt to climate change and severe weather events.
  - Also, High income inequality within countries can hinder the diffusion of new environmentally friendly technology.
  - Inequality can also influence the balance of power among those arguing for and against curbing carbon emissions.
- Income and wealth inequalities are often **translated into political inequality and power asymmetries** among various groups (which may be defined by ethnicity, language, gender or caste etc.) potentially leading to even more inequalities and even lead to breakdowns in institutional functions, weakening the effectiveness of policies.

**Challenges compounding inequality in India**

- **Poverty:** Despite lifting 271 million people out of poverty between 2005-15, India still remains **home to 28 per cent of the world's poor**, as per the Human Development Report. Though severe poverty is less, vulnerability towards poverty is quite high.
- **Smaller Incomes:** While unemployment is under control in India, smaller incomes have resulted in a higher dominance of working poor, lower share of skilled workforce and lack of old-age security.
- **Education:** In terms of Education, inequality in India is more than that in the South Asian region and the world. Indian girls attend school for a shorter period than the regional average.

**Way forward: Moving towards Inclusive Growth**

The central idea of the inclusive growth includes sharing of fruits of socio-economic development with all sections of the society. As a result, moving towards inclusive growth directly **ensures both equality and equity in the long-term growth**. Following steps can be taken to incorporate all dimensions of inclusive growth:



• **Policy reorientation:**

- **Progressive taxation**, in order to redistribute resources across society.
- **Social spending**, on public services such as education, health and social protection. Evidence from more than 150 countries – shows that overall, investment in public services and social protection can tackle inequality.
- **Free up women's time** by easing the millions of unpaid hours they spend every day caring for their families and homes. Invest in public services including water, electricity and childcare that **reduce the time needed to do this unpaid work**.
- **Low- productivity workers** should be incentivized to move to sectors that are more productive. **Simultaneously, fundamental reforms** need to be delivered to increase the productivity of these sectors. Thus, need for:
  - **Robust labour protections**
  - **Institutional and policy support for collective bargaining**, social safety nets and trade protectionism
- Assessing and responding to inequalities in human development demands **a revolution in metrics**:
  - To fill the data gaps to measure the different inequalities (among groups, households etc.), new standards and practices for measuring inequality are needed.

**Government Measures**  
**Several initiatives** have been taken up by the Government to eliminate inequality and foster inclusive growth, such as:

- **Expanding the social security net** through Pradhan Mantri Suraksha Bima Yojana (Accident Insurance), Atal Pension Yojana (Unorganized Sector) and Pradhan Mantri Jeevan Jyoti Yojana (Life Insurance)
- **Providing institutional support for entrepreneurship** with the help of MUDRA Bank, to provide microfinance to entrepreneurs in rural India and a National Hub for SC/ST entrepreneurs has been created.
- **Financial inclusion** via Prime Mantri Jan Dhan Yojana that strives to ensure that the economically weaker sections have access to bank accounts.
- According to Economic Survey 2017-18, **utmost priority to social infrastructure** like education, health and social protection is being given by the Government to engineer an inclusive and sustainable growth in India.

**2.2. POVERTY ALLEVIATION**

**Introduction**

India has an estimated **812 million** poor people, which could increase to **915 million**, due to the impact of COVID pandemic, as per the **'Estimates of the impact of COVID-19 on Poverty'** report of United Nations University. This is based on the World Bank's poverty line for lower-middle-income countries which is **\$3.2 a day**.

## Impact of COVID-19 on Poverty

- **Largescale informal sector-** As per the International Labour Organization (ILO), around **400 million workers** from India's informal sector are likely to be pushed deeper into poverty
- **Reduced sources of income-** due to following reasons-
  - **Decline in income of self-employed,** due to reduction of economic activity (sales, production) in micro and small enterprises due to fall in demand and disruptions in supply of inputs.
  - **Decline in domestic remittances from urban migrants** to their households in rural areas.
  - There is absence of adequate safety nets like savings and insurance cover. This might force the poor to indulge in activities like **sale of productive assets with long-lasting negative effects.**
- **Increase in out of pocket expenditure-** due to the following reasons-
  - The **poor in urban areas** are **highly vulnerable to disease** as they live in in congested settlements with low-quality services. This **impacts their ability to work** and also **invites health spending** due to illness or the need to take care of sick household members.
  - The school closures can lead to a decline in food intake among children of **poor families who rely on government programs like Mid-Day Meal.**
- **Impact on economic demand-** The rise in unemployment and fall in incomes could lead to reduced spending and consumption. **Many people in agriculture sector would be affected** by falling prices due to decline in demand in urban areas over time.
- **Impact on poor women-** due to various added pressures in the COVID lockdown such as-
  - They face **increased burden due to demand of care of children and elderly**, as a result of school closures and their vulnerability to disease.
  - Women are more exposed to infection due to **larger share of women in healthcare sectors.**
  - Women face a **higher likelihood of domestic violence** during home confinement.

### Situation of workers in India during COVID-19

The Stranded Workers Action Network (SWAN), group of volunteers connecting relief to workers stranded across India, conducted a survey of 11,159 workers across the country, which revealed the following facts-

- **74% had less than half their daily wages** remaining to survive for the rest of the lockdown period.
- **89% had not been paid by their employers** at all during the lockdown.
- Percentage of **people who said they have less than 1 day of rations increased from 36% to 50%** in the third week of lockdown while the percentage of people who received **government rations increased from 1% to only 4%** in the third week of lockdown.

## Challenges

- **Uncertainty over the disease-** With 80% asymptomatic patients and lack of vaccination, the magnitude of the crisis at hand still remains uncertain for the government.
- **Constrained financial resources-** as public finances at both central and state levels have been under considerable strain. It makes it difficult for the government to put more cash in the hands of the distressed.
- **Issues with the public distribution system-** such as lack of documentation and its updating of the PDS beneficiaries.
  - **Implementation issues-** such as only 10% out of the total monthly allocation of 1.95 lakh metric ton (LMT) pulses under the Pradhan Mantri Garib Kalyan Ann Yojana (PMGKAY), had been issued by the states till April 22.
- **Inadequate compensation-** Although the governments at Union and state have taken various steps, however, many experts state the relief packages in itself are inadequate.

### Steps taken by various State Governments

- **Kerala-** Everyone in need, whether the below poverty line (BPL) or not, will get **free rice**. There will be **home delivery of mid-day meals** and the ASHA workers would ensure that **food reached its 26,000 children registered under ICDS.**
- **Haryana-** All BPL families received their monthly ration for April free of cost. All government school children and those enrolled in anganwadis were to be given dry rations.
- **Chhattisgarh-** Dry ration instead of hot-cooked meals were to be provided to children aged between three and six years and who were registered with anganwadi centres.
- **Bihar-** Provision of direct cash transfers (DCTs), depositing funds to the bank accounts of ration card holders. It also decided to give 5 kg rice and 1 kg pulses for three months as lockdown relief.

### 2.2.1. MULTIDIMENSIONAL POVERTY INDEX (MPI) 2020

#### Why in News?

2020 Global Multidimensional Poverty Index was released by the **United Nations Development Programme (UNDP)** and the Oxford Poverty and Human Development Initiative (OPHI).

#### What is Global MPI?

- MPI is the **product of the incidence of poverty** (proportion of poor people) and **the intensity of poverty** (average deprivation score of poor people) and is therefore sensitive to changes in both components.
- It examines each person's **deprivations across 10 indicators in three equally weighted dimensions**—health, education and standard of living and identify both who is poor and how they are poor.
- NITI Aayog plans to leverage **monitoring mechanism of Global Multidimensional Poverty Index (MPI)** as part of Government's **Global Indices to Drive Reforms and Growth (GIRG)** exercise.
  - GIRG aims to **measure and monitor India's performance** on various important social and economic parameters and use **these indices for self-improvement, bring about reforms in policies, improving last-mile implementation of government schemes etc.**

#### Key highlights of MPI 2020

- Across 107 developing countries, **1.3 billion people (22%) live in multidimensional poverty**. Among them 82.3 percent are deprived in at least five indicators simultaneously.
- About **84.3% of multidimensionally poor** people live in Sub-Saharan Africa and South Asia.
- In every developing region the proportion of people who are multidimensionally poor is higher in rural areas than in urban areas.
- **65 countries reduced their global MPI value significantly** in absolute terms.
- **Largest reduction in multidimensional poverty was in India**, where approximately 273 million people moved out of multidimensional poverty **between 2005/2006–2015/2016**. India also **halved its MPI value in this period**.
  - However, **37.7 crore people** lived under multidimensional poverty as of 2018.

#### How is MPI better than other models?

- **Multidimensional approach:** MPI takes advantage of the availability of multipurpose household surveys which allows data on different dimensions to be drawn from the same survey. It identifies the people who experience overlapping deprivations.
- **Better Comparison:** MPI can show the composition of multidimensional poverty across different regions, ethnic groups or any other population sub-group, with useful implications for policy.
  - HPI could not identify which specific individuals, households or larger groups of people were poor.
- **Complement to income-based poverty measures:** Income poverty data come from different surveys, and these surveys often do not have information on health, nutrition etc.
  - People may be above the poverty line but still deprived of needs such as housing.

#### Limitations of MPI

- **Less sensitive:** To be considered multidimensionally poor, households must be deprived in at least six standard of living indicators or in three standard of living indicators and one health or education indicator. This requirement makes the MPI less sensitive to minor inaccuracies.
- **Unable to capture inequality:** While the MPI goes well beyond a headcount to include the intensity of poverty experienced, it does not measure inequality among the poor.
- **Unable to capture Intra-household inequalities:** Intra-household inequalities may be severe, but these could not be reflected precisely because there is no individual-level information for all the indicators.
- **Unavailability of data:** There are limits to the cross-country comparability of the MPI. The estimates presented are based on publicly available data and not all countries have data on all indicators. Better and more frequent data on poverty is urgently required.

#### Global Multidimensional Poverty Index and the Sustainable Development Goals

- It shows the interlinked deprivations of people in the same **household across 10 indicators that relate to SDGs 1** (No Poverty), 2 (Zero Hunger), 3 (Good Health and Well-Being), 4 (Quality education), 6 (Clean water and sanitation), 7 (Affordable and Clean Energy) and 11 (Sustainable cities and communities).
- **MPI and Immunization:** There is a negative, moderate, and statistically significant correlation between global MPI value and coverage of diphtheria, tetanus and pertussis (DTP3) vaccine.

- Ten countries account for **60% of unvaccinated children**, and **40% of children unvaccinated for DTP3** live in just four countries: **Nigeria, India, Pakistan and Indonesia**.
- **MPI and Education:** Sub-Saharan African countries have the highest percentages of people who are multidimensionally poor and deprived in years of schooling.
- **MPI and rural-urban divide:** for instance, in South Asia 29.2% of overall population is multidimensionally poor compared with 37.6% in rural areas
- **MPI and climate change and the environment:** Poor and disadvantaged people carry a double burden: they are vulnerable to environmental degradation and must cope with immediate environmental threats from indoor air pollution (SDG 3.9), lack of clean water (SDG 6.1) and unimproved sanitation (SDG 6.2).
- **MPI and work and Employment:** There is a strong correlation between MPI value and child labour. Agricultural employment plays an important role in raising overall employment and reducing poverty in many developing countries.

## 2.2.2. RECENT POLICY REFORMS FOR POVERTY ALLEVIATION

### 2.2.2.1. REFORMS IN MGNREGA

#### Why in news?

Centre is planning to link wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme to an updated inflation index (CPI-Rural), which will be revised annually.

#### Related news

- Government is set to pay a daily allowance of up to Rs 250 to a casual laborer undergoing skill training for specialized work.
- The Ministry of Rural Development has tied up with Krishi Vigyan Kendras to train the MGNREGA workers in preparation of organic manure and basic storage of crop produce.

#### Background

- MGNREGA is a flagship programme of the Ministry of Rural Development (MoRD).
- It has provided nearly **235 crore person days** in the last three years, each year.

#### Reforms introduced and their benefits:

- **Transparency in wage payments, asset creation, and payment for materials:** Efforts were started for a 100% of geo-tagging of assets, AADHAAR linking of Bank Accounts, IT/DBT transfers for all wages, and material payments and Geographic Information System (GIS) based planning of works.
  - The **generation of payment within 15 days** has moved up from 26% in 2014-15 to **91%** in the current.
- **Durable Asset creation:** The **60:40 wage- material ratio** mandated at Gram Panchayat level often led to non-productive asset being created simply because 60% had to be spent on unskilled wage labour in that Gram Panchayat. **The first big reform was to allow 60:40 at the District level rather than at the Gram Panchayat level.**
  - In spite of this reform, the ratio of expenditure on unskilled wage labour to overall expenditure remains higher than 65%. This has **enabled a new thrust on durable assets** that generate incomes. It allows the **flexibility** to undertake only those assets that are productive.
- **Creation of durable community and individual beneficiary assets:** A very large number of Individual Beneficiary Schemes like goat sheds, dairy sheds, Pradhan Mantri Awaas Yojana - Gramin (PMAY-G), farm ponds, water soak pits etc. have also been taken up. These assets have **helped the under privileged** to have access to alternative sustainable livelihood.
  - Similarly, building of **Anganwadi Centres (AWC)** has been a significant effort towards creation of durable community assets. Nearly 1,11,000 AWCs are being constructed in convergence with Ministry of Women and Child Development.
  - **Solid Waste Management works** have also been taken up on a large scale leading to cleaner villages, higher incomes, and more diversified livelihoods for the poor.
- **Mission Water Conservation Guidelines:** were drawn up in 2015-16 to focus on the dark and grey blocks where the ground water level was falling rapidly.
  - This **partnership allowed to avail the technical knowledge** of engineers, scientists from Central Ground Water Board to build a robust technical manual and implement capacity development programme for the frontline workers.
  - A special **Barefoot Technicians programme** was rolled out to ensure better technical supervision.

#### Some Initiatives to streamline MGNREGS

- **NREGAssoft** is a local language enabled workflow-based e-Governance system which makes available all the documents like Muster Rolls, registration application register, job card/employment register etc.

- **GeoMGNREGA** uses space technology to develop a database of assets created under MGNREGS using technological interventions like mobile based photo geo-tagging and a GIS based information system for online recording and monitoring.
- **Increased accountability:** Various citizen centric mobile Apps like **Gram Samvaad Mobile App** and **JanMnREGA** (an asset tracking and feedback app for MGNREGS assets) have been developed, which aim to empower the rural citizens by providing direct access to information and improve accountability to the people.
- **Project 'LIFE-MGNREGA' (Livelihood In Full Employment)** aims to promote self-reliance and improving the skill base of the MGNREGA workers, so that they can move from current status of partial employment to full employment status.

#### Challenges with MGNREGA which must be tackled to make it more efficient:

- **Low Wages:** The **national average wage** of an MGNREGA worker is **₹178.44 per day**, less than half of the ₹375 per day national minimum wage recently recommended by a Labour Ministry panel under the chairmanship of Anoop Satpathy.
- **Wage Disparity:** Presently, five states have a daily minimum wage of Rs 375 or above while the **highest MGNREGA wage is Rs 284 a day in Haryana**. Uttar Pradesh pays among the lowest NREGA wages at Rs 182/day (which is 95% of the notified Rs 192).
- **Wage Revision method:** The wages paid under the scheme are **tied to the consumer price index (CPI) for agriculture work (CPI-AL)**. This is problematic.
- **Underemployment:** As per the official numbers available on the MGNREGA website, in FY18 average days of employment provided per household was 45.77 which was only 46 in FY17 and 40.17 days in FY15.
- **Workers penalized for administrative lapses:** The union ministry withholds wage payments for workers of states that do not meet administrative requirements within the stipulated time period e.g., submission of the previous financial year's audited fund statements, utilisation certificates, bank reconciliation certificates etc.
- **Too much centralization weakening local governance:** A real-time MIS-based implementation and a centralized payment system has further left the representatives of the Panchayati Raj Institutions with literally no role in implementation, monitoring and grievance redressal of MGNREGA scheme.

#### 2.2.2.2. AFFORDABLE HOUSING

##### Why in news?

Recently, the Cabinet approved the development of **affordable rental housing complexes (ARHCs)** for urban migrants and poor as a sub-scheme under the **Pradhan Mantri Awas Yojana (Urban)**.

##### Key Features of the ARHCs Scheme

- Under the scheme, ARHCs shall be developed for exclusive use as rental housing for a **minimum period of 25 years**, using **two models**:
  - **Converting existing vacant government funded housing complexes** through Concession Agreements.
  - **Special incentives for private/ public entities** to develop ARHCs on their own available vacant land.
- **Target beneficiaries:** Workforce involved in manufacturing industries, service providers in hospitality, health, domestic/commercial establishments, and construction or other sectors, laborers, long term tourists/ visitors, students etc.
  - Approximately, **3 Lakh beneficiaries** will be covered initially under ARHCs.
- **A Technology Innovation Grant** of Rs 600 Crore will be released for projects using identified innovative technologies for construction.
- **Intended Benefits** of the scheme:
  - Economically productive use of Government funded vacant housing stock.
  - Conducive environment for Entities to develop ARHCs on their own vacant land.
  - New investment opportunities and promotion of entrepreneurship in rental housing sector.
  - Investment under ARHCs is expected to create new job opportunities.

##### Pradhan Mantri Awas Yojana (Urban)

- PMAY (U) was launched in 2015 to provide **housing for all in urban areas by year 2022**.
- The Mission addresses urban housing shortage among the Economically Weaker Section (EWS), Low Income Group (LIG) and Middle-income groups (MIG) categories including the slum dwellers.
- Presently, **105.6 Lakh** houses have been sanctioned and **35.1 Lakh** houses have been completed under PMAY (U).
- The Mission also promotes women empowerment by providing the ownership of **houses in name of female member** or in joint name.

## Need for Affordable Housing in Urban Areas

- **Rapid urbanization:** By the year 2030, more than 40% of the Indian population is expected to live in urban India which is likely to create a demand for 25 million additional affordable housing units.
- **Majority in low- and middle-income group:** Urban housing shortage will be primarily driven by Below Poverty Line (BPL), Economically Weaker Section (EWS) and Low-Income Group (LIG) households due to their low disposable income, irregular income, ever increasing real estate prices etc.
- **Better livability:** Affordable housing is fundamental to the health and well-being of people and to the smooth functioning of the economy.
- **To deter illegal encroachment of land:** Rural to urban migration usually leads to development of illegal slums and informal/ unauthorized colonies in peri-urban areas due to lack of affordable alternatives.
- **Resolving urban congestion:** Making housing available at affordable prices close to the place of work and cut down unnecessary travel, congestion and pollution.
- **Informal Rental housing sector in India:** It leads to exploitation of tenants through inflated pricing, lack of proper maintenance, forced evictions etc.
- **Reverse migration triggered by COVID-19:** Lack of affordable housing, resulting in mass exodus of workers/ urban poor living in cities highlighted the need for affordable housing.

### Government Initiatives to ensure affordable housing

- **Draft National Urban Rental Housing Policy (NURHP)** was released in 2015 with a vision to create a vibrant, sustainable and inclusive rental housing market in India.
- Affordable housing has been accorded the **infrastructure status** which has associated benefits such as lower borrowing rates, **tax concessions** and increased flow of foreign and private capital.
- A dedicated **Affordable Housing Fund (AHF)** was created in the National Housing Bank to boost demand and supply of low-cost homes.
- **Real Estate (Regulation and Development) Act, 2016:** It established the **Real Estate Regulatory Authority (RERA)** for regulation and promotion of the real estate sector. The act aims to protect the interest of home buyers, while ensuring that the sale/purchase of real estate project is carried in an efficient and transparent manner.
- **Draft Model Tenancy Act, 2019** proposes to establish a framework for the regulation of Tenancy matters (residential and commercial) and to balance the rights and responsibilities of landlords and tenants including a process of fast adjudication process for resolution of disputes.

## Challenges

- **Lack of clear definition for affordable housing:** It should be redefined clearly keeping in view the different geographies in India.
- **Poor access to organized finance:** EWS and LIG categories often finds it difficult to secure formal housing finance due to inability to produce formal pay slips and other relevant documentation to establish creditworthiness.
- **Developed in outskirts of cities:** Lack of affordable and adequately sized land parcels in inner urban localities has driven the development of Affordable Housing to urban peripheries.
- **Archaic Laws:** Landowners find rental housing unattractive as restrictive rent control laws increase the cost of transaction, lower residential yields and put them at high risk of property litigation.
- **Other Issues:**
  - **Liquidity crunch in Non-Banking Financial Companies (NBFCs)** has adversely impacted funding availability.
  - **High land cost in urban cities:** Land often constitutes more than 50% of the project cost for developers making affordable housing projects unviable.
  - **Regulatory hurdles:** Delays in the land use conversion, building and construction approval processes etc, lead to cost escalation.
  - **Low Profitability in affordable sector:** Private real estate developers prefer luxury, high-end and upper-mid housing segment due to their higher returns.

## Way Forward

- **Inclusive definition “affordable housing”:** It should take into consideration different geographies in India and cover factors such as property taxes, operational and maintenance costs, transport costs, payments of basic utilities such as water, electricity, cooking fuel etc.
- **Innovative micro mortgage financing mechanisms** and the reach of Self-Help Groups (SHGs) can be utilized to ensure that housing finance is available to large sections of LIG and EWS populations.
- **Formalization of rental housing sector** by revising rent control laws to attract investment in the sector. **Single window clearance** and electronic submission of documents for approval for building permits.



- **Focus on Long-term planning and land-management processes:** to balance land and housing supply with projected future housing demand and population growth. Land records can be digitized to improve planning and utilization of land.
- **Zoning reforms:** Land-use planning tools like Inclusionary Zoning can be used, which reserves land or earmarks zones to be exclusively used for affordable housing.
- **Encouraging Rental management companies (RMCs)** to bring efficiency especially in operation, maintenance and management of large-scale rental housing projects/schemes.

## 2.3. FINANCIAL INCLUSION

### Introduction

Financial inclusion in the broadest sense of the word implies universal access to bank accounts, easy access to insurance and social security services and better access to credit at a reasonable cost for those presently excluded.

### Current status of Financial Inclusion in India

- According to World Bank data, in 2017, **80 percent of adults had a bank account.**
- Even as the importance of financial assets is increasing for Indian households, **physical assets continue to be the predominant asset class for savings for them.** (More than 50% of the household savings still comprise of physical assets.)
- In 2016, the **percentage of the population using mobile money services in India was only 1 per cent,** compared to Bangladesh (40 per cent), Pakistan (9 per cent) and Kenya (81 percent).
- In 2016, the **number of loan accounts per 1,000 adults was 154 in India** compared to 88 in Bangladesh, 26 in Pakistan and 231 in Kenya.
  - Also, **bank credit to GDP ratio in India was 51 percent,** as compared to 98 per cent in China in 2016.

### Constraints in Financial Inclusion

- **Lack of financial literacy** amongst low income households and small informal businesses.
- The **high cost of operations** of the **traditional banking model.**
- **Excessive regulatory requirements** on products, and market entry, and conservative regulatory approach to new technologies.

To overcome these problems, government has taken several steps like- **Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, Stand-Up India Scheme, Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Suraksha Bima Yojana, and Atal Pension Yojana.**

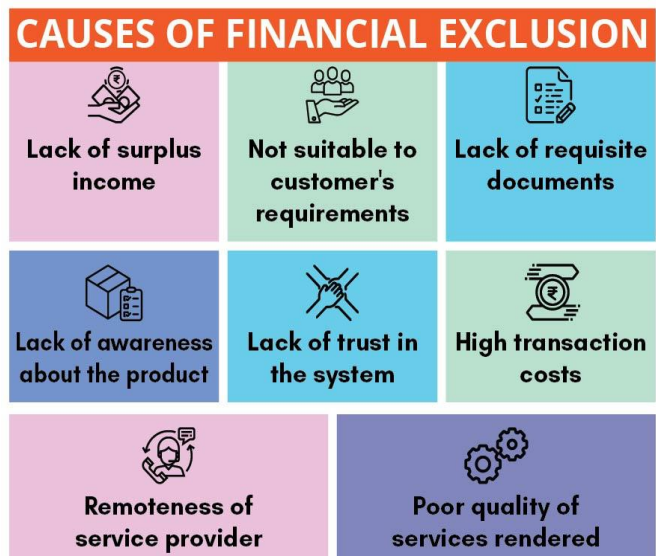
### 2.3.1. NATIONAL STRATEGY FOR FINANCIAL INCLUSION

#### Why in news?

Recently, Reserve Bank of India released National Strategy for Financial Inclusion (NSFI) for the period 2019-2024.

#### National Strategy for Financial Inclusion 2019-2024

- It sets forth the vision and key objectives of the financial inclusion policies in India to help **expand and sustain the financial inclusion process at the national level through a broad convergence of action** involving all the stakeholders in the financial sector.
- The strategy aims to provide access to formal financial services in an affordable manner, broadening & deepening financial inclusion and promoting financial literacy & consumer protection.

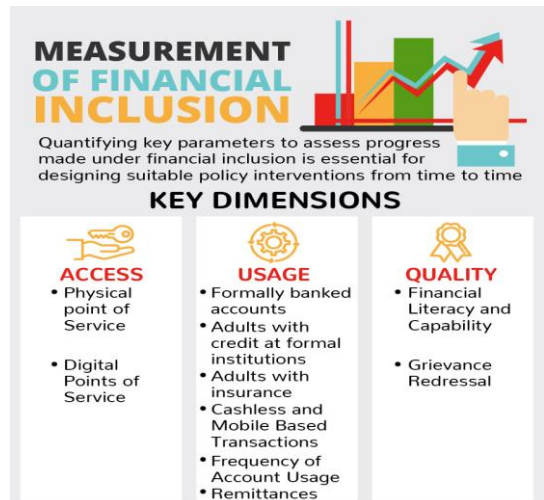


**Strategic Pillars of National Strategy for Financial Inclusion**

Pillars	Objective	Recommendations
Universal Access to Financial Services	<ul style="list-style-type: none"> <li>Every village to have access to a formal financial service provider within a reasonable distance of 5 KM radius.</li> <li>The customers may be on boarded through an easy and hassle-free digital process.</li> </ul>	<ul style="list-style-type: none"> <li>Extending the digital financial infrastructure to co-operative banks and other specialized banks as well as other non-bank entities such as- fair price shops, common service centres etc.</li> </ul>
Providing Basic Bouquet of Financial Services	<ul style="list-style-type: none"> <li>Every adult who is willing and eligible needs to be provided with a basic bouquet of financial services that include a Basic Savings Bank Deposit Account, credit, a micro life and non-life insurance product etc.</li> </ul>	<ul style="list-style-type: none"> <li>It can be achieved through designing and developing customized financial products by banks and ensuring efficient delivery of the same through leveraging of Fin-tech and Banking Correspondents networks.</li> </ul>
Access to Livelihood and Skill Development	<ul style="list-style-type: none"> <li>The new entrant to the financial system be given the relevant information about the ongoing Government livelihood programmes thus helping them to augment their skills and engage in meaningful economic activity and improve income generation.</li> </ul>	<ul style="list-style-type: none"> <li>Convergence of objectives of various employment generation and skill development programmes like National Rural Livelihoods Mission (NRLM), National Urban Livelihoods Mission (NULM), etc.</li> </ul>
Customer Protection and Grievance Redressal	<ul style="list-style-type: none"> <li>Customers shall be made aware of the recourses available for resolution of their grievances.</li> <li>About storing and sharing of customer's biometric and demographic data, adequate safeguards need to be ensured to protect the customer's Right to Privacy.</li> </ul>	<ul style="list-style-type: none"> <li>Internal audits should be done to assess the qualitative efficacy of the customer grievance redressal mechanism already in place in the banking system viz., Internal Ombudsman Scheme.</li> </ul>
Effective Co-ordination	<ul style="list-style-type: none"> <li>There needs to be a focused and continuous coordination between the key stakeholders viz. Government, the Regulators, financial service providers, Telecom Service Regulators, Skills Training institutes etc. to make sure that the customers are able to use the services in a sustained manner.</li> </ul>	<ul style="list-style-type: none"> <li>Co-ordination should be promoted through emerging technology.</li> <li>Adopting a decentralized approach to planning and development should be done by creating separate smaller forums to help accelerate local level financial inclusion.</li> </ul>

**Measurement of Financial Inclusion**

The NSFI also recommends periodic evaluation of financial inclusion policies through monitoring **Measurement of Progress of Financial Inclusion** through parameters like **Access, Usage and Quality**. (refer infographic)



**2.3.2. NATIONAL STRATEGY FOR FINANCIAL EDUCATION (NSFE) 2020-2025**

**Why in News?**

Recently, Reserve Bank of India (RBI) released the National Strategy for Financial Education (NSFE): 2020-2025.

**About NFSE**

- First NFSE was released in 2013 for the period 2013-2018.
- NSFE intends to empower various sections of the population **to develop knowledge, skills, attitude and behavior which are needed to manage their money better** and to plan for their future.
- NSFE recommends **multi-stakeholder-led approach** for creating a **financially aware and empowered India**.
  - NSFE, **has been prepared by the National Centre for Financial Education (NCFE)** in consultation with all the Financial Sector Regulators (RBI, SEBI, IRDAI and PFRDA), DFS and other Ministries and other stakeholders (DFIs, SROs, IBA, NPCI).
  - **Technical Group on Financial Inclusion and Financial Literacy** would be responsible for **periodic monitoring and implementation** of NSFE.

## What is Financial Literacy and Financial Education?

Financial Education and Financial Literacy are related concepts but not the same. People achieve Financial Literacy through the process of Financial Education.



- **Financial Literacy is defined as a combination of financial awareness, knowledge, skills, attitude and behavior** necessary to make sound financial decisions and ultimately achieve individual financial well-being.
- Financial Education, on the other hand is defined as the **process by which financial consumers/investors improve their understanding of financial products**, concepts and risks and through information, instruction and/or objective advice.
  - Components of Financial Education include **Basic Financial Education, Sector specific financial education and awareness regarding financial processes.**
- Thus, the achievement of Financial Literacy empowers the users to make sound financial decisions which result in financial well-being of the individual.

## Why is the process of financial education important?

- Lack of financial education is a major impediment to **eradication of economic poverty, enhancement of livelihood opportunities, building asset base, supporting income generating activities** and expanding range of choices available to the population.
- According to a survey, more than **75% of Indian adults do not adequately understand basic financial concepts.** It's even worse when it comes to women. More than 80% of women are financially illiterate.
  - Financial literacy is central to ensure that the accounts opened through financial inclusion efforts are used by the people by availing products/ services relevant to them.
- A thrust on financial education is **essential to make financial inclusion more meaningful** and enabling for citizens' reach to economic well-being.
- It is needed under heightened uncertainty and volatility of the financial sector with **increased influence of private players, shrinking public support system, rise of cost of living and availability of large number of financial products** and services to choose from.

### Status of Financial Literacy in India

- NCFE has carried out an **All India Financial Inclusion and Financial Literacy Survey in 2019** to find out the status of financial literacy in India.
- **Key Findings:**
  - **27.18 % of the respondents have achieved minimum target score/minimum threshold score** in each of the components of financial literacy (Financial Knowledge, Financial attitude, Financial Behavior) prescribed by OECD.
  - Though there has been an improvement over the period, further **efforts are needed to improve financial literacy among women.**
  - **Rural India, groups with lower education and group of age 50 and above need focused attention.**

### Financial Literacy initiatives by various stakeholders

- **NCFE conducted financial education campaigns** for all sections of the population through seminars & workshops.
- **RBI created Financial literacy guides, public awareness campaigns** etc. Also, RBI in collaboration with Organization of Economic Development (OECD) has issued a concept paper, promoted a **financial literacy website**, and set up **credit counseling centers to provide advice on personal finance.**
- **NSE, BSE, MCX**, and others also have programs on **investor awareness** and regularly release articles and propaganda related to financial literacy.

## What are the challenges to this process of financial education?

- **Low income levels:** A large number of people who have come into the financial system now have low or uncertain incomes. With little or no savings, they **hardly have any incentive to acquire Basic Financial Education.**
- **Information asymmetry:** Difficulty of consumers in identifying and understanding the fine print from the large volume of convoluted information, leads to an information asymmetry between the financial intermediary and the customer.
- **Low technological inclusion:** The hesitation to use ATMs, mobile banking, net banking etc. act as a technological barrier in the **acquisition of process education.**

- **Too much documentation:** Participation in formal financial services requires various documents of proof regarding persons' identity, income, birth certificates, etc. But poor people generally lack these documents and thus remain marginalized from the process.
- **Absence of reach and coverage:** Many of the schemes that are useful to the poor don't reach them further closing the paths that can help poor enter the financial system.

#### Way forward: Vision provided by NSFE 2020-2025

- Inculcation of **financial literacy concepts among the various sections** of the population through financial education to make it an important life skill. Financial education should **start at school, for people to be educated as early as possible**.
- **Manage risk at various life stages** through relevant and suitable insurance cover. For example, **planning for old age and retirement** through coverage of suitable pension products.
- Document also recommends **adoption of a '5 C' approach for dissemination of financial education:**
  - **Content:** Creating Financial literacy content for all.
  - **Capacity:** Develop the capacity of various intermediaries who can be involved in providing financial literacy and develop a 'Code of Conduct' for financial education providers.
  - **Community:** Evolve community led approaches for disseminating financial literacy in a sustainable manner.
  - **Communication:** Use technology, mass media channels and innovative ways of communication for dissemination of financial education messages.
  - **Collaboration:** Integrate financial education content in school curriculum, various Professional and Vocational courses.

### 2.3.3. DIGITAL FINANCIAL INCLUSION

#### Why in news?

The Economist Intelligence Unit's 2019 Global Microscope on Financial Inclusion report has pointed that **digital financial services in India have improved**.

#### Reasons for growth of digital financial inclusion in India

- **Leveraging mobile phone and smartphone penetration:** The extensive reach of mobile phones in the country offers an innovative low-cost channel to extend the reach of banking and payment services.
- **Government initiatives:** Over the last several years, many initiatives have been progressively launched for propagation of digital financial inclusion such as **Digital India initiative, DigiShala, Digital Jagriti etc.**
- **Direct Benefit Transfers (DBT) and Government-to-Person (G2P) payments:** Receipt of DBT payments into a bank account was the a major initiative where marginalised sections used digital financial service.
  - According to the government's own figures, more than **75 million Pradhan Mantri Jan Dhan Yojna accounts are receiving DBT.**
- **Limitations of traditional banking systems:** Brick and mortar businesses are proving to be an uneconomical proposition for banks in rural or remote areas. Conventional banking models are not feasible for low ticket size of transactions, deposits, loans, etc. in such regions.
- **Fintech revolution:** It is led by a host of players, including commercial banks, telecommunication firms, payment banks, small finance banks and financial technology companies.

#### Benefits of digital financial inclusion

- **Access to formal financial services:** Digital financial inclusion can be defined as **digital access to and use of formal financial services by excluded and underserved populations**.
- **Reduced risks:** Digital finance adoption can **reduce the circulation of fake currency** and also reduces risks of loss, theft, and other financial crimes posed by cash-based transactions.
- **Reduced costs:** It leads in **reduction of costs associated with transacting in cash and using informal providers**. McKinsey estimates that Indians lose more than US\$ 2 billion a year in forgone income simply because of the time it takes travelling to and from a bank.
- **Improve banking performance:** Digital financial inclusion promises to help banks lower costs by **reducing queuing lines, reduce manual paperwork and to maintain fewer bank branches**.

### Issues with digital financial Inclusion

- **Regulatory Framework:** The regulation of payments and digital finance in India can be a **complex web of institutions and rule-setting bodies**. This regulatory uncertainty could potentially hamper development.
- **Literacy and understanding:** Digital finance providers moving into lower income markets will continue to face challenges around literacy (financial, digital and general).
- **Lack of digital infrastructure:** Digital service providers can also choose to withdraw or discontinue the provision of specific digital finance services to high-risk rural areas or communities that do not have the **supporting infrastructure**.
- **Fear of being brought into the tax net:** There is a perception among some merchants that moving out of the cash economy into the digitized financial sector means that people and small businesses who currently exist outside of the taxation system will be forced to pay taxes.

**Digital financial regulator in India**

- RBI is responsible for regulating payments and banks and for overall financial stability
- Ministry of Finance (in particular the Department of Financial Services) has traditionally run the government's financial inclusion programs and is responsible for PMJDY.
- TRAI, the communications regulator advises on data, KYC and digital payment systems.
- Ministry of Electronics and Information Technology coordinates the government's Digital India initiative.


### Way forward

To address these issues a holistic approach could be adopted- by providing a **clear legislative and regulatory for digital finance**, ensuring that **digital consumers are protected, encouraging financial literacy** and providing **support to local level innovation**.

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### 3. FISCAL POLICY AND RELATED NEWS

#### 3.1. STATUS OF PUBLIC FINANCES

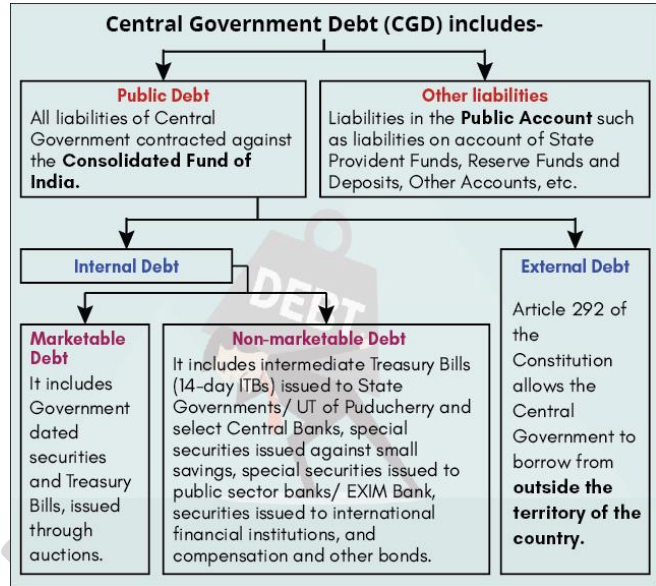
##### 3.1.1. STATUS PAPER ON GOVERNMENT DEBT

###### Why in news?

Recently, the Central Government released the **Ninth Edition of the Status Paper on the Government Debt**, which provides a detailed analysis of the overall Debt Position of the Government of India.

###### More on the news

- The status paper analyzes **conventional indicators of debt sustainability** such as Debt/GDP ratio, interest payment to revenue receipts, shares of short-term Debt/ External Debt/ Floating Rate Bonds (FRBs) in total debt
- It contains **Debt Management Strategy (DMS) of the Central Government** for the financial years from 2019-20 to 2021-22 which guides the borrowing plan of the Government.
- The objective of the DMS is to ensure that the government's financing requirements and payment obligations are met at the lowest possible cost, consistent with prudent degree of risk.



###### Some Recent Trends in Govt Debt

Parameters	2017-18 (as percentage of GDP)	2018-19 (as percentage of GDP)	Remarks
Public Debt	41%	40.0%	Decreased.
Internal debt	37.4%	37.3%	Decreased.
External debt	2.8%	2.7%	Decreased
Central Govt. (Gol) Liabilities	45.8%	45.7%	Decreased.

###### Significance of managing Government debt

- Affects investor confidence:** Due to higher debt burdens there is an increased risk of default which downgrades the sovereign credit ratings by the credit rating agencies. This impacts investor confidence, reducing FDI/FII in India, and makes future borrowing expensive.
- Impacts fiscal capabilities of the government:** As borrowing increases, the government has to pay more interest rate payments to bondholders. This can lead to a greater percentage of tax revenue going to debt interest payments.
- Crowding out effect:** As more money is lent to the government rather than invested in the market, corporate sector is crowded out leading to slower industrial and capital asset growth and potential loss of employment.
- Exchange rate risk:** The reduced demand of domestic securities relative to foreign securities (due to poor credit rating) might push the exchange rate down and weaken the domestic currency.
- Higher taxes in the future:** If the debt to GDP rises rapidly, the government may need to increase taxes and/or limit spending to reduce debt levels in the future.
- Vulnerability to volatile international capital markets:** High share of external debt exposes economy to capital flight.

### Approach of the Central Government towards sustainable debt management

- **Dedicated agency to manage debt:** Institutionally, the Government has decided to set up a statutory **Public Debt Management Agency (PDMA)** to bring both, India's external and domestic debt under one roof.
- **Government's Medium-Term Debt Management Strategy (2019-2022):** Several steps will be taken by the government under it based on three broad pillars viz.,
  - **Low cost of borrowing-**
    - ✓ **Elongating maturity profile** of the debt portfolio.
    - ✓ **Rationalization of interest rates on small savings schemes** and other instruments like PF, special securities, etc. in line with the interest rates prevailing in the economy.
    - ✓ **Advising other Divisions of Department of Economic Affairs**, engaged in the negotiations of external loans as regards cost, tenure, currency, etc. with a view to help them arrive at the best terms for external loans.
  - **Risk mitigation-**
    - ✓ **Setting benchmarks for certain indicators** such as share of short-term debt and external debt, Floating Rate Debt etc. to ensure minimal risk in terms of Roll-over Risk and risks associated with movement in interest rates and exchange rates.
  - **Market development-**
    - ✓ **Maintaining transparency** in the market borrowing programme, **conducting regular investor interaction and consultations** with other stakeholders and **issuing a variety of instruments** to help investors manage their portfolio more efficiently.
    - ✓ **Creating benchmarks of desired tenors** by issuing sizeable volumes to enhance investor participation and liquidity.
    - ✓ **Supporting development of domestic investor base** and calibrated opening of the Government securities market to foreign investors.

#### India's performance on indicators of debt sustainability

According to the status paper, presently the Government's debt portfolio is characterized by favorable sustainability indicators:

- **The debt to GDP ratio** for the Central Government **declined from 47.5 per cent in 2011-12 to 45.7 per cent in 2018-19.**
- **Gross Fiscal Deficit (GFD)** as a percentage of GDP has been on a declining trend since 2012-13.
- **The share of short-term debt** is within safe limits and has stabilized after some rise during 2005 to 2012.
- **The Government has adopted a conscious strategy of elongating maturity to reduce roll-over risk.**
  - 69.9 per cent of total securities issued during 2018-19 were in the maturity bucket of 10 years and above.
- **Most of the Government debt is at fixed interest rates**, with floating internal debt constituting only 0.9 per cent of GDP in 2019, which minimizes the impact of interest rate volatility on the budget.
- **Low share of external debt** implies that currency risk and the susceptibility of debt portfolio to volatile international capital markets is not substantial.
- **The ratio of interest payments to revenue receipts (IP-RR)** of the Central Government was 37.5 per cent in 2018-19 as compared to 35.6 per cent in 2012-13.

### 3.1.2. STATE FINANCES

#### Why in news?

RBI released its annual study of state-level budgets entitled **"State Finances: A Study of Budgets"** which analyses the fiscal position of state governments.

#### Findings of the report

The salient features that emerge from the analysis of state finances in the Report are:

- States' gross fiscal deficit (GFD) has remained within the FRBM threshold of **3% of gross domestic product (GDP)** during 2017-18 and 2018-19.
- For 2019-20, states have budgeted for a **consolidated GFD of 2.6% of GDP** with a **marginal revenue surplus** (as against revenue deficits in the previous three years).
- **Outstanding debt of states** has risen over the last five years to 25% of GDP, posing medium-term challenges to its sustainability.

- **Committed expenditures** are on the rising trend, driven by interest and pension payments.
- There has been a **decline in the share of conditional and tied transfers** while unconditional or general-purpose transfers have become more dominant form of transfers, thereby providing **greater fiscal autonomy** to the states.

**State Government Debt** (as estimated by Ninth Edition of the Status Paper on the Government Debt)

- **The debt-GDP ratio of States has decreased** to 24.8 per cent in 2019 from 25.0 per cent in 2018.
- The outstanding liabilities of the State Governments have been **consistently registering double digit growth** since 2012-13 with the **exception of 2014-15 and 2018-19**.
- **The share of public debt increased within the overall debt portfolio** of the State Governments and constituted 19.1 per cent of their GDP.
- Within the public debt, the **share of market borrowings increased** while that of **borrowings from the National Small Savings Fund (NSSF) exhibited a steady decline** to 9.4 per cent in 2019 from a high of 24.4 per cent in 2012.
- **Loans from the Centre** have been decreasing over the years and accounted for 3.7 per cent of total liabilities in 2019.

**Why understanding state finances is important?**

- **Impact of rising market borrowings:** Since 2014-15, states have increasingly borrowed money from the market, which has **reduced the availability of funds** for businesses to invest. Additionally, this would **raise the cost of credit** for the private sector, as more number of debtors are now chasing the same amount of money.
- **Impact of rising fiscal deficit & debt-to-GDP ratio:** State government finances are important not only for India's GDP growth and job creation but also for its **macroeconomic stability**. If states find it difficult to raise revenues, a rising debt-to-GDP ratio could start a vicious cycle wherein states end up **paying more towards interest payments** instead of spending their revenues on creating new assets that provide better education, health and welfare for their residents.
- **Employment:** States now spend one-and-a-half times more than the Union government and employ five times more people than the Centre. Not only do states have a greater role to play in determining India's GDP than the Centre, they are also the bigger employment generators.

**Issues with states' financial management**

- **Fiscal position of state governments:** Although the state governments have regularly met their fiscal deficit target of 3% of the GDP (except during 2016-17), it was **mainly on account of reducing their expenditure** (mostly towards social & infrastructural sectors) and increasingly borrowing from the market.
- **Quality of expenditure: Erosion of development expenditure** indicated that the quality of expenditure was compromised by a combination of **higher revenue expenditure** (more than 80% of the total expenditure) and **lower capital expenditure**.
- **Populism:** Political class has the tendency to **make fiscal policy over-expansive**, which increases burden on future Govt. and thus, has detrimental long-run impacts **e.g. loan waivers to farmers**.
- **Impact of GST:** With the advent of GST framework, revenue autonomy of states has shrunk considerably as states have lost decision making power on tax rates. Also, there is a greater unpredictability associated with transfers of IGST and grants.
- **Liability Burden:** State governments' **expenditure on the power sector is in the form of subsidies** for agriculture and domestic customer segments and loans and advances.
  - **Impact of UDAY on State finances** is expected to continue beyond interest payments, as outstanding dues of DISCOMs have risen sharply in the recent period.
  - **State governments provide off-budget support to State Public Sector Enterprises (SPSEs)** through guarantees on their borrowings from financial institutions. But, weak cost recovery mechanism poses a systemic risk to the States' finances.

**Way Forward**

- **Increase Tax Revenue:** Fiscal consolidation through **strengthening tax buoyancy** rather than compressing public expenditure.
- **Augment non-tax revenue: Dedicated application of user charges** on economic services such as power & irrigation with better cost recovery mechanisms offers scope for raising states' revenue. This may not only **promote optimal usage** of these services, but **also help improve the quality of services**.



- **Make central transfers more effective:** Well-defined calendars for transfer; compositional shift from tied to untied transfers and reducing the levy of cesses & surcharges, which are outside the divisible pool can help states to reduce their dependence on market borrowings and address fiscal shocks on account of schemes like UDAY etc.
- **Rationalizing Expenditure:**
  - Off-budget liabilities such as UDAY **pose a risk to debt sustainability**. Transparency in the disclosure/reporting of liabilities in state budgets may be the first step towards **recognizing these guarantees as a medium-term fiscal risk**, followed by conscious efforts to keep them at prudent levels.
  - Events like farm loan waivers, which act as fiscal shocks, should **give way to alternate policy tools like income support schemes** providing cash transfers to farmers.

**Why Income Support Schemes are more prudent than Farm Loan Waivers?**

- They are not linked to volume of production, factors of production employed and prices. Accordingly, they are **categorized as Green Box payments** under the Agreement on Agriculture of the World Trade Organization (WTO).
- Income support schemes are **more inclusive as even landless farmers and farmers having no access to bank credit can be covered**, whereas farm loan waivers benefit only those farmers who have borrowed from banks.
- The **problem of moral hazard does not exist** in the case of income support schemes
- However, critical for their success is **digitization of land records and their seeding with bank account and Aadhaar details** for ensuring timely payments to farmers while minimizing inclusion and exclusion errors.

**3.1.3. REPORT OF THE 15TH FINANCE COMMISSION - FY 2020-21**

**Why in news?**

Recently, the Fifteenth Finance Commission submitted its report with recommendations for the financial year 2020-21.

**Key Recommendations of the Report**

Criteria of Devolution											
<b>Vertical Devolution</b>	<ul style="list-style-type: none"> <li>• An aggregate share of <b>41 percent of the net proceeds</b> of Union taxes (divisible pool) should be devolved to States in the year 2020-21.</li> <li>• The 1% decrease is to provide additional resources for the newly formed union territories of Jammu and Kashmir, and Ladakh.</li> </ul> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>FC-XI (2000-05)</th> <th>FC-XII (2005-10)</th> <th>FC-XIII (2010-15)</th> <th>FC-XIV (2015-20)</th> </tr> </thead> <tbody> <tr> <td>States' share in divisible pool</td> <td>29.5</td> <td>30.5</td> <td>32.0</td> <td>42.0</td> </tr> </tbody> </table>		FC-XI (2000-05)	FC-XII (2005-10)	FC-XIII (2010-15)	FC-XIV (2015-20)	States' share in divisible pool	29.5	30.5	32.0	42.0
	FC-XI (2000-05)	FC-XII (2005-10)	FC-XIII (2010-15)	FC-XIV (2015-20)							
States' share in divisible pool	29.5	30.5	32.0	42.0							
<b>Horizontal Devolution</b>	<ul style="list-style-type: none"> <li>• <b>Need-based Criteria</b> <ul style="list-style-type: none"> <li>○ <b>Population-</b> As mentioned in the <b>terms of reference (TOR)</b> of the Commission, it has used the <b>2011</b> population data while making recommendations. It has been assigned a weight of <b>15%</b>.</li> <li>○ <b>Area-</b> The previous weight of <b>15%</b> has been continued.</li> <li>○ <b>Forest and Ecology-</b> This criterion has been arrived at by calculating the share of dense forest of each state in the aggregate dense forest of all the states. (The weight has been increased to <b>10%</b>.)</li> </ul> </li> <li>• <b>Equity-based Criteria</b> <ul style="list-style-type: none"> <li>○ <b>Income Distance-</b> Income distance is the distance of the state's income from the state with the highest income.                             <ul style="list-style-type: none"> <li>✓ A three-year average (2015-16 to 2017-18) per capita comparable GSDP has been taken for all the States.</li> <li>✓ States with lower per capita income would be given a higher share to maintain equity among states.</li> <li>✓ Its weight has been reduced to <b>45%</b>.</li> </ul> </li> </ul> </li> <li>• <b>Performance-based Criteria-</b> <ul style="list-style-type: none"> <li>○ <b>Demographic Performance-</b> During the previous commission, many states, particularly the southern states had complained of being penalized with lower devolution for having good performance in population control.                             <ul style="list-style-type: none"> <li>✓ It has been introduced to reward efforts made by states in controlling their population.</li> <li>✓ It will be computed by using the reciprocal of the total fertility rate (TFR) of each state, scaled by 1971 population data. States with a lower fertility ratio will be scored higher on this criterion.</li> </ul> </li> </ul> </li> </ul>										

✓ It has been assigned a total weight of **12.5%**.

- **Tax Effort**- Many States had suggested inclusion of tax performance criteria to incentivize States with higher efficiency of tax collection. The commission has assigned a total weight of **2.5%** to reward the states with **higher tax collection efficiency**.

*The trends of previous Finance Commissions criteria are as follows-*

Criteria	FC-XI (2000-05)	FC-XII (2005-10)	FC-XIII (2010-15)	FC-XIV (2015-20)
Population (1971)	10.0	25.0	25.0	17.5
Population (2011)				10.0
Area	7.5	10.0	10.0	15.0
Forest cover				7.5
Index of infrastructure	7.5			
Income distance	62.5	50.0		50.0
Fiscal capacity distance			47.5	
Tax effort	5.0	7.5		
Fiscal discipline	7.5	7.5	17.5	
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Empowering Local Bodies**

<b>Changes brought</b>	<ul style="list-style-type: none"> <li>• <b>Grants should be given to all tiers of the panchayati raj</b> so as to enable pooling of resources across villages and blocks to create durable community assets and improve their functional viability.</li> <li>• Grants to the <b>Fifth and Sixth Schedule areas and Cantonment Boards</b>.</li> <li>• <b>Tied grants in the critical sectors</b> of sanitation and drinking water.</li> <li>• <b>Share of urban local bodies</b> in the grants to local bodies should be <b>gradually increased to 40 per cent over the medium term</b>.</li> <li>• <b>The fifty Million-Plus cities in the country need differentiated treatment</b>, with special emphasis on meeting the challenges of bad ambient air quality, ground water depletion and sanitation.</li> </ul>
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<b>Grants in aid</b>	<ul style="list-style-type: none"> <li>• The total grants to local bodies for 2020-21 has been fixed at Rs 90,000 crore which is equivalent to <b>4.31% of the divisible pool</b> for 2020-21, up from the <b>3.54%</b> (2019-20), of the divisible pool.</li> <li>• The proportion of grants between rural and urban local bodies will be in the ratio of <b>67.5: 32.5</b>.</li> <li>• The grants will be divided between states based on population and area in the ratio 90:10.</li> </ul>
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**Disaster Risk Management**

<b>Mitigation Funds</b>	<ul style="list-style-type: none"> <li>• Set up Mitigation funds at both national and state levels in the form of a <b>National Disaster Mitigation Fund (NDMF)</b> and State Disaster Mitigation Funds (<b>SDMF</b>), in accordance with the Disaster Management Act.</li> <li>• Along with existing disaster response funds (NDRF &amp; SDRF), they will now together be called as <b>National Disaster Risk Management Fund (NDRMF) and State Disaster Risk Management Funds (SDRMF)</b>.</li> <li>• They shall be <b>used for those local level and community-based interventions</b> which reduce the risks and promote environment-friendly settlements and livelihood practices.</li> <li>• However, <b>large-scale mitigation interventions</b> such as construction of coastal walls, flood embankments, support for drought resilience etc. should be pursued through regular development schemes and not from the mitigation fund.</li> <li>• The cost-sharing pattern between centre and states is (i) 75:25 for all states, and (ii) 90:10 for north-eastern and Himalayan states.</li> </ul>
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<b>Specific Allocations</b>	<ul style="list-style-type: none"> <li>• Expanding and <b>Modernization of Fire Services</b>.</li> <li>• <b>Catalytic Assistance to Twelve Most Drought-prone States</b> for Preparing District-level Drought Mitigation Plans</li> <li>• Managing <b>Seismic and Landslide Risks</b> in Ten Hill States.</li> <li>• <b>Reducing the Risk of Urban Flooding</b> in Seven Most Populous Cities- Mumbai, Chennai, Kolkata, Bengaluru, Hyderabad, Ahmedabad and Pune.</li> <li>• Mitigation Measures to <b>Prevent Coastal and River Erosion</b>.</li> <li>• <b>Resettlement of Displaced People</b> Affected by Coastal and River Erosion.</li> </ul>
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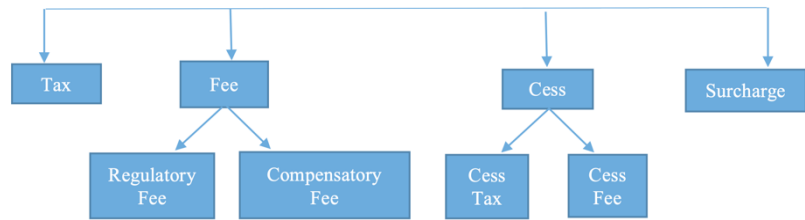
**3.2. TAXATION**

**Introduction**

The Union Government is empowered to raise revenues through a range of levies known as **tax, fee, cess and surcharges**.

### India's Tax penetration status

- 57.8 million Individuals filed the **income tax return (~5% of the population)** of which only **15 million (~1.15% of the population)** actually paid taxes.
- India's **Tax-to-GDP ratio stands at around 17% in FY 20** (**direct tax is ~6%** and **indirect tax is ~11%**) which still remains below that of emerging economies (~21%) and much below OECD average (~34%).
  - The ratio of central taxes to GDP slid to a 10-year low of 9.88 % (**direct tax** fell to its lowest in 14 years, at 5.1 per cent, while the **indirect tax** was at a 5-year low at 4.6 per cent in FY20).



#### About Tax-to-GDP ratio

- It is a representation of the size of the **government's(Centre +States) tax revenue expressed as a percentage of the GDP.**
- Ratio determines the extent to which government is able to finance its expenditure from tax collections, it is also an indicator of tax compliance.
- **Higher Tax-to-GDP ratio means that an economy's tax buoyancy is strong** as the share of tax revenue rises in sync with rise in country's GDP.

### 3.2.1. DIRECT TAX REFORM

#### Why in news?

Recently, several developments like Parliament passing the Direct Tax Vivad se Vishwas Act, 2020 and Government launching “Transparent Taxation — Honouring the Honest” platform has put direct tax reforms under the scanner.

#### What is a Direct Tax?

- It is the tax where the **incidence and impact of taxation fall on the same entity.** In simple words, a direct tax is a tax that you directly pay to the authority imposing the tax.
- It is termed as a **progressive tax** because the proportion of tax liability rises as an individual or entity's income increases.
- **It is of various types such as** income tax, corporate tax, dividend distribution tax, securities transaction tax, fringe benefit tax and wealth tax.

#### Need for Direct Tax reforms

- **Rationalization and simplification of Income Tax Structure:** The rate structure has broadly remained the same in the last 20 years. Further, there is a need for **rationalization of exemptions** and a rethink of incentives on savings (such as small savings schemes like PPF).
- **Simplify corporate tax rate structure and phase out exemptions:** Exemptions are not equitable vertically (small firms end up paying more taxes) and also there is a loss of revenue due to large number of exemptions.
- **Widen tax base:** It will help to deal with the problem of potential revenue loss due to lower tax rates and simplified tax structure.
- **Reducing tax litigations:** Tendency of tax officials to initiate an action without the necessary justification or assessment is reflected from low success rate of appeals (~30%). There is a need for providing alternate ways of dispute resolutions.
- **Need of Technology infusion** in the tax administration to improve efficiency of tax collection as well as to aid the taxpayer

#### Recent steps taken to improve direct tax ecosystem

- **Abolition of Dividend Distribution Tax (DDT)** - In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors companies are not required to pay DDT.
- **Document Identification Number (DIN)** - In order to bring efficiency and transparency in the functioning of the Income Tax Department, every communication of the Department is mandatorily having a computer-generated unique DIN.

- **Simplification of compliance norms for Start-ups** - Start-ups have been provided hassle-free tax environment which includes simplification of assessment procedure, exemptions from Angel-tax, constitution of dedicated start-up cell etc.
- **Raising of monetary limit for filing of appeal** - To effectively reduce taxpayer grievances/ litigation monetary thresholds for filing appeals have been raised from Rs. 20 lakh to Rs. 50 lakh for appeal before **Income Tax Appellate Tribunal**, from Rs. 50 lakh to Rs. 1 crore for appeal before the High Court and from Rs. 1 crore to Rs. 2 crore for appeal before the Supreme Court.

#### **Direct Tax Code Reforms: Major recommendations of the Akhilesh Ranjan Committee**

- It recommended **sweeping changes to the personal income tax rates**, with the creation of five slabs versus the current three.
- The report **strongly considered adoption of territorial system of taxation** in the context of the prevailing international tax environment and the general thrust on source-based taxation.
- **Continuation of the existing definition of 'source', 'rule' and 'income'** with an expansion in its scope - include income chargeable to tax under the various heads of income.
- The committee has proposed **reducing the 182 days residency threshold** (to be considered as Indian Tax Resident), **to 90 days**, as far as such persons are concerned.
- Suitable **amendments be carried out to the effect that the Double Tax Avoidance Treaty (DTAA)** shall be applicable 'alongwith' domestic law, essentially providing that where the tax rate under DTAA is less than under the Indian Income Tax Act, the former shall prevail.

#### **3.2.1.1. DIRECT TAX VIVAD SE VISHWAS ACT, 2020**

##### **Key Features of the Act**

- The Act provides an opportunity to taxpayers to **settle direct tax disputes** by paying due taxes with **complete waiver of interest and penalty** till June 30, 2020.
- It is **applicable to all the appeals/petitions** filed by taxpayers or the income tax department, with the following forums: Commissioner of Income-tax (Appeals); Income-tax Appellate Tribunal; High Court; or Supreme Court as on the 31st day of January, 2020 irrespective of whether demand in such cases is pending or has been paid.
- Pending appeal may be **against disputed tax, interest or penalty**.
- **Once the dispute is settled under the Act**, taxpayer shall get the following immunities
  - Such cases **cannot be reopened** in any other proceeding by any tax authority or designated authority;
  - Opting for the scheme **shall not amount to conceding the tax position** and tax authority cannot claim that taxpayer has conceded to the decision on the disputed issue.

##### **Expected benefits of the Act**

- **Fast-track dispute resolution:** The Act is expected to resolve 90% of **4.83 lakh direct tax cases worth Rs 9.32 lakh crore** that are currently locked up in various appellate forums.
- **To meet the shortfall in direct-tax collections:** The disputed direct tax arrears amount to ₹9.32-lakh crore. Considering that the actual direct tax collection in FY2018-19 was ₹11.37-lakh crore, the disputed tax value constitutes nearly one-year direct tax collection.
- **Save time, energy and resources:** Tax disputes consume copious amount of time, energy and resources both on the part of the Government as well as taxpayers. Moreover, they also deprive the Government of the timely collection of revenue. Therefore, there is an urgent need to provide for resolution of pending tax disputes.

#### **3.2.1.2. TRANSPARENT TAXATION – 'HONOURING THE HONEST' PLATFORM**

- The platform is aimed at **easing the tax compliance and also rewarding honest taxpayers**.
- Main features of Platform are Faceless Assessment, Faceless Appeal and Taxpayer Charter.
  - **Faceless assessment:** To eliminate direct contact between Taxpayer and Income Tax officer. Under this system, the selection of a taxpayer will be done only through systems using data analytics and AI.
  - **Faceless appeals:** Appeals will be randomly allotted to any officer in the country and identity of the officer deciding the appeal will remain unknown.
  - **Taxpayer charter:** It outlines the rights and responsibilities of both tax officers and taxpayers. It is likely to empower citizens by ensuring timely services by the IT Department.

### 3.2.2. TAXING GLOBAL TECHNOLOGY COMPANIES

#### Why in news?

The government has expanded the scope of equalization levy to all overseas e-commerce transactions originating from India in the amended Finance Bill 2020.

#### More about news

- India will levy an **equalization levy of 2% on sales** made by foreign e-commerce companies in the country. This will impact those companies that **don't have a base in India but** sell their goods here.
  - Equalization Levy is a **direct tax**, which is withheld at the time of payment by the service recipient
- The levy would be imposed on those companies that have a turnover or sales of **over Rs 2 crore in the previous year**
  - Also, the **compliance of the levy** has been **shifted** to the non-resident service provider.
- Now, expanded scope **stretches beyond goods and services** supplied to Indian residents and includes supplies to **any person using an Indian Internet Protocol (IP) address**.
  - For example, a foreign citizen availing services, whilst visiting India and using the Indian IP address is also covered.

#### Taxing technology companies: A background

- In Finance Act, 2016, Government introduced an **"equalization levy"** on certain non-resident businesses.
  - It was applied at a rate of 6% on **certain "specified services"**—such as online advertisement etc.
- In budget 2018, the government had proposed to get its fair share of tax from business-to-consumer transactions by introducing the concept of **Significant Economic Presence**.
  - The idea was to tax profits of those digital businesses that don't have a physical presence in India but **derive significant economic value from the country**.
  - In this year's budget, it was announced that SEP provisions have been **deferred to April 1, 2021**.

#### Global Scenario

- **Australia**—Turnover tax called digital services tax is proposed to be introduced which may be levied on income of large multinationals providing advertising space, trading platforms, and the transmission of data collected about users.
- **Uganda**—Tax on social media wherein users of WhatsApp, Twitter, Facebook will pay a fee.
- **OECD** has considered the **Action Plan 1** called "Addressing the tax challenges of the Digital Economy" as part of its **Base Erosion and Profit Shifting Project (BEPS)**.

#### Need for such rules

- **Uniqueness of digital e-commerce model**
  - Under the traditional model, an **MNC** is liable to pay tax in the jurisdiction of its' **Permanent Establishment** or the jurisdiction where the source of income exists. However, digital service sectors derive the income from users located in different jurisdictions, and in most cases, these lack a physical presence in countries where customers are located.
- **Large User Base:** Foreign tech companies have a large number of users, and so a **significant economic presence (SEP)** in India. This in turn leads to revenue generation through data but these companies don't pay appropriate taxes on this revenue.
- **Revenue generation:** It is being hoped that this equalization levy will generate **almost \$ 100 billion** worth of global taxes.

#### Challenges in implementation

- **Nexus:** Prevalence of nexus between the global tech giants and the lower tax jurisdictions.
- **Estimation challenge:** The challenge is **how to estimate the value created** from the generation of data through digital products and services.
  - There seems to be no global consensus on how the global technology firms should be taxed.
- **Characterization of profits:** As to how to determine and **attribute profit to India operations** of these technology firms, i.e. the profit that is earned from activities in India.
- **Compliances:** Unlike the earlier levy (on advertising), now the foreign e-commerce operator will be **required to make compliances** in India which could also raise potential challenges.
- **Possible legal challenges:** There are chances of legal challenges on extra-territoriality as the provisions seeks to cover non-resident to non-resident transactions which use India data. Also, the regulation may come in conflict with some bilateral and multilateral treaties.
  - The current Double tax avoidance treaties (DTAAs) override the amended definition of Business Connection that includes the concept of **Significant Economic Presence (SEP)**.

### Way forward

Experts tracking the digital ecosystem have agreed that a **comprehensive digital tax code** which is **consistent internationally** has to be the solution in the long-term. Till such an ecosystem takes shape, **continuous multi-stakeholder engagement** encompassing governments as well as companies could be adopted.

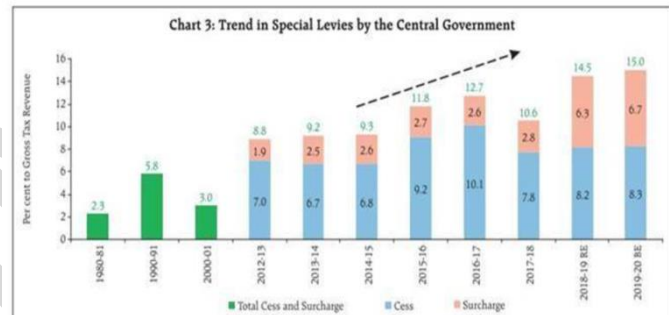
### 3.2.3. CESSES AND SURCHARGES

#### Why in news?

Recently, a CAG report highlighted that about 40% of cess receipts are parked in CFI instead of relevant reserve funds.

#### Has the usage of cesses and surcharges increased in the recent past?

- The Centre had collected about **Rs 2.75 lakh crore from 35 cesses/levies in FY19**.
  - Largest among them was **GST compensation cess** (35% of total).
- The past two financial years also show a rise in the share of cesses and surcharges as per available Budget estimates:
  - Cesses had increased to about **11% and 12% of Gross tax revenue for 2017-18 and 2018-19 respectively**.
  - Surcharges, on the other hand, increased to **5% and 6.4% of the Gross tax revenue for 2017-18 and 2018-19 respectively**.
- The Fifteenth Finance Commission has estimated that the **cesses and surcharges would be around 17.8 per cent of the gross tax revenue** of the Union government in 2020-21.
- The **introduction of Goods and Service Tax ('GST')** in 2017 aimed to **subsume majority of the cesses and surcharges** but many still continue to be in force such as surcharge under the Income Tax Act, 1961. Also, some new cesses have been introduced like social welfare surcharge introduced by the Finance Act, 2018.



#### What are the issues with their increased usage?

- **Overall decrease in the divisible pool shared with states:** Due to over-reliance of the Centre on cesses and surcharges, the share of states in the **Centre's Gross Tax Revenue has declined from 36.6% in FY19 to 32.4% in FY20** (far from the 42% stipulated by 14<sup>th</sup> Finance Commission).
  - The Union Government has imposed cess taxes for purposes such as hygiene, agriculture, state and rural roads, **all of which are matters within the State List**. This indirectly **affects the Federal character of our polity**.
- **Transparency and disclosures with regard to accounting of cesses and levies:** The Comptroller and Auditor General of India (CAG) has highlighted various discrepancies in non-transfer to the relevant funds and **retaining of balance in CFI**.
  - Parking of these funds in CFI for longer than justifiable period can lead to **overstatement of revenue receipts and under-statement of the Centre's fiscal deficit**.
  - Also, various reports have highlighted that some of the revenue raised for specific purposes are being **diverted to meet other needs**.
- **Purposes have become vague and general:** There has been a recent tendency to impose cess taxes on **general/broad-based causes**. For instance, the recent phase includes purposes such as financing of national highways, basic education, clean energy, environment, infrastructure projects, etc. These are broad heads of expenditure rather than specific purposes.
- **Interchangeable usage:** The charging provisions in some statutes **use the terms surcharge and cess interchangeably**. For example, Section 184(2) of Finance Act, 2016 pertaining to Income Disclosure Scheme imposed 'a surcharge to be called the Krishi Kalyan Cess'.

#### What can be done ameliorate these issues?

In the light of these issues, the **15th Finance Commission** had ordered a study on the matter from **Vidhi Centre for Legal Policy**. The legal think tank has given **following recommendations**:

**Cesses:**

- **Imposition:**
  - The Union Government **should not levy cesses for purposes** that are **contained in the State List**. The health and education cess is a prominent example of one such cess.
  - **The purpose for its imposition must be clearly and specifically stated** in the statute imposing the cess. The level of specificity that is necessary should ordinarily be met by stating a scheme which is to be funded through such cess.
- **Transparency and Rationalisation:**
  - Budget documents and charging legislation should **clearly spell out the amount that the Union Government aims to collect** via the cess and **how taxes are unable to meet the required funding needs**.
  - **Cesses must be periodically reviewed**. A review will assess the amount actually collected vis-à-vis the amount utilised and compare each of these with the amount aimed to be collected.
- **Abolition:**
  - **Any economically inefficient cesses should be abolished:** Cesses garnering collections below Rs 50 crore in a financial year are economically inefficient, adding to the multiplicity of taxes and fuel cascading effects.
  - The Union Government should consider including an **overriding review clause as well as sunset clauses in the relevant legislations imposing cesses**. This will ensure that cess taxes do not continue for an uncertain and unduly long amount of time.

**Surcharges:**

- **Rationalising the income tax rates** instead of imposing a surcharge in addition to income tax. Surcharges should not be used as a proxy for a progressive income tax.
- Surcharges must be **understood as a temporary levy**. They should be used **sparingly and only for limited time periods**.
- Similar to the suggestion for cesses, **sunset clauses** can also be included in the relevant legislations to prevent surcharges from becoming a permanent feature.
- **Distinction between a cess and a surcharge** should be cleared and **maintained effectively**.

### 3.3. FINANCIAL MOBILIZATION FROM NON-TAX SOURCES

**Introduction**

In the midst of the economic slowdown triggered by COVID-19, Government has been making various efforts to mobilize the finances required to kick start the economy including Monetization of Deficit, Monetization of Government land, exploring traditional financing methods through G-secs and exploring the idea of strategic disinvestment.

#### 3.3.1. MONETIZATION OF DEFICIT

**Why in News?**

Some economists including former RBI governor C Rangarajan have suggested that the government should **monetize the deficit**.

**What is meant by Monetization of Deficit?**

If the expenditure of the government exceeds its income, the government is said to have **incurred a fiscal deficit**. This **deficit financing** has to be done either by **borrowing from the market** or **monetisation of deficit through RBI**.

- In simple words, **monetization of fiscal deficits** involves the financing of such extra expenses **with money, instead of debt** to be repaid at some future dates. So, it is a form of "**non-debt financing**". As a result, under monetization, there is no increase in net (not gross) public debt.
- It can occur only through one of two modalities:
  - **Direct Monetization (DM):** Under this method, RBI prints new currency and purchases government bonds directly from the primary market (from the government) using this currency. As a result, this supports the spending needs of the government.

- For instance, debt would originate if treasury were to simply borrow the money from the RBI therefore this would not constitute true monetization of the deficits.
  - **Indirect monetization (IM):** In this method, deficits are monetized as the **government issues bonds in the primary market** and the **RBI purchases an equivalent amount** of government bonds from the secondary market in the form of **Open Market Operations (OMOs)**.
- This modality replicates the same effects of the first if the central bank commits to the following actions: i) hold the purchased bonds in perpetuity, ii) roll over all the purchased bonds that reach maturity, and iii) return to government the interests earned on the purchased bonds.

Monetization of deficit **was in practice in India till 1997**, whereby the central bank automatically monetized government deficit through the **issuance of ad-hoc treasury bills**. With the enactment of **Fiscal Responsibility and Budget Management (FRBM) Act, 2003**, RBI was **completely barred** from subscribing to the primary issuances of the government. But the recently amended **FRBM Act, 2017** contained an **escape clause permitted monetization of the deficit** under special circumstances.

**What warranted such a step now?**

As India battles the impact of the Covid-19 pandemic, economic indicators like tax revenue, government expenditure, household savings, demand as well as supply are adversely hit.

- **Combined fiscal deficit** of the central and the state governments **could cross 10% of the GDP** during this year which was about 7-7.5% last year.
- To meet this deficit, usually government has to borrow. However, these **borrowings increase government debt and negatively impacts debt-to-GDP ratio** which is already worsening because of growth slowdown and possible contraction because of COVID-19 lockdown.
  - India's **debt-to-GDP ratio is likely to increase to 84% in FY21** from an already high level of 72% as per rating agencies like Moody's and Fitch.

**Should monetization of deficit be implemented?**

Arguments in favor	Concerns raised
<ul style="list-style-type: none"> <li>• <b>Sovereign ratings:</b> all top 3 rating agencies i.e. S&amp;P, Moody's and Fitch have placed India just one notch above the junk category status (BBB-) in terms of investment and this <b>sovereign rating is very likely dependent on stabilizing rising public debt</b> and debt-to-GDP ratio. A further downgrade may lead to flight of foreign capital from India.</li> <li>• <b>Prevents crowding out effect:</b> large scale domestic borrowing by government can make it harder for private sector to raise money and <b>interest rates can also rise</b> because of such competition.</li> <li>• <b>Similar expansion in Money supply:</b> it is argued that whether Central Bank acquires government bonds from secondary markets (through OMOs) or directly from Treasury, effect on money supply is <b>similar as long as inflation is kept under control</b>.</li> <li>• <b>Less risk of inflation in immediate term:</b> transmission of <b>base money (Mo)</b> to broad money (M3) is likely to be slow because of slower credit growth which leads to <b>lower velocity of money</b> (frequency at which one unit of currency is used to purchase domestically-produced goods and services within a given time period). This low velocity and lesser transmission reduces the inflation risk.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Rise in inflation in the long-term:</b> as opposed to temporary <b>expansion in money supply</b> in OMOs, monetization of deficit creates a more permanent one which can lead to inflation as more money is being pumped into economy which will stimulate demand/spending.</li> <li>• <b>Devaluation of rupee:</b> aggressive DM could devalue the currency, causing foreign investors to lose confidence and pull out money, putting the existing fiscal financing plan at risk.</li> <li>• <b>Possibility of Inefficient Spending:</b> usually fiscal profligacy is seen among governments when money is easily available to exploit and it may also lead to rise in corrupt practises.</li> </ul>

**Conclusion**

In this pandemic situation, at a time when demand and inflation are already low and unemployment is high, monetization is not likely to create negative effects as it does in normal situations. It **has the possibility to set off virtuous cycle** of liquidity easing, leading to a reduced level of insolvency and also a positive impact on the economy which will reduce debt-to-GDP ratio. Moreover, it is suggested that **past fiscal profligacy should not stop deficit monetisation and the decision should be based on present ground situation**.

**3.3.2. STRATEGIC SALE OF PSUS**

**Why in news?**

Centre has gave in-principle approval for the strategic disinvestment of the government shareholding in 5 PSUs, along with management control.



### More on news

- These PSUs include: Bharat Petroleum Corporation Ltd (BPCL); Shipping Corporation of India; Container Corporation of India; Tehri Hydro Power Development Corporation (THDCIL) and North Eastern Electric Power Corporation Ltd.
- Based on current market prices, the sale of stakes in these three firms will fetch the government about ₹78,400 cr, taking it close to **the disinvestment target for the fiscal year 2019-20 (1.05 lakh crore)**.

### Strategic Disinvestment

According to the **Disinvestment Commission**, strategic sale is defined as the sale of substantial portion of government shareholding of a central public sector enterprise (CPSE) of upto 50% or higher, along with transfer of management control.

- Unlike the simple disinvestment, where Govt retains majority & management control, **strategic sale implies some sort of privatization**.
- A strategic sale is also **different from cases** where the **Government transfers the majority stake but only to another PSU over which it has control**.

### Rationale behind strategic sale

- **Role of government:** The major ideology behind strategic disinvestment is that “**the government has no business being in business**” i.e., the government’s role is to facilitate a healthy business environment rather than participating as a player.
- **Source of income:** Disinvestment proceeds have been a source of additional income. This is especially important at a time when private investment is falling and government is unable to meet its fiscal deficit targets.
- **Better management:** Many Government units often suffer from poor management and aggressive trade unionism and have become umpire-less playfields for political parties. It often leads to halting of PSUs projects thereby hampering the efficiency in long run.
  - **Providing employment was also one of the major objectives of Government’s holding in PSUs.** Post LPG reforms, the **vacancies in PSUs have done down substantially**. Moreover, the problem of **disguised unemployment and outdated skill in PSUs** employee are the major cause of inefficiency.
  - **Economic potential of such entities may be better discovered** in the hands of the strategic investors due to various factors e.g. infusion of capital, technology upgradation, better accountability and efficient management practices etc.
  - **The financial performance of many PSUs has improved drastically** in many cases. E.g. Hindustan Zinc saw its net profits shoot up from ₹67 cr at the time of its sale in FY03 to ₹9,698 cr in FY19.
- **Transferring of public debt:** Disinvestment allows the transferring of the Indian government’s enormous public debt of its PSUs to the Indian private sector.

### Issues with strategic disinvestment

- **Privatization may not ensure efficiency:** As per **Rangarajan Committee 1993 report**, mere change of ownership from public to private does not guarantee the efficiency.
  - Success of privatization depends upon **the transparency of the process and the effectiveness of the regulators**.
  - In absence of independent and effective regulator, it might lead to monopoly and oligopolistic practices by corporates
- **May lead to unemployment:** It might lead to the retrenchment of workers on a large scale, depriving them of their means of livelihood.
- **Loss to public exchequer:** Disinvestment exercise often had been done by undervaluation of public assets and favouritism bidding, thereby, leading to loss of public exchequers.
  - A CAG audit of the nine PSU strategic sales published in 2006 has flagged specific shortcomings in the sale process like **undervaluation of assets on their balance sheets in the form of surplus land, facilities and intangibles**.
- **Sale of well performing PSUs:** Loss making units generally fail to attract easy buyers, especially with non-disclosure of full financials and the government attaching too many conditions to the sale.
  - Because of **short term exigencies** such as shrinking liquidity/fiscal pressure **disinvestment is resorted to as an option to generate additional resources even in the case of well performing PSUs (e.g. NavRatna company like BPCL)**.

### Way Forward

It is important that PSU strategic sale process looks beyond disinvestment targets and fiscal year deadlines and is dealt with in a more systematic manner-

- The disinvestment must be **based on well-defined policy** and appropriate yardsticks for PSU privatisation.
- Given that these PSUs had potential, it would be important to evaluate the right pricing for the taxpayers by rightly pricing their assets (land, facilities & intangibles).
  - The centre must provide sufficient time to the valuers for a complete exercise, while ensuring that PSUs maintain a detailed record on their assets.
  - Also, potential buyers should be presented with complete and clean set of books by the Government before the actual bidding process begins so to minimise post-sale claims.
- Moreover, greater focus should be given to the **monetization of PSU assets rather than outright privatisation.**
- Both **domestic and foreign buyers** should be allowed to bid freely for the states.

### 3.4. OTHER FINANCIAL NEWS

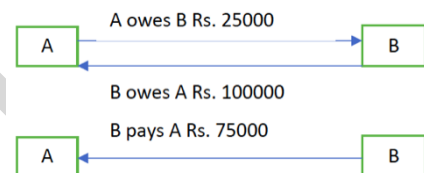
#### 3.4.1. BILATERAL NETTING

##### Why in news?

Recently **Bilateral Netting of Qualified Financial Contracts Act, 2020** was enacted with an aim to ensure financial stability and promote competitiveness in Indian financial markets.

##### About Bilateral Netting

- A bilateral netting agreement enables **two counterparties in a financial contract to offset claims against each other** to determine a single net payment obligation due from one counterparty to the other.
  - **Netting** refers to offsetting of all claims arising from dealings between two parties, to determine a net amount payable or receivable from one party to other. (see infographic)
- Similarly, a **multilateral netting agreement allows counterparties** to offset claims against each other through a Central Counterparty (CCP) in a clearing house under the Payment and Settlement Systems (Amendment) Act (2015).
- Earlier, **Indian financial contract laws did not permit bilateral netting**, however, they did allow multi-lateral netting.
- In India, **Bilateral contracts constitute 40%** of total financial contracts, while multilateral contracts constitute 60%.
- **Netting is very common in advanced economies** where the settlement is based on net positions in bilateral or multilateral financial arrangements rather than by gross positions.
  - At present, major jurisdictions such as the **U.S., U.K., Australia, Canada, Japan, France, Germany, Singapore and Malaysia** have legal provisions in place for netting agreements.
  - Global regulatory bodies such as the **Financial Stability Board (FSB) and the Basel Committee on Banking Supervision have supported** the use of such netting.



##### About Bilateral Netting of Qualified Financial Contracts Act, 2020

- It seeks to provide a **legal framework for bilateral netting of qualified financial contracts (QFC)** which are over the counter derivatives (OTC) contracts.
- **Act seeks to provide**
  - **designation of any bilateral agreement** or contract or transaction, or type of contract, as qualified financial contract by the **Central Government or any of the regulatory authorities.**
  - **determination of the net amount payable** under the close-out netting in accordance with the terms of the netting agreement.

##### Significance of this move

- **Reduce credit risk and regulatory capital burden** for banks, freeing up capital for other productive uses and also reduce systemic risk during defaults.
  - **Without bilateral netting, Indian banks have had to set aside higher capital** against their trades in the over-the-counter (OTC) market, which impacts their ability to participate in the market.

- The capital saving would enable banks to provide price efficiency in offering hedging instruments to businesses in India and catalyze the corporate bond market through developing the credit default swap (CDS) market.
- **Reduce hedging costs and liquidity needs** for banks, primary dealers and other market-makers, thereby encouraging participation in the OTC derivatives market to hedge against risk.
  - Increased market participation in the CDS market would also provide an impetus for corporate bond market development.
- **Establish an efficient recovery mechanism** for financial contracts under instances of default by a counterparty.
- **Adhere to India's G20 and FSB commitment** to implement global regulatory reforms in the OTC derivatives market.
  - A strong netting system generally gives rise to a thriving derivatives market, as it provides the most accurate picture of a company's financial position, solvency and liquidity risk.

### 3.4.2. SOCIAL STOCK EXCHANGE

#### Why in news?

Expert panel setup by the Securities and Exchange Board of India (SEBI) has prepared draft norms for Social Stock Exchanges (SSE).

#### About Social Stock Exchanges (SSE)

- **Social Stock Exchange (SSE)** is an **electronic fundraising platform** that allows investors to buy shares in a **social enterprise** that has been vetted by the exchange.
- **Social enterprises include is a revenue-generating business** whose primary objective is to achieve a social objective, for example, providing healthcare or clean energy.
- The most prominent SSEs in the world are in **UK, Canada, USA, South Africa, Singapore and Mauritius.**

#### Benefits of Social Stock Exchange (SSE)

- This will **unlock funds** from donors, philanthropic foundations, Corporate Social Responsibility (CSR) spenders and impact investors **for social development.** As per Brookings India, **currently only 57% of the social enterprises** have access to debt and equity, which is barrier to growth and sustainability.
- Listing of social enterprises on an SSE **would also improve visibility of social enterprises** in the eyes of large investors and philanthropic organizations. Also, SSEs will **provide investors a better understanding of social sector** for routing their investment.
- **Banks, NBFCs and other investors can also raise capital from SSE** to participate in the growth journey of the social enterprises and thereby deepen their impact.
- SSE will help to **improve essential social services and important social sectors like education, health, agriculture and clean energy** by channeling greater capital to them.
- SSE is expected to **unlock large pools of social capital** and encourage blended finance structures so that conventional capital can partner with social capital to address the urgent challenges of COVID-19.

#### Challenges in setting up SSE

- There is **no consensus about what is and isn't a social enterprise.** Prof Muhammad Yunus definition of social business can be adopted which who defined it as "a non-loss, non-dividend paying company which is created and designed to address a social problem."

#### Key recommendations of the panel

- Give **tax sops, such as an exemption** from the securities transaction tax (STT) and capital gains tax (CGT), to ensure that SSEs take off in the country.
- Make philanthropic donors be eligible to **claim 100% tax exemption** on investments.
- Allow **first-time retail investors to avail a 100 per cent tax exemption** on their investments.
- Setup **INR 100 crore "capacity building fund"** to create a capacity building unit that will foster overall sector development.
- Consider **funding to non-profit organizations (NPOs) on SSEs** as corporate social responsibility (CSR).
- Allow **trading of CSR spends** between companies with excess CSR spends and those with deficient CSR spends on SSEs.
- Suggested **reporting and disclosure framework** to ensure transparency.
- **SSE can be housed within the existing** Bombay Stock Exchange and the National Stock Exchange **to enable leveraging of the existing infrastructure and client relationships.**

- **Valuing social initiatives**, welfare and non-profits organisations is difficult, because **there is no set benchmark, no uniform structures to set minimum thresholds to enable their listing**.
- Apart from equity capital, social enterprises need debt particularly to meet working capital requirements, but **only handful of private impact investors provide debt to early-stage social enterprises**.
- India has **more than 2 million social enterprises** (non-profits, for-profits and hybrid model), which needs careful planning while designing a social stock exchange.

#### Way forward

- **Social impact assessment** can be adopted as way to **assess social initiatives**, welfare and non-profits organizations.
- **Bringing policy and regulatory reforms** to support investors and facilitating research and development for small social enterprises.
- **Educating market participants** about the valuation metrics weighing both on social and financial returns.
- **Transparency and accountability** can be achieved by online platform, similar to **NITI Aayog's Darpan portal**, which provides platform for interface between Voluntary organizations/ NGOs and Government Ministries.

### 3.4.3. PANDEMIC RISK POOL

#### Why in news?

A working group of IRDAI has recommended setting up of an Indian Pandemic Risk Pool with public-private-government participation to provide coverage for losses resulting from pandemics like COVID-19 in future.

#### What is pandemic risk pool?

- A pool refers to the **practice of insurance companies coming together and committing funds to meet claims** arising out of any particular insured risk in proportion to the business they do. In this manner, claim pay-out is shared among all pool participants.
- This method is followed **when there is too much uncertainty about the risk** for any insurer to take a call, like in nuclear risks, or when the losses are high and companies are reluctant to issue policies.
- Currently, it was suggested in the backdrop of COVID-19, which has **affected not just health but all sectors of the economy**, including but not limited to manufacturing, aviation, tourism, transportation, construction, services, agriculture and many others
- Thus, a risk pool could **offer protection for business interruption without material damage, loss of income and livelihood** and other related pandemic related losses **currently not insured in India**.

#### Advantages of Pool Structure

- **Affordability of coverage:** With **pooling a large share of country's exposure** to an event like pandemic, aggregate cost of coverage would be lower than individual insurers could achieve on their own.
- **Risk diversification:** A single pool providing coverage for all the MSME's of a country on mandatory basis would create a more diversified portfolio of risks and reduce the anti-selection.
- **Reduced cost of reinsurance:** The cost of reinsurance tends to decline as the level of participation from the government increases so the cost to reinsure a single and diversified pool of risks with public participation would be lower.
- **Maximizing the role of private insurers:** The objective of pandemic pool should be to maximize the contribution of private markets to providing coverage over a period of time.
- **Anti-selection:** A compulsory cover through pandemic pool can eliminate the possibility of anti-selection. Anti-Selection occurs when an employee or group of employees purchase or select coverages with a greater than likely loss at the expense of an insurance company.

## 4. BANKING AND PAYMENTS

### 4.1. STRESSED ASSETS AND THEIR RESTRUCTURING

#### Introduction

**Stressed assets in India are classified by RBI** as Special Mention Accounts, NPAs, Loss assets etc. Subject to these classifications, various resolution methods for stressed assets can be adopted such by creditors like putting the asset under **Insolvency and Bankruptcy Code**, take possession and sell immovable properties under **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI 2002)** or avail **Corporate restructuring scheme under Section 230-232 of the Companies Act**.

#### Asset Classification as per RBI

- **SMA-0:** Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
- **SMA-1:** Principal or interest payment overdue between 31-60 days
- **SMA-2:** Principal or interest payment overdue between 61-90 days
- **NPA:** Principal or interest payment overdue for a period of more than 90 days (or two crop seasons for short duration crops and one crop season for long duration crops).
- **Substandard Assets:** Asset that has remained NPA for a period less than or equal to 12 months.
- **Doubtful Assets:** Asset that has remained in the substandard category for a period of 12 months.
- **Loss Assets:** An asset where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

#### Reasons for high percentage of stressed assets

- **Borrower's side:** Domestic and global **economic slowdown, willful default, diversion of funds by borrowers** for purposes other than mentioned in loan documents and specific issues like **volatility in prices of raw material** and the **shortage in availability of power** etc.
- **Bank's side:** **Poor lending practices** (like lending to borrowers with poor credit history), **inadequate capacity to evaluate projects** and **absence of regular industrial visits**.
- Other external factors: Economic condition of a region effected by **natural calamities (like COVID-19)**, **ineffective recovery tribunals**, **frequent change in government policies** and **administrative hinderances** in Ease of Doing Business.

#### Steps taken by the Government to address the NPA issue- The 4R's strategy:

- **Recognising NPAs transparently-**
  - through **Asset Quality Reviews** and **Joint Lenders' Forum**.
  - Banks are now required to **acquire Legal Entity Identifier (LEI)** number from the borrower and report it to **Central Repository of Information on Large Credit**.
- **Resolving and recovering value** from stressed accounts-
  - **Insolvency and Bankruptcy Code, 2016 (IBC)**, has been enacted.
  - **Amendment to the Banking Regulation Act, 1949** to empower the RBI.
  - **Amendment to the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002** to make it more effective.
  - **Project Sakshat:** to resolve the problem of NPAs through a market-led approach.
- **Recapitalizing-**
  - Government of India announced **recapitalization of PSBs** to the tune of Rs. 2.11 lakh crore in October 2017, through infusion of capital by the Government and raising of capital by banks from the markets.
  - **Deposits with the banking system**, both demand and time has recorded acceleration in their growth, leading to an increase in aggregate deposits by 9.6 percent in 2018-19.
- **Reforms in banks and financial ecosystem** to ensure a responsible and clean system.
  - Comprehensive framework for **transforming the PSBs under Mission Indradhanush, 2015**.
  - Under the PSB Reforms Agenda, PSBs have created **Stressed Asset Management Verticals** to focus attention on recovery and entrusted monitoring of loan accounts of above Rs. 250 crore to specialized monitoring agencies.
  - **Fugitive Economic Offenders Act, 2018:** It has been enacted to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts.

## Way Forward

- **Managing Risks:** Risk management processes still need substantial improvement in PSBs. Compliance is still not adequate, and cyber risk needs greater attention
- **Improve the process of project evaluation:** and monitoring to lower the risk of project NPAs. Significantly more in-house expertise can be brought for project evaluation.
- **Strengthen the recovery process further:** Both the out of court restructuring process and the bankruptcy process need to be made faster and strengthened.
- **Infusion of Capital:** The government must infuse at one go whatever additional capital is needed to recapitalise banks providing such capital in multiple instalments is not helpful.

### Restructuring of COVID-19 triggered stressed assets

Recently, Reserve Bank of India (RBI) appointed K V Kamath committee submitted its report on resolution framework for bank loans which were stressed on account of the COVID-19 pandemic.

#### Key Findings made by the Committee

- It recognizes that COVID-19 pandemic has affected the best of companies, these businesses were otherwise viable under pre-COVID-19 scenario, its impact is pervasive across several sectors but with varying severity – mild, moderate and severe.
  - A segmented approach of **bucketing these accounts under mild, moderate and severe stress, may ensure quick turnaround.**
- **About 70% of banking sector loans have been impacted** due to the COVID-19 pandemic, adding that about 45% were stressed even before the pandemic, and only 30% is impacted due to COVID-19 and the consequent lockdown.
- Based on the outstanding and the severity impact, the **Committee selected 26 sectors including power, construction, NBFCs and real estate**, for the purpose of recommending financial parameters to be factored in the Resolution plan.

## 4.1.1. SUSPENSION OF INSOLVENCY AND BANKRUPTCY CODE (IBC)

### Why in News?

Recently, an ordinance was approved to amend the IBC so as to provide relief for corporates as the pandemic and subsequent lockdown had significantly impacted economic activities.

### Rationale of the move

- **Economic stress because of COVID-19:** Industries are grappling with **supply chain breakdown, slowdown in demand, unavailability of labour and inability to complete contracts.** Moreover, service sectors such as hospitality or aviation are facing **reluctance of the customers in indulging in such activities.** The by-product of this slowdown will be increased stress and **default by debt-laden Indian corporates.**
- **Tough IBC regime:** Under the IBC, an entity can seek **insolvency proceedings against a company even if the repayment (of more than 1 crore) is delayed by just one day.** The approach of Creditor-in-Control regime and strict time frame of resolution has created an environment where corporate debtors try to avoid IBC as they may lose control over management otherwise.
- **Concern on value recovery:** Of the total 221 resolved cases under IBC, just 44 per cent amount of debt has been recovered since the inception of the law in 2016.
- **Potentially huge litigation pressure on judiciary:** judicial system would not have been able to handle a huge influx of cases triggered by economic downturn.

### Concerns regarding suspension of IBC

- **Ballooning of liabilities without resolution:** When creditors cannot initiate the insolvency proceedings, it **may restrict the exit** of a business and **lock-up its assets**, thereby further deteriorating their value and leading to losses.
- **Use of alternative debt resolution mechanisms:** suspension will negate the two stated objectives of **faster resolutions and value maximization under IBC** and creditors will be forced to turn to older adhoc mechanisms to address defaults.
- **Mounting NPAs:** in the absence of any definite and timely resolution, NPAs of banking sector may rise which may lead to increment in lending rates, hamper the investment and credit cycle and lower investor confidence.
- **Higher provisioning norms for Banks: Prudential Framework for Resolution of Stressed Assets** by RBI requires the lenders to undertake a prima facie review of the debtor upon the occurrence of a default. This move will force banks to increase provisioning, subsequently locking up capital for securing bad capital.

- Although, The Reserve Bank of India (RBI) has recently provided some relaxation in the form of **'special provisioning' of loans which are under moratorium.**
- **Potential of misuse:** as proceedings under IBC can never be filed for default occurring in the suspension period, so:
  - Promoters of companies that have the capacity to repay dues could **force a default during this period** and never be held accountable under the IBC.
  - While only pandemic-related cases should get the benefit of this reprieve, it will be **tough to pinpoint this as the reason for the non-servicing of loans.**
  - It can **adversely affect operational creditors**, such as vendors and suppliers, as they would not be able to file insolvency proceedings that may lead to artificial delays in payments accrued to them by corporate debtors.
- **No suspension against personal guarantors of a company:** If directors or promoters of a company have provided personal guarantees to its lenders, they may still be taken to the insolvency court under IBC.

#### Some important features of IBC

- **Covers:** all individuals, companies, Limited Liability Partnerships (LLPs) and partnership firms.
- **Adjudicating authority:** National Company Law Tribunal (NCLT) for companies and LLPs and Debt Recovery Tribunal (DRT) for individuals and partnership firms.
- The insolvency resolution **process can be initiated by** any of the stakeholders of the firm: firm/ debtors/ creditors/ employees.
- If the adjudicating authority accepts, an Insolvency resolution professional or IP is appointed.
- The **power of the management and the board of the firm is transferred to the committee of creditors (CoC)** which comprises of all financial creditors of the corporate debtor.
- The IP has to decide **whether to revive the company (insolvency resolution) or liquidate** it. If they decide to revive, they have to find someone willing to buy the firm.
- They choose the party with the best resolution plan, that is acceptable to the majority of the creditors (66% for critical decision and 51 % for routine decisions), to take over the management of the firm.
- The law prescribes that this insolvency resolution process has to be completed within **180 days**. It can be **extended by 90 days** if the case is complex. If a decision is not reached within the time frame, the firm will be liquidated.

#### Way Forward: Alternative mechanisms adopted by other countries

- In **Germany**, two conditions have to be satisfied by the corporate debtor for a suspension. First, the reason for insolvency must be based on the effects of the pandemic. Also, under scrutiny would be the prospects of restructuring the company.
- The **United Kingdom** has allowed for a much shorter moratorium without the creditor approval.
- In **Singapore**, to get the benefit of the moratorium, corporate debtors have to prove they were unable to perform a contract because of COVID-19 pandemic.

## 4.2. URBAN COOPERATIVE BANKS

### Introduction

Recently, Reserve Bank of India (RBI) **imposed restrictions on withdrawals from the Punjab and Maharashtra Cooperative (PMC) Bank**, one of the largest urban cooperative lenders. This has put the structural issues and governance issues of cooperative banks under focus.

### Background

- After initially encouraging UCBs to spring up all over India for financial inclusion, the RBI began to wake up to their **poor governance** from 2005 when it stopped issuing new UCB licences.
  - In 2001, **Ahmedabad's Madhavpura Mercantile Cooperative Bank** also went bust which landed another 210 UCB in trouble and some of them had to be liquidated.
- The financial robustness of UCBs has been assessed through **CAMELS (capital adequacy; asset quality; management; earnings; liquidity; and systems and control) ratings.**
- With many of these banks failing, and **the RBI encouraged weak ones to merge**, the number of UCBs operating in India has shrunk from 1,926 in 2005 to 1,551 by 2018.
- The RBI has also been trying to **improve governance at these banks by putting up a Board of Management** to oversee them and recent PMC bank crisis has also put the question on the poor condition on the management and regulation of UCB in India.

- As of March 2019, as many as 277 Urban cooperative banks are reporting losses; 105 UCBs are unable to meet minimum regulatory capital requirements; 47 are having negative net worth and 328 UCB having more than 15% Gross NPA ratio.

### About Urban Cooperative Banks (UCB)

- Co-operative banks, which are **distinct from commercial banks**, were born out of the concept of co-operative credit societies where members from a community band together to extend loans to each other, at favorable terms.
- Broadly, co-operative banks in India are divided into **two categories - urban and rural**.
  - **Rural cooperative credit institutions** could either be short-term or long-term in nature.
    - ✓ Further, **short-term cooperative credit** institutions are further sub-divided into State Co-operative Banks, District Central Co-operative Banks, Primary Agricultural Credit Societies.
    - ✓ Meanwhile, the **long-term institutions** are either State Cooperative Agriculture and Rural Development Banks (SCARDBs) or Primary Cooperative Agriculture and Rural Development Banks (PCARDBs).
  - **Urban Co-operative Banks (UCBs)** are either scheduled or non-scheduled. Scheduled and non-scheduled UCBs are again of two kinds- multi-state and those operating in single state.
- Urban Cooperative Banks (UCBs) are registered **as cooperative societies** under the provisions of, either the **State Cooperative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002**.
- These banks provide a wide range of regular banking and financial services and are **located in urban and semi-urban areas**.
- **Regulation:** The UCBs in India are under dual regulation, by the Reserve Bank of India (RBI) and the Registrar of Cooperative Societies (RCS) under the government.
  - **RBI:** Banking operations are regulated and supervised by the RBI, which lays down their capital adequacy, risk control, lending norms, issuing licences, new branches etc.
    - ✓ They are governed under two laws, namely, the **Banking Regulations Act, 1949, and the Banking Laws (Co-operative Societies) Act, 1955**.
    - ✓ RBI also has developmental function like **refinance facilities to urban cooperative banks**.
  - **Government:** Registration and management related activities are governed by the Registrar of Cooperative Societies (RCS) in case of UCBs operating in single State and Central RCS (CRCS) in case of multi-State UCBs.
- **Significance of UCB**
  - **Catering urban class:** UCBs are organised with the objective of promoting thrift and self-help among the middle class/lower middle-class population and providing credit facilities to the people with small means in the urban/semi-urban centers.
  - **Financial inclusion:** On account of their local feel and familiarity, UCBs were set up to allow ease of access to credit and ensure financial inclusion.
  - **Attractive interest rates:** UCBs remain quite a hit with retail savers and small businesses because they offer attractive interest rates on deposits, far higher than commercial banks.
  - **Local nature:** Due to their local nature, UCBs have an advantage over their commercial rivals in terms of having information both about upcoming business opportunities as well as borrower quality, which national-level banks have a hard time gathering.

### Issues faced by UCB

- **Management issues:**
  - Such banks are sometimes hijacked by vested **political interests**. This could mean favoritism in appointments, sanction of fraudulent loans which are later written off, forcing government employees to hold salary accounts with cooperative banks and so on.
- **Regulatory issues:**
  - RBI's **supervision of cooperative banks is not as stringent as that of commercial banks**. Typically, the state government audits cooperative banks while RBI inspects their books once a year.
  - There have also been cases of **ignoring the guidelines and directives issued by Reserve Bank of India** from time to time leading to unfair practices to inflate the major statistics.



- **Structural issues:**
  - Most of are **single-branch banks** and have the problem of correlated asset risk. This means the entire bank can come down if there is a local problem of significant scale.
  - UCBs often borrow and lend among themselves, the collapse of one **UCB can actually destabilise others.**
  - They have a **small capital base.** For example, urban cooperative banks can start with a capital base of Rs 25 lakh compared to Rs 100 crore for small finance banks.
- **Operational issues:**
  - UCBs face a unique problem – restricted by their cooperative nature, they **cannot issue fresh equity to shore up capital.** The only capital growth they have, therefore, has to be in line with the growth of the business of their clientele.
  - The UCBs are **facing stiff competition** from other financial institutions such as small finance banks, payment banks, NBFCs and so on. As a result, they offer unreasonably high interest rates to depositors. In order to be able to make these interest payments, UCBs extend risky and volatile loan units. This has created unhealthy competition among themselves and also leading to **NPA & profitability issue.**
  - **Lack of professionalism:** It is often viewed that while on one hand, hiring local people has helped keep the costs down and has enhanced the connectedness of these banks with the respective communities and groups, at times it has come at the cost of a professional work ethic and weak governance.
  - **No clear-cut loan policy** is practised by the Urban Co-operative Banks and even in a single bank also, the rules were varied from branch to branch.

#### Way forward

- **Fair recruitment:** In order to improve efficiency, increase transparency and promote fairness, the decision-making processes pertaining to staff administration, granting of credit and new membership should be clearly laid down.
  - In order to accomplish these goals, UCBs need to have **sound processes, professional management and a leadership whose incentives and motivation** are totally beyond doubt.
- **Technology absorption and deploying smart-banking techniques:** It is important to outsmart the competitors and to sustain as well as to grow.
- **Umbrella organization for UCBs:** And instituting a board of management to make them more financially resilient and to enhance the depositors' confidence.
  - **Y H Malegam Committee** also introduced the concept of board of management (BOM) in UCBs, batted for **doing away with dual regulation**
- **Independent auditing:** As suggested by Madhava Rao Committee, audit of UCB should be done by independent external auditors like commercial banks and be inspected likewise.
- **Strictly adhering to RBI norms:** The foremost duty of the Urban Co-operative Banks is to implement the rules and regulations and strictly adhere to the set of rules and regulations framed by the Reserve Bank of India for the healthy growth of their bank as well as the healthy growth of the Urban Co-operative Banking sector.

#### Reforms suggested by the R Gandhi Committee

To protect the interest of depositors, an RBI panel under R Gandhi had proposed reforms that included

- Suggestions such as an amendment of the Section 56 of the Banking Regulation Act Banking Regulation Act to **give more powers over cooperative banks.**
- **Empowering the regulator to wind up and liquidate banks without involving other regulators** under the cooperative societies' laws.
- RBI must **improve financial awareness among the poor** who deposit money in UCBs and empower them to take informed decisions.

#### 4.2.1. BANKING REGULATION (AMENDMENT) BILL, 2020

##### Why in News?

Recently, parliament passed the Banking Regulation (Amendment) Bill 2020 that seeks to **protect depositors of cooperative banks and empower the Reserve Bank of India (RBI) to regulate banking activities** of cooperative societies.

### Key Features of the bill

- **Issuance of shares and securities by cooperative banks:** Cooperative bank may issue equity shares, preference shares, or special shares on face value or at a premium to its members or to any other person residing within its area of operation.
- **Power to exempt cooperative banks:** RBI may exempt a cooperative bank or a class of cooperative banks from certain provisions of the Act through notification. These provisions are related to employment, the qualification of the board of directors and, the appointment of a chairman.
- **Supersession of Board of Directors:** RBI may supersede the Board of Directors of a multi-state cooperative bank for up to five years under certain conditions. These conditions include cases where it is in the public interest for RBI to supersede the Board, and to protect depositors.
  - In case of a co-operative bank registered with the Registrar of Co-operative Societies of a state, the RBI will supersede the Board of Directors after consultation with the concerned state government, and within such period as specified by it.
- **Bill allows the central bank to initiate a scheme for reconstruction or amalgamation** of a bank without placing it under moratorium.
- **Exclusions:** The Act does not apply to certain cooperative societies. These are:
  - primary agricultural credit societies (PACS),
  - cooperative land mortgage banks, and
  - any other cooperative societies (except those specified in the Act).

### Significance of the bill

- **Address management issue:** By bringing co-operative banks under the regulatory framework of RBI, it will address issues concerning poor management of cooperatives.
- **Increase capital Base:** The provision to allow cooperative banks to raise capital through securities will help increase capital base for cooperative banks.
- **Boost public confidence in cooperatives:** By allowing RBI to prepare a reconstruction scheme without having to first make an order of moratorium on barring deposit withdrawals would reduce disruption in the financial system and increase confidence in the banking system among the public.
  - At present, when the RBI finds something wrong in a bank, it has to impose a moratorium and appoint an administrator.

#### Other efforts to financially strengthen Cooperative Banks

- The Reserve Bank of India (RBI) has decided to **revise Supervisory Action Framework (SAF) on urban co-operative banks (UCBs) for deterioration of financial position**, in line with the **prompt corrective action (PCA) framework** that is imposed on commercial banks.
- Supreme Court (SC) recently held that **cooperative banks can use the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) for recovery of debts** from its defaulters and can seize and sell their assets to recover dues.

## 4.3. REVISED PRIORITY SECTOR LENDING (PSL) GUIDELINES

### Why in news?

The Reserve Bank of India (RBI) revised priority sector lending (PSL) guidelines **to include entrepreneurship and renewable resources**, in line with emerging national priorities.

### What is Priority Sector Lending (PSL) and how it works?

The concept of 'Priority sector lending' focuses on the **idea of increasing the lending of the banks towards few specified sectors** and activities in the economy. The banks are mandated to encourage the growth of such sectors with adequate and timely credit.

Following are the key features of PSL methodology:

- **The rate of interest on bank loans** is as per directives issued by the **Department of Banking Regulation of RBI**, from time to time. **Priority sector guidelines do not lay down any preferential rate** of interest for priority sector loans.
- The provisions of PSL apply to every **Commercial Bank** [including **Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank**] and **Primary (Urban) Co-operative Bank (UCB)** other than Salary Earners' Bank licensed to operate in India by the Reserve Bank of India.

- To ensure continuous flow of credit to priority sector, the **compliance of banks is monitored on 'quarterly' basis.**
- Shortfall on PSL targets:
  - Banks having any shortfall in lending to priority sector are allocated amounts for **contribution to the Rural Infrastructure Development Fund (RIDF)** established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the Reserve Bank from time to time.
  - Non-achievement of priority sector targets and sub-targets is also taken into account while granting **regulatory clearances/approvals** for various purposes.

#### Priority Sector Lending Certificates (PLSCs)

- Under the **PSLC mechanism**, the **seller sells fulfilment of priority sector obligation** and the buyer buys the obligation with no transfer of risk or loan assets.
- This **enables banks to achieve the priority sector lending target and sub-targets** by purchase of these instruments in the event of shortfall.
- This also **incentivizes surplus banks** as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under priority sector.

#### What has been changed in the revised PSL guidelines?

For this review, RBI considered the recommendations made by the **UK Sinha-led expert committee on Micro, Small and Medium Enterprises** and the **MK Jain led Internal Working Group to Review Agriculture Credit** apart from discussions with all stakeholders. Some of the salient features of revised PSL guidelines are:

- **Fresh categories included** in the PSL category:
  - bank finance of up to ₹50 crore to **start-ups.**
  - **loans to farmers both for installation of solar power plants** for solarization of grid-connected agriculture pumps.
  - for **setting up compressed biogas (CBG) plants.**
- **Higher weightage** has been assigned to incremental priority sector credit in 'identified districts' where **priority sector credit flow is comparatively low.**
  - Accordingly, from FY 2021-22, a higher weight (125%) would be assigned to the incremental priority sector credit in the identified districts where the credit flow is comparatively lower and a lower weight (90%) would be assigned for incremental priority sector credit in the identified districts where the credit flow is comparatively higher.
- **The targets prescribed for 'small and marginal farmers' and 'weaker sections' are being increased** in a phased manner.
- **Higher credit limit** has been specified for **farmer producer organizations (FPOs)/farmers producers companies (FPCs)** undertaking farming with assured marketing of their produce at a pre-determined price.
- **Loan limits for renewable energy** have been **doubled.**
- For improvement of health infrastructure, **credit limit for health infrastructure** (including those under 'Ayushman Bharat') has been **doubled.**

#### What are potential benefits from this revision?

- **Provide support to farmers:** Provisions like support for installation of solar power plants and support to small and marginal farmers **provide the requisite financial support farmers**, thus encouraging the agricultural sector.
  - Also, higher credit limit to FPOs/FPCs would encourage development of such institutions.
- **Address regional disparities:** New guidelines have the **potential to address the regional disparities** in the flow of priority sector credit via the new **'identified districts' methodology.**
- **Create environmentally friendly lending policies:** Encouragement to sectors like renewable energy and development of Biogas Plants also aim to encourage and support environment friendly lending policies to help achieve Sustainable Development Goals (SDGs).
- **Health Infrastructure:** The revision in PSL guidelines will incentivize credit flow towards health infrastructure thus providing increased financial space to developing agencies in COVID and post-COVID financial scenario.

## 4.4. CONSOLIDATION OF PUBLIC SECTOR BANKS

### Why in news?

Government has **approved the amalgamation of ten Public Sector Banks (PSBs)**. At present, India has 18 state-owned banks compared with 27 in 2017. After the merger, the number will further come down to 12.

### Benefits of Bank Consolidation

- **Cost benefits** as larger banks offer better economies of scale, efficiency, cost of funding, risk diversification.
- **Revenue benefits** (economies and scope for large deals): **Banks' prudential norms limit the size of lending by banks** as banks take risks as per banks' size. Hence to invest in large projects, large banks with huge lending capacity are needed, to meet India's aspirations of a \$5 trillion GDP economy.
- The **adoption of technologies** across the amalgamating banks, access to a wider talent pool, and a larger database would lead PSB's to be in a position to gain **competitive advantage by leveraging analytics in a rapidly digitalizing banking landscape**.
- Consolidation would help create banks with **scale comparable to global banks** and capable of competing effectively in India and globally enhancing their **competitiveness**.
- **Human Resource:** The wide disparities between the staff of various banks in their service conditions and monetary benefits will narrow down.
- **Improve regulation:** Monitoring and control of a smaller number of banks will be easier after mergers.

### Issues with Bank consolidation

- **Too big to fail:** When a big bank books huge loss or crumbles, there will be a big jolt in the entire banking industry. Its repercussions will be felt everywhere.
  - In fact, large global banks collapsed during the global financial crisis, while, small banks have survived the crisis due to their nimbleness and the niche areas they operate in.
- **May impact recovery of loans:** Merger of public sector banks raises a **considerable risk to the recovery process, which may differ from one bank to another**. In the case of stressed assets, the creditors' pool could be common, which may include several of the merged public sector banks while their hierarchy in the list of creditors would vary.
- **Banks having different setup:** It brings with it issues not only of cultural and managerial alterations, but also various financial conflicts, that could affect lending as well as recovery. Conflicts might arise in the area of systems and processes too.
- **Not necessarily beneficial:** A study covering 20 years of bank consolidation in industrial countries found it **"beneficial up to a relatively small size, but there is little evidence that mergers yield economies of scope, or gains in managerial efficiency"**. **India's past experience too has been mixed so far.**

### Way Forward

While **Narasimham Committee (1998)** on **banking reforms** had also recommended the merger of strong public sector banks and selective closure of weak ones, bank merger alone does not improve performance matrix. The **reform has to go hand in hand with other reform measures**. E.g. **EASE Index** which ranks PSBs on parameters such as responsible banking, financial inclusion, credit offtake and digitization.

## 4.5. SPECIAL LIQUIDITY SCHEME FOR NBFCS AND HFCS

### Why in News?

As a part of Aatma Nirbhar Bharat Abhiyaan, **Special Liquidity Scheme for NBFCS/HFCs** was approved last month and RBI has now laid down the eligibility criteria for these lenders to avail the facility.

### Background

- Most **NBFCS do not have substantial on-balance sheet liquidity** as they operate via **asset-liability mismatch** i.e. these firms borrow funds from the market for short duration at low interest rate and lend for longer tenures at higher interest rate. So, they need refinancing to repay their own liabilities.
- However, following the **unexpected default by a major shadow lender IL&FS in 2018**, it became tough for other NBFCS to refinance their debt as investors like Mutual funds and other banks turned risk averse.

- This led to a **liquidity crunch for NBFCs**.
  - Due to liquidity crisis, **NBFCs were forced to reduce lending to MSMEs**, a vital pillar of the Indian economy that contributes majorly to the GDP.
- So, the stress among NBFCs can lead to spillover effects **that can become a systemic risk to whole economy** as well as hinder improvements in banks' asset quality.

**About the Scheme**

- RBI has announced a **special liquidity scheme for non-banking finance companies (NBFCs)/HFCs** through a Special Purpose Vehicle (SPV).
- Scheme aims to help NBFCs and HFCs to **improve their liquidity position and avoid any potential systemic risks to the financial sector**.
  - With asset quality risk for NBFCs/ HFCs set to rise sharply in the coming months due to reduced economic activity, many medium and small-sized players are likely to face severe liquidity challenges.
- The SPV will **purchase short-term papers from eligible NBFCs/ HFCs of debt up to ₹30,000 crore**, who will utilise the proceeds under this scheme solely for the purpose of extinguishing existing liabilities.
- **Eligibility:** NBFCs and HFCs should have- net non-performing assets (NPAs) less than 6%; net profit in at least one of the last two preceding financial years; not reported under SMA-1 or SMA-2 category during last one year prior to 1 August 2018.



**Reasons behind precarious financial situation of NBFCs**

- **Difficulties in access to credit:** The mutual fund is among the biggest fund provider to NBFCs via commercial papers and debentures. These investors are getting reluctant to lend post the IL&FS crisis.
  - Recently, a **mutual fund house Franklin Templeton** had to shut down its 6 debt schemes following the unprecedented redemptions fueled by apprehensions of credit risk.
- **Crisis accentuated by pandemic:** In a recent report, Moody credit rating agency said the inability of borrowers to repay loans amid the Covid-19 crisis, coupled with a six-month moratorium on repayment allowed by RBI, will lead to a disruption of inflow for NBFCs and HFCs, even as outflow will have to continue.
- **Multiple regulatory bodies:** RBI doesn't regulate all the NBFCs. Other institutions such as SEBI, Insurance Regulatory and Development Authority (IRDAI), etc. are also involved depending on the type of NBFC.
- **Riskier Lending Pattern:** Unlike banks, NBFCs are less cautious while lending. For example, NBFCs have grown their portfolio of small and micro loans in a big way where there are risks of lack of credit history, scale and historically high NPAs.

**Some recent steps taken by the government**

- **Targeted long-term repo operations (TLTRO):** Under TLTRO 2.0, funds had to be invested in investment grade bonds, Commercial Papers and Non-Convertible Debentures of NBFCs, with at least 50% of the total amount availed going to small and mid-sized NBFCs and MFIs.
- **Partial Credit Guarantee Scheme (PCGS) 2.0** worth Rs 45,000 crore has been launched where sovereign guarantee of up to 20% of first loss will be provided to state-owned banks for purchase of bonds or CPs of NBFCs, MFIs and HFCs having a credit rating of AA or below, including unrated paper with original maturity of up to one year.
- RBI announced a **special refinance facility of Rs 50,000 crore** to NABARD, SIDBI and NHB to help them meet funding requirements of agriculture and the rural sector, small industries, HFCs, NBFCs and MFIs.
- **RBI has prescribed limits for HFCs for exposure** to commercial real estate (maximum 20% of capital fund), capital market (maximum 40% of net worth total exposure) or group entities (25% of owned fund and 15% to single entity)
  - In DHFL, a chunk of retail loans were found to have been diverted to group companies which led to its downfall.

- The **unsecure loan segment** is also on the rise in the NBFC segment.
- **Cascading effect of Infrastructure Leasing and Financial Services (IL&FS) default:** Default followed by downgrade of IL&FS recently has created a liquidity squeeze for the entire non-banking financial company (NBFC) sector.
- **Delayed Projects:** Many infrastructural projects financed by NBFCs are stalled due to various reasons like

delayed statutory approvals, problems of land acquisition, environmental clearance, etc. which has impacted their financial health.

### Way Forward

- **Better Regulatory Regime:** The Financial Sector Legislative Reform Commission (FSLRC) recommendation of creating a body with powers to monitor risk-cutting across sectors should be implemented.
- **Timely Project clearances:** Ensuring timely clearances, especially to infrastructural projects is a must to minimise cost inflation of these projects.
  - **Expanding the “Plug and Play” approach** to other sectors can be a possible solution. ‘Plug and play’ concept normally refers to
- **Suggestions for RBI:**
  - RBI must encourage NBFC to securitise their assets that can be purchased by banks.
  - RBI may also open special window for mutual funds to get refinance against collateral.
  - A coordinated and consultative approach at this point of time to address the various problems of the sector is critical to national economic health and stability.

#### Related News

#### SPECIAL LIQUIDITY FACILITY FOR MUTUAL FUNDS

- To ease liquidity pressures on mutual funds, Reserve Bank of India recently announced a special liquidity facility of ₹50,000 crore for mutual funds.
- The SLF-MF is on-tap and open-ended and will be available to all LAF (liquidity adjustment facility) eligible banks.
- Benefits of the Scheme
  - It will ease pressure and help mutual funds to finance the redemption using this facility rather than selling its existing commercial papers at a discount and denting its Net Asset Value.
  - This will stabilize the performance of short-term debt funds and improve investor sentiment about the debt market.

## 4.6. INDIA’S DIGITAL FINANCE INFRASTRUCTURE

### Why in news?

Recently, a Paper titled 'The design of digital financial infrastructure: lessons from India' was released by the Bank for International Settlements (BIS).

### Status of digital payments in India

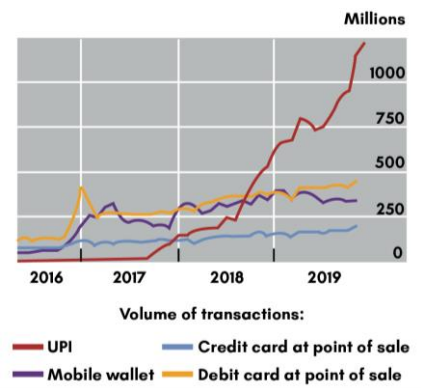
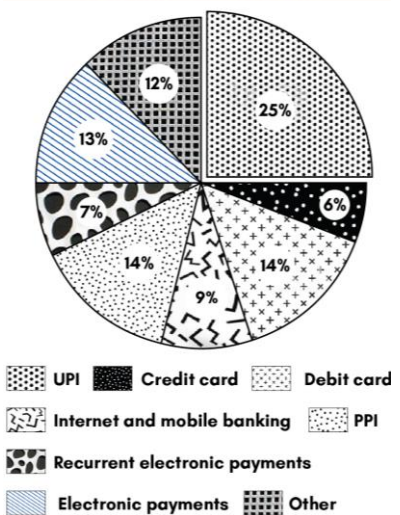
A study by RBI on 'Assessment of the progress of digitisation from cash to electronic' was released following data:

- **Digital payments in the country** have witnessed a Compound annual growth rate of 61% and 19% in terms of volume and value respectively over past five years, demonstrating a steep shift towards digital payments.
- **72% of India’s consumer transactions take place in cash**, double the rate as in China.
- Demand for high-value denominated currency has outpaced low-value denominated currency and this phenomenon may indicate **that cash is increasingly used as a store of value** and less for making payments.
- **Cash in circulation (CIC)** as a percentage of GDP is 11.2% in 2018-19 which is less than pre- demonetisation level of 12.1% in 2015-16.

### Digital financial infrastructure: Challenges and solution

- **Financial Inclusion through identity-Verifiable ID proofs** makes it easy to open bank accounts, obtain credit and enroll in social welfare programmes.
  - India had low levels of formal identification (in 2008, only 1 in 25 people) and inclusion (1 in 4 Indian adults had a bank account).
  - **India addresses this problem with rollout of Aadhar Card.** Aadhaar has also served as the basis for other significant policy

Share of digital payments by volume from April to Sept 2019'



initiatives – most notably, the Pradhan Mantri Jan Dhan Yojana (PMJDY). By December 2019, almost 380 million bank accounts had been opened under PMJDY.

- As per an estimate, **without Aadhar it would have taken 47 years to achieve 80% of adults with a bank account** had India solely relied on traditional growth processes.
- **Improving payment services within the formal financial system**-In the face of emerging competition, keeping consumers within the banking system after they have entered it is very challenging.
  - Costly payment transfers, processes that are cumbersome to navigate and slow to execute, and limited availability of transaction window etc. are certain **deterrent**.
  - India addressed this challenge through **Unified Payments Interface (UPI) which acts as a single interoperable interface** to bank accounts effectively granting everyone mobile access to the payment system and allowing **instant financial transactions**, on demand.
- **Data empowerment with consent**- India is becoming data-rich with **increasing penetration of internet connectivity and mobile phones**. It is challenging to balance out **information asymmetries and lack of trust** on the part of customers while ensuring that stakeholders do not **misuse the data** of these consumers.
  - To address this challenge, in 2016 the **RBI established the legal framework** for a class of regulated data fiduciary entities, called **account aggregators**, which enable customer data to be shared within the regulated financial system **with the customer's knowledge and consent**.

#### Payment Infrastructure Development Fund

- Reserve Bank of India (RBI) announced creation of a Payments Infrastructure Development Fund (PIDF).
- Expected Benefits from the scheme:
  - It will help to **shift POS terminals concentration from tier 1, tier 2 cities to tier-3-6 cities and north eastern states**.
  - It will **give fillip to the digital payments** and improve infrastructure across the country especially **in the underserved areas**.

#### Recommendations of Committee on Deepening of Digital Payments chaired by Nandan Nilekani

- **Removal of import duties** from point-of-sale (POS) devices and **waiving GST** on Immediate Payment Service (for transaction charges upto Rs 5000).
- **Government payments must be done through digital means**, including payments for goods and services procured, Direct Benefit Transfer, salaries and pensions.
- **Use of validation services such as Public Financial Management System and National Payments Corporation of India** to reduce the incidence of transaction failure because of wrong account / Aadhaar details.
- **Dedicated grievance redressal mechanism**, particularly in vernacular language to process connectivity and authentication errors in DBT.
- **Digital payment subcommittee** should be setup at state level to map financial institutions and identify gaps and RBI should develop a **Financial Inclusion Index** to compare different areas.

#### India's approach towards Digital Finance Infrastructure

From the above discussion it can be summarised that **India's approach is built upon four pillars**:

- Providing **digital financial infrastructure as a public good**.
- Encouraging private innovation by providing **open access to this infrastructure**. E.g. Digital Payment segment for private sector such as **use of UPI platform by Paytm, PhonePe and OlaMoney**.
- Creating a level playing field through **robust the regulatory framework**.
- Empowering individuals through a **data-sharing framework that requires their consent**.
- **Generating awareness** through various initiatives like Digital Payment Abhiyaan.

## 5. TRADE AND INVESTMENT

### 5.1. INTERNATIONAL TRADE

#### 5.1.1. REPORT OF THE HIGH-LEVEL ADVISORY GROUP ON TRADE

##### Why in news?

Recently the Report of the High-Level Advisory Group was submitted to the government.

##### Overview of India's Trade Performance

- Over a period of 2003-2017, in all the sectors-Agriculture, Manufacturing goods, Goods (Merchandise), Services and All trade-**India's ranking in global exports is lower now** (between 2012 and 2017) than before.
  - However, **Indian share in world trade is increasing (albeit slowly)** because our growth is faster than the world average.
- There is the **divergence in performance** of the overall economy in India (GDP growth among the fastest in the world) and export growth (post 2011, somewhat on the lower side). One important reason for this divergence is that **international trade still receives inadequate attention** both in the government and outside.
- **Protectionist policies:** Protectionism is not witnessed in the rise of tariffs alone but is also evident in other measures, e.g., promotion and adoption of technical regulations, frequent imposition of quantitative restrictions, adoption of nontariff barriers, acute reservation on opening up economy through trade agreements, discriminatory sectoral domestic policies, etc.
- **Unrealistic Export Targets:** According to WTO data, **India's share in global merchandise exports was 1.7%** in 2017, and the **services share 3.4%**. Aggregate export share in world exports has been on a marginal upward trend and has plateaued in the 2 to 2.1% range since 2010.
  - In this backdrop, the **government's target of doubling of India's exports by 2025** seems unrealistic.

##### Macro Determinants of Export Performance

- **Mind-Set:** India, for a long time, followed **protectionist import substitution policy** and opened its economy much later in the early 1990's. Absence of trade facilitation reforms and a burden of legacy further motivated and sustained the old mind set.
- **High Cost of Domestic Capital:** The real policy rates over the last years (averaged over 2-3 % per annum) is the highest ever observed in India, and the **highest in 60 countries** sampled by the HLAG.
  - On contrary, the **median real rate in the world** has stayed broadly constant at around 0.8% per annum for emerging economies, and somewhat lower for advanced economies.
- **High Levels of Effective Corporate Tax Rates:** Among 20 large emerging economies, **India was ranked as the fourth highest payer of corporate taxes**. Retained earnings (after payment of wages and taxes) were 44% of income in India, compared to a retention rate of 62% for Vietnam and 66% for Bangladesh.
- **Labour Laws and Firm Size:** A very likely determinant of slow export growth is our labour laws which hinder expansion in firm size.
- **Protectionism and Customs Tariffs:** For over two decades, tariffs remained largely low and stable. India's average MFN (Most Favoured Nation) tariffs increased, however, in 2017.
- **Awareness:** A **National Trade Facilitation Action Plan** is in operation but whether implementation is in conformity with the plan is hardly known to the stakeholder community.

##### Learnings from the Past and Major Recommendations of HLAG

- **Technology:** Rapid evolution in technology, particularly the increasing digital content, is having a profound influence on the manufacturing sector, and will more significantly impact the relative competitiveness of exports of goods in the future.
  - **HLAG Recommendation:** Big Data Analytics, Industry 4.0 etc. must be leveraged. For many manufacturing products, exporters need to focus on considerable development and application of technical knowledge to maintain or increase export market share.
    - ✓ Policy operation should now fully incorporate the **technology of Direct Benefit Transfers (DBT)**.
- **Prominent Financial support:** A prominent financial support incentive is a low corporate income tax rate.



- **HLAG Recommendation:** India should **cut corporate tax rate to 22% (with exemptions)** to yield an effective corporate tax rate of 18% (most of our competitors are around the 15-20% mark).
  - ✓ Bring down the **cost of capital** to the average of 10 best performing OECD countries.
  - ✓ **Enhance capital base of the EXIM Bank** by another INR 20,000 crores by 2022 and that of the **Export Credit Guarantee Corporation (ECGC)** by INR 350 crores.
- **Good governance:** Certain aspects of good governance such as evidence-based trade policymaking, well-structured Management Information System and more effective institutional mechanisms must be strengthened.
  - **HLAG Recommendation:** Use **big data analytics** to build a comprehensive export strategy. Strengthen Investment Promotion Agency (**Invest India ++**) and build an overall **Trade Promotion Organisation (TPO)**.
- **Identify champion sectors:** To overcome the challenges of infrastructural deficiency, government has been implementing various schemes. However, there are resource constraints.
  - **HLAG Recommendation:** The **12 Champion Services Sectors identified by the Central Government** would be a good starting point to prepare the services export diversification strategy.
- **Link into Global Value Chains (GVC) and Regional Value Chains (RVC):** India has been slow in boarding global value chains - the new paradigm for industrial production in the globalized world. There has been little conscious and coordinated effort to do so at any level in the government or the industry.
  - **HLAG Recommendation:** An **integrated approach** towards trade in goods, services and investment is necessitated by global and regional value chains.
    - ✓ Return to a **strategy of generally lower and simplified tariffs** to improve the ability of Indian exporters to link up with rapidly evolving global value chains.
    - ✓ **Regional Trade Agreements (RTAs) must be evaluated** in context of gearing to tap the opportunities that open up in RVCs and GVCs.
    - ✓ **Identifying products and segments** where Indian firms can get integrated in GVCs, and the **key factors constraining the integration** will be very effective for formulating an export strategy.
- **India and WTO:** India should use **WTO as part of its overall strategic vision** on growth and interaction with the international economy.
  - **HLAG Recommendation:** **Constitute an inter-ministerial group** to mainstream international trade related issues-particularly **to disseminate and evolve national official thinking on WTO related issues**, as well as the global trade agenda that India needs to follow.
- **India and Regional Trade Agreements (RTAs) (or Free Trade Agreements-FTA):** The **role of regional trade agreements (or FTAs) has become crucial** in the foreign trade policy of India. A **comprehensive yet selective and inclusive approach** aiming India's interest in the long-term is required.
  - **HLAG Recommendations:** Launch a **five-year program for negotiation of FTAs** identified based on complementarity and long-term sustainability. Associate relevant segments of Industry with the process of negotiations.

### 5.1.2. EXPORT PREPAREDNESS INDEX (EPI) 2020

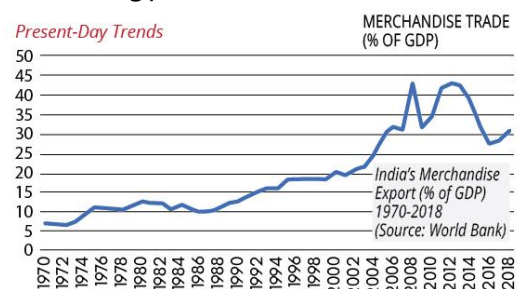
#### Why in News?

Recently, NITI Aayog in partnership with the Institute of Competitiveness released the **Export Preparedness Index (EPI) report 2020**.

On the whole, India has scored an average of 39 on the index. **Both Policy and Business Ecosystem are the two highest scoring pillars**, with the Export Ecosystem being the least scoring pillar. Most of the **Coastal States are the best performers**.

#### India's trends in Global Market

- India's merchandise exports have witnessed growth from USD 275.9 billion in 2016-17 to **USD 331.0 billion in 2018-19**.
- India's share in global trade is less than 2% (1.7% in 2018).
- As of present, **70% of India's export has been dominated by five states** – Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana.



**Key measures adopted by the government post-2016:**

- A **mid-term review of the Foreign Trade Policy 2015-20** was conducted in 2017 to assess the policy interventions required to boost the export levels.
- A **new Logistics Division was established** in the Department of Commerce to organize the integrated development of the logistics sector.
- **Trade Infrastructure for Export Scheme (TIES) was launched** in April 2017 to address the existing export infrastructure gaps.
- **Transport and Marketing Assistance scheme** was also introduced for the export of specified agriculture products to mitigate the disadvantage of the higher cost of transportation.

The Index highlighted that **India faces three fundamental challenges in export promotion:**

- **Intra- and inter-regional disparities** in export infrastructure.
- **Poor trade support and growth orientation** among states.
- **Poor R&D infrastructure** to promote complex and unique exports.

**Missed opportunity**

Weakened global trade during 2014-2016, **severely affected the exporting capacities of some of the top contributing nations such as China**. This created opportunities for other nations to take over. Unlike India, **Bangladesh and Vietnam successfully managed to capture the space** which were previously dominated by China.

**Way Forward: Recommendations suggested by the report**

- **Convergence:** Creation of Export Infrastructure is a capital-intensive process. By **convergence with various national infrastructure development plans** and coordinating the joint development of export infrastructure, Central government can reward states that have taken significant steps towards export promotion.
- **Robust government–industry–academia linkages:** Every state must actively create channels for such linkages by facilitating and encouraging the **capacity building of SMEs and establishment of general export councils**.
- **Creating state-level engagements for economic diplomacy:** Under the newly christened ‘Economic Diplomacy and States’ vertical of the Ministry of External Affairs, NITI Aayog should create capacity within states and build frameworks to facilitate direct engagements with such transnational trade bodies.
- **Focus on designs and standards to make products export-ready:** Central and state governments will have to coordinate and engage with design institutions within the country to create a national discourse on the importance of designs and standards needed for exports.
- **New use cases for products** such as **coconut coir, woven textiles, and bamboo**, will have to be identified with design thinking so that the vast export potential of the Indian micro-enterprises gets adequately harnessed.

**5.1.3. GLOBAL VALUE CHAINS****Why in news?**

World bank released World Development Report titled “**Trading for Development in the Age of Global Value Chains**”.

**What is a Global value Chain (GVC)?**

- A value chain refers to the “**full range of activities that firms and workers do to bring a product from its conception to its end use and beyond**”.
- When the value chain is distributed across different firms in different countries, it means that these activities are divided among different countries. This phenomenon where value chain is spread across the globe- it is called GVC. For example, a bike assembled in Finland with parts from Italy, Japan, and Malaysia and exported to the Arab Republic of Egypt is a GVC.
- The global value chains today account for nearly **50 per cent of trade worldwide**.
- However, in the aftermath of COVID-19, there is an environment of uncertainty as utility of GVCs has come under scrutiny.

**Why are GVCs important?**

- **Hyper-specialization:** GVCs promote hyper-specialization, which improves **efficiency**. By breaking up complex production process, GVCs allow countries to specialize in specific parts or tasks of production.

E.g. China's "Button Town," where hundreds of factories produce more than 60 percent of all buttons on Earth.

- **Productivity gains:** In traditional trade, where products cross borders only as finished products. In GVC trade, intermediate inputs cross border, and domestic firms get access to greater variety of higher-quality or less costly intermediate inputs increasing productivity. Studies suggest a **10 percent increase in the level of GVC participation** is estimated to **increase average productivity by close to 1.6 percent**.
- **GVCs are vehicles for technology transfer:** Unlike in traditional trade in which firms in different countries compete, GVCs are networks of firms with common goals. GVCs involve longer-term firm-to-firm relationships. This nature of GVCs makes them a particularly powerful vehicle for **technology transfer and sharing know-how along the value chain**.
- **Better jobs:**
  - Through firm-to-firm relationships, GVC play an important role in **on-the-job learning, and employer-sponsored training** within GVCs can be an effective mechanism for skill development.
  - GVCs promote capital-intensive production as it allows large scale production and precision of parts. This generates quality jobs, and also there's overall increase in jobs because of the large boost to exports. GVCs pull workers out of **less productive tasks and into more productive jobs**.

## HOW DO GVCs WORK?

Interactions between firms typically involve durable relationships. Economic fundamentals drive countries' participation in GVCs. But policies matter to enhance participation and broaden benefits



### Concerns associated with GVCs

- **Gains from GVC participation are not distributed equally** across and within countries.
- **Synchronization of economic activity across countries** makes domestic economies vulnerable to external shocks.
- **GVCs amplify the costs of protectionism** for trade and growth.
- **Policy uncertainty is costlier under GVCs** as foreign players are reluctant to participate until the uncertainty is resolved.
- **Environmental effects:** GVCs are associated with more waste and more shipping in the aggregate, both of which have environmental costs.
  - **However,** GVCs can also promote improvements in production techniques. The **knowledge flows, technology transfers** among countries can enable the development or quicker application of more environmentally friendly techniques.

### How can countries reap benefits from GVCs?

- Countries should exploit their comparative advantage by **eliminating barriers to investment** and ensuring that labor is competitively priced, by **avoiding overvalued exchange rates and restrictive regulations**.
- Promote linkages between **domestic small and medium enterprises (SMEs) and GVC lead firms** by coordinating local suppliers, providing access to information about supply opportunities, and supporting training and capacity building of SMEs.
- **Improving customs and border procedures**, promoting competition in transport services, improving port structure and governance and improving information and communication technology (ICT) connectivity—all are strategies that can **reduce trade costs related to time and uncertainty**.
- GVCs thrive on **the flexible formation of networks of firms**. Contract enforcement, stable and predictable legal arrangements, protecting intellectual property rights, strengthening national certification and testing capacity to ensure compliance with international standards etc.
- **Developing countries** need **policies to spread gains from GVC participation across society**. Access to childcare for women, and training programs for youth, assistance to smallholders, such as extension services and access to finance etc. will ensure inclusion.
- **Global cooperation on the environment and working conditions**. Standardized international data will help expose poor production practices and induce firms to improve.

### 5.1.4. TRADE AND DEVELOPMENT

#### Why in news?

UNCTAD recently released an update on Trade and Development Report, 2019 titled **From the Great Lockdown to the Great Meltdown: Developing Country Debt in the Time of Covid-19**.

#### Issues faced by developing countries vis-à-vis trade

- **High and rising developing country indebtedness:** which could lead to **sovereign defaults** across the developing world.
  - In 2020 and 2021 alone, repayments on their public external debt are estimated to be nearly \$3.4 trillion.
  - At end-2018 the total debt stocks of developing countries (external and domestic, private and public) **stood at 191 per cent of their combined GDP** which is the **highest ever recorded**.
- This situation has been exacerbated due to the COVID-19 linked economic crisis in developing countries due to reasons such as:
  - **Negative impact on their commodity and service exports, remittances etc:** which bring in foreign currencies required to meet external debt obligations.
  - **Capital outflows and depreciation of their currencies:** which can cause steep increase in the value of their foreign-currency denominated debt.

#### Global efforts to relieve developing countries' debt burdens:

- Support amounting to at least **\$2.5 trillion** will be required for developing countries to deal with the Covid-19 crisis.
- A few global initiatives in this direction include-
  - **Cancellation of due debt repayments by IMF** for the 25 poorest developing economies (estimated to around \$215 million) for the next six months.
  - **Debt Service Suspension Initiative for Poorest Countries** announced by **G20** leaders.
  - Both the IMF and the World Bank have announced **enhanced lending facilities** for developing country members to help deal with the crisis.

#### Issues with such initiatives-

- They amount to a **relatively small part** of the long term public external debt stocks accumulated by developing countries.
- They are **temporary measures** and do **not consider wider and long-lasting macroeconomic impacts of the Covid-19 crisis** on export revenues, commodity prices, government revenues and reserve holdings, as well as new borrowings done during the crisis.
- Enhanced lending facilities are **debt-creating financing instruments** and their eligibility still depends on highly restrictive criteria.

#### Suggested Strategy: A new 'Global Debt Deal' for developing countries with following steps-

- **Step 1: Automatic temporary standstills:** such as **immediate and automatic stay on all creditor enforcement actions**, i.e. ability to seize assets or initiate court proceedings against any sovereign creditor that fails to make debt service payments during the pandemic.
  - It would provide **macroeconomic "breathing space"** for all crisis-stricken developing countries by freeing up resources, normally dedicated to servicing external sovereign debt.
  - It would also facilitate an effective response to the COVID-19 shock through **increased health and social expenditure** in the immediate future and allow for **post-crisis economic recovery**.
- **Step 2: Debt relief and restructuring programmes:** to reassess longer-term developing country debt sustainability, on a case-by-case basis.
- **Step 3: Establishment of an "International Developing Country Debt Authority" (IDCDA):**
  - It could be set up as an **autonomous international organisation** through an **international treaty between concerned states**.
  - It will oversee the implementation of first 2 steps and lay the institutional and regulatory foundations for a **more permanent international framework to guide sovereign debt restructurings** in future.

### 5.1.5. WTO AND RELATED DEVELOPMENTS

#### Why in news?

There have been calls for reforming WTO given the concern regarding rising protectionism.

## WTO and its evolution

- World Trade Organization was **set up under Marrakesh Treaty (1994)** as a result of Uruguay Round (1986-1994).
- WTO as an organization was expected to play larger role for improved living standards, employment generation, trade expansion with increasing share for developing countries and overall sustainable development. Trade liberalization was seen as means for achieving the above-mentioned objectives.
- Basic principles of trade liberalizations that were to be followed were:
  - **Non-discrimination–Countries will not discriminate one from another.** It had be achieved through Most Favored Nations status i.e. neutral trading relations and National treatment to non-domestic producers.
  - **Reciprocity– The concessions conferred by countries had to be mutual.**
- These principles are implemented through Ministerial Conferences, taking consensus-based decisions based on **‘one country one vote which demonstrates democratic structure and processes of WTO.**
- Also, a **dispute resolutions mechanism provides protection against arbitrariness.** The raison d'être of WTO lies in its rule based binding commitment, retreating from which poses greater risks, a scenario unfavorable to member states.

### What are the issues that WTO has been facing?

- **Changing world order:** The unipolar world under US was represented through institutions like WTO. Trade during this phase became rule based in nature which favored the west. But the world order is now witnessing structural changes with rise of developing countries and their increasing share in world trade.
- **Process Loopholes:** The negotiation process prime facie seems democratic but Ministerial Conferences are accused of being opaque and overly technical. Moreover, consensus-based rule making has become a root cause in stagnation in reforms.
- **Dispute Resolution:** The dispute resolution mechanism is costly and lengthy. It is majorly resorted to by developed countries and developing countries are victims to the mechanism. There is politicization of the Appellate Body appointment and reappointment process.
- **Increasing usage of Non-tariff Barriers:** According to recently published “The Asia-Pacific Trade and Investment Report 2019”, **non-tariff measures (NTMs) have increased** in the past two decades.
- **Nature of agreements:** Agreements signed under WTO are alleged to be discriminatory and exclusionary in functioning. DDA (Doha Development Agenda) has still not been able to provide permanent solution to subsidies under domestic support. WTO do not have any agreement to deal with digital enabled trade i.e. e-commerce.
- **Allegations are leveled by developed countries against developing of flouting TRIPS.** They oppose generic medicines, compulsory license and import substitution. On the other hand, developing countries cite public health concerns and level allegations of ever-greening against pharmaceutical companies.

#### Non-tariff measures (NTMs)

- They are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.
- NTMs are broadly distinguished into **technical measures** (Sanitary and Phytosanitary measures, Technical barriers to trade etc.) and **non-technical measures**. These are further distinguished in **hard measures** (e.g. price & quantity control measures), **threat measures** (e.g. anti-dumping duties) and other measures such as trade-related finance and investment measures.
- **Positive Impact of NTMs:** Indirectly encourages Foreign Direct Investment (FDI), Development of International Standards and Protection of human health and environment.
- **Challenges posed by Non-Tariff Measures:** Over-regulation, unintentional bias against developing & least developed countries (LDCs), reduces access to goods and technologies for developing countries and LDCs.

#### Recent developments between India and WTO

India has **invoked the peace clause of WTO** for exceeding the ceiling on support it can offer farmers for rice, marking the first time any country that has used this clause.

- **Peace clause**
  - The **peace clause protects a developing country's** food procurement programmes against action from WTO members in case subsidy ceilings are breached.
  - It also provides that **Green Box domestic support measures cannot be the subject of countervailing duty action** or other subsidy action under the WTO Agreement on Subsidies and Countervailing Measures.

India has asked the **G20 members to work on an agreement that would enable countries to use the flexibilities** under TRIPs.

- India called for an agreement to enable the use of TRIPS (Trade Related Intellectual Property Rights) flexibilities to ensure access to **essential medicines, treatments and vaccines at affordable prices.**
- **About TRIPS Flexibilities**
  - TRIPS flexibilities are '**policy spaces**' for countries to mitigate the impact of patents (i.e., the excessively high price of patented medicines due to lack of competition).
  - Some major flexibilities under TRIPs are include **Compulsory Licensing, Parallel Importation** (importation without the consent of the patent holder), **Exemptions from patentability, Limits on Data Protection** (vis-à-vis patents) and **Extension of transition period for Least-Developed Countries (LDCs).**

#### Why WTO still remains relevant?

- **WTO regulates 98% of global trade flows.** The average value of tariffs has reduced by 85% since 1942. Tariff reduction along with technological advances have driven extra-ordinary expansion of global trade.
- **Trade as a share of GDP has grown from 24% in 1960 to 60% in 2015.** Expansion of trade has fueled economic growth, created jobs and increased household incomes around the world.
- An ever-deepening rules-based system—notably under the GATT and WTO—**brought more openness, transparency, and stability.**
- As nations' economies have become more and more inter-dependent, **breakdown of a trade organization will be major blow to international trade order.**

#### Way Forward

- **Plurilateral trade negotiations-** As WTO is a member led organization, all countries i.e. developing and developed have to join hands to improve its structure and processes. WTO should move to Plurilateral negotiations where like-minded countries can come forward to discuss issues specific to them and form rules with respect to the common issue.
- **Services today form a bulk of trade** i.e. two third of global GDP, yet global trade policy lags behind in services facing higher barriers than goods. To rectify these, GATS has to become more open and transparent. **It has to address monopolistic practices, financial regulations and irregular immigration.**
- Trade related policies for inclusiveness-
  - The **agreements on agriculture should be restructured** to address concerns of developing countries and Least developed countries.
  - **Social security laws, skill upgradation, flexible mobility of workers within the international agreements** will impart more stability and sustainability to the multilateral trading system.
- **Collective Bargain Like Minded Groups like G-33, African community** has to increase their collective bargain in order to demand favorable provision in agreements on agriculture, services, intellectual property etc. The dispute mechanism should become more powerful and member driven.

#### 5.1.5.1. RULES OF ORIGIN

##### Why in news?

The Department of Revenue has recently notified the '**Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020**' which would come into force on September 21, 2020.

##### About Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR, 2020)

- These rules will be applicable on **import of goods into India** where the importer makes claim of **preferential rate of duty** in terms of a trade agreement (TA).
- CAROTAR, 2020 aims to **supplement the operational certification procedures** related to implementation of the **Rules of Origin**, as prescribed under the respective TAs of India viz. Free Trade Agreement (FTA), Preferential Trade Agreement (PTA), Comprehensive Economic Cooperation Agreement (CECA), Comprehensive Economic Partnership Agreement (CEPA) etc.

##### What are Rules of Origin?

- These are the **criteria prescribed to determine the national origin** of an imported product in a country.
- These are mainly used:
  - to **implement measures and instruments of commercial** policy such as anti-dumping duties and safeguard measures;
  - to determine whether imported products shall receive most-favored-nation (MFN) treatment or preferential treatment;
  - for the purpose of trade statistics;

- for the application of labelling and marking requirements; and
- for government procurement.
- Rules of Origin are primarily of two types:
  - **Non-preferential rules of origin:** These apply in the absence of any trade preference, where certain trade policy measures such as **quotas, anti-dumping or “made in” labels** may require a determination of origin.
  - **Preferential rules of origin:** These apply in reciprocal trade preferences (i.e. regional trade agreements or customs unions) or in non-reciprocal trade preferences (i.e. preferences in favour of developing countries or least-developed countries (LDCs)).

### Significance of ROO

- Addressing **trade distorting practices** or **protecting local industry**.
- Ensuring **effectiveness of Trade Agreements**.
- Ensuring **Transparency in customs procedures**.
- **Implementing environmental or sanitary measures**.
- **Administering “buy national” policies** for adjusting balance of payment with specific countries.
- **Ensuring national security or political policy** by controlling trade in strategic weapons or specific products to which sanctions are applied.

### Concerns related to Rules of Origin

- **Effect on international trade flows:** Rules of origins and related procedures be used as instruments to reinforce protectionist tendencies.
- **Restrictive origin regulations can affect investment flows:** since they might lead to excessive investments in the territories of major importers to satisfy local content requirements to meet the origin criteria.
- **Increased administrative burdens:** Strict regulations can make it difficult for genuine importers to avail the benefits of trade agreements.
- **High cost of trade:** Studies have revealed that origin certificates cost about 5% of the goods' value.
- **Lack of Uniformity:** WTO's General Agreement on Tariffs and Trade (GATT) has no specific **rules** governing the determination of the country of origin of goods in international commerce. Each contracting party of a trade agreement is free to determine its own origin rules.

### Way Forward

The rules of origin enable the preferential agreements to be correctly implemented, which promotes the development of trade and encourages investment. Measures that can ensure their productive use include **clearly defined terms and procedures and consistent, uniform and reasonable administering of rules which will ensure that they do not create restrictive, distorting or disruptive effects** on international trade.

## 5.2. INTERNATIONAL INVESTMENT

### Introduction

In the simplest of terms, International Investments are those investments that are made outside one's own domestic markets. These investments can be broadly classified into Government Fund/Aids, Cross Border Loans, Foreign Portfolio Investment and Foreign Direct Investment (FDI). In the Indian context, FDI assumes largest importance among these categories by virtue its largest share among foreign investments.

### Status of FDI in India

- India ranked among the **top 10 for FDI** in 2019 and has rank **63 in World Bank's 'Ease of Doing Business 2020, still the foreign investment has remained at 2 per cent of GDP**.
- **FDI-equity inflows** to India during 2019-20 were \$49.9 billion, substantially **lower than the annual flow of remittances** of \$83 billion in the same period.
- According to World Investment Report released by UNCTAD, **India jumped from 12th position in 2018 to 9th in 2019** on the list of the World's top FDI recipients.
  - **India is biggest FDI host in the subregion, with more than 70% of inward stock**
  - **Most of the investments were in the information and communication technology (ICT) and the construction industry**

- **Singapore is the largest source of FDI in India** during the last fiscal. It was followed by Mauritius, the Netherlands, the US, Caymen Islands, Japan and France.
- **US has the largest inflow of FDI** followed by China and Singapore

### 5.2.1. REVISED FDI POLICY

#### Why in News?

Recently, India's Department for Promotion of Industry and Internal Trade revised its FDI policy in order to curb the possibility of predatory foreign investment exploiting the financial distress of COVID-19-hit Indian companies.

#### More on news

- In the last five years, Chinese investment in India has drastically increased from **US \$1.6 billion in 2014 to at least US \$26 billion in 2019** (both current and planned), in particular in technology start-up segment.
- In the light of this, it was anticipated that **Chinese entities would take advantage** of the economic slump caused by the COVID-19 outbreak to raise their stakes in Indian entities and companies, exposing them to hostile and opportunistic takeovers.
- To avoid such a situation, **FDI policy has been revised** to curb opportunistic takeovers or acquisitions of Indian companies.

#### Rising Chinese Investments and related concerns

Until 2014, the net Chinese investment in India and bilateral trade relationship was highly transactional i.e. limited to imports and exports, and there was negligible interdependence. However, 2014 marks the entry of the Chinese private sector at a large scale in India and subsequent influx of Chinese capital and investments in infrastructure, automobiles, energy, real estate and consumer goods sectors.

Since then, Chinese investors have **invested around \$4 billion** into **90 start-ups in India** and **18 of the country's 30 unicorn start-ups are funded by Chinese investors**.

While there are **benefits** in pursuing investment from China in terms of **capital-hungry Indian startups** which can benefit from the experience and technological know-how of Chinese companies that have achieved a bigger scale and success in their own home market in similar vertical. But the **concerns** need to be considered as well:

#### Concerns associated with these investments

- **China's State-owned enterprises (SOEs)**, provincial governments were source of around 50% Chinese investments in India. These have become an important tool in China's diplomacy. Also, it is difficult to differentiate between private sector and SOEs as many times they are indirectly related.
- **These investments (including the private sector investments) are part of China's "Made in China 2025" plan.** This plan is aimed at acquisition of technology. This is evident through investments in Indian technology startups like PayTM by tech giants like Alibaba.
- **India's investment scrutiny mechanism may not be as robust as in developed countries.** For instance, as of September 2019, the US, Australia, and Japan were among countries that have blocked Huawei, a private sector giant with close state ties, from their 5G plans. India has not taken a final call, although it has allowed Huawei to participate in initial 5G trials.
- **Increasing investment in sensitive sectors** such as news services, fin-tech services etc. can be detrimental in the context of privacy of user data and data security. For ex. ByteDance, which plays key role in censorship in China, has invested \$25 million in Indian news aggregator Dailyhunt.

#### Changes in FDI Policy

- The **present policy** states that a non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited.
  - **Additional Provision:** A citizen of **Bangladesh and Pakistan** or an entity registered in both countries can only invest under the government route.
  - Additionally, for **Pakistan** sectors/activities such as **defense, space and atomic energy are prohibited** for investment in addition to the sectors/activities already prohibited.
- The **amended policy** states that an entity of a country, which **shares a land border with India** or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest **only under the Government route**.

#### FDI in Automatic vs. Government Route

- Under the **government route**, foreign investor has to take prior **approval** of respective **ministry/department**.
- Through **automatic route**, the investor just has to **inform the RBI after the investment** is made.
- Also, Proposals involving **FDI exceeding Rs 50 billion** are placed before the **Cabinet Committee on Economic Affairs** irrespective of sector or country.



- This implies that the scope of the above-mentioned additional provision has been **expanded** to all our **neighbours (including China)**. The government has refrained from explicitly mentioning China.
- Additionally, the amendment also states that the **transfer of ownership** of an existing or future FDI in an entity in India, **directly or indirectly**, resulting in the beneficial ownership falling within the restrictions imposed by the above rule will also **require government approval**.
  - The guideline was created to **check multi-layered transactions** which traced the beneficial ownership to the seven land border sharing countries.
  - This implies that **private equity investors and venture capital funds that have investments from China (or any other land border sharing country) will also need prior approval** before they make any investment, even ones that have already been pledged.

### Challenges in implementation of the policy

- **Impact on funding for start-ups:** Funding for unicorns, smaller start-ups may be hit as several investors may get discouraged if asked to go through government route.
  - For example, upcoming funding rounds of India's top start-up unicorns including Paytm, Zomato, BigBasket and Dream11 may get dampened.
- **More clarity needed:** Further clarification is required on the reporting mechanism and identification of beneficial ownership structures such as the percentage of holding to ensure full compliance.
- **China alleges flouting of norms:** China states that the barriers created by the policy for investors from specific countries violate WTO's principle of non-discrimination.
  - **India's stand:** India has categorically denied China's allegations regarding its FDI policy. India has given following reasoning-
    - The revised policy **neither restricts market access nor national treatment**— the two tenets of global trade—and is thus not violative of any rules of the WTO.
    - On the investment front, the **measure does not fall** within the **Illustrative List of the Agreement on Trade-Related Investment Measures (TRIMS)**, which details the measures that are inconsistent with the obligation of national treatment.
- **Spill over on neighborhood relations:** Expansion of restrictions to all land border sharing countries may indirectly affect the FDI from countries such as Myanmar.

### Way forward

**Chinese investment** in India has the potential to **rebalance an extremely lopsided trading relationship**. Although Chinese stakes are increasing in Indian companies, India has also emerged among the key overseas markets for several Chinese companies which can be better leveraged by India's trade strategy to balance the trading relationship or secure market access for Indian firms in China.

In the light of this, there is a need to strike a better balance between **creating a friendly, open and predictable investment environment** on one hand, and **safeguarding longer-term considerations of security and privacy** on the other.

### 5.2.1.1. EMPOWERED GROUP OF SECRETARIES AND PROJECT DEVELOPMENT CELLS

#### Why in news?

Government approves setting up of an Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs) in Ministries/Departments for attracting investments in India.

#### Objectives for Empowered Group of Secretaries (EGoS)

- To **bring synergies between Ministries/Departments** and among the Central and State Governments in investment related policies.
- **Attract investment and facilitation to global investors** through fast track Investment Clearance.
- **Facilitate investment in targeted manner** and maintain **policy stability and consistency** in investment environment.
- **Evaluate investments** put forward by departments and further provide completion targets to respective departments.

#### Objectives for Project Development Cell (PDC)

- PDC is approved for **development of investible projects in India** in coordination with central and state governments.

- It will **create projects with all approvals**, land available for allocation and with the complete Detailed Project Reports for adoption/investment by investors.
- It will **identify issues that need to be resolved** in order to attract and finalise the investments and put forth these before the Empowered Group.
- PDC will **conceptualize, strategize, implement and disseminate details** of investible project.

#### Expected benefits

- In current COVID-19 pandemic, as industries are thinking to diversify their investments in different localities, EGoS and PDC aim to **make India a more investor-friendly destination for domestic and FDI**.
- It will give **fillip to Aatmanirbhar Bharat Abhiyan** and boost the economy by opening up investment and employment in domestic industries to **realise vision of a \$5 trillion economy** by 2024-25.
- **Ramping up industrial production** to help India become player in the **global value chain** and serve big markets in the U.S., the EU, China etc.

### 5.2.2. BILATERAL INVESTMENT TREATY (BIT)

#### Why in news?

As India attempts to attract investments, there have been calls to review India's model Bilateral Investment Treaty (BIT) 2016.

#### About Bilateral Investment Treaty (BIT)

- Bilateral investment treaties (BITs) are **treaties between two countries aimed at protecting investments** made by investors of both countries.
- These treaties **impose conditions on the regulatory behaviour of the host state** and limit interference with the rights of the foreign investor.
- There is **International Centre for Settlement of Disputes (ICSID)** under investor-state dispute settlement (ISDS) mechanism for dispute redressal between international investors.

#### India and BIT

- India started signing BITs in **early 1990s** and signed the **first BIT with the United Kingdom (UK) in 1994**, since then India has signed BITs with 84 countries.
- **BITs have been one the major drivers of FDI inflows into India**. Total FDI to India has increased from \$4,029 million in 2000-2001 to \$43,478 in 2016-17.
- However, a **penalty awarded by an Investor-State Dispute Settlement (ISDS) tribunal** in the White Industries case in 2011, and subsequent ISDS notices **served against India** in a wide variety of cases involving regulatory measures **led to a review of the BITs**.
- Thus, India adopted **new model BIT in 2016**, moving somewhat to a protectionist approach concerning foreign investments. This model BIT is to serve as a **framework for the renegotiation of India's BITs worldwide**.
- Since its adoption, **India has unilaterally terminated 66-odd BITs between 2016 and 2019**. Since then, **India has signed just three treaties, none of which is in force yet**.

#### Key features and concerns in India model BIT 2016

- **Definition of Investment** in the Model BIT has moved **away from a broad asset-based definition of investment to an enterprise-based definition** where an enterprise is taken together with its assets.
  - **Concerns:** Definition contains **vague criteria** such as the requirement of **enterprises to satisfy 'certain duration' of existence without specifying how much**, or, investments having 'significance for development' without specifying what amounts to 'significant' contribution.
- **India's model BIT completely excludes the MFN clause** to prevent foreign investors from taking advantage of provisions in other BITs by 'borrowing' them through the MFN clause.
  - **Concern:** Not having an MFN provision in the BIT means **exposing foreign investment to the risk of discriminatory treatment**, which could offer preferential treatment to one foreign investor over other.
- The **2016 Model BIT does not contain an Fair and Equitable Treatment (FET) provision** because ISDS tribunals often interpret this provision too broadly. Instead, it contains a provision entitled '**Treatment of**

Investments' that prohibits country from subjecting foreign investments to measures that constitute a violation of customary international law.

- **Concern:** It narrows down the scope of protection available to foreign investors because of **ambiguity in regarding how such breach will it be determined.**
- **ISDS Mechanism:** In 2016 Model BIT, India has qualified its consent to ISDS by requiring that a foreign investor should **first exhaust local remedies at least for a period of five years** before commencing international arbitration.
  - **Concern:** According to the 'Ease of Doing Business 2020' report, India currently ranks 163 out of 190 countries in **ease of enforcing contracts**, and it takes 1,445 days and 31% of the claim value for dispute resolution. This **reduces confidence in foreign investors.**

#### Way forward

India's **desire to increase foreign investment inflows**, especially under projects like Make in India and liberalization policies needs to adopt a more **balanced approach in the BIT model.** Also, to meet **objective of making domestic firms competitive and mobile in the value chain** and as global companies are moving their investments away from China, there is an opportunity **to review the BIT model from a protectionist approach to a more pragmatic one.**

**फाउंडेशन कोर्स सामान्य अध्ययन**

**प्रारंभिक एवं मुख्य परीक्षा 2021**

**इनोवेटिव क्लासरूम प्रोग्राम**

- प्रारंभिक परीक्षा, मुख्य परीक्षा और निबंध के लिए महत्वपूर्ण सभी टॉपिक का विस्तृत कवरेज
- मौलिक अवधारणाओं की समझ के विकास एवं विश्लेषणात्मक क्षमता निर्माण पर विशेष ध्यान
- एनीमेशन, पॉवर प्वाइंट, वीडियो जैसी तकनीकी सुविधाओं का प्रयोग
- अंतर - विषयक समझ विकसित करने का प्रयास
- योजनाबद्ध तैयारी हेतु करंट ऑरिएंटेड अप्रोच
- नियमित क्लास टेस्ट एवं व्यक्तिगत मूल्यांकन
- सीसैट कक्षाएं
- PT 365 कक्षाएं
- MAINS 365 कक्षाएं
- PT टेस्ट सीरीज
- मुख्य परीक्षा टेस्ट सीरीज
- निबंध टेस्ट सीरीज
- सीसैट टेस्ट सीरीज
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## 6. AGRICULTURE AND ALLIED ACTIVITIES

### Introduction

This sector plays a significant role in rural livelihood, employment and national food security. Almost 70 percent of India's rural households still depend primarily on agriculture for their livelihood. In the light of this, Government is rightly aiming at doubling farmer's income by 2022.

### Overview of Agricultural Sector

- **Share in Goss Value Added (GVA):** Share of agriculture and allied sectors in GVA has declined from 18.2 percent in 2014-15 to 16.5 percent in 2019-20.
- **Growth has fluctuating trend:** Agriculture, Forestry and Fishing sector is estimated to grow by 2.8 percent in 2019-20 as compared to growth of 2.9 percent in 2018-19.
- **Gross Capital Formation (GCF) also has fluctuating trend:** GCF (as a percentage of GVA) has been showing a fluctuating trend from 16.5 percent in 2012-13 to 15.2 percent in 2017-18.

### 6.1. AGRICULTURAL INPUTS

#### Introduction

Agricultural inputs encompass everything which acts as factor of production for the farmer such as land, soil, water, seeds, fertilizer among others.

#### 6.1.1. SOIL HEALTH CARD SCHEME

##### Why in news?

Soil Health Card scheme recently completed five successful years of implementation.

##### Background

- Soil health and fertility is the basis for sustainable profitability of the farmers. **Using optimal doses of fertilizers and cropping pattern as per the scientific recommendation** is the first step towards sustainable farming.
- In India, the current consumption of Nitrogen, Phosphorus, and Potassium (NPK) ratio is 6.7:2.4:1, which is **highly skewed towards nitrogen** (urea) as against ideal ratio of 4:2:1.
- According to the estimates, fertilizers subsidy amounts to around Rs.5000/hectare of net cropped area, resulting in **excessive use of fertilizers**, especially NPK at the cost of micro-nutrients and manure.
  - India spent nearly Rs **80,000 crore** on fertilizer subsidy in 2018.
- In keeping with the **need for balanced use of fertilizers** government of India introduced **Soil Health Card (SHC) Scheme across India in 2015**.

##### About the scheme

- It aims to **promote soil management practices and restore soil health** by ensuring judicious use of inputs/soil nutrients.
- Under this, **SHC is a printed report** that a farmer will be handed over for each of his holdings.
  - It is **provided to all farmers** in the country at an **interval of 2 years** to enable the farmers to apply recommended doses of nutrients based on soil test values to realize improved and sustainable soil health and fertility, low costs and higher profits.
- Farmers can also track soil samples on the **Soil Health Card Portal**.
- Based on this, SHC provides **two sets of fertilizer recommendations for six crops** including recommendations of organic manures. This database is available in 21 languages.
- **Setting up soil testing labs:** Under the scheme village youth and farmers up to 40 years of age are eligible to set up Soil Health Laboratories and undertake testing.
- **Benefits:** Soil testing **reduces cultivation cost** by application of right quantity of fertilizer.
  - It ensures **additional income** to farmers by **increasing yields**. In the long term, it will ensure **food security**.
  - It promotes **crop diversification** and **sustainable farming**.
  - It is also **creating jobs** for the agrarian youth through provision of subsidy for setting up labs.

- Recent addition is the pilot project of ‘**Development of Model Villages**’ which encourages sampling and testing of cultivable soil in partnership with the farmers.
  - Under the pilot, one village per block is adopted to collect soil samples at the level of individual farm holdings rather than at grid level.

#### Performance of the scheme

- **Coverage:** Around 22.5 crore SHCs have been distributed.
- **Increased yield:** As per the data from National Productivity Council (NPC), the scheme has facilitated decrease of use of chemical fertilisers by 8-10% while **enhancing the crop yield by 5-6%**.
- **Cost of cultivation:** Cost of cultivation decreased by 16-25% in **rice**, 10-15% in **oilseeds & Pulses**.
- **Savings in fertilizers:** In **rice**, savings of nitrogen was found to be around 20kg/acre; in **pulses**, it was 10kg/acre.
- **Soil analyzing capacity:** It has increased from 1.78 to 3.33 crore soil samples per annum in short period of 5 years.
  - Existing Soil testing labs (STLs) are being strengthened and new static and mobile STLs have been established, along with the Village level soil testing facilities (VLSTLs).

#### Challenges

- **Inadequate infrastructural backing:** There are limited availability of testing equipment, old soil testing labs, non-functional equipment, lack of appropriate power back-up, lack of internet connectivity and physical assets.
- **Deficit of human resources:** Lack of trained and skilled manpower for testing and IT trained personnel for interpretation of analysis reports, preparation of recommendations and their online communication. This affects the quality of services and the credibility of the scheme.
- **Policy design constraints:** SHC related extension services are constrained, which limits the scope of advisories given to farmers.
  - **Physical and micro-biological indicators** (such as soil texture, water holding capacity, and water quality and bacterial content) **are not tested**.
  - The grid size (for taking sample) is fixed and not based on the soil variability index (soil variogram). Ideally, if variability is high, GRID size should be less and vice versa.
- **Awareness among farmers and availability of fertilizers:** Sometimes farmers are not able to understand the recommendations. In some cases, recommended fertilizers and bio-fertilizers are not available at village level at reasonable prices.

#### Suggestions and Recommendations

- A significant impact of the scheme is the increase in the use of gypsum and other micronutrients. **Subsidy on recommended dose of micro-nutrients, bio-fertilizers and organic inputs should be encouraged.**
- Overall, the progress of SHC scheme in terms of coverage is satisfactory, now **quality of soil sample collection**; testing and timely distribution of SHCs to farmers should also be focused.
  - NPC recommended the government to develop **standard operating practices** for labs for storage of soil samples, their analysis and distribution of soil health cards efficiently.
  - **Accreditation of testing labs** as per National/international standard institutes should be initiated.
- **Financial backing** needs to be improved to fill the infrastructural gaps and to expand the network of testing facilities as well as improve its quality and efficiency.
- **Ensure uniform performance across states:** Some states like Karnataka, TN, Chhattisgarh, UP, etc were better performers compared to other states. This inequity should be effaced by focusing on weaker areas.

### 6.1.2. UREA SUBSIDY

#### Why in News?

Centre has drawn up a plan to **ease the controls on the retail prices** of urea.

#### More about news

- Now, government is choosing **for direct transfer (DBT) of urea subsidy to the beneficiary farmers’ bank accounts** instead of DBT to firms based on point of sale.
  - This move will **reduce the leakage of fertilizer subsidy and black marketing**.
  - Ceiling might be put on the subsidized fertilizer so that the **alleged overuse of the nitrogenous fertilizer could be curbed**.
- Earlier, **mandatory neem-coated urea production** was done to slow down the dissolution of nitrogen into soil, resulting into less nutrient requirement.

## Background

- Fertilizer was critical to India's Green Revolution, the government passed the **Fertilizer Control Order in 1957** to regulate the sale, pricing, and quality of fertilizer.
- **Movement Control Order was added in 1973** to regulate the distribution of fertilizer as well.
- **No subsidy was paid on fertilizer before 1977.** The oil crisis in 1973 increased the price of fertilizer leading to a decline in consumption and an increase in food prices.
  - In 1977, the **government intervened by subsidizing manufacturers.**
- Aftermath of the economic crisis of 1991 Government decontrolled the import of complex fertilizers such as di-ammonium phosphate (DAP) and muriate of potash (MOP) in 1992. But, **urea imports continue to be restricted and canalized.**

### Fertilizer industry in India

- India is **second largest consumer of urea fertilizers after China.**
- India also ranks **second in the production of nitrogenous fertilizers** and third in phosphatic fertilizers whereas the requirement of potash is met through imports since there are limited reserves of potash in the country.
- It is **one of the eight core industries.**
- There are three fertilizer are classified as **Primary, Secondary and Micronutrients**
- Fertilizer subsidy is estimated to be Rs 79,996 crore (Rs 53,629 crore for urea and Rs 26,367 crore for **nutrient-based subsidy**) for FY20.

### Nutrient Based Subsidy scheme

- Under this, government announces a **fixed rate of subsidy (in Rs. per Kg basis), on each nutrient of subsidized P&K fertilizers**, namely Nitrogen (N), Phosphate (P), Potash (K) and Sulphur (S),
- It is **applicable to 22 fertilizers (other than Urea)** for which MRP will be decided taking into account the international and domestic prices of P&K fertilizers, exchange rate, and inventory level in the country.

## Urea policy India

- Urea is the source of nitrogenous fertilizer and it is heavily subsidized by the Central Government. Today urea is the only fertilizer which remains controlled.
- Urea Subsidy is a part of **Central Sector Scheme of Department of Fertilizers** and is wholly financed by the Government of India through Budgetary Support.
- The **New Urea Policy-2015 (NUP-2015)** has been notified by Department of Fertilizers in 2015, extended till 2019-2020, with **the objective of maximizing indigenous urea production, promoting energy efficiency in urea production and rationalizing subsidy burden on the government.**
  - It is **applicable to the existing 25 gas based units.**
  - The continuation of Urea Subsidy Scheme till 2020 will **ensure the timely payment of subsidy to the urea manufacturers resulting in timely availability of urea to farmers.**
  - Subsidy on **production costs is provided when their production is beyond a certain production capacity** as notified.

## Issues involved

- **Availability:** Since sale of urea is controlled, the government needs to estimate demand in each of the regions. Inaccurate estimation of demand of urea had led to large shortages in the market.
  - **Delays in imports** also have led to unavailability of fertilizer around planting seasons when the need is most critical.
- **Over usage/misuse of urea due to pricing difference:** Growing price differential between urea and other fertilizers led farmers to substitute away from DAP and MOP to urea.
  - Data from the Department of Agriculture shows that since 2010, the **ratio of consumption has worsened to 8:3:1** leading to diminishing crop yields and increased soil toxicity.
- **Inefficient Fertiliser Manufacturers:** The subsidy a firm receives is based on its cost of production: the greater the cost, the larger the subsidy. As a consequence, inefficient firms with high production costs survive and the incentive to lower costs is blunted.
- **Over regulation:** The urea sector is highly regulated which: creates a black market that burdens small farmers disproportionately; incentivizes production inefficiency; and leads to over-use, depleting soil quality and damaging human health.
  - Almost **36% of the subsidy is lost** through leakage to industry or smuggled across borders.

- **Black market prices are, on average, about 61 per cent higher than stipulated prices**, indicating that black marketing imposes significant pecuniary costs on farmers—in addition to creating uncertainty of supply.
- **Fiscal burden:** The government budgeted almost Rs. 730 billion for fertilizer subsidies in 2015, making it the largest subsidy in absolute terms after food. Urea, the most commonly used fertilizer, makes up almost 70% of the fertilizer subsidy allocation.

#### Way forward

- **Decanalising urea imports:** It would increase the number of importers and allow greater freedom in import decision—would allow fertiliser supply to respond flexibly and quickly to changes in demand. (Decanalisation means the end of public sector channelized imports and importers can import goods on their own.)
- **Gas Price Pooling:** Since different urea plants get gas (main feedstock for most of the plants) at different prices, their cost of production differs.
  - It is important that all urea plants get gas at a uniform price. The GoI has recently moved in that direction by pooling gas prices.
- **Bringing Urea under NBS scheme:** Bringing urea under the Nutrient Based Subsidy program currently in place for DAP and MOP would allow domestic producers to continue receiving fixed subsidies based on the nutritional content of their fertiliser, while deregulating the market would allow domestic producers to charge market prices.
- **Digitisation of land records to ensure timely reach of subsidy to farmers:** The process of digitisation of land records was launched in August 2008 but has not gathered momentum.

### 6.1.3. SEED INDUSTRY

#### Why in News?

Recently, Government released the draft Seed Bill, 2019.

#### Seed Industry in India

- India is the **fifth largest seed market across the globe**.
- It is **expected to grow at more than 15% during 2017–2022**, and can reach a value of more than US\$ 7 Billion by 2022.
- The seed market is **majorly contributed by non-vegetable seeds** such as corn, cotton, paddy, wheat, sorghum, sunflower and millets.
- **Direct contribution of quality seed to the total production can be raised up to 45%** with efficient management of other inputs.

#### Issues Involved

The issues in seed sector involve multiple stakeholders such as:

- **Seed Companies**
  - The **research investment by private companies remained at a meagre 3-4%** of revenue against the international norm of 10-12%, due to complex and weak IPR regime and various licencing term for the companies.
  - Moreover, existing technology provider in GM Crop seed, continue to enjoy close to **monopoly status**.
- **Government**
  - **Regulatory failure in preventing the rampant illegal sale and planting of seeds** based on an unapproved GM crop had been reported in Maharashtra and Telangana.
- **Farmers**
  - **Seed replacement rate** continues to remain below the desired level of 20 % for most crops.
  - **Unscientific use of farm-grown seed lead** to lower return from agricultural output.
  - **Availability of less areas for seeds to achieve optimum Seed Multiplication Rate** add hardship to farmers

#### Step that can be taken

- **A swift action framework** is needed in collaboration with state governments to identify and take over fields where illegal GM cotton is being grown.

- **Focus on GM technology:** National policy on GM crops to define the exact areas where GM is required by the country and where the government will encourage public and private investment in GM technology.
- **Quick resolution:** to the conflicts between the different IPR laws that are affecting this industry and clearly defining how the government wants to encourage research investment with assured IP protection in this important sector.
- **Incentives:** to private sectors in the form of bankable schemes should be provided for production of low value high volume seeds.
- **Enhance Seed-Research Capacity:** Encouraging private sector participation in seed production and distribution by removing the price control order of seed and other restrictions discouraging private investment in the seed sector. At the same time, a **robust third party quality certification system** for seeds should be encouraged.
- **Regulatory mechanism:** Strengthening the regulatory mechanism for the seed and biotech industry to make it transparent, science-based, predictable and fair.
- **Integrated Approach:** Efforts should be made toward improvement of Seed Replacement Rate, distribution of quality seeds appropriate to agro-climatic zone along with a determined effort to address general and region specific constraints.

#### Key provisions of the Draft Seed Bill, 2019

- **Formation of Seed Committee:** The Bill authorizes the Central government to reconstitute a Central Seed Committee that will be responsible for the effective implementation of its provisions.
- **Registration of Seed varieties:** All varieties of seeds for sale have to be registered and are required to meet certain prescribed minimum standards.
- **Revised Licensing Norms:** There is a differentiation between the seed producer, seed processor and seed dealer for the purpose of licensing.
- **Truthfully labelled seeds:** Currently, a large percentage of seed is sold under a self-certification programme called Truthfully Labelled (TL) seeds. The certification process has been kept voluntary.
- **Price Control:** The Bill empowers the government to fix prices of selected varieties in case of 'emergent' situations such as seed shortage, abnormal increase in price, monopolistic pricing, profiteering, etc. which are open to subjective interpretation.

## 6.2. FINANCIAL SUPPORT TO FARMERS

### Introduction

Farmers (especially small and marginal) need financial support throughout the crop cycle in the form of agricultural credit, direct subsidies, farm insurance and in dire cases, support in the form of loan waivers. Also, farmers being in the unorganized sector do not come under the ambit of pension schemes, thus it becomes governments responsibility to provide this social security to farmers.

### 6.2.1. AGRICULTURAL CREDIT

#### Why in news?

Recently, the report of the internal working group to review the agricultural credit was released by RBI.

#### Agricultural Finance in India – A brief history

- Phase 1 (1951-69):
  - Thrust on developing primary sector since 1<sup>st</sup> FYP in 1951.
  - National Credit Council in 1968 emphasized that commercial banks must increase financing to small scale industries and agriculture
  - Nationalization of banks in 1969 put thrust on opening of rural/semi-urban bank branches
- Phase 2 (1970-1990)
  - The decade of 1970s marked the entry of commercial banks into agricultural credit with Lead Bank Scheme and regulatory prescription of Priority Sector Lending (PSL).
  - Regional Rural Bank Act, 1976 enacted to specifically provide banking and credit facility for agriculture and other rural sectors
  - National Bank for Agriculture and Rural Development (NABARD) established in 1982 to promote agricultural and rural development, particularly by financing SHGs and MFIs
  - RBI introduced in 1989 service area approach (SAA) & Annual Credit Plan (ACP) system to increase outreach to rural areas.





- Phase 3 (1991-onwards)
  - Implementation of Narasimham Committee Report of 1991 to increase operational efficiency of banks
  - 1<sup>st</sup> major nationwide farm loan waiver in 1990
  - Establishment of Rural Infrastructure Development Fund (RIDF) with NABARD mainly meant for funding rural infrastructure projects
  - NABARD started a pilot project SHG-Bank Linkage Programme in 1992

### Mechanisms of Agriculture Credit in India

- **Priority Sector Lending:** PSL was introduced to ensure that vulnerable sections of the society get access to credit and that there is an adequate flow of credit to employment intensive sectors like agriculture and MSME.
- **Interest Subvention Scheme (ISS)** was launched for short term crop loans in 2006-07. 2% interest subvention is given to farmers, which is reimbursed to banks (through RBI and NABARD). Additionally, 3% prompt repayment incentive (PRI) is provided for good credit discipline.
- **Kisan Credit Card (KCC) Scheme**, introduced in 1998, aimed at providing adequate and timely credit with flexible and simplified procedure for agriculture related and also consumption requirements of farmer households.
- **Self Help Group - Bank Linkage Programme (SHG-BLP)** aimed at harnessing the flexibility of an informal system with the strength and affordability of a formal system. The SHG-BLP model accepted informal groups as clients of banks – both deposit and credit linkage & allowed collateral free lending to groups.
- **Joint Liability Groups (JLG) Scheme** was initiated by NABARD in 2006 to enhance credit flow to share croppers/tenant farmers who do not have land rights.

### Issues related to agricultural credit

- **Institutional vis-à-vis Non-Institutional Agricultural Credit:** Traditionally, rural agrarian credit needs were met primarily through money-lenders, which led to large scale indebtedness
  - According to National All India Rural Financial Inclusion Survey (NAFIS 2015), share of non-institutional credit still persists at around 28%.
  - **Unavailability of credit for consumption purposes and to tenant farmers, sharecroppers and landless labourers**, who are not able to offer collateral security, further pushes them towards non-institutional sources.
- **Skewed agency share in institutional credit:** Dependency on scheduled commercial banks in agricultural & allied credit is still large (~78-80% of the credit). Though co-operative institutions (~15%) and Regional Rural Banks (~5%) play a significant role in extending agricultural credit, their share is highly skewed geographically.
- **Regional Disparity in Agricultural Credit:** States falling under central, eastern and north eastern regions are getting very low agri-credit as % of their agri-GDP.
- **Poor deployment of agricultural credit to allied sectors (~6-7%)** despite a share of 38-42% in agricultural output indicates neglect of allied sectors by the banks.
  - There is a lack of proper differentiation between a farmer growing crops and the one engaged in allied activities, as Census defines farmer based on landholding size.
  - Banks insist on land records from a farmer seeking credit for agricultural activities.
- **Issues with Priority Sector Lending (PSL):**
  - Though at the aggregate level banks have been able to achieve the overall PSL target of 40%, so far they have failed to achieve the agriculture target of 18% at system-wide level.
  - Moreover, ~60% of Small & Marginal Farmers (SMFs) have not been covered by SCBs.
- **Interest Subvention Scheme (ISS)** on short term loans have skewed distribution of agricultural credit in favour of production credit against crop-related investment credit, which is important for long-term sustainability of agriculture sector.
- **Kisan Credit Card:** As per Agricultural Census 2015-16, only 45% of the farmers possess operative KCCs. Agricultural households are unable to get credit for their consumption requirements from and hence, they are compelled to go to money lenders. Existing 10% limit in KCC scheme for consumption requirements is inadequate.
- **Diversion of agriculture loans for non-agriculture purposes:** In many states like Tamil Nadu, Andhra Pradesh, Kerala etc, agri-credit is far higher than their agri-GDP, indicating the possibility of diversion of credit for non-agricultural purposes. Diversion accentuates the problem of debt overhang, fuels high level of indebtedness and deteriorates credit culture in long run.

- **Sanctioning of agricultural loans against gold collateral:** Predominance of agricultural loan against gold as collateral indicates that crop loan is not based on scale of finance and crop loan amount sanctioned may be higher than the actual credit requirement. This ultimately leads to diversion of funds and consequently, high incidence of indebtedness.

#### Way Forward

- **Improve the Reach of Institutional Credit:**
  - **Complete the digitization process and updation of land records** in a time bound manner.
  - **Reforming of land leasing framework** by adopting policies like the Model Land Leasing Act proposed by NITI Aayog, which intends to make all lease agreements formal and enhance access to formal credit.
    - ✓ Under Andhra Pradesh Land Licensed Cultivators Act, 2011, Loan Eligibility Cards (LECs) were issued to tenant farmers, allowing them to approach banks for credit.
  - **Establish a federal institution in agriculture on the lines of GST Council** to enable consultation with states during formulation & implementation of reforms
- **Addressing regional disparity:** PSL guidelines should be revisited for improving the credit off-take in central, eastern and north eastern states.
- **Increasing Credit Flow to Allied Activities:** Set separate targets for loans towards allied activities under Ground Level Credit (GLC) & Priority Sector Lending (PSL) guidelines.
- **Enhancing the sub-target of SMFs under PSL**
  - Considering that total operated area held by SMFs would amount to 51.85% by the year 2020-21, increase the share of agricultural credit under PSL to SMFs to 10% from current 8%.
  - Create a better mechanism to estimate oral lessees, sharecroppers and tenant farmers, which have significant presence across the states.
- **Agricultural Loans against Gold as Collateral:** Banks should develop an MIS to flag agricultural loans sanctioned against gold as collateral in CBS in order to segregate such loans for effective monitoring of end use of funds.
- **Utilizing Farmer Producer Organisations (FPOs):**
  - NABARD should promote women-oriented FPOs by identifying successful women SHGs
  - Government should expand the scope of its credit guarantee programme through Small Farmers' Agri-business Consortium (SFAC).
- **Database for Indian Agriculture sector:** Develop a centralized database capturing details related to crops cultivated, cropping pattern, output, sown/irrigated area, health of soil, natural calamity, etc. Besides, farmer-wise details like identity, land records, loan availed, subsidy given, insurance and details of crop cultivated etc. should also be captured.

#### Impact of farm loan waiver on agricultural credit

- Economic rationale for loan waivers comes from **alleviating debt overhang of beneficiaries** thus enabling them to undertake productive investment and boost real economic activity (investment, production and consumption).
- **Creates moral hazard** as loan waivers lead to poor loan performance and destroy honest credit culture, as it incentivizes borrowers to default strategically in anticipation of future bailouts.
- Waivers **skew credit allocation** as banks reallocate lending to lower risk borrower segments
- **Frequent write-offs impacts financial health of banking sector.** Prompts banks to invest in Rural Infrastructure Development Fund rather than reaching out to cultivator to meet their PSL targets, reducing credit access.

#### Related information - Learning from Chinese experience

The agriculture sector of China is characterized by smallholders' economy where the arable land in terms of hectares per person is 0.086 as against 0.118 in India, yet the agricultural productivity in China is very high compared to India. This can be attributed to-

- **Consolidation of small & fragmented farm operations into large-scale units such as large family farms, co-operatives, and farms run by agribusiness companies** to bring about economies of scale in farming.
- **Long-term (30 years) leasing of land, large scale farm mechanization / modernization, use of technology, high yielding seeds and R&D** has contributed to high agricultural productivity in China and also improved the income levels of small-holding farmers.
- **General-input subsidy with inflation indexation and direct income support to its farmers** on per hectare basis
- **Outsourcing major farming operations (e.g. ploughing, planting & harvesting) to farm service providers** allowing small farmers to benefit from economies of scale in farm operations, reducing cost of capital inputs and allowing farmers to allocate more time to off-farm activities.

### 6.2.2. PRADHAN MANTRI KISAN MANDHAN YOJANA (PM-KMY)

#### Why in news?

Recently, Prime Minister Narendra Modi dedicated ‘Pradhan Mantri Kisan Mandhan Yojana’ to the nation.

#### About Pradhan Mantri Kisan Mandhan Yojana (PM-KMY)

PM-KMY is an old age pension scheme for all land holding Small and Marginal Farmers (SMFs) in the country with a view to provide social security net as they have minimal or no savings to provide for old age and to support them in the event of consequent loss of livelihood.

- It is a **voluntary and contribution-based pension scheme** for farmers in the entry age group of **18 to 40 years** and a monthly pension of **Rs. 3000** will be provided to them on attaining the age of 60 years.
- **Synergy with other initiatives:**
  - An interesting feature of the Scheme is that the **farmers can opt to allow his/her monthly contribution to the Scheme to be made from the benefits** drawn from the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) Scheme directly.
  - Alternatively, a farmer can pay his monthly contribution by registering through Common Service Centres (CSCs) under MeitY.

#### Need for Social Security Schemes for Farmers

- **Agriculture as a prime sector of the economy:** Assured remuneration and social security measures for farmers are the prerequisite to sustain the Agrarian economy. Farmers are vulnerable to **agricultural risks** and thus **need an assured income system**.
- **‘Small farm’ character of Indian Agriculture:** Small and marginal farmers with less than two hectares of land account for **86.2 % of all farmers in India but own only 47.3 percent of the crop area**. In India, such small average holdings do not allow for surpluses that can financially sustain families.
- **Rising Agrarian Crisis:** In recent years, **indebtedness, crop failures, non-remunerative prices and poor returns** have led to agrarian distress in many parts of the country.
- **Lack of formal credit:** Commercialisation of agriculture leads to an increase in credit needs, but most small and marginal farmers **cannot avail credit from formal institutions** due to the massive defaulting caused by repeated crop failure. Moneylenders, too, are apprehensive of loaning money, given the poor financial situation of most farmers.
- **Limited efficacy of crop insurance schemes in India:** Currently, **only about 35 % of farmers** are covered under crop insurance schemes. Crop insurance has failed to provide much-needed relief to farmers from destitution.

#### Conclusion

There is an urgent need for having a wholesome **financial safety net** that does not consist only of direct transfers and loan waivers—but a framework that is timely, consistent and improves agricultural productivity and, in turn, farmers’ quality of life.

### 6.3. AGRICULTURAL MARKETING

#### Introduction

Agricultural marketing can be defined as the commercial functions involved in **transferring agricultural products** consisting of farm, horticultural and other allied products from **producer to consumer**. It includes all activities involved in **moving agricultural produce through time (storage), space (transport), form (processing) and transferring ownership** at various levels of marketing channels.

Under its present form, **agricultural marketing in India is not uniform**. There is considerable regional variation in methods of marketing. These processes can be broadly divided into three categories:



- **Traditional Marketing Methods:** Traditional methods generally start with sale by farmer and involve a number of intermediaries at different levels from rural markets to terminal markets. (refer infographic).
  - Close to **50% of the agricultural produce in India is sold via these channels.**

**What are APMCs and what role do they play?**

- Agricultural Produce Market Committee (APMC) is a **statutory market committee constituted by a State Government** in respect of trade in certain notified agricultural or horticultural or livestock products, under the APMC Act, 2003 issued by that state government.
- APMCs are a **part of the wholesale marketing system.** They were established to fulfill objectives like increasing transparency in the pricing systems, providing extension services to farmers, value addition in agriculture and also data generation for agri.-market information systems.
  - As of now, APMCs provide facilities like auction halls, weigh bridges, warehouses, soil testing labs, water treatment plants etc.
- Currently, **all States and UTs** except Union Territories of Andaman and Nicobar Islands, Dadra-Nagar-Haveli, Daman and Diu, Lakshadweep and States of Bihar, Kerala and Manipur are **under respective Agricultural Produce Marketing (Regulation) Acts.**

- **Cooperative based marketing:** In this method, agri-products are **directly purchased from farmers** through marketing network of NAFED (National Agricultural Cooperative Marketing Federation of India Limited), thus eliminating middlemen.
  - Over the course of time, there have been various successful cooperative marketing models like **Anand Pattern Cooperatives (APC), Chicory contract farming coordination** in Jamnagar Gujarat and **Kerala Horticulture Development Program (KHDP).**
- **Emerging models of agricultural marketing:** With the emergence of new inputs, business opportunities and technologies in the market, several innovative marketing methods have evolved over the time, like-
  - **National Agriculture Market (eNAM):** It is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.
    - ✓ Till date, **more than 1 lakh traders and over 66,000 commission agents** have been registered on the portal. As of 2018, trade recorded on the **e-NAM portal stood at a value of Rs 50,575 crore**, and in terms of volume it was more than two crore tonnes.
  - **Commodity and Futures markets:** There have been efforts to create exchanges and trading options for further facilitation and better price discovery for farmers.
    - ✓ For example, **creation of National Spot Exchange Limited (NSEL).**
  - **Private sector initiatives:** Several start-ups and businesses have created innovative pilot solutions for agricultural markets.
    - ✓ For example, **Indian Tobacco Company's e-choupal.**
  - Apart from these, there are other methodologies like **Farmer Producer Organizations (FPOs)** and **Contract Farming.** (They will be discussed in detail in subsequent articles.)

**Why is having a well-functioning agricultural market important?**

- **Monetizing the Produce:** Marketing facilitates the sales of agricultural products.
- Acting as a **source of market information and price signal.**
- **Reducing the role of intermediaries.**
- Encouraging **capital formation and investment in technology.**
- **Value addition in agriculture by increasing access of agricultural produce** to downstream industries. For example, large scale 'Makhana' snack industry in Bihar.

**What are the issues these markets face in India?**

- **Institutional Issues** like licensing barriers for owning a shop or godown, very high incidence of market charges (as large as 15% in some cases) and absence of standardized grading mechanism of agricultural produce.
- **Infrastructural Issues** like **limited access of Agricultural Produce Markets** in some areas in the country, **poor Infrastructure in Agricultural Markets** (like Cold Storage facilities) and **poor economic viability of agricultural infrastructure projects.**
- **Market information system issues** like **absence of real time informational channels creating lag in demand signals, information to farmers is limited to major commodities** and **poor awareness among farmers regarding new channels of information** (like SMS based advisories).
- **Other issues:**

- **Absence of a National Integrated Market:** Although, there exists a national level physical market in the form of APMCs, there is no national level regulation for the same.
- **Limited public investment:** Public expenditure on agricultural marketing sub-sector ranges 4-5 % of the total public expenses on agriculture, while expenditure on marketing infrastructure development has been less than 1 %.

The collective result of these issues has been **low price realization for farmers**, creation of **food and nutritional insecurity** and **high wastages in the supply chain**. (For instance, the total post-harvest losses estimated by Indian Council of Agricultural Research were at about Rs 92,651 crores at average prices value of 2014.)

#### Efforts made by Governments to overcome these issues

- **Creating a Model APMC Act, 2003:** It aimed to facilitate amendment of the existing Rules. So far, only sixteen States have amended their Act and only six states have notified the amended Rules. There are some States which do not have APMC Act and some have partially amended their Act.
- **Consumer/Farmer Market (Direct Sale by the Producer):** Direct marketing by farmers to the consumers has been experimented in the country at the State level. For example, Apni Mandi of Punjab, Rythu Bazaars in Andhra Pradesh, Shetkari Bazar in Maharashtra etc.
- **AGMARKNET:** It is a G2C e-governance portal that caters to the needs of various stakeholders such as farmers, industry, policy makers and academic institutions by providing agricultural marketing related information from a single window.
- **Gramin Agricultural Markets (GrAMs):** Efforts are being made to develop and upgrade existing 22,000 rural haats (Rural Primary Markets) into GrAMs. These markets will have several features like:
  - **Physically strengthened infrastructure** enabled through MGNREGS and other schemes along with better road linkages with habitations.
  - An **Agri-market infrastructure fund** with a corpus of Rs. 2000 crore has been envisaged for the initiative.
  - GrAMs will be **linked to e-NAM and will remain outside the APMC Act regulation**.
- **Initiatives like Kisan Rail** for movement of vegetables, fruits and other perishables. It aims to ensure their safe, reliable and fast transportation which will aid in better price realisation for the farmers. India's first Kisan Rail was recently flagged off in Maharashtra.
- **AGRIDEX:** National Commodity and Derivatives Exchange (NCDEX) announced the commencement of trading in the **country's first agriculture futures index called AGRIDEX**.
- **Scheme for Formation and Promotion of Farmer Produce Organizations (FPOs):** The scheme aims to create **10,000 FPOs in five years period from 2019-20 to 2023-24** and also provide handholding support to each FPO.
- **Other initiatives affecting agricultural marketing**– Pradhan Mantri Gram Sadak Yojana (PMGSY), Pradhan Mantri Kisan SAMPADA Yojana, Mega Food Park Scheme, Agri-infrastructure development fund etc.

### 6.3.1. AGRICULTURAL REFORM ACTS

#### Why in news?

Recently, the Government of India passed three Acts with an aim to reform agriculture in India, namely- The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 and The Essential Commodities (Amendment) Act, 2020.

#### What was the immediate need for these reforms?

- **Unremunerative nature of farming:** The infographic highlights the trends of increasing indebtedness, stagnation of trade and migration patterns among others.
- **Issues with APMCs:** The Standing Committee on Agriculture (2018-19) identified following issues:
  - Most APMCs have a limited number of traders operating, which leads to **cartelization and reduces competition**. Traders, commission agents, and other functionaries organize themselves into associations, which do not allow easy entry of new persons into market yards, stifling competition.
  - **Undue deductions** in the form of **commission charges and market fees**.
  - The Acts are **highly restrictive in promotion of multiple channels of marketing** (such as more buyers, private markets, direct sale to businesses and retail consumers, and online transactions) and competition in the system.
- **Other motivations:**
  - **A High-Powered Committee of seven Chief Ministers recommended changes to the Essential Commodities Act, 1955** (which provides for control of production, supply, and trade of essential commodities) for attracting private investment in agricultural marketing and infrastructure.

### Why is there opposition to these reforms?

The opposition to the Acts has been coming from farmers as well as traders. Apart from the issues and apprehensions from the Acts (they are mentioned alongside the analysis of the Bills), there were other procedural issues with the implementation of the Bill also-

- **Violating the federal spirit of the Constitution:** Various State Governments like Punjab and Haryana have objected that since Agriculture is a State subject, the passage of national laws, on a state subject, undermines India's federal consensus.
- **Interfering in state subjects is administratively unwise:** The Constitution assigned jurisdiction over agriculture markets to states due to the very localized nature of farm production. The first sale between the farmer and the trader is linked with the production process. This is location specific and it is **states who are best placed to determine the contours of production and sale** including, taxation, credit, building farmer producer organizations and physical markets.
- **Not inclusive of farm organizations:** Various organizations have stated that **no consultations were held** with major farm organizations.

### 6.3.1.1. THE FARMERS' PRODUCE TRADE AND COMMERCE (PROMOTION AND FACILITATION) ACT, 2020

#### Key features of the Act

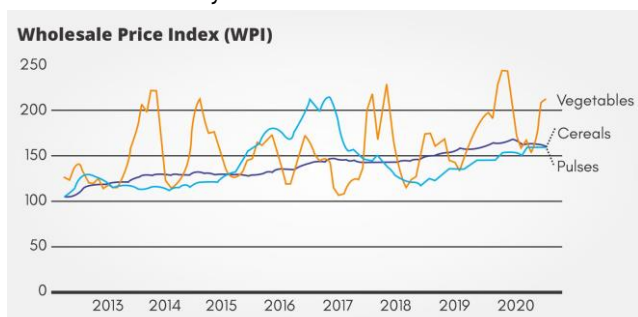
- **Trade of farmers' produce:** The Act allows **intra-state and inter-state trade of farmers' produce outside:** (i) the physical premises of market yards run by market committees formed under the state APMC Acts and (ii) other markets notified under the state APMC Acts.
- **Electronic trading:** It permits the electronic trading of scheduled farmers' produce (agricultural produce regulated under any state APMC Act) in the specified trade area. An electronic trading and transaction platform may be set up to facilitate the direct and online buying and selling of such produce through electronic devices and internet.
- **Market fee abolished:** The Act prohibits state governments from levying any market fee, cess or levy on farmers, traders, and electronic trading platforms for trade of farmers' produce conducted in an 'outside trade area'.

#### Intended benefits of the Act

- **Reduced role of intermediaries:** The new legislation could create an ecosystem where the farmers and traders will enjoy **freedom of choice of sale and purchase** of agri-produce. Thus, ending the monopoly exercised by traders and other intermediaries resulting in full realization of the price.
  - For example, a turmeric farmer now could sell her produce to BigBasket in Delhi, without any mandi tax or trader commission, at a mutually agreed upon price.
- **Integrated Market:** Barrier-free inter-state and intra-state trade and commerce would enable **farm surplus to move freely from surplus to deficit regions**. It will advance the **idea of 'one Nation, one Agri-market'**.
  - Currently, the agricultural markets are very fragmented. For instance, the monthly average price of rice in 2019 ranged from ₹2,042 per quintal in Agra (Uttar Pradesh) to ₹5,102 in Gangtok (Sikkim). The variation is more pronounced in case of vegetables. (see infographic)
- **Encouraging APMC reforms:** Private markets could put pressure on APMC markets (**the Act does not repeal the APMC laws**) to infuse more **transparency and efficiency in their functioning**. The State governments have a significant role in reforming the APMC system:
  - depoliticize the committees and make them more farmer friendly.
  - to allow APMC markets to compete with private markets; the cess levied on market transactions can be waived.
  - privatizing mandis that are not viable.

#### Potential issues from the Act

- **Sudden changes** in market mechanisms **may not bode well** for the market. For instance, in 2006, Bihar repealed its APMC Act with an objective to



attract private investment in the sector and gave charge of the markets to the concerned sub-divisional officers in that area. This resulted in:

- Erosion of **the existing infrastructure over time due to poor upkeep**.
- farmers facing issues such as **high transaction charges and lack of information on prices** and arrival of produce.
- The Act creates an **artificial distinction between “market areas”** (regulated by the mandi system under state governments) and **“trade areas”** (now under the central Acts), thus risking a problem of dual regulatory market.
  - Also, the **new unregulated market space** called the ‘trade area’ will have **no oversight and the government will have no information or intelligence** about who the players are, who is transacting with who for what quantities and at what prices.
- The newly created ‘trade areas’ would have a clear regulatory advantage over ‘market areas’ vis-à-vis the mandi tax. This could potentially lead to a **collapse of the APMC system and initiatives like e-NAM** which are riding on top of physical mandi structure in the country.
- The Act leaves a critical institutional space- **how state-specific implementation investments**, crucial for running efficient markets, **will be negotiated and managed**, if APMC are bypassed.
- **State Governments will lose mandi tax**, which is a major source of revenue for States like Punjab and Haryana.

### 6.3.1.2. THE FARMERS (EMPOWERMENT AND PROTECTION) AGREEMENT ON PRICE ASSURANCE AND FARM SERVICES ACT, 2020

#### Key features of the Act

- **Farming agreement:** The Act provides for a **farming agreement between a farmer and a buyer** prior to the production or rearing of any farm produce.
- **Pricing of farming produce:** The price of farming produce should be mentioned in the agreement. For prices subjected to variation, a guaranteed price for the produce and a clear reference for any additional amount above the guaranteed price must be specified in the agreement.
  - Further, the process of price determination must also be mentioned in the agreement.
- **Dispute Settlement:** A farming agreement must provide for a conciliation board as well as a conciliation process for settlement of disputes. The Board should have a fair and balanced representation of parties to the agreement.

#### Intended benefits of the Act

- **Promote Contract Farming:** Giving a legal framework to contract farming will ensure groups of **growers and entrepreneurs come together in a contractual relationship** which will provide a ready market for growers for their produce, and ready access to raw material for the entrepreneurs (sponsors).
  - The Act empowers farmers to engage with processors, aggregators, wholesalers, large retailers, exporters etc., on a level playing field without any fear of exploitation.
- **Lower risk for farmers:** It will **transfer the risk of market unpredictability from the farmer to the sponsor**. Due to prior price determination, farmers will be shielded from the rise and fall of market prices.
- **Improved inputs:** It may provide farmer access to high quality seeds, better technology, fertilizers and pesticides along with **impetus to research and new technology in agriculture sector**.
- **Attracting investments:** This Act will act as a catalyst to **attract private sector investment for building supply chains** for supply of Indian farm produce **to national and global markets**, and in agricultural infrastructure.
- **Reduced cost of marketing for farmers:** Since, after signing contract, farmer will not have to seek out traders. **The purchasing consumer will pick up the produce directly from the farm.**
- **Dispute Resolution:** The Act also **provides for effective dispute resolution mechanism** for clear timelines.

#### Potential Issues from the Act

- Farmers have expressed **apprehension** that once these Acts are passed, they would **pave the way for dismantling of the minimum support price (MSP) system** and leave the farming community at the "mercy" of big corporates.
  - As a corollary, the farmers feel that the proposed legislations will **suit big corporations more than farmers** who will subsequently dominate the market.

- However, the Government has clarified that these Acts would **not have any impact on the Minimum Support Price (MSP) mechanism** which will continue.
- The Act, while offering protection to farmers against price exploitation, **does not prescribe the mechanism for price fixation or a methodology for regulatory oversight.**
- According to the Act, **companies are not required to have a written contract with the farmer**, making it difficult for farmers to prove terms.
  - As a result, if a farmer gets into a dispute regarding her/his contract with a private company, it will be **very difficult for the farmer to have the dispute settled in her/his favor.**
  - Also, in case of disputes, the **District Administration has been entrusted** with the responsibility to resolve; but it **may not be well equipped to settle disputes.**

### 6.3.1.3. THE ESSENTIAL COMMODITIES (AMENDMENT) ACT, 2020

#### Key features of the Act

- **Regulation of food items:** The Act provides that the central government may regulate the supply of certain food items including cereals, pulses, potatoes, onions, edible oilseeds, and oils, only under extraordinary circumstances. These include: (i) war, (ii) famine, (iii) extraordinary price rise and (iv) natural calamity of grave nature.
  - **The Essential Commodities Act, 1955** empowered the central government to designate certain commodities (such as food items, fertilizers, and petroleum products) as essential commodities. The central government may regulate or prohibit the production, supply, distribution, trade, and commerce of such essential commodities.
- **Stock limit:** The Act requires that imposition of any stock limit on agricultural produce must be based on price rise. A stock limit may be imposed only if there is: (i) a 100% increase in retail price of horticultural produce; and (ii) a 50% increase in the retail price of non-perishable agricultural food items.
  - The increase in price will be calculated over the price prevailing immediately preceding 12 months, or the average retail price of the last five years, whichever is lower.

#### Intended benefits of the Act

- **Ends harassment of Businessmen and traders:** Governments had restrictions on hoarding on food commodities and could seize any excess stocks maintained by the traders. This resulted in widespread harassment of traders and **rent-seeking behavior**. Now with the new Act, inventories can be managed without such interference.
- **Helps reduce wastage as storage facilities improve:** Despite India **losing a third of the agri. produce post-harvest**, businesses found it difficult to devise solutions to decrease that loss, mainly due to the regulation.
- **Likely to attract private investment in Cold Storage, warehouses and processing:** These reforms **may accelerate growth in the sector** through private sector investment in building infrastructure and supply chains for farm produce.
- **Will bring price stability and raise farm incomes:** Exempting selected commodities from ECA will improve the marketability of the crop for growers. Processors, exporters and traders will now be able to build inventory without fear of penal action.

#### Potential Issues from the Act

- Some experts fear that the Act **would effectively legalize hoarding**, as licenses will no longer be required to trade in these commodities.
  - Such a situation can lead to anti-competitive behavior by particular buyers in the food chains.
- Complete deregulation of these commodities could lead to **dangerous situation of food supply problems during extraordinary circumstances** as the Government will have no information on who the players are, and the levels of stocks are not clear.

### 6.3.1.4. MINIMUM SELLING PRICE (MSP)

#### Why in news?

The recently passed Agri.-reform Bills have created apprehensions among farmers that these legislations will ultimately lead to the dismantling of the MSP regime.



### More on News

- The apprehension is based on **The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020**. It is felt that the law will be manipulated by vested corporate interests and the farmers will be left to the vagaries of market forces and this will result in the denial of an optimum price for agriculture produce, fruits and vegetables to farmers.
- The primary **reason for this distrust** is the **non-statutory nature of MSP**. Although, MSP is an important aspect for boosting farmers' income, it finds no mention in any law even if it has been around for decades. As a result, it technically means is that **the government, though it buys at MSP from farmers, is not obliged by law to do so**.

### Why is there a need for MSP?

- The **MSP is a minimum price guarantee** that acts as a **safety net or insurance for farmers when they sell particular crops**.
- The guaranteed price and assured market are expected to **encourage higher investment and in adoption of modern technologies in agricultural activities**.
- With **globalization** resulting in **freer trade in agricultural commodities**, it is very important to **protect farmers from the unwarranted fluctuation in prices**.

### What are the issues faced by the current MSP regime?

- **Low accessibility and awareness of the MSP regime:** A survey highlighted that, 81% of the cultivators were aware of MSP fixed by the Government for different crops and out of them **only 10% knew about MSP before the sowing season**.
- **Arrears in payments:** More than 50% of the farmers receive their payments of MSP after one week.
- **Poor marketing arrangements:** Almost 67% of the farmers sell their produce at MSP rate through their own arrangement and 21% through brokers.

According to NITI Aayog report on MSP, 21% of the farmers of the sample States expressed their satisfaction about MSP declared by the Government whereas 79% expressed their dissatisfaction due to various reasons. Although, majority of the farmers of the sample States were dissatisfied on MSP rates, still 94% of them desired that the MSP rates should be continued.

### Recommendations suggested by NITI Aayog

- **Information and Awareness:** The awareness among the farmers needs to be increased and the information should be timely disseminated till the lowest level.
- **MSP should be announced well in advance** of the sowing season so as to enable the farmers to plan their cropping.
- **Better marketing facilities:** Improved facilities at procurement centres, such as drying yards, weighing bridges, toilets, etc. should be provided to the farmers.
- There should be **meaningful consultations with the State Government**, both on the methodology of computation of MSP as well as on the implementation mechanism.
- The **small and marginal farmers** can be provided with some **exemption in Fair Average Quality (FAQ)** norms to provide them with a source of income.
- The **Procurement Centers** should be in the **village itself to avoid transportation costs**.

## 6.3.2. FORMATION AND PROMOTION OF FARMER PRODUCER ORGANIZATIONS (FPOS)

### Why in News?

Recently, Cabinet Committee on Economic Affairs, approved scheme titled "**Formation and Promotion of Farmer Produce Organizations (FPOs)**".

### Background

- The **concept of FPO begun during 2011-12** when a pilot project was launched where in 2.5 lakh farmers were roped into 250 FPOs. Based on its encouraging results it was extended to other areas.
- The **report of 'Doubling of Farmer's Income (DFI)**' has recommended formation of **7,000 FPOs by 2022** towards convergence of efforts for doubling the farmers' income.

- In **Union Budget 2019-20**, creation of 10,000 new FPOs over the next five years was announced.

**About the scheme**

- It is a **Central Sector Scheme** under Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW), **Ministry of Agriculture & Farmers Welfare**.
- **Objective:**
  - **10,000 FPOs would be formed** in five years period from 2019-20 to 2023-24 to ensure economies of scale for farmers.
  - **Handholding support to each FPO** would be continued for **5 years from its year of inception** for which support will continue till 2027-28.
- **Beneficiaries: Small and marginal farmers** who do not have economic strength to apply production technology, services and marketing including value addition.
- **Other salient features**
  - **Cluster Based Business Organizations (CBBOs)** will be formed at cluster/state level for implementing the scheme.
  - **At least 15% of the targeted FPOs would be in aspirational districts** with at least one FPO in each block of aspirational districts of the country.
  - FPOs will be promoted under **"One District One Product"** cluster to promote specialization and better processing, marketing, branding & export by FPOs.

**What are Farmer Producer Organizations?**

- A **Producer Organisation (PO)** is a legal entity (company, a cooperative society etc.) formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
- FPO is one type of PO where the **members are farmers**.
- Through formation of FPOs, the farmers will have better collective strength for **better access to quality input, technology, credit and better marketing access through economies of scale for better realization of income**.
- **Current scenario:**
  - Currently, there are over 5,000 FPOs in the country. 20% of these are struggling to be viable and 50% are in mobilization stage only.
  - Some **challenges faced by FPOs** include difficulty in mobilising farmers, proper management, problems every incubation project faces, limited membership, policies, autonomy and credit restrictions without offering collateral etc.

**Other steps taken for FPOs promotion**

- Steps to integrate **e-National Agriculture Market (e-NAM) with FPOs and warehouses to provide end-to-end connectivity for farmers**.
- **500 FPOs in fisheries sector** are also being promoted.
- **100 percent income tax exemption** is being given from profit derived by FPOs having annual turnover up to Rs.100 crore for activities such as post-harvest value addition to agriculture.

**6.4. ALLIED SECTORS**

**6.4.1. ANIMAL HUSBANDRY SECTOR**

**Introduction**

Livestock plays an important role in Indian economy. About **20.5 million people depend upon livestock for their livelihood**. Livestock contributed 16% to the income of small farm households as against an average of 14% for all rural households. Livestock provides livelihood to two-third of rural community. Livestock sector **contributes 31.25% of total Agriculture GDP during 2016-17**.

**Why is livestock sector important for supplementing the farming sector?**

- **Additional source of income:** Specially in the arid and semi-arid regions where livestock sector is the main source of family income.
- **Employment** even during lean agricultural season.
- **Nutritional security:** The livestock not only contributes towards improving nutritional security and also reduces rural poverty by preventing additional expenditure for food by households.
- **Equitable distribution:** Livestock wealth is more equitably distributed, and the expanding demand for animal food products generates significant opportunities for the poor to escape poverty through diversifying and intensifying livestock production.

Animals	2019 Survey	2012 Survey	% Difference
Cattle	192.49	190.90	0.83
Buffaloes	109.85	108.70	1.00
Goats	148.88	135.17	10.10
Sheep	74.26	65.06	14.10
Pigs	9.06	10.29	-12.03
Poultry	851.81	729.2	16.80
<b>Total</b>	<b>535.78</b>	<b>512.06</b>	<b>4.60</b>

- **Social security:** The animals offer social security to the owners in terms of their status in the society, which also acts as a guard against getting driven into poverty.
- **Resilience to climate change:** As livestock is less prone to global warming and climate change, it can be considered more reliable than rain-fed agriculture. Livestock production and marketing can help stabilize the food supplies and provide individuals and communities with a buffer against economic shocks and natural disasters.

#### What are the issues faced by the Animal Husbandry Sector?

- The **average annual milk yield** of Indian cattle is 1172 kg which is only about **50 per cent of the global average**.
- The frequent **outbreaks of diseases like Foot and Mouth Diseases, Black Quarter infection; Influenza**, etc. continue to affect Livestock health and lowers productivity.
- India's huge population of ruminants **contributes to greenhouse gases emission**. Reducing greenhouse gases through mitigation and adaptation strategies will be a major challenge.
- **Limited Artificial Insemination services owing to a deficiency in quality germplasm, infrastructure and technical manpower** coupled with poor conception rate following artificial insemination.
- **The sector received only about 12 per cent of the total public expenditure on agriculture and allied sectors**, which is disproportionately lesser than its contribution to agricultural GDP.
- **The share of livestock in the total agricultural credit has never 4% in the total** (short-term, medium-term and long-term).
- Currently, only **6 per cent of the animal heads (excluding poultry) are provided insurance** cover. Livestock extension has remained grossly neglected in the past.

#### Steps taken by the Government

- **Animal Husbandry Infrastructure Development Fund (AHIDF):** Cabinet Committee on Economic Affairs has recently approved the establishment of AHIDF worth **Rs. 15000 crores**. Expected benefits from the scheme-
  - **Investment:** AHIDF is expected to leverage around **seven times private investment**. It will ensure **availability of capital to meet upfront investment**, enhance **overall returns and pay back** for investors.
  - **Employment generation:** AHIDF would help in **direct and indirect livelihood creation** for **35 lakh** people.
  - **Benefit for Farmers:** Almost **50-60% of final value of dairy output** in India flows back to farmers. Thus, **growth** in this sector would **directly impact farmer's income**. Also, it would **motivate farmers to invest more on inputs** thereby driving higher productivity.
  - It would **promote exports** of the processed and value-added commodities.
- **National Animal Disease Control Programme (NADCP):** The programme aims to control the livestock diseases the foot and mouth disease and brucellosis in livestock by 2025 and eradicate these by 2030.

#### Way Forward

- **Overcoming feed and fodder scarcity** and improvements in delivery of animal health and breeding services.
- **Technology** will be a key driver of growth and concerted efforts will be needed to generate and disseminate yield-enhancing and yield-saving technologies.
- **Public spending** needs to be increased to re-energize the livestock sector.
- **Strengthening linkages** between production and markets through institutions such as cooperatives, producers' associations and contract farming.
- **Institutional support** in terms of credit and insurance is meager and needs to be strengthened.
- **Government needs to take efforts** to promote the sector by measures like establishing the Indian Council of Veterinary and Animal Science Education and Research, Schemes like Operation Flood, Kamdhenu scheme, etc.
- Further, the governments and industry should prepare producers for a **quality-driven competition** in the domestic as well as global market.

#### 6.4.1.1. DAIRY SECTOR

##### A brief overview of dairy sector in India

- **India ranks first in milk production since 1998** accounting for 20 per cent of world production and with milk production of 176.3 million tonne in 2017-18.
- **India also has the largest bovine population in the world.**

- A government initiative known as **Operation Flood (1970–1996)** helped India to boost its milk production. India's milk production has grown by over 10 times since 1950.
- According to **National Sample Survey Office's (NSSO) 70th round survey**, more than one-fifth (23 per cent) of agricultural households with very small parcels of land (less than 0.01 hectare) reported livestock as their principal source of income.
- As per **2018-19 Economic Survey**, of the total milk produced in rural areas around 52% is the marketable surplus.
  - Of this surplus, about 36% of the milk sold is handled by the **organized sector** (evenly shared by Co-operative & Private Dairies) and the rest by the **unorganized sector**.
- **Budget 2020** aims to double the country's milk processing capacity by 2025. (from 53.5 million tonne to 108 million tonne).
- **In India milk production is growing by 6.4%** during the last 5 years and has increased from 146.3 million tonnes (mt) in 2014-15 to 187.7 mt in 2018-19.

#### Recent Steps taken by Government for the sector

- Central government has made some changes in **Dairy Processing and Infrastructure Development Fund (DIDF) scheme** to take the white revolution (associated with milk production) to the next level. **Expected Benefits** of this step:
  - It will benefit **95 lakh milk producers covering 50,000 villages**.
  - There will also be the creation of an additional 210 tonnes per day milk drying capacity, modernization, expansion and creation of milk processing capacity of 126 lakh litre per day.
- Kisan Credit Card (KCC) campaign was launched for 1.5 crore Dairy Farmers as **part of Atmanirbhar Bharat package** to cover 2.5 crore new farmers under KCC scheme.

#### Scenario during COVID-19

- Demand of Milk **reduced by 20-25%** which indirectly created a **supply glut**. For instance, 560 Lakh litre per day (LLPD) was procured by cooperatives against daily sale of 360 LLPD.
- To overcome this issue:
  - A total **111 Crore Litres extra were procured** during the crises ensuring a payment of Rs 4100 Cr. to the producers.
  - A new scheme has been launched to provide **interest subvention at 2% per annum to dairy cooperatives** for 2020-21

### 6.4.2. MINOR FOREST PRODUCE

#### Why in news?

Recently, Centre **revised the minimum support price (MSP) for minor forest produce**, offering much-needed support to tribal gatherers in view of the "exceptional and very difficult" circumstances prevailing in the country due to the coronavirus pandemic

#### More about news

- Ministry of Tribal Affairs increased the MSP of 49 products which are collected by tribals from forests.
- This is done under a Centrally Sponsored scheme known as "**Mechanism for marketing of Minor Forest Produce (MFP) through Minimum Support Price (MSP) and development of value chain for MFP**" as a measure of social safety for MFP gatherers.
- **Tribal Cooperative Marketing Development Federation of India (TRIFED)**, the nodal agency for the scheme, had recommended the increase to ensure more disposable income for tribals.
- MSP for MFPs is revised once in every 3 years by Pricing Cell constituted under the Ministry of Tribal Affairs.

#### What is Minor Forest Produce (MFP)?

- MFP is defined under **The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006**, popularly known as the **Forests Rights Act (FRA)**.
- The definition of MFP includes bamboo and cane, thereby changing the categorization of bamboo and cane as "**trees**" under the Indian Forest Act 1927.
- **PESA, 1996 and Recognition of Forest Rights Act, 2006** conferred ownership of MFP to forest dwellers.

#### Mechanism for marketing of Minor Forest Produce (MFP) through Minimum Support Price (MSP) and development of value chain for MFP

- Launched in 2014, the scheme is designed as a **social safety net for improvement of livelihood of MFP gatherers** by providing them fair price for the MFPs they collect and ensure sustainable harvesting of MFPs.
- These tribals then sell the MFPs in village marketplaces.
- If the market prices fall below MSP, the state government agencies move in to procure the produce.
- Ministry of Tribal Affairs is the nodal ministry for this scheme.

- Forest Rights Act also recognizes and vests individual forest-dwellers with forest rights to own and dispose minor forest products from forests where they had traditional access.

### Significance of MFP in India

- Around 100 million forest dwellers depend on Minor Forest Produces for food, shelter, medicines and cash income. (**Report of the National Committee on Forest Rights Act, 2011**)
- Tribals derive **20-40% of their annual income from Minor Forest Produce** on which they spend major portion of their time.
- As per the Haque Committee Report, May 2011, the procurement value of 14 major MFPs is estimated Rs 1900 Crores (including tendu & bamboo)
- This activity has strong linkage to **women's financial empowerment** as most of the Minor Forest Produces are collected and used/sold by women.

## 6.4.3. FISHERIES SECTOR

### Why in news?

Recently the **Department of Fisheries** released the **Draft National Fisheries Policy (NFP) 2020**.

### Fisheries sector in India

- Fisheries are an **important source of food, nutrition, employment** and income in India.
  - The sector provides livelihoods to about 16 million fishers and fish farmers at the primary level and almost twice the number along the value chain.
  - The sector accounts for about **6.58 per cent share of Agricultural GDP**.
- The marine **exports stand at about 5% of total exports of India** and constitute 19.23 % of Agri-exports (2017-18).
- In the recent years, the fish production in India has **registered an average annual growth rate of more than 7%**.
- India is **second largest producer** in fishery sector.
- There are two benches of fishery sector **namely Inland Fisheries and Marine Fisheries**. The total fish production has nearly **65% contribution from the inland sector** and rest from marine fishing.

### Issues faced by the fisheries sector

- **Limited scope for expansion** due to overcapacities in territorial waters, weak regulation, inefficient management and prevalence of traditional fishing practices.
- **Inadequate infrastructure** especially fishing harbours, landing centers, cold chain and distribution systems, poor processing and value addition, wastage, traceability and certification, non-availability of skilled manpower, etc.
- **In inland capture fisheries**, seasonal nature of fishing operations, depleted stocks in natural waters, issues related with tenure and lease rights, use of obsolete technology for harvesting coupled with low capital infusion are some of the significant limiting factors.
- **Disease, absence of species diversification** and genetic improvement, poor brood and seed are species specific constraints.
- **Other issues include** high input cost, lack of access to institutional credit, credit guarantee and insurance, environmental sustainability etc.

Hence, National Fisheries Policy seeks to **consolidate the sectoral gains and ensure sustainable growth** through policy support in order to enable and accelerate fisheries development.

### Key Features of the draft Policy:

- **Fisheries Management Plan (FMPs)**: The Centre will formulate FMPs for scientific management and regulation of marine fisheries resources of the country in consultation with the concerned State by adopting Ecosystem Approach to Fisheries (EAF).
- **Integrated Fisheries Development Plan (IFDP)**: The government will prepare and implement IFDP for Islands to enhance the share in their economy.
- **Fisheries Spatial Plans (FSP)**: The State governments will prepare FSP based on guidelines prepared by the central government for data management, analysis, modeling and decision making, after taking cognizance of Coastal Regulation Zone (CRZ) rules.

- **Legislation:** The center will also enact a comprehensive legislation (“**National Marine Fisheries (Regulation and Management) Bill, 2019**”) for holistic resource utilization in EEZ.
- **Database:** Government will implement a ‘**National Fisheries Data Acquisition Plan**’, involving Central and State Governments, and other stake holders to collect and report field data about various fisheries resources.
- **National Fisheries Development Council:** It will be established to provide overall guidance for the implementation of the Policy, review its objectives and progress.
- **National Marine Fisheries Authority:** It will have the powers to ensure sustainable fishing, **implementing fisheries management plan**, capacity building etc.
- **Cluster approach for development of aquaculture:** based on production strengths of various geographical regions in order to enable focused and coordinated development of market and export oriented higher value species.
- **Various interventions in different sector include:**
  - **Fisheries Management:**
    - ✓ In ‘**Areas Beyond National Jurisdiction**’ (ABNJ) where there is considerable scope to harvest fishery resources in the high seas, the Government will promote harnessing the fishery resources.
    - ✓ **Foreign fishing vessels will not be allowed** to fish or undertake fishing related activities in India’s sovereign waters.
  - **Mariculture:**
    - ✓ Genetically Modified (GM) species shall not be allowed for mariculture activity.
    - ✓ Within the identified mariculture zones, the government shall designate certain areas as **mariculture technology parks**.
  - **Inland Fisheries:**
    - ✓ Population of native species in the rivers will be enhanced through **seed ranching of native stock by developing dedicated seed production units** in the vicinity.
    - ✓ State/ UTs may declare **certain water bodies as “Reserves for fish”** to conserve important fish species in a suitable wetland.
    - ✓ Introduction of **suitable high value species** to boost culture fisheries in cold waters in association with advanced countries e.g. Salmon, Sturgeon, Brown Trout etc.
  - **Freshwater Aquaculture:** Efforts will be made by States to enhance fish production and productivity through application of technology and formation of **Farmers Producer Organizations (FPOs)** to cater small pond holder’s needs.
  - **Brackish Water Aquaculture:** In order to ensure that the fish produced from waste water aquaculture is safe for consumption, appropriate regulatory, management and precautionary measures will be put in place in coordination with relevant agencies.

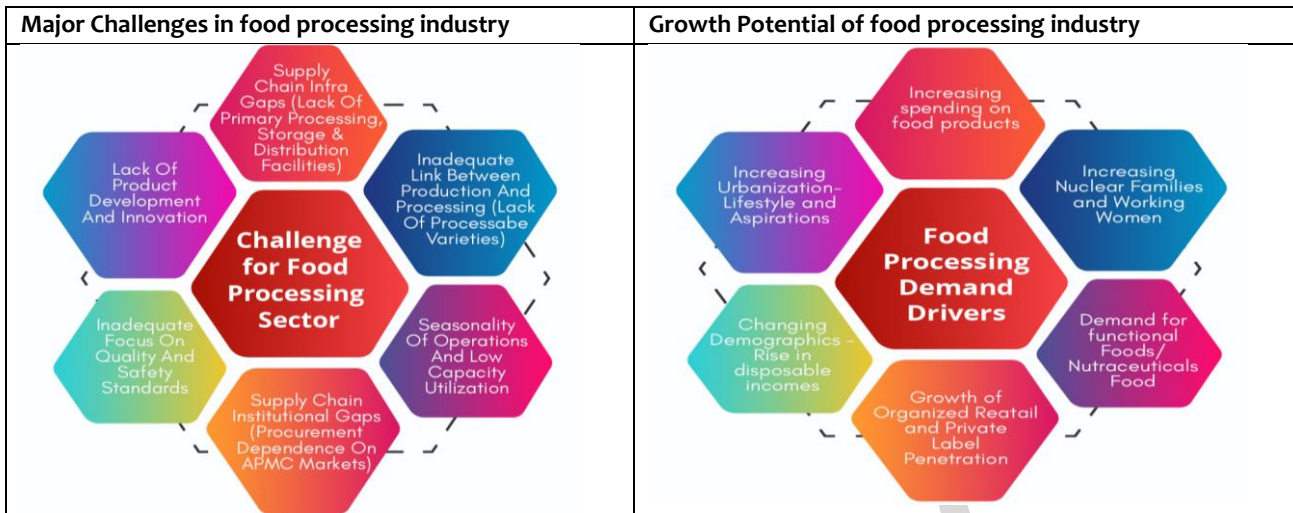
## 6.5. FOOD-PROCESSING SECTOR

### Introduction

- A well-developed food processing sector with higher level of processing helps in the reduction of wastage, improves value addition, promotes crop diversification, ensures better return to the farmers, promotes employment as well as increases export earnings.
- This sector is also capable of addressing critical issues of food security, food inflation and providing wholesome, nutritious food to the masses.

### Status of Food Processing Sector

- The sector constituted nearly 8.83% and 10.66% of Gross Value Added (GVA) in Manufacturing and Agriculture sector respectively in 2017-18 at 2011-12 prices.
- Nearly **7 million persons** are engaged in this sector.
- The **value of processed food exports** in 2018-19 was \$35.30 Billion accounting for about 10.69% of India’s total exports.
- The **annual value of harvest and post-harvest losses** of major agricultural produces at national level was at Rs.92,651 crore calculated using production data of 2012-13 at 2014 wholesale prices.



These constraints are sought to be addressed through Central Sector umbrella scheme of **Pradhan Mantri Kisan Sampada Yojana (PMKSY)** of Ministry of Food Processing Industries (MoFPI).

Objective	Key Features
<ul style="list-style-type: none"> <li>• <b>Creation of modern infrastructure for food processing mega food parks/ clusters and individual units</b></li> <li>• <b>To create effective backward and forward linkages - linking farmers, processors and markets</b></li> <li>• <b>To create robust supply chain infrastructure for perishables</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>PMKSY</b> was earlier named as <b>SAMPADA</b> (Scheme for Agro- Marine Processing and Development of Agro-Processing Clusters).</li> <li>• It is a <b>comprehensive package which will result in creation of modern infrastructure</b> with efficient supply chain management from farm gate to retail outlet.</li> <li>• It will provide a big <b>boost to the growth of food processing sector and better returns to farmers.</b></li> <li>• It will also help in <b>doubling of farmers income, creating huge employment opportunities especially in the rural areas</b>, reducing wastage of agricultural produce, increasing the processing level and enhancing the export of the processed foods.</li> <li>• This <b>central sector scheme</b> has been approved for the <b>period of 2016-20</b> coterminous with the 14th Finance Commission cycle.</li> <li>• It is an <b>umbrella scheme</b> incorporating ongoing schemes of the Ministry of Food Processing which will result in creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet.</li> <li>• <b>Schemes under PMKSY</b> -             <ul style="list-style-type: none"> <li>○ Mega Food Parks</li> <li>○ Integrated Cold Chain and Value Addition Infrastructure</li> <li>○ Food Safety and Quality Assurance Infrastructure</li> <li>○ Creation/Expansion of Food Processing &amp; Preservation Capacities</li> <li>○ Infrastructure for Agro-processing Clusters</li> <li>○ Creation of Backward and Forward Linkages</li> <li>○ Human Resources and Institutions.</li> </ul> </li> </ul>

<p><b>Draft Food Processing Policy 2019</b></p> <ul style="list-style-type: none"> <li>• <b>Aim:</b> The policy aims to develop the sector along with increasing investment in the sector six-fold by 2035.</li> <li>• <b>Objectives of the policy:</b> Reducing wastage at farm level, creating more employment opportunities, ensuring higher deployment of credit and infrastructure and skill development in the sector.</li> <li>• <b>Key features of the policy:</b> <ul style="list-style-type: none"> <li>○ <b>Infrastructure development</b> by Identifying, developing and promoting new agriculture processing and production clusters, and supporting the development of logistics infrastructures such as cleaning and packing facilities.</li> <li>○ <b>Financial incentives like</b> capital investment subsidy for setting up new food processing units and technology up-gradation of existing units and lower Goods and Services Tax rates on food products and food processing machineries.</li> <li>○ <b>Encouraging employment, training and skill development</b> through measures like facilitating farmers to set up food processing units, promoting food processing training cum incubation centers and starting new courses and conducting research in food technology, entrepreneurship, and management.</li> </ul> </li> </ul>
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### 6.5.1. MEGA FOOD PARKS

#### Why in news?

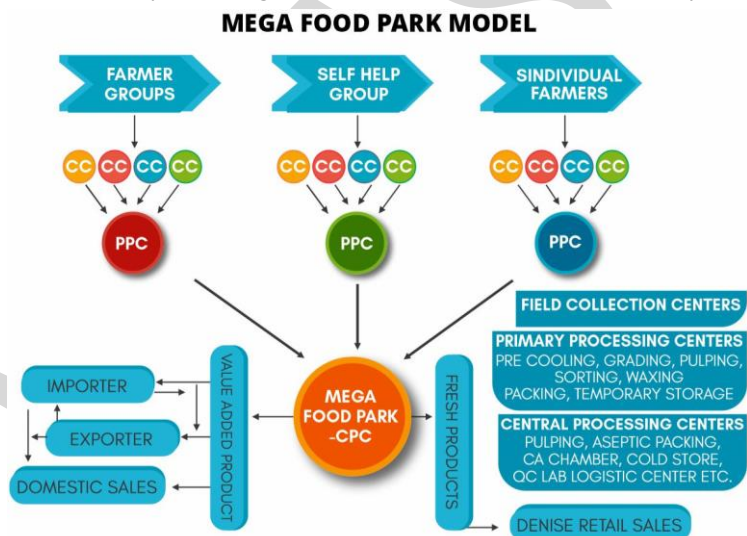
- Recently, Avantee mega Food Park in Dewas (Madhya radish) was inaugurated. This is the first food park of central India.
- Government has come up with **Draft National Food Processing Policy in 2019** to boost the food processing industry.

#### Mega Food Parks (MFP):

- It operates in **“hub and spoke model”** comprising Collection Centres (CCs) and Primary Processing Centres (PPCs) as spokes and a Central Processing Centre (CPC) as hub.
  - It includes creation of infrastructure for primary processing and storage near the farm in the form of PPCs and CCs and common facilities and enabling infrastructure like roads, electricity, water etc. at CPC.
  - These PPCs and CCs act as **aggregation and storage points** to feed raw material to the processing units located in CPC.
- These are **demand-driven projects** and facilitate food processing units to meet environmental, safety and social standards.

#### Significance of MFP Scheme

- The scheme intends to facilitate **establishment of an integrated value chain**, with food processing at the core and supported by requisite forward and backward linkages.
- The scheme aims to bring together farmers, processors and retailers and link agricultural production to the market to ensure maximization of value addition, minimization of wastages and improving farmers’ income.



#### Progress achieved under MFP scheme:

- Government has so far approved 42 Mega Food Parks. However, only 18 MFPs have been operationalized.
- Modern processing and preservation capacity of 23.02 Lakh MT & 63 PPCs with farm level infrastructure of 2.45 Lakh MT have been created so far in operational parks.

#### Challenges of Mega Food Parks

- The units in the **MFP cannot own land** and, therefore, they cannot use the land as collateral to take loans from banks.
- Delay in statutory clearances** from State Government/Agencies.
- There are also **problems of change in Detailed Project Report** during implementation of the project, delay on the part of promoters to contribute their equity, change in promoters midway.
- The approach of the scheme is basically **‘one-size-fit-all’** and the scheme has not been able to attract investors with different investment requirements.
- The SPVs complaints that **skill levels of workers are poor and skilled workforce is not cheap**.
- The **timeline of 30 months to make the park operational** is too tight and it does not take into account the contingencies.
- The **awareness** of the scheme is **low**.

#### Way Forward

Government has come up with **Draft National Food Processing Policy, 2019** to boost the food processing industry. It will boost the MFP scheme through following enabling provisions-

- It suggests a **review of the scheme parameters** with a view to ensure flexibility in terms of the requirement of different clusters and continue to extend financial assistance on need basis.



- The Policy envisages **enhanced role of States** in development of food parks, where the state government would-
  - **allot land, on priority basis**, to such parks to promote agri & food processing industry apart from **support setting up of such parks** in their respective states from their own resources.
  - extend **incentives** viz. capital investment subsidy, stamp duty exemption, conversion charges to food parks and the units set up in such parks, under their respective policy.
  - identify crop production and processing clusters **using space technology and other IT tools** and provide end to end value chain solution and backward and forward linkages.
- **Mega Projects**, as defined by Centre and the states governments, **would be supported in fast track mode** and will receive priority in the allotment of land, sheds in industrial parks, electricity, water connection, environmental clearances etc.
  - **Special incentive package** will be provided by the central and state governments to promote such projects which will support development of a cluster of smaller units around it.
- The Policy seeks to promote establishment of “**Specialized Agro Processing Financial Institutions**” (SAPFI) for the food processing sector through appropriate incentives. This will ensure easier access to credit to MFPIs.
  - Cold chain and Food Parks have been **declared as infrastructure** to ensure greater flow of funds to the sector on easier terms.

**6.5.2. PM FORMALIZATION OF MICRO FOOD PROCESSING ENTERPRISES SCHEME**

**Why in news?**

Ministry of Food Processing Industries (MoFPI) launched Centrally Sponsored ‘**PM Formalisation of Micro food processing Enterprises (PM FME) scheme**’ as part of Atmanirbhar Bharat Abhiyan.

Objective	Features
<ul style="list-style-type: none"> <li>• To provide financial, technical and business support for <b>upgradation</b> of existing micro food processing enterprises.</li> <li>• <b>Aim is to generate</b> total investment of Rs 35,000 crore, <b>9 lakh skilled and semi-skilled employment</b> and <b>benefit 8 lakh units</b> through access to information, training, better exposure and formalization.</li> </ul>	<ul style="list-style-type: none"> <li>• Scheme adopts <b>One District One Product (ODOP) approach</b> to reap benefit of scale.                             <ul style="list-style-type: none"> <li>○ <b>States would identify food product for a district</b> that could be a perishable produce or cereal based product.</li> <li>○ It would also focus on <b>waste to wealth products, minor forest products</b> and Aspirational Districts.</li> <li>○ <b>Support will be provided</b> for common infrastructure and branding marketing for ODOP products.</li> </ul> </li> <li>• <b>Micro enterprises will get 35% subsidy on project cost</b>, with a ceiling of Rs 10 lakh, for capital investment along the value chain.</li> <li>• <b>Seed capital @ Rs. 40,000/- per SHG member</b> would be provided for working capital and purchase of small tools.</li> <li>• <b>National Institute of Food Technology, Entrepreneurship and Management</b> (Sonipat, Haryana) and <b>Indian Institute of Food Processing Technology</b> (Thanjavur, Tamil Nadu) (both under MoFPI ) would be provided support for training of units, product development etc. with special focus on <b>capacity building and research</b>.</li> <li>• <b>Funding pattern:</b> Outlay of Rs 10,000 crore with sharing mechanism as 90:10 for North Eastern and Himalayan States, 60:40 for other states, 60:40 ratio with UTs with legislature and 100% by Centre for other UTs.</li> <li>• Scheme is to be <b>implemented over a period of five years</b> from 2020-21 to 2024-25.</li> </ul>

**6.6. AGRICULTURAL EDUCATION**

**Why in news?**

The Prime Minister recently pitched for taking agricultural education to middle school level using reforms proposed by National Education Policy (NEP), 2020.

**What is Agricultural education?**

- Agricultural education focuses on, but is not limited to, study in **horticulture, forestry, conservation**, natural resources, **agricultural products and processing**, production of food and fiber, aquaculture and other agricultural products, mechanics, sales and service, **economics, marketing**, and leadership development.
- **Current status in India:** Formal agricultural education in India is mostly confined to **higher educational institutions**. Currently, there are three central agricultural universities, around 65 State Agricultural

Universities (SAUs) and 4 Deemed-to be-Universities (DUs) in India which focus on imparting formal education in the field of agriculture.

### Significance of agricultural education in India

- **Self-reliance of a village/rural economy:** Streamlining the flow of knowledge about agriculture, its modern farming techniques and marketing, to farmers will improve profitability of agriculture and promote agro-entrepreneurship in the country.
- **Emerging food processing industry:** Technical and skills based intervention in food processing technologies, storage infrastructure, marketing etc. is needed. This can be facilitated through agricultural education.
- **Promoting Sustainable agricultural practices:** Technical education in the field of rainwater harvesting, micro irrigation, organic farming, climate resilient agriculture, zero budget farming, accurate use of chemical fertilizers etc. will enable farmers to **minimize environmental damage**, ensure **food security** in the future and **adapt and mitigate for climate change**.
- **Boosting agricultural exports in changing globalized scenario:** Development of analytical and professional skills and knowledge in areas such as Intellectual property Rights (IPRs), WTO's Sanitary and Phytosanitary Measures (SPS), techno-legal specialties etc. is a necessity in today's time.
- **Increased access to information:** A robust agricultural education system can strengthen **Farmers-Researchers linkages** through cooperation of the universities in streamlining the flow of knowledge and expertise from campus to agriculture fields.
- **Expanding agricultural research:** India needs skilled students for research in technologies such as biosensors, precision farming, genetic engineering, bio-fuels, nanotechnology etc.

### Challenges to agricultural education

- **Difficulty in attracting talented rural and urban youth:** Low returns, poor quality of education and limited career opportunities make agricultural education a less preferred choice amongst students.
- **Shortage of competent faculty:** There exists high number of vacancies, especially in disciplines like Agricultural Economics, Agricultural Meteorology, Agricultural Statistics etc., in agricultural institutions with limited opportunities for faculty to improve and update their knowledge.
- **Issues in State institutions:** Lack of significant efforts by states have led to deteriorating conditions in some SAUs. Since agriculture is a state subject, central bodies such as the Indian Council of Agricultural Research (ICAR) can play only a facilitating role.
- **Inadequate funding support:** Over the years, increase in the level of public finances of the states to the agricultural universities has been far below their requirements in the context of contemporary needs of higher agricultural education.
- **Integrating Agricultural Education with job creation:** Due to absence of a creditable system of assessment of job profiles and skills needed in the sector, agricultural graduates in various streams often find difficulty in accessing gainful employment.
- **Outdated curriculum:** Curriculums have not been changed keeping in view the advances in science and technology in general and agriculture and allied sectors in particular, changing economic status, life styles, food habits and demand for processed/value added foods.

### Way Forward

- **Extending Non-formal education** in rural regions to tap the agricultural potential of workforce.
  - Basic agricultural subjects can also be introduced at **pre-high school and higher secondary level** with the purpose of imparting firsthand knowledge on a particular agro-business or agricultural production self-earning aspects.
- **Updating course curriculum:** Agricultural education needs to keep pace with the changing agricultural scenario and developing technology and incorporate aspects of agro-business management and sustainable practices.
- **Training the academic staff** and collaborating with other national or international centres of excellence can give better exposure to the teachers.
- **Providing students guidance and counseling:** through training and placement cells to attract students in agriculture and to prepare them for job markets.
- **Effective accreditation system** should be evolved for monitoring the quality of SAUs and they can be incentivized to adopt the **Model Act for Agricultural Universities in India (2009)** developed by the ICAR through performance-based grants.

**Government Initiatives for Agriculture Education**

- **Attracting and Retaining Youth in Agriculture (ARYA):** The scheme aims to attract and empower the Youth in Rural Areas to take up various Agriculture, allied and service sector enterprises for sustainable income and gainful employment through skill development.
- **Dedicated Agriculture Education Portal:** It was developed as a single window platform for providing vital education information, e-learning resources etc. from Agricultural Universities across the country in an easy and fast way.
- **Student READY (Rural Entrepreneurship Awareness Development Yojana)** programme: It provides job based and entrepreneurial training to students and consists of — Experiential learning (Business Mode); Hands on training (Skill Development Mode); Rural Awareness Work Experience (RAWE); In Plant Training/ Industrial attachment; and students projects.
- **National Agricultural Higher Education Project (NAHEP):** It is designed to strengthen the national agricultural education system in India with an overall objective to provide more relevant and high-quality education to agricultural university students.
- **International collaborations:** ICAR coordinates the India-Africa Forum Summit (IAFS), Indo-Afghan Fellowship Scheme etc. to support the agricultural human resource development in India.

## 6.7. AGRICULTURE INFRASTRUCTURE FUND (AIF)

**Why in News?**

Recently, Prime Minister launched a new Central Sector Scheme of a financing facility under Rs. 1 Lakh Crore Agriculture Infrastructure Fund under the Atmanirbhar Bharat Abhiyan.

**About AIF**

- It is a Central Sector Scheme, under Ministry of Agriculture & Farmers Welfare, to provide **medium - long term debt financing facility** through interest subvention and credit guarantee.
- **Beneficiaries include** farmers, Primary Agricultural Credit Societies (PACS), Farmer Producers Organizations (FPOs), Agri-entrepreneurs, Startups, Central/State agency or Local Body sponsored Public-Private Partnership Projects etc.
- **Eligible projects include:**
  - **Post-Harvest Management Projects.**
  - **Building community farming assets**
- Under AIF, **Rs. 1 Lakh Crore will be provided by banks and financial institutions as loans** with interest subvention of 3% per annum on loans up to Rs. 2 crore.

**About Agricultural Infrastructure**

- Agricultural infrastructure primarily includes wide range of public services that facilitate production, procurement, processing, preservation and trade.
- It can be grouped under following broad-based categories:
  - **Input based infrastructure:** Seed, Fertilizer, Pesticides, Farm equipment and machinery etc.
  - **Resource based infrastructure:** Water/irrigation, Farm power/energy
  - **Physical infrastructure:** Road connectivity, Transport, storage, processing, preservation, etc.
  - **Institutional infrastructure:** Agricultural research, extension & education technology, information & communication services, financial services, marketing, etc.

**Need for a better agricultural Infrastructure**

- For **~58% of total population** of India, agriculture and allied activities are the primary income source and adequate infrastructure **raises farm productivity and lowers farming costs.**
- **India has limited infrastructure connecting farmers to markets** and hence, 15-20% of yield is wasted which is relatively higher vs. other countries where it ranges between 5-15%.
- **Value addition, packing, branding and good marketing network** also adds to the income of the farmer.

**Other schemes that impact agricultural infrastructure**

- **Pradhan Mantri Krishi Sinchayee Yojana (PMKSY):** It has been formulated with the vision of extending the coverage of irrigation 'Har Khet ko pani' and improving water use efficiency 'More crop per drop.
- **Integrated Scheme for Agricultural Marketing (ISAM):** To promote creation of agricultural marketing infrastructure, creation of scientific storage capacity, framing of grade standards and quality certification etc.
- **Pradhan Mantri Gram Sadak Yojana (PMGSY):** It linked India's hinterland to towns and cities speaks to the multiplier effect that enabling infrastructure can have on rural communities.

- **Provide testing facilities** to assess the quality of product thereby help in fixing better rates in the market.
- It can help the farmers to assess the quantity in a better manner to predict the outcome.
- **Modernize the trading activities** helping the farmers/traders to instantly decide and convey the decisions to initiate the action as early as possible (Ex: e-trading and internet auctions).

**Potential role played by the scheme**

Stakeholder	Intended benefits of Scheme
Farmers (including FPOs, PACS, Cooperative Societies)	<ul style="list-style-type: none"> <li>• Improved marketing infrastructure to <b>allow farmers to sell directly to a larger base of consumers</b> and hence, increase value realization for the farmers.</li> <li>• Investments in logistics infrastructure <b>will reduce post-harvest losses</b> and number of intermediaries.</li> <li>• <b>Community farming assets for improved productivity</b> and optimization of inputs will result in substantial savings to farmers.</li> </ul>
Government	<ul style="list-style-type: none"> <li>• It will be able to <b>direct priority sector lending in the currently unviable projects</b> by supporting through interest subvention, incentive and credit guarantee.</li> <li>• Government will further be able to <b>reduce national food wastage percentage</b> thereby enable agriculture sector to become competitive with current global levels.</li> <li>• Central/State Government Agencies or local bodies <b>will be able to structure viable PPP projects for attracting investment</b> in agriculture infrastructure.</li> </ul>
Agri entrepreneurs and startups	<ul style="list-style-type: none"> <li>• With a dedicated source of funding, entrepreneurs will <b>push for innovation in agriculture sector</b> by leveraging new age technologies including IoT, AI, etc.</li> <li>• It will also connect the players in ecosystem and hence, <b>improve avenues for collaboration</b> between entrepreneurs and farmers.</li> </ul>
Banking ecosystem	<ul style="list-style-type: none"> <li>• With Credit Guarantee, incentive and interest subvention, <b>lending institutions will be able to lend with a lower risk.</b></li> <li>• This scheme will help to <b>enlarge their customer base and diversification of portfolio.</b></li> <li>• Refinance facility will enable <b>larger role for cooperative banks and RRBs.</b></li> </ul>
Consumers	<ul style="list-style-type: none"> <li>• With reduced inefficiencies in post-harvest ecosystem, key benefit for consumers will be a larger share of produce reaching the market and hence, <b>better quality and prices.</b></li> </ul>

**6.8. AGRICULTURAL EXPORTS**

**Why in news?**

Recently, the **High-Level Expert Group (HLEG) on Agricultural Exports** set up by the **Fifteenth Finance Commission** had submitted its report to the Commission.

**India's status in Agricultural Export**

- India is the **second largest agriculture producer in the world** and has the largest arable land of 156 million hectares.
- In 2019, India exported USD 38.7 billion of agricultural goods, which is only **7% of Indian agriculture production.**
- India ranks **13th in the world in agriculture exports despite being leading producer of milk, bananas, mangoes etc.**
  - One key cause of the discrepancy between rank in production and exports is the **large domestic demand of a population** of 1.34 bn people.
- From 2013 to 2018, growth has slowed down relative to the impressive growth of 2009 to 2011.
  - **Exports dropped by 10% CAGR due to a drop in global process** and back to back drought in 2014, 2015 and 2016.
- India exports **70% of its commodities and agricultural product exports to nearby geographies, including the Middle East, Africa and Asia Pacific**, only exporting 30% to Europe and the Americas showing low agri market diversification.

**Significance of Agriculture Export**

- **High growth potential:** India's agricultural export has the potential to grow from USD 40 billion to USD 70 billion in a few years.
- **Job creation:** Additional exports are likely to create an estimated 7-10 million jobs.
- **Enhancing farm income:** A growth in agri exports can lead to **doubling of farm income, expansion of diversified markets** for Indian agricultural commodities etc.
- **Earns foreign exchange.**

**Agri Export Policy 2018**

- Implemented by the **Department of Commerce under Ministry of Commerce and Industry.**
- It aims to double agricultural exports from **US\$ 30+ Billion (2018) to US\$ 60+ Billion by 2022** and reach US\$ 100 Billion in the next few years thereafter.

- It tries to promote **novel, indigenous, organic, ethnic, traditional and non-traditional Agri products** exports.
- It tries to provide an **institutional mechanism for pursuing market access**, tackling barriers and deal with sanitary and phytosanitary issues.
- It has both **strategic and operational elements**.
  - **Strategic elements** include both **general and commodity specific measures**, Infrastructure and logistics, Greater involvement of State Governments and multiple ministries in Agriculture Exports.
  - **Operational elements** include focusing on clusters, marketing and promotion of “Brand India”, establishment of Strong Quality Regime, creation of Agri-start-up fund etc.

### Why there is a slowdown in Agri Export growth?

- **Low productivity:** Indian farms are smaller (1-2 hectares on average), making it harder to achieve economies of scale.
- **Low mechanization:** It is relatively low and Indian farmers do **not utilise many high-yield input varieties** used in other agri-producing countries.
- **High logistics costs:** India's cost of logistics is currently around 14% of GDP – higher than developed country exporters like the US (9.5%).
- **Limited value addition:** India is a more prolific exporter of primary commodities than of value-added agriculture products – **the country ranks 10<sup>th</sup> globally in processed meat**, 18<sup>th</sup> in the export of processed fruits and vegetables and 35<sup>th</sup> in dairy.
  - Reasons for low value addition include relative lack of private sector investment and adequate incentives.
- **Decreasing incentives to agri exports:** While India has invested heavily in a broad range of export promotion schemes such as **Agriculture Export Zones (AEZ)**, India's export incentives have declined over time.
- **Non-tariff barriers (NTB):** Indian agriculture exports also face non-tariff barriers **stringent sanitary and phytosanitary (SPS) standards, residue Limits for various pesticides, antibiotics, etc** in attractive markets such as **Europe (e.g., more stringent shrimp inspections than for other top exporting countries)**.
- **COVID 19:** The pandemic has accentuated the global food and agriculture trends, which may result in decrease of agricultural exports.

#### Changes in Global food and agriculture trends due to Covid 19

- **Shift in consumer behaviour towards health and wellness** is driving higher transparency (e.g., clean ingredients lists replacing artificial low-calorie ingredients, fresh produce and organics)
- Increased global and local regulatory scrutiny driven by **political pressure** (e.g., EU adopting new rules imposing harmonisation of quality and safety requirements for fertiliser).
- COVID-19 crisis has increased the threat of global food insecurity through a combination of **job losses and food price volatility**.
- Countries with heavy dependency on food imports look to secure supplies through **long-term contracts**.
- **Import substitution in agriculture** becomes more of a priority as countries vie to become self-reliant.

### Recommendations of HLEG

- **Crop value chains:** Focus on 22 crop value chains with demand driven approach with a potential of taking **Indian exports from USD ~40 bn today to USD ~70 bn in a few years**.
  - HLEG also identified 7 “must-win” lighthouse value chains using parameters of competitiveness, export potential, agricultural diversity etc. These are rice, shrimps, buffalo, spices and fruits and vegetables, vegetable oils and wood.
- **Target markets for export:** Identify markets with high export potential for competitive value chains and sign beneficial bilateral or multilateral trade agreements with them, raising sanitary and phytosanitary production levels to meet their quality standards and negotiating with them to remove non-tariff barriers.
- **Solve Value Chain Clusters (VCC) holistically with focus on value addition:** The clusters would also serve to converge the government's spends and schemes, as well as seek any additional funding required, for **building the necessary infrastructure** at competitive costs for value addition, promoting research and development and promoting “**Brand India**” in global markets.
- **Creating a State-led export plan:** It is a business plan for a crop value chain, that will lay out the opportunity, initiatives and investment required to meet the desired value chain export aspiration.
- **Centre as an enabler:** Centre should play an active role in enabling the players involved in the agriculture exports and encourage them for more production.

## 6.9. AGRICULTURE RELATED INDUSTRIES

### 6.9.1. EDIBLE OIL DEFICIENCY

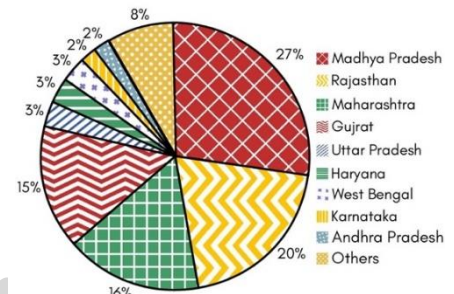
#### Why in News?

The Commerce ministry has asked the Agriculture ministry to prepare a **road map for India to attain self-sufficiency in edible oil production.**

#### Status of edible oil in India

- Currently, total **edible oil production** is just 7.31 million tonnes (mt). Estimated **demand** of edible oils in India is 24.5 mt.
- So, total edible oil **import** account for 65-70% of the domestic requirements. In early 1990s, it was less than 5%.
- India is third largest consumer of edible oil.
- Total edible oil **requirement by 2022** is estimated at 33.2 mt, assuming **per capita consumption** of about 22 kg per person a year, from 19 kg during 2015-16.
- India is the **fourth largest oil seed-producing** country in the world after USA, China and Brazil. Currently, annual **oilseed production** from primary sources in India is around 34 mt.
- The **oilseeds accounts for 13% of the gross cropped area, 3% of the Gross National Product and 10% value of all agricultural commodities.**
- Major Oilseed producing states in India:
  - **Groundnut:** Gujarat (leading), Andhra Pradesh, Karnataka, & Tamil Nadu
  - **Mustard:** U.P (leading) Haryana, West Bengal &
  - **Soybean:** M.P (leading) & Maharashtra
- **Palm oil forms a major share** of the edible oil imported as well as consumed by Indians. Other major oils are- Soybean Oil and Mustard oil.
  - India imports most of its edible oils from **Indonesia and Malaysia.** Moreover, Malaysia has a duty advantage over Indonesia under the India-Malaysia Free Trade Agreement.

% Contribution in Production



#### Challenges in meeting the edible oil demand domestically

- **Stagnation in oilseed production**, at around 33 million tonnes over the last five years.
  - **Low remuneration for farmers-** despite huge domestic supply deficit, **large imports** results in undue pressure on oilseed prices which often slips below the minimum support price (MSP).
  - **Reduction in area under cultivation-** due to relatively lower profitability as against competing crops like maize, cotton or chickpea.
- **Import dependence-** processing industry prefers to import refined oil for blending directly with the oil for repacking and distribution for local consumption.
  - Further, because of lesser taxes on refined oil as compared to crude oil, share of imported refined oil in overall imports has surged to 18% from 12% few years back.
- **Agricultural conditions-** Annual cultivation was about 26.7 million hectares, around **70 per cent of which is rain-fed.**
  - **Agricultural yield**, although increasing, but is **heavily dependent on monsoon** and lesser than global standards.
  - **Lack of resources-** Majority of oilseed growers (more than 85%) are small and marginal farmers having poor resource base coupled with non-availability of quality seeds of varieties and hybrids.
- **No cohesive policy:** The lack of any clear policy on how procurement agencies are expected to liquidate their acquired oilseed stock has created more problems.

#### Way Forward

- **Diversification:** Extending oilseed cultivation to underutilized farming locations such as the rice fallows of eastern India and in some coastal region.
- **Under the ambit of PDS:** Including cooking oils in the PDS may provide a fillip to procurement operations while ensuring affordable supplies.
- **Impetus to domestic varieties:** Consumer awareness efforts may be needed to showcase the benefits of indigenous varieties.

- To revive distressed processing capacity, import tariffs need to be united with domestic MSPs and refining costs, with no ad-hoc tinkering with the tariffs.
- **Control the imports:** There is a need to fix an annual ceiling on import; and the import trade should be monitored strictly.

**Steps taken by government**

- **Ministry of Agriculture** has set the following **targets** to be achieved by 2022-23-
  - to take annual production of **edible oils** from current 7.31 mt to 13.69 mt.
  - increasing **oilseed** production from primary sources from the current 34 mt to 45.64 mt.
- **Group of Secretaries (GoS)** was constituted recently for launching a nationwide oil seed mission to minimise oil imports.
  - Government may levy a 2-10% cess on import of crude and refined edible oil to fund the mission.
- **Ashok Dalwai committee**, Committee on Doubling Farmers Income was setup. Some of its recommendations are-
  - The **strategy for self-sufficiency in oilseeds production** should encompass all three sources of oils
    - ✓ 9 primary sources of oilseed crops (seven edible (soybean, rapeseed-mustard, groundnut, sesame, sunflower, safflower and niger) and two non-edibles (castor and linseed))
    - ✓ secondary sources (rice bran, cotton seed, solvent extracted oils)
    - ✓ tree borne oils (TBOs), namely, palm oil, coconut, other tree and forest origins
  - **To incentivize palm tree cultivation-** it has suggested a price incentive mechanism for farmers through creation of an **Edible Oil Development Fund (EODF)**, with contributions coming from a specially levied cess of 0.5% on the imports of crude and refined palm oil.
- **ISOPOM (Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize)**
  - Under this, four schemes related to oilseeds, pulses, oil palm and maize have been merged into one Centrally Sponsored ISOPOM.
  - Financial assistance is provided to farmers for purchase of breeder seed, production of foundation seed, production and distribution of certified seed etc.
- **National Mission on Oilseeds and Oil Palm (NMOOP)**
  - It is implemented under three Mini-Missions (MM) namely; MM I – Oilseeds, MM II – Oil Palm, MM III – TBOs (Tree Based Oil).
  - The mission targets increasing production of oilseeds to 42 mt by FY2022 from estimated 34 mt.
  - The strategy and guideline for NMOOP includes:
    - ✓ **Increasing Seed Replacement Ratio (SRR)** with focus on Varietal Replacement; increasing irrigation coverage under oilseeds from 26% to 36%. SSR is a measure of how much of the total cropped area was sown with certified **seeds** in comparison to farm saved **seeds**.
    - ✓ diversification of area from low yielding cereals crops to oilseeds crops; inter-cropping of oilseeds with cereals/ pulses/ sugarcane;
    - ✓ use of fallow land after paddy /potato cultivation
    - ✓ expansion of cultivation of Oil Palm and tree borne oilseeds in watersheds and wastelands;
    - ✓ increasing availability of quality planting material enhancing procurement of oilseeds and collection;
    - ✓ Processing of tree borne oilseeds.

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## 7. INDUSTRY AND INFRASTRUCTURE

### Introduction

Industrial sector performance is critical to achieving the ambitious goal of making India a five-trillion economy. Directly, the sector contributes close to 30 per cent of total gross value added (GVA) and indirectly it supports the other two sectors through forward and backward linkages.

### Overview of Industrial Sector

- **Decreased Growth:** The estimated growth for 2019-20 is 2.5 percent as compared to 6.9 percent last year. (Reason being the 0.2 percent negative growth of manufacturing sector.)
- **Index of Industrial Production (IIP):**
  - **IIP growth moderated:** Overall, IIP growth moved to 3.8 percent in 2018-19 compared to 4.4 percent in 2017-18. Reasons being slower credit flow to MSMEs reduced lending by NBFCs, tapering of domestic demand for key sectors etc.
  - **Declining sectors:** Capital goods, infrastructure goods and consumer durables.
  - **Growing sectors:** Intermediate goods, consumer non-durable and primary goods.
- **Rising Gross Capital Formation (GCF):** Rate of growth of GCF in industry has registered a sharp rise from -0.7 percent in 2016-17 to 7.6 percent in 2017-18.
- **Increased Credit Flow:** Growth in gross bank credit flow to the industrial sector rose to 2.7 percent in September 2019 as compared to 2.3 percent in September 2018.

### 7.1. INDUSTRIAL POLICY EFFORTS

#### 7.1.1. AMENDMENTS TO PUBLIC PROCUREMENT ORDER, 2017

##### Why in news?

Recently, **Public Procurement (Preference to Make in India) Order, 2017** was amended to give more preference to local suppliers.

##### Key highlights of the amended order

- Enables nodal Ministries/ Departments to **notify higher minimum 'local content' requirement** for Class-I & Class-II local suppliers.
  - **Local content is defined** as the total value of the item procured less the value of imported content in the item as a proportion of the total value.
- Specifying **foreign certifications/ unreasonable technical specifications/ brands/ models** in the bid document is considered restrictive and discriminatory practice against local suppliers.
  - Foreign certification shall be stipulated **only with the approval** of Secretary of the Department concerned.
- Entities of **countries which do not allow Indian companies to participate in their government procurement for any item, shall not be allowed to participate** in government procurement in India for all items related to that nodal ministry or department, **except** for the list of items published by the ministry or department permitting their participation.
- All administrative Ministries/ Departments whose procurement exceeds Rs. 1000 Crore per annum shall **notify their procurement projections for the next 5 years** on their respective website.

##### Other measures for promotion of local supplies in public procurement

- **Public Procurement Policy for Micro and Small Enterprises (MSEs) Order, 2018.**
  - It was notified under **Micro, Small and Medium Enterprises Development Act, 2006.**
  - **Under this**, every Central Ministry /Department / PSUs shall set an annual target for 25% procurement from MSE Sector.
  - A **sub-target of 4% and 3%** out of 25% is earmarked MSEs owned by **SC/ST and Women entrepreneurs** respectively.
- **Government eMarketplace (GeM).**
  - GeM was launched in 2016 as an **end-to-end e-portal for procuring** common-use goods and services by Central and State Government Departments, PSUs, autonomous institutions and local bodies.
  - It aims to **bring in transparency, promote ease of doing business**, simplify the process of procurement.
  - The purchases through GeM by Government users have been **made mandatory** by Ministry of Finance.



- **Defence Acquisition Procedure (DPP) 2020**
  - It proposes **increasing the Indigenous Content (IC)** stipulated in various categories of procurement by about 10% to support the 'Make in India' initiative.
  - It also proposes, **New Category Buy (Global – Manufacture in India)** with minimum 50% IC on cost basis of total contract value.

### About Public Procurement (Preference to Make in India), Order 2017

- It is applicable on **procurement of goods, services and works (including turnkey works)** by a Central Ministry, Department, attached, subordinate offices, autonomous bodies controlled by the Government of India, Government companies, their Joint Ventures and Special Purpose Vehicles.
- For the verification of the local content, **self-certification would be necessary**. Nodal Ministries may also constitute committees with internal and external members for independent verifications of the self-declarations.

### Issues faced by local suppliers

- Some departments and PSUs **impose mandatory eligibility clauses**, such as a minimum turnover limit and the number of purchase orders previously executed for the procurement of materials.
- The **time, cost and effort required for the tendering process, inadequate opportunities for buyer-seller interactions**, inadequate information, complex vendor registration processes acts as obstacles to domestic suppliers.
- Many MSMEs complain that several **traders have become vendors through GeM platform**, which is hurting the interests of genuine MSEs.

### Suggestions

Public procurement from **MSE has been growing 3-4% year-on-year**. From 23.11% in 2017-18, the procurement went up to 30.95% in 2019-20. Some suggestions to further improve this are:

- There needs to be a **digitised, easily-accessible central database of MSE vendors** across the country. Authorities must also **relax the qualification criteria of MSMEs** vis-a-vis their large corporate counterparts to level the playing field.
- The major procuring ministries must undertake measures for training MSE vendors as well as PSUs and their procurement officers to inculcate greater knowledge of the sector and markets amongst them to encourage better cooperation and efficiency.
- **Semi-independent testing labs** should be established in every state to ensure fair and quick testing of the products.
- A **feedback and grievance redressal portal**, as well as an on-ground team, shall be set up.

### 7.1.1.1. SUSTAINABLE PUBLIC PROCUREMENT (SPP)

#### Why in news?

A Task Force on Sustainable Public Procurement (SPP) has been constituted by Department of Expenditure.

#### Sustainable Public Procurement

Sustainable Public Procurement is a process by which **public authorities seek to achieve** the appropriate balance between the **three pillars of sustainable development - economic, social and environmental** - when procuring goods, services or works at all stages of the project.

#### Objectives of SPP:

- **Reducing adverse environmental and social impacts** as a result of procurement decision.
- **Reducing air & water pollution** and waste generation.
- **Promoting health and safety** in communities
- Creating employment and business opportunities **for disadvantaged group, MSEs and local industries**
- Encouraging suppliers to foster a **commitment to local communities**.
- Encourage industry to prepare for **future clean and green market scenario**.

#### Sustainable public procurement and India

- **Currently, in India, there is no public procurement law at the national level**. However, some public sector entities and government departments have started internalizing environmental and energy efficiency criteria in their procurement decisions.

- **Draft Public Procurement Bill-2012**, stated that procurement evaluation criteria may include the characteristics of the subject matter of procurement, such as the functional characteristics of goods or works and the environmental characteristics of the subject matter.

### Challenges in implementing SPP

- **Lack of capacity and proper legal framework:** Procurement officials are often risk averse and could be hesitant to implement sustainable procurement without a clear legitimization and policy direction.
- **Consumers' behavior:** Implementation of SPP, in practice, requires a change in consumers' attitude towards the sustainable consumption of products and services.
  - UJALA programme is successful because consumers understood the benefits of using LED.
- **Production process-related elements in SPP:** Procurers have to draw a distinction between the environmental impact of a product and those linked to the process in which it is produced.
- **SPP can prevent the market proliferation of sustainable alternatives:** If SPP-demand for product A results in an increase to its retail price, this will discourage other purchasers from selecting it, who will then end up buying a less environmentally preferable alternative.

### Way forward

**In India, 30% of the GDP per annum is spent on public procurement.** Given the massive size of public spending, public sector in India can be a prime driver towards sustainable production and consumption and can create environmental and economic benefits. For this-

- **National policy on SPP with well-defined complementary actions**, such as identifying priority areas, enhancing capacity and running awareness campaigns should be formulated at earliest.
- There is a **need to convince various stakeholders such as policymakers, suppliers, procurement officials and general public** that sustainable goods are beneficial over a long-term.

## 7.1.2. REVITALIZING SEZs

### Why in News?

SEZs in India have achieved 100-billion-dollar worth of exports in FY 2019-20.

### About SEZs

- **Special Economic Zone (SEZ)** is a specifically delineated duty-free enclave and deemed to be foreign territory for the purposes of trade operations, duties and tariffs.
- **The main objectives of SEZs were**, generation of economic activity, promotion of exports and investment, employment generation, infrastructure development.
- **SEZ Rules provide** for, simplified procedures for conducting business, single window clearances, simplified compliance procedures and emphasis on self-certification.

### Brief overview of SEZs

- Number of operational SEZs have grown to 241 as against 235 at the end of FY 2018-19.
- **Exports from SEZs are growing at a faster rate than overall exports from the country.** E.g. In April-June 2019, even as overall export growth from India slowed down to 2 per cent, exports from SEZs posted a robust 15 per cent growth.
- In SEZs, growth in manufacturing segment was around 4%, while in services segment (constituting majorly of IT & ITeS) export growth was 23.69%.
- Since the SEZ Act came into force in 2005, over 2 million jobs have been created, with an **incremental annual growth rate of 25.2%**. The share of **SEZ exports in India's total exports value** has grown to around 30% in 2018-19.

### Major challenges and potential solutions

- **About half of the land notified for SEZs was unutilized (as of August 2017):** It was mainly due to lack of flexibility to utilise land in SEZs for different sectors.
- **Sunset Clause:** According to **Section 10AA of the Income Tax Act**, units in SEZs get a phased tax-holiday for a period of 15 years. However, the benefit is available to only those units that start operations before March 31 this year. Industry bodies are asking to extend sunset clause, owing to slowdown in economy.
  - However, **benefits under indirect taxes**, like exemptions on GST and incentives on exports continue to exist.
- **Minimum Alternate Tax (MAT):** Government has cut MAT to 15 per cent from 18.5 per cent. However, industry is demanding a complete removal of MAT.



- **Constraints for services sector:** At present, domestic firms are required to pay in foreign exchange for services rendered by a SEZ unit. However, for sale of goods, payments could be made in rupee terms. Due to this, companies outside SEZ have to go through the hassle of changing rupee to foreign exchange for payment purpose.
  - To deal with this problem, it has been suggested an amendment in the definition of “services” in the SEZ Act, 2005.
  - 15 per cent corporate tax, currently applicable to new manufacturing companies in SEZs, could be extended to new services firms.
- **Job work (working on raw materials supplied by principal manufacturer) for domestic tariff area (DTA):** SEZ units are currently allowed to undertake job work for export on behalf of DTA units in **certain sectors** subject to the condition that the finished goods are exported directly from SEZ units.
  - Approving job work for other sectors like gems and jewellery would boost exports.
- **Domestic sales of SEZs face a disadvantage:** as “they have to pay full customs duty”, as compared to the lower rates for countries due to free-trade agreement (FTA). It is suggested that the “best FTA rates” should be allowed for domestic sales, too.
- **Need to do away with NFE Rules:** A primary requirement for SEZ units to be eligible for benefits is to have a positive net foreign exchange (NFE).
  - Net Foreign Exchange criteria is determined by subtracting the value of imported inputs, input services and capital goods along with the value of all payments made in foreign exchange from the value of exports.
- **Existence of multiple models of economic zones** such as SEZ, coastal economic zone, Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zone, food park and textile park.
  - This could be addressed by **rationalisation of models**. E.g. proposed Coastal Economic Zones consisting of a series of SEZs and Sagarmala project that aims at port-led industrialisation.
  - Also, business community is demanding to **grant infrastructure status to buildings of SEZs**, permit external commercial borrowing (ECB) for entire SEZ infrastructure etc.
- **Lack of a future ready SEZ policy because of which** India is not able to emerge as alternate to China and facing competition from countries like Bangladesh and Vietnam.

#### Recent steps taken by government

- **Local sourcing norms clarified for single-brand retailers:** sourcing of goods from units located in SEZs in India would qualify for meeting the mandatory 30 per cent local sourcing conditions.
- **All existing notified SEZs deemed to be multi-sector SEZs**, enabling coexistence of a SEZ unit from any sector along with any other SEZ unit.
  - This would release land parcels in single commodity SEZs for other sectors. This reduced confusion for new industry, like, artificial intelligence as to which category of SEZs to fit them into.
- **Minimum land area** required for setting up a multi-product SEZ has been revised from **500 hectares to 50 hectares**. Also, **Minimum built-up area** requirements for services have also been significantly reduced.
- Last year, the **definition of “person” who can set up their units in SEZ was broadened** to include “trust” or “any entity notified by Central Government”. This could help increase the number of exporting units as, now infrastructure investment trusts and real estate investment trusts will be permitted to operate in SEZs.

#### Way forward: Recommendations given by the Baba Kalyani Committee

- **Reincarnation of SEZs as employment and Economic Enclaves (3Es) and shift focus from export to economic and employment growth.** For this, incentives for the manufacturing SEZs have to be based on specific parameters including demand, investment, employment and technology, value addition and inclusivity.
- **Other supports for SEZ (3Es)**
  - Flexibility to enable 3E units to seamlessly support business outside the zone.
  - Supply of power directly to units from independent power producer (IPPs) at competitive rates
  - Fast tracking various approvals via online mode
  - Integrating MSMEs with the 3Es and giving additional incentives to zones focusing on priority industries
  - Infrastructure status to 3E projects to make cheaper finance available to them
- **Connectivity to remote SEZs** through development of last mile and first mile connectivity.

- **Replicate Success of ITES**, in other services sector like health care, financial services, legal, repair etc.
- **Tax benefits** for services SEZs, extension of sunset clause, lowering taxes (such as a MAT of 9 per cent and exemption from DDT) for identified strategic services and allowing supplies to domestic market in Indian currency to bring parity between goods and services.
- Prepare a **sunrise list for “focused diversification”** such as engineering and design, biotech and healthcare services.
- **Align the policy framework to avoid competition among similar schemes** of industrial parks, export-oriented units, SEZ, national investment and manufacturing zones etc.

## 7.2. MSME SECTOR

### Introduction

Micro, Small, and Medium Enterprises in India are **classified as per a Composite Criteria** based

on Investment in Plant & Machinery/equipment and Annual Turnover (see table).

CLASSIFICATION	MICRO	SMALL	MEDIUM
<b>Manufacturing Enterprises and Enterprises rendering Services</b>	Investment < ₹ 1 crore and Annual Turnover < ₹ 5 crore	Investment < ₹ 10 crore and Annual Turnover < ₹ 50 crore	Investment < ₹ 50 Crore and Annual Turnover < ₹ 250 Crore

### Significance of MSME sector in India

- **Employment generation:** In India, at present, there are about 55.8 million enterprises in various industries, employing close to 124 million people.
  - Of these, nearly 14 per cent are women-led enterprises, and close to 59.5 per cent are based in rural areas.
- **Exports:** The MSME sector accounts for 29 per cent of India’s GDP and 45 per cent of exports.
- MSME sector also plays a key role in **income augmentation, building rural infrastructure, women empowerment, promotion of traditional goods, innovation** etc.

### Challenges faced by MSME sector

- Limited **capital and knowledge**
- **Technological Backwardness**
- **Inadequate infrastructure** facilities including access to power, water, & road
- **Low production capacity** and constraints in modernisation & expansions which inhibits the sector to profit from ‘economy of scale’
- **Ineffective marketing strategy**
- **Non-availability of skilled labour** at affordable cost
- High competition from **cheap imports**

### Recent initiatives for MSME Sector

- **In-principle approval for loans up to Rs. 1 crore** within 59 minutes through online portal.
- **Interest subvention of 2 per cent for all GST registered MSMEs** on incremental credit up to Rs. 1 crore.
- All companies with a turnover of more than Rs. 500 crore to be **mandatorily on TReDS platform**.
- **All CPSUs to compulsorily procure through GeM portal**.
- **20 Technology Centres (TCs) and 100 Extension Centres (ECs)** to be established at the cost of Rs. 6,000 crore.
- Government of India to bear **70 per cent of the cost for establishing Pharma clusters**.
- Returns under **8 labour laws and 10 Union regulations to be filed once in a year**.
- Establishments to be visited by an **Inspector** will be decided through a **computerized random allotment**.
- **Single consent under air and water pollution laws**.

### 7.2.1. FINANCING OF MSME SECTOR

#### Why in news?

World Bank and Government of India recently signed a \$750 million **Agreement for Emergency Response Programme** for Micro, Small, and Medium Enterprises (MSMEs).

### Major constraints in Financing the MSME Sector

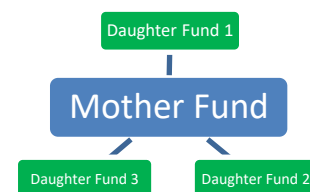
- **Poor access to formal capital:** Only about 8 percent of MSMEs are served by formal credit channels. This can be attributed to factors such as:
  - **Lack of credit history and reliable financial statements:** which makes carrying out credit appraisals of MSMEs difficult and results in high transaction costs for lenders.
  - **Lack of hard assets:** that are essential for securing formal credit in most cases.
  - **Apprehension among lenders due to high default rates on MSME loans:** Between December 2017 and December 2019, the non-performing asset (NPA) rate on MSME loans of public sector banks varied between 16.6 per cent and 18.7 per cent.
  - **Low financial and digital literacy:** among MSME operators, limits their ability to seek cheaper formal credit through digital means.
- **Limited funding capacity and accessibility of NBFCs and SFBs:** These form key market-oriented channels of credit and respond to the urgent and varied needs of the MSMEs.
- **Exclusion of individual entrepreneurs in current schemes:** Large number of entrepreneurs such as truck owners, agriculture equipment owners etc. are not registered as MSMEs and take business loans in their individual capacity. They are currently not eligible for additional lending under ECLGS.
- **Uncertainty during COVID-19 pandemic:** has affected financial stability of MSMEs due to reasons such as delayed payments, burden of fixed costs such as rent and repayment of bank dues, rising raw material prices etc.

### Potential Solutions

- **Expansion of current government schemes** to include individual entrepreneurs and incentivizing individuals to officially register as MSME to gain benefits under various initiatives.
- **Leveraging digital platforms** can play an important role by enabling lenders, suppliers, and buyers to reach firms faster and at a lower cost, especially small enterprises that currently may not have access to the formal channels.
- **Credit Risk Database** for lenders to pool the large amount of data, related to MSME loans, being generated at various lending institutions. This will reduce risk for lenders and help them make informed decisions.
- **Awareness generation** is needed to inform MSME operators of the latest government schemes and programmes.
- **Temporary deferment of property taxes rent and other utilities** can be provided to distressed enterprises in order to avoid further costs and liquidity shortfalls.
- **Strengthening NBFCs and SFBs** by focusing on refinance facility for NBFCs and direct support to Small Finance Bank (SFBs) through loans and equity, since they form major sources of credit to MSMEs.

### 7.2.2. MEASURES ANNOUNCED FOR MSME SECTOR UNDER ATMANIRBHAR BHARAT ABHIYAN

<p><b>Subordinate Debt for Stressed MSMEs</b> (Allocation: Rs. 20,000 crore)</p>	<ul style="list-style-type: none"> <li>• This scheme aims to support to stressed MSMEs which have Non-Performing Assets (NPAs).</li> <li>• Under the scheme, promoters of MSMEs will be given debt from banks, which will be infused into the MSMEs as equity.</li> <li>• The government will facilitate Rs 20,000 crore of subordinate debt to MSMEs. For this purpose, it will provide Rs 4,000 crore to the Credit Guarantee Fund Trust for Micro and Small Enterprises, which will provide partial credit guarantee support to banks providing credit under the scheme.</li> <li>• Close to two lakh MSMEs are likely to benefit from this scheme.</li> </ul>
<p><b>Equity infusion for MSMEs through Fund of Funds</b> (Allocation: Rs. 50,000 crore)</p>	<ul style="list-style-type: none"> <li>• The scheme aims to create a fund of funds with a corpus of Rs. 10,000 crore for long-term equity infusion in MSMEs.</li> <li>• <b>Operational Mechanism:</b> <ul style="list-style-type: none"> <li>○ The Fund of Funds will be operated through a <b>Mother Fund and few daughter funds.</b></li> <li>○ This fund structure will help <b>leverage Rs. 50,000 crore of funds</b> at daughter funds level.</li> <li>○ The scheme will help to <b>expand MSME size as well as capacity</b> and it may also encourage MSMEs to <b>get listed on Stock Exchanges.</b></li> </ul> </li> </ul>



<b>Global tenders to be disallowed up to Rs. 200 crores</b>	<ul style="list-style-type: none"> <li>The idea behind this move is to <b>protect Indian MSMEs from foreign competition.</b></li> <li>This will be a step towards Self Reliant India and will directly support Make in India initiative and will also help MSMEs to increase their business in the long term and help them grow.</li> </ul>
<b>Use of Fintech</b>	<ul style="list-style-type: none"> <li><b>Use of Fintech is being encouraged</b> to enhance transaction based lending using the data generated by the e-marketplace. <ul style="list-style-type: none"> <li>Fintech refers to computer programs and other technology used to support or enable banking and financial services.</li> </ul> </li> </ul>
<b>Interest Subvention for MUDRA-Shishu Loans</b>	<ul style="list-style-type: none"> <li>The scheme addresses the <b>issue of Small businesses under MUDRA</b> which have been disrupted and whose <b>capacity to pay their EMIs has been depleted.</b></li> <li>The current portfolio of <b>MUDRA-Shishu loans is approximately Rs 1.62 Lakh crore</b> (Maximum loan amount of being Rs. 50,000).</li> <li>To address this, Government of India will provide <b>Interest subvention of 2% for prompt payees</b> of loans for a period of 12 months.</li> </ul>
<b>Collateral free Automatic Loans for Businesses, including MSMEs (allocation: Rs. 3 lakh crore)</b>	<ul style="list-style-type: none"> <li><b>Businesses/MSMEs have been badly hit due to COVID 19. As a result, businesses need additional funding to meet operational liabilities built up, buy raw material and restart business.</b></li> <li><b>To provide</b> working capital to these businesses, <b>Emergency Credit Line has been created for Businesses/MSMEs from banks and NBFCs up to 20% of entire outstanding credit as on 29.2.2020.</b></li> <li><b>The scheme is estimated to aid</b> in resumption of almost 45 lakh units.</li> </ul>

## 7.3. MINES AND MINERALS SECTOR

### Introduction

India produces as many as 95 minerals which include 4 hydrocarbon energy minerals, 5 atomic minerals (ilmenite, rutile, zircon, uranium, and monazite).

- Contribution:** Mining and quarrying sector contribution to GVA accounted for about 2.38 per cent during 2018-19.
- Increased Production:** The production of major minerals during the year 2018-19 has recorded a growth of 25 per cent when compared to last year in terms of value.
- Index of Mineral Production:** The Index of Mineral Production (base 2011-12 = 100) for the year 2018-19 is estimated to be 107.9 as compared to 104.9 of previous year.

### Current situation of mining industry

- Key to ensuring the country's energy and raw material security:** The mining industry serves as the base for the power sector, with around 72% of India's current power being generated through coal. Further, minerals are the basic building blocks of manufactured products and many agri-inputs.
- Huge imports:** Despite having the world's fourth largest coal reserves, India imported 235 million tonnes (mt) of coal last year, of which 135mt valued at ₹171,000 crore could have been met from domestic reserves.
- Underdeveloped relative to its enormous potential:** Reduced demand for power from conventional sources, decreased growth in cement, iron and steel sectors; and approval processes resulted in a scenario, where, even if mines were allotted, the extraction of minerals would be limited thereby resulting in stagnation of development of mines.

### 7.3.1. MINERAL LAWS (AMENDMENT) BILL, 2020

#### Why in news?

Parliament recently passed The Mineral Laws (Amendment) Bill, 2020 for amendments in **Mines & Mineral (Development and Regulation) Act 1957** and **The Coal Mines (Special Provisions) Act, 2015**.

#### Key Provisions

- Composite license for prospecting and mining:** A new type of license, called prospecting license-cum-mining lease has been introduced.



- Currently, separate licenses are provided for prospecting and mining of coal and lignite, called prospecting license, and mining lease, respectively. Prospecting includes exploring, locating, or finding mineral deposit.
- **Removal of restriction on end-use of coal:** Companies will be free to use extracted mineral both for captive use of end use plants (power, steel, cement etc.) and commercial sale in the open market.
- **Eligibility criteria for auction of coal and lignite blocks:** The companies which do not possess any prior coal mining experience in India but are financially strong and or have mining experience in other minerals or in other countries can now participate in auction of coal/lignite blocks.
- **Reallocation after termination of the allocations:** Such mines may be reallocated through auction or allotment as may be determined by the central government. The central government will appoint a designated custodian to manage these mines until they are reallocated.
- **Prior approval of the central government is not required in granting of reconnaissance permit, prospecting license or mining lease in respect of the minerals, in certain cases:** These cases are-
  - an allocation order has been issued by the Central Government.
  - a notification of reservation of area has been issued by the Central Government or the State Government.
- **Advance action for auction:** State Governments have been allowed for taking an advance action for auction of the mining lease before the expiry of the lease period.
- **Transfer of statutory clearances to new bidders:** The various approvals, licenses, and clearances given to the previous lessee will be extended to the successful bidder for a period of two years.

#### Benefits

- **Broadening the playing field:** The act will enable companies, which do not have any mining experience or which are not engaged in a specified end-use, to make bids in auctions alongside the established players in the market.
- **Decrease in coal Imports:** The effective mining sector will lead India to use its own natural reserves, instead of importing coal.
- **Efficient process of allocation:** A bidding company may now bid for a prospecting licence-cum-mining lease for coal and lignite as well, thereby streamlining the process of allocation.
- **Removal of Superfluous Approvals:** Several approvals carried out by the Central Government at various stages in turn resulted in delays and repetition of the approval process.
- **Smoother Transitions:** Certain provisions have been introduced in the MMDR Act which will facilitate easy transfer of mining operations by the competent authority from one allottee to another.

#### Issues

- **Dilution of Eligibility Criteria:** Mining sector is a very specific sector which requires expertise and by removing prior experience restriction the evaluation of bidders will become difficult.
- **Natural resources can be misused:** With removal of the end use restriction along with allowing 100% FDI can result in misuse by foreign players.
- **Could be detrimental for Environment:** Increasing usage of coal for energy or for manufacturing of power and over mining may result in environment degradation. Polluter's pay principle is also missing.
- **Future of Coal India Ltd. is in doubt:** Opening up of the sector for private players may end monopoly of Coal India and government may lose its strategic asset.

#### Way forward

Government should take measures to reduce import so that increased domestic production does not lead to increase in coal usage. Companies involved in auctions should be thoroughly evaluated prior to the auction. Also, Coal use and production should be gradually decreased for a sustainable and greener growth.

#### 7.3.1.1. OTHER REFORMS ANNOUNCED AS PART OF ATMANIRBHAR BHARAT ABHIYAN

Enhancing Private Investments in the Mineral Sector by:

- Introduction of a **seamless composite exploration-cum-mining-cum-production regime.**
- **500 new mining blocks** would be offered through an open and transparent auction process.
- Introduction of a **new mechanism for joint auction of Bauxite and Coal** mineral blocks to enhance competitiveness of Aluminium Industry. This will help aluminium industry in reduction of electricity costs.

### Other Policy Reforms:

- **Removal of distinction between captive and non-captive mines** to allow transfer of mining leases and sale of surplus unused minerals. This will lead to improved efficiency in both mining and production.
- Ministry of Mines is in the process of developing a **new Mineral Index** for different minerals.
- **Rationalisation of stamp duty** payable at the time of award of mining leases.

### 7.3.2. DISTRICT MINERAL FOUNDATION (DMF)

#### Why in news?

The document, **District Mineral Foundation (DMF): Implementation Status and Emerging Best Practices**, was released by **Centre for Science and Environment (CSE)**, a Delhi-based think tank.

#### District Mineral Foundation

- It is a trust set up as a **non-profit body by state governments**, in those districts affected by the mining works, to work for the interest and benefit of persons and areas affected by mining related operations.
  - **Directly affected areas** where direct mining-related operations such as excavation, mining, etc. are located.
  - **Indirectly affected areas such as those** areas where local population is adversely affected on account of economic, social and environmental consequences due to mining-related operations.
- It was mandated through the **Mines and Minerals (Development & Regulation) Amendment Act, (MMDRA) 2015** and is funded through the **contributions from miners**.

#### Findings of the report

- **Total cumulative accrual** in DMFs across the country is close to Rs 36,000 crore as in January 2020.
  - **Non-coal major mineral mining**, such as iron ore, bauxite, manganese, limestone, precious metals, etc. account for the highest share of DMF accruals, **about 48 per cent**.
  - Out of the **top five states in terms of DMF accrual**, three are coal mining states—**Jharkhand, Chhattisgarh, and Telangana**.
  - The contribution of **minor minerals to DMF accrual has also increased** over the years.
- Among the high priority sectors, drinking water is the only sector for which allocation has been made in all states.
  - The investment for income generation, particularly sustainable livelihood, is still at a nascent stage in most districts.
  - Districts like Keonjhar which has poor malnutrition indicators are using some of its DMF funds by setting up crèches to address the nutritional needs of children under three years of age.

#### Issues in effective utilization of DMFs

- **Lack of representation:** Despite being a fund meant for people, **DMFs lack representation** of mining-affected people in decision-making.
  - As per the report the governing body remains dominated by elected representative like members of Parliament, members of Legislative Assembly and district officials.
- **No identification has been done to include displaced people**, people whose livelihoods were affected due to mining, people who might need any special and direct assistance, etc, despite a clear mandate in states' rules and the PMKKKY.
- **Identification of directly-affected areas is arbitrary:** No proper mapping has been done for demarcation and delineation of mining-affected area.
- **Poor planning:** Despite mid- and long-term planning mandates in state rules of Odisha, Chhattisgarh and Madhya Pradesh, no district has made a perspective plan.
- **Auditing:** Apart from a financial audit, no other scrutiny, such as a social or a performance audit of DMFs has been done.
- The **investments were focused mainly on development of physical infrastructure** and less on improving human development indicators.
- **Lack of public disclosure:** DMF trusts have a website providing clearly the composition of DMF bodies, budget, sanction and progress of works etc, but they lie defunct in many states and districts.



## Way forward

- **Gram Sabha:** The DMF decision making body should be inclusive with representation from mining-affected people. For Scheduled areas it must be ensured that at least 50 per cent of the Gram Sabha members represented in the governing council shall be Scheduled Tribes.
- **Use of technology:** Both directly and indirectly mining-affected areas should be delineated on a priority basis. For this purpose, the support of the State Space Application Centre or similar institutions/expert agencies may be sought.
- **Allocation:** It must be ensured that at least 60 per cent of DMF allocations/sanctions are for the 'high priority' issues as stipulated in the state DMF rules, as well as for the 'directly-affected' areas.
- **Grievance Redressal:** Each DMF Trust must also have in place a **strong grievance redressal mechanism**.
- A **dedicated DMF office for planning and co-ordination** must be set-up in every mining district. The PMKKKY guideline already says that 5 per cent of the DMF funds can be used for such expense.
- **Annual reports** should be prepared by each DMF Trust and laid before the State Legislative Assembly.

## 7.4. OTHER SECTORS

### 7.4.1. ELECTRONICS MANUFACTURING

#### Why in news?

Recently, Union Cabinet has approved three schemes for electronics sector namely:

- A production-linked incentive manufacturing scheme.
- Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS).
- Electronics Manufacturing Clusters (EMC) 2.0.

#### About the Schemes

- **Production-linked incentive manufacturing scheme**
  - It aims to **boost domestic production** and attract investment in mobile phone manufacturing, specified electronic components, including **assembly, testing, marking and packaging (ATMP)** units.
  - As a result, the **domestic value addition for mobile phones** is expected to witness 35-40% jump by 2025 from 20-25% now.
- **Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS)**
  - It offers **financial incentive of 25% of capital expenditure** for the manufacturing of goods that constitute the supply chain of an **electronic product**.
  - The incentives will be **available for investment made within 5 years** from the date of acknowledgement of application.
  - The scheme is expected to bring **new investments** in Electronics Sector to the tune of at least **Rs. 20,000 crore**.
- **Electronics Manufacturing Clusters (EMC) 2.0.**
  - The Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme would support setting up of both **Electronics Manufacturing Clusters (EMCs)** and **Common Facility Centers (CFCs)**.
  - The scheme will provide **financial assistance up to 50% of the project cost** subject to ceiling of ₹70 crore per 100 acres of land for setting up of Electronics Manufacturing Cluster projects. For Common Facility Centre (CFC), financial assistance of 75% of the project cost subject to a ceiling of ₹75 crore will be provided.

#### National Policy on Electronics 2019

- Policy envisions positioning **India as a global hub** for Electronics System Design and Manufacturing (ESDM).
- It replaces the National Policy of Electronics 2012 (NPE 2012).

#### Salient Features of the Policy

- Create eco-system for globally competitive ESDM sector
- Provide incentives and support for manufacturing of core electronic components.
- Provide special package of incentives for mega projects which are extremely high-tech and entail huge investments, such as semiconductor facilities display fabrication, etc.
- Promote Industry-led R&D and innovation in all sub-sectors of electronics, including grass root level innovations and early stage Start-ups in emerging technology areas such as 5G, IoT/ Sensors, Artificial Intelligence (AI) etc.
- Create Sovereign Patent Fund (SPF) to promote the development and acquisition of IPs in ESDM sector.
- Promote trusted electronics value chain initiatives to improve national cyber security profile.

- The schemes collectively are expected to attract **new investments worth at least ₹50,000 crore** in the sector, while generating more than **five lakh direct and 15 lakh indirect jobs**.

#### Status of Electronics Manufacturing in India

- India's electronics **production has increased** from Rs. 1.9 lakh crore in 2014-15 to Rs. 4.6 lakh crore in 2018-19, at a **CAGR of about 25%**.
- **India's share** in global electronics manufacturing grew from 1.3% (2012) to **3.0% (2018)**.
- The sector accounts for about **2.3% of India's GDP**

#### Need to boost electronics manufacturing

- **Target NET ZERO imports:** Electronics goods weigh heavily on the country's trade deficit and are one of the top three items imported in India.
- **Rapidly increasing demand:** Demand for electronic goods is increasing with a **Compound Annual Growth Rate (CAGR) of 22%** and is expected to touch 400 Billion USD by 2020.
- **Digital security:** Domestic manufacturing is essential for securing data which has implications both for privacy and national security.
- **Complement other schemes:** Domestic manufacturing plays a key role in boosting initiatives like BharatNet, Smart cities, National Knowledge Network (NKN) and also give a fillip to **'Make in India.'**

#### Challenges to the sector

- **Unavailability of affordable credit:** Schemes like Electronic Development Fund (EDF) which aimed to increase availability of credit have not completely fructified.
  - EDF was set up as a **"Fund of Funds"** to participate in professionally managed "Daughter Funds" which in turn provided risk capital to companies developing new technologies in the area of electronics.
- **Product Standard:** There are gaps between global product standards and those manufactured in India.
- **Ancillary Infrastructure:** Outside the factory, infrastructure bottlenecks such as logistics, port capabilities etc. continue to trouble manufacturers.
- **Productivity Gap:** Prevalent skill gap in population translates to productivity gap in production cycle.

#### Way forward

In pursuance of National Policy on Electronics, 2019, these three schemes collectively aim to resolve aforesaid challenges by improving infrastructure (EMC 2.0), easing the credit flow (Production incentive scheme) and encouraging capacity expansion (SPECS).

These steps can be complemented by steps like Reviving and revising schemes like the Electronic Development Fund (EDF) to increase credit availability, considering industry demands like **waiver of collateral on loans** taken to setup **machinery** among others.

### 7.4.2. STEEL SECTOR

#### Introduction

India stood at second position in the production of crude steel. (with 6 percent share in global production).

- **Third largest consumer:** It is also the third largest consumer of the finished steel after China and USA.
- **Growth and Utilization:** Crude steel production displayed a growth of 1.5 percent with utilisation capacity of 77.4 per cent.

#### 7.4.2.1. STEEL SCRAP RECYCLING POLICY

##### Why in News?

Recently, Ministry of Steel issued the Steel Scrap Recycling Policy.

##### Need of steel scrap recycling policy

- **Useful waste:** **Steel scrap is a recyclable material** left-over from steel manufacture or fabrication or at end of life of the product.
  - Steel scrap is unique in that it is **100 per cent recyclable**. It can be used, reused and recycled infinitely.
  - While **iron ore remains the primary source of steel making**, used or re-used steel in the form of Scrap is the secondary raw material for the steel industry.

- **To regulate scrap industry:** Interventions are required to accord Industry / infrastructure status to the **unorganized scrap recycling sector** so as to **ensure statutory compliance with respect to safety, health and environmental norms** in collection and processing of scrap.
  - There is very limited adherence to policies on safe dismantling and also low investment in infrastructure for safe disposal of waste materials.
- **To Improve steel production and reduce import bill:** The current supply of scrap is 25 MT from the domestic unorganized scrap industry and 7 MT from import of scrap. There is potential to harness this 7 MT of scrap that is currently being imported from the domestic market itself.
  - Most of the major steel producing countries like Japan, USA, and China are continuously increasing scrap-based steel production with proportionate reduction from primary route.
  - National Steel Policy 2017 (NSP-2017) also aims to develop a globally competitive steel industry by creating 300 Million TPA Steel production capacity by 2030
  - There is also **higher scrap availability due to increasing per capita steel consumption** (doubled from 2004- around 33kg to around 60 kg).
- **Environmental Benefits:** Recycling steel requires 56 percent less energy than producing steel from iron ore, and reduces CO<sub>2</sub> emissions by up to 58 percent.

#### Key feature of Steel Scrap Recycling Policy

- **Environment friendly:** It promotes collection, processing and recycling of products in an organized, safe and environment friendly manner.
  - The policy also proposed to create a mechanism for treating waste streams and residues produced from dismantling and shredding facilities in compliance to **Hazardous & Other Wastes (Management & Transboundary Movement) Rules, 2016**.
- **Promote circular economy:** The policy envisions promoting circular economy in the steel sector. The steel scrap shall be recycled to produce high grade steel. This can be used in the industries such as equipment manufacturing, automobiles and other downstream industries.
- **High quality steel:** The scrapping policy ensure that quality scrap is available for the steel industry. If quality scrap is provided as the charge to the electric furnaces, then the furnaces can produce high grade steel.
- **Authorise Steel scrapping centre:** It promote 6Rs principles of reduce, reuse, recycle, recover, redesign and remanufacture through scientific handling, processing and disposal of all types of recyclable scraps including non-ferrous scraps, through authorized centers / facility.
- **Hub and the spoke model:** To address the issue of collecting scrap and to structure the informal recycling sector based on environmental and scientific fronts, a hub and the spoke model has been suggested.
  - A 4+1 hub and spoke model is suggested where 4 collection and dismantling centres are to cater to the 1 scrap processing centre. Around 400 jobs would be created by one such composite unit.
- **Inter-Ministerial Coordination Committee:** An Inter-Ministerial Coordination Committee has been set up. The mandate of the Committee is
  - Policy changes required for creating an organized steel scrapping eco system;
  - Monitoring the operationalization and enforcement of relevant laws/regulations in this regard.

### 7.4.3. TEXTILE SECTOR

#### Introduction

- **Economic Contribution:** Textiles contributed 18.0 per cent of manufacturing and 2.0 per cent of GDP in 2017-18.
- **Exports:** The share of textiles and clothing in India's exports was 12 per cent in 2018- 19. Also, exports registered of growth of 3 percent in 2018-19 over 2017-18.
- **Employment:** The sector is the biggest employer after agriculture and it employs 4.5 crore people directly and 6 crore people in allied sectors.
- **Production:** Estimated man-made fibre and filament yarn production increased but cloth production decreased during April-August 2019.
- It plays a critical role in improving social dynamics as mostly women are employed in the sector.
- The backward linkages of the sector to the rural economy give huge opportunities to millions of farmers, artisans, handloom and handicraft manufacturers.
- The sector is perfectly aligned with Government's key initiatives viz., Make in India, Skill India, etc.

**Some of the challenges faced by this sector-**

- Absence of scale or **fragmented and scattered manufacturing**.
- While the ginning and spinning sectors are on par with international standards, **marginal technological gap exists in weaving, processing and embroidery**.
- Indian exports of apparel continue to face **higher average tariffs in external markets** as compared with competing nations which enjoy duty free access.

**7.4.3.1. TECHNICAL TEXTILES**

**Why in news?**

Cabinet Committee on Economic Affairs (CCEA) has recently approved the setting up of a **National Technical Textiles Mission** with a total outlay of ₹1,480 Crore.

**About Technical Textiles**

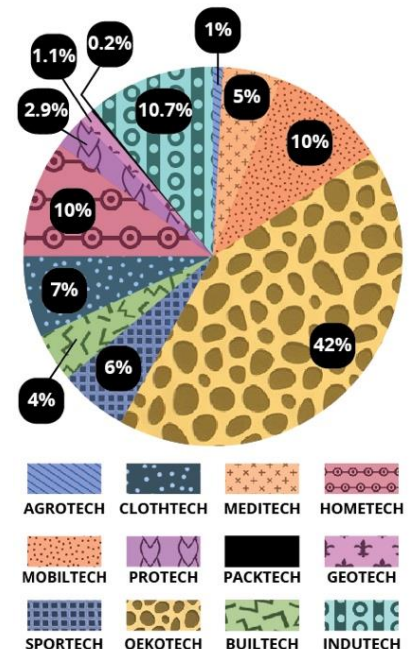
- **Technical textiles (TT)** are textiles materials and products manufactured primarily for **technical performance and functional properties** rather than aesthetic or decorative characteristics.
- **Other terms used for TTs** include industrial textiles, functional textiles, performance textiles, engineering textiles, invisible textiles and hi-tech textiles.
- They are used **individually or as a component/part of another product** to enhance its functional properties.
- They are not a single coherent industry and **market segment is diverse** and broad based.
  - Its usage is in diverse industries from aerospace to railways to construction etc. and is developing in other industries also due to technological advances.
- They have been divided into **12 major segments** (see infographic).

Meditech	Mobiltech	Oekotech
Diapers, Sanitary Napkins, Disposables, Contact lens, Artificial Implants	Airbags, Helmets, Nylon Tyre Cords, Airline Disposables	Recycling, Waste Disposal, Environmental Protection
Packtech	Prottech	Sportech
Wrapping Fabrics, Polyolefin, Women Sacks, Leno Bags, Jute Sacks	Bullet Proof Jackets, Fire Retardant Apparels, High Visibility Clothing	Sports Net, Artificial Turf, Parachute Fabrics, Tents, Swimwear
Agrotech	Builttech	Clothtech
Shadenets, Fishing Nets, Mulch Mats, Ant - hail Nets	Cotton Canvas Tarpaulins , Floor and Wall Coverings Canopies	Zip Fasteners, Garments, Umbrella Cloth, Shoe Laces
Geotech	Homotech	Indutech
Geogrids, Geonets, Geocomposites	Mattress and Pillow Fillings, Stuffed Toys, Blinds, Carpets	Conveyer Belts, Vehicle Seat Belts, Bolting Cloth

**Indian Scenario**

- **TT is a knowledge-based research oriented industry** and has been slowly but steadily gaining ground due to reasons such as: functional requirement, health & safety; cost effectiveness; durability; high strength; light weight; versatility; customization; user friendliness; eco friendliness; logistical convenience etc.
- Indian technical textiles segment constitutes around **6% of the \$250 billion global technical textiles market**.
- TT constitute **12-15% of the total textile value chain in India** (in European countries it is 50%).
- The annual **average growth of the segment in India is 12%** as compared with world average growth of 4%.

**SEGMENT WISE SHARE IN TECHNICAL TEXTILES MARKET IN 2015-16(P)**



**Prospects of Technical Textiles**

- **Push domestic production and unlock export potential:** While conventional textiles are export intensive, technical textiles is **import intensive industry**.
  - One of the factors for low consumption of technical textiles is import intensive nature of many products which makes them cost prohibitive, restricting their consumption.
  - With increase in indigenous production, there is a huge potential of export of technical textiles **particularly in the SAARC countries**, where also this industry is not well developed and depends on import to meet their domestic demand.
- **Scope for small scale and cottage industries:** While production of specialized yarn and fabrics takes place in the large and medium scale but the conversion of these fabrics into finished goods is done in **small scale sector** and even in **cottage sector**.

- **Disposable income factor:** The consumption of disposable segment of the technical textiles is directly related to the disposable income (DI). With increase in DI, the consumption of disposable items like, wipes, sanitary napkins, baby diapers, adult diapers, and health care products is expected to increase at an exponential rate.
- **Inherent strengths of textile sector:** India's textile industry has fundamental strengths which can be utilized for gaining advantage in commodity market of technical textiles through **cost competitive manufacturing structure**.
  - In the high-end niche areas also Indian textile industry has an edge through **networking with research institutes** and **final consumers** for development of **new technologies**.
- **Use of new technologies:** With new developments taking place in fiber/yarn technology the scope of this industry is expanding at a very fast pace.
  - New technologies like **nano technology, plasma coating, intelligent textiles, composites, soft shell technology**, retro-reflective material have important bearing on the growth of the technical textile industry.

#### About the National Technical Textiles Mission

- The aim of the mission is to **position the country as a global leader in technical textiles** and increase domestic use as well.
- It envisages a domestic market size to **reach \$40-50 billion by 2024**, which is valued at \$16 billion presently.
- Mission Directorate will be operational in the **Ministry of Textiles**.
- The Mission will be implemented from 2020 to 2024 and will have **four components**:
  - **Research, development and innovation:** It will have an outlay of ₹1,000 crore. The research will be at fibre level and application based. Research activities will also focus on development of indigenous machinery and process equipment.
  - **Promotion and market development:** The focus will be on usage of technical textiles in key flagship mission and programmes of the country, including the strategic sectors of agriculture, defence, water and infrastructure, along with Jal Jivan Mission; Swachh Bharat Mission; Ayushman Bharat among others.
  - **Export promotion:** An export promotion council for technical textiles will be set up. It aims to ensure that technical textile exports from the country grow from the present ₹14,000 crore to ₹20,000 crore by 2021-2022 with a 10% average growth every year.
  - **Education, training and skill development:** It will promote technical education at higher engineering and technology levels related to technical textiles and its application areas.

#### Challenges and Weaknesses of the sector

- **Lack of specifications and standardization of technical textiles:** As the sector is emerging eventually, relevant policies and standards have not yet been developed. There is no quality benchmark for technology for technical textiles.
- **Lack of awareness** about the utility of the products.
- **Non availability of raw materials:** It adds to the cost of the products and restricts the growth of the sector.
- **Lack of infrastructure:** It includes basic infrastructure as well as **lack of technology**.
- **Deficit of skilled manpower, training and educational facilities:** There is a lack of skill development in the sector, as this aspect has not been focused upon so far. It needs to be dealt with coherently.

#### Conclusion

Indian technical textile industry has presence in all the 12 segments, which needs to be intensified in order to tap the potential of the industry. India has the ability to gain global leadership in the sector. The mission has been a long awaited step in the right direction. Implementation, monitoring and review are crucial going forward.

#### Other steps taken by Government

- **National Textile Policy, 2000:** It stated that considering the growing prospects for technical textiles worldwide, priority will be accorded for their growth and development in the country.
- **Scheme for Growth and Development of Technical Textiles (SGDTT):** It was launched in 2007-08, comprising of three main components- Baseline Survey, Awareness Campaigns and Creation of Centres of Excellence.
- **Technology Mission on Technical Textiles (TMTT):** It was launched in 2010-11. Its first component includes standardization, creating accredited common testing facilities and maintaining a resource centre with IT infrastructure. Second component is development of domestic & export markets for technical textiles.
- **Coverage of technical textiles under Technology Upgradation Fund Scheme (TUFS):** All the machinery for production TTs has been covered under TUFS. Projects costing \$ 216 million have already been sanctioned under TUFS.

## 7.5. INFRASTRUCTURE

### 7.5.1. NATIONAL INFRASTRUCTURE PIPELINE (NIP)

#### Why in news?

Recently, the Ministry of Finance released the **Report of the Task Force on National Infrastructure Pipeline** for 2019-2025 in the public domain.

#### More on National Infrastructure Pipeline (NIP)

- India needs to spend **\$4.5 trillion** on infrastructure by **2030** to sustain its growth rate.
  - The government has announced that infrastructure projects worth **Rs 102 lakh crores** will be implemented by 2025.
- The **NIP** seeks to implement and streamline this in an efficient manner.
  - To draw the NIP, all the **economic and social infrastructure projects** as per the **Harmonised Master List of Infrastructure** was taken up and the projects have been identified.
- This, **first of a kind exercise**, is expected to be followed up by a periodical review process.

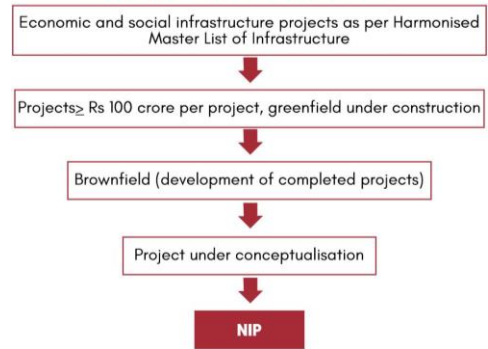
The report identifies **following reasons** why Indian infrastructure needs an overhaul.

- Increasing urbanization:** 42 per cent of population to live in urban areas in 2030 as opposed to 31 per cent now.
- Growing working-age population:** It is expected that the working-age population of India will grow ~1.2x times during 2015-2030. India is expected to have the world's largest working-age population of 1.03 billion (~68%) by 2030 compared with 0.97 billion in China and 0.22 billion in the US.
- Contribution of urban areas in total employment** will increase at a higher rate than the contribution of rural areas during the period 2018-30. The proportion of urban areas in total employment will increase from 29% in 2012 to 41% in 2030 while that of the rural areas will decrease from 71% in 2012 to 59% in 2030.
- Shift to services-based economy:** The trends in GDP and employment are reflective of India's economy gradually transitioning from an agrarian economy to a service centric economy.
- Climate change and disaster resilience:** There is a clear need for ensuring that all new and existing infrastructure systems are climate and disaster resilient.
- Improve global competitiveness**-as infrastructure bottleneck is a primary constraint in terms of India's competitiveness, as reflected in the World Economic Forum's Global Competitiveness Index.
  - India's Rank**- in overall **infrastructure quality** is **70** out of 140 countries. This rank falls to **above 100** in areas like **water and electricity utility infrastructure**.
- Builds investor confidence**- as identified projects are better prepared, exposures less likely to suffer stress given active project monitoring by competent authority, thereby ensuring better returns.
  - This improved confidence leads to better prepared projects, reduces aggressive bids/failure in project delivery, ensures enhanced access to sources of finance.

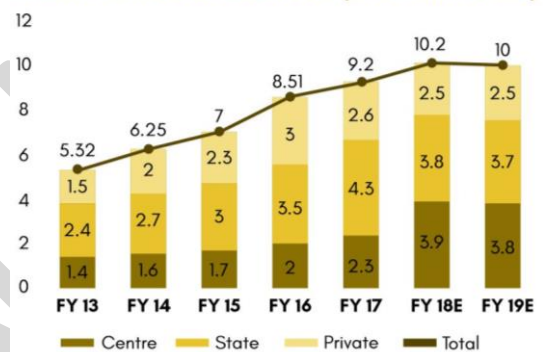
#### Major constraints in Infrastructure sector

- Availability of funds for financing large projects**- given the limited fiscal space with public sector and twin balance sheet problem of Indian economy with overleveraged companies and bad assets of banks.
  - Also, the corporate bond market is undeveloped and there is absence of efficient credit risk transfer mechanisms (such as securitization, credit derivatives, credit insurance etc.)
- Regulatory uncertainty**- due to various risks which include procedural delays, lengthy processes in land acquisition, payment of compensations, environmental concerns, lesser traffic growth than expected etc.

#### CONSTITUENTS OF NIP



#### INDIA'S INFRASTRUCTURE INVESTMENT TREND SINCE FISCAL 2013 (Rs LAKH CORE)



Source: Appraisal documents for five-year plans, CRIS estimates (Investments mentioned are at current prices)

- Due to these, the sovereign wealth and pension funds do not find investing in Indian infrastructure an attractive option.
- **Weak enforcement framework-** India is currently ranked 163 out of 190 countries when it comes to enforcement of contracts.
  - There are cases when a developer enters into agreements without any intention to honor it as they do not fear enforcement of contracts.
- **Delays in Indian infrastructure projects-** leading to time and cost overruns in the implementation phase.

**Major recommendations of the Task Force**

<p><b>General Reforms</b></p>	<ul style="list-style-type: none"> <li>● <b>Improving project preparation processes-</b> through a framework which consists of a transparent legislative framework, empowered public institution for <b>infrastructure planning</b>, model guidelines and standards, well-defined <b>workflows</b> and enabling special purpose vehicle (<b>SPV</b>).</li> <li>● <b>Enhancing execution capacity of private sector participants-</b> through a clear and consistent <b>policy framework</b> and collaboration with <b>strong global infrastructure developers</b> to achieve the required competence and execution capacity.</li> <li>● <b>Enhancing ease of doing infrastructure projects-</b> through <b>single window</b> approval, mandatory <b>conditions</b> before award of contracts, effective <b>resolution</b> of contracts using mechanisms like power purchase agreements.</li> <li>● <b>Using technology-</b> such as creation of <b>public data sources</b> for adequate data privacy frameworks, enabling data-based <b>policy decisions</b>, creation of <b>smart infrastructure</b> based on advanced technologies like artificial intelligence, virtual reality, cloud etc.</li> <li>● <b>Strengthening Infrastructure quality-</b> by a transparent procurement process, sound governance over the life cycle of the project and alignment with social and environmental sustainability.</li> <li>● <b>Disaster resilience-</b> by adopting the knowledge and expertise through the <b>Coalition for Disaster Resilient Infrastructure (CDRI)</b>.</li> <li>● <b>Environmental Sustainability-</b> by adopting appropriate <b>carbon pricing</b> to stimulate <b>low carbon investment</b> in energy, transport and other infrastructure in the requisite scale.</li> <li>● <b>Promoting competition-</b> by speeding <b>anti-trust resolution</b> mechanism, greater collaboration between CCI and sector regulators and operationalizing the <b>National Competition Policy</b>.</li> <li>● <b>Regulatory environment-</b> through <b>equitable allocation</b> of risks in PPP, standardization of contracts and autonomous regulation in all infra sectors that are going in for PPP mode of implementation.</li> </ul>
<p><b>Financial Sector Reforms</b></p>	<ul style="list-style-type: none"> <li>● <b>Attracting foreign and private capital into infrastructure-</b> <b>aligning investment guidelines</b> to the long-term nature of the infrastructure projects such as for patient capital, i.e. insurance and pension funds.</li> <li>● <b>Revitalising the bond and credit markets-</b> by establishment of a well-capitalised <b>Credit Enhancement Institution</b>, governance reforms in India Infrastructure Finance Company Limited (IIFCL).</li> <li>● <b>Strengthening the municipal bond markets in India-</b> by improving <b>financial discipline</b> and regular disclosures, augmenting revenue base and <b>buoyancy of revenues</b> of local governments, addressing gap in <b>creditworthiness</b> of local governments through innovative credit enhancement structures, and encouraging <b>pooled bond issuances</b>.</li> <li>● <b>Revitalising asset monetization-</b> through sale of <b>land</b>, non-operational assets through long-term lease with significant upfront lease payment, the <b>toll-operate-transfer (TOT)</b> model for operational road assets, Infrastructure investment trusts (<b>InvITs</b>), sale of <b>portfolio of assets</b> to strategic/ financial investors, and loan asset monetisation through <b>securitisation</b>.</li> <li>● <b>Enabling user charges to finance infrastructure-</b> through <b>autonomous</b> regulation of tariffs, <b>regulation by contract</b> with price regulation provisions mentioned in the contract itself and <b>multi-sectoral regulators</b> for regulation across infrastructure.</li> </ul>
<p><b>Infrastructure Financing</b></p>	<ul style="list-style-type: none"> <li>● <b>Capital Markets-</b> The setting of proposed <b>Credit Enhancement Guarantee Corporation</b> be expedited and the government should reform the pension and insurance systems to achieve savings in these sectors to at least 30% of GDP by 2025.</li> <li>● <b>Right institutions for the right stage in project finance-</b> to bridge the funding gap. It is imperative to develop a new class of investors who can bring in patient capital from insurance companies, pension funds and provident funds.</li> <li>● <b>DFIs with better credit appraisal skills-</b> The Development Finance Institutions (DFIS) should have required domain expertise and project appraisal skills. The government may consider a <b>differential licensing system</b> with an enabling regulatory framework to encourage setting up DFIs in the infrastructure sector, with domestic or foreign capital.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>External Aid-</b> The ministries and regulators should simplify the procedural aspects of FDI investment in infrastructure by sovereign wealth funds /global pension funds, improving the ease of investing.</li> </ul>
<b>Monitoring and Evaluation</b>	<ul style="list-style-type: none"> <li>• <b>Projects under implementation-</b> will include following measures-             <ul style="list-style-type: none"> <li>○ Resolution of key issues stalling progress, required intervention and responsible party.</li> <li>○ Timely action to be taken by concerned stakeholders as per the governance structure and escalation matrix provided.</li> </ul> </li> <li>• <b>Projects achieved financial closure (FC) but yet to draw-down funds-</b> <ul style="list-style-type: none"> <li>○ Establishing the <b>project monitoring Tool</b> for various project milestones (cost and time).</li> <li>○ Establish <b>steering committee</b> comprising representatives from stakeholders such as lenders and equity investors and assign responsibilities.</li> </ul> </li> <li>• <b>Projects under development</b> <ul style="list-style-type: none"> <li>○ Delegate powers to Special Purpose Vehicles and hire competent managers.</li> <li>○ Design proper risk <b>mitigation</b> strategies.</li> </ul> </li> <li>• <b>Projects at the conceptualisation stage</b> <ul style="list-style-type: none"> <li>○ Map key <b>clearances:</b> environment, CRZ, forest clearance, etc along with land acquisition.</li> <li>○ <b>Technology choice analysis</b> – disaster resilience, inclusiveness etc.</li> </ul> </li> </ul>

**Concerns raised about the report**

- **Lack of fiscal space:** In FY 2019, India’s total infrastructure investments were about Rs. 10 lakh crores only. And given the challenges like high debt-to-GDP ratio, fiscal deficit and increasing twin balance sheet problem, it would be very tough to finance these projects.
- **Lending by banks:** Infrastructure financing is the cause of a major part of the bad loans in banks. So, banks would be apprehensive to finance such a large scale of investment.
- **Cooperation from States:** centre and the states have to work together to sort issues like **land acquisition and environmental clearances** which have imposed **huge time and cost delays** on several key projects nationally.
- **Lack of new projects:** About 42% of identified projects are already under implementation, 19% are under development.

**Conclusion**

Despite these constraints, a well-planned NIP will enable more infrastructure projects, power business, create jobs, improve ease of living, and provide equitable access to infrastructure for all, thereby making growth more inclusive.

**7.5.2. MODEL CONCESSION AGREEMENT FOR BOT MODEL**

**Why in news?**

Recently, an **inter-ministerial group (IMG)** has approved changes to the model concession agreement (MCA) used for building privately-funded highways on the **Build-Operate and Transfer (BOT) toll model**.

**Background**

- BOT toll model accounted for almost **96% of NHAI’s all project awards in 2011-12**, which came down almost to zero in the last two fiscals, due to various issues in existing MCA for BOT (Toll) projects.
- This has forced NHAI to shift to **Engineering Procurement and Construction (EPC) and Hybrid Annuity Model (HAM)**. (See box)
- However, overdependence on EPC and HAM is **adversely impacting the finances NHAI**. Thus, new changes in BOT model were proposed to attract private investors.

**Key features and expected benefits of modified MCA**

- **Revised revenue assessment:** Under the clause, in **every five years during the concession period**, the revenue potential of a project will be re-assessed, against every 10 years now. Therefore, if need be, the **concession could will be extended** early in the tenure of the contract, adding to certainty of cash flows.
- **Land acquisition:** The work order for building highway projects will be issued only when **90 per cent of the land is acquired** and this will form a part of the condition precedent. Delays in land acquisition and approvals **have led to significant delays in project completion** and have been the prime reason for significant cost overruns.
- **Dispute resolution board (DRB):** It provides for setting up a dispute resolution board which will act as a continuous dispute resolution mechanism and provides for **timely redressal within 90 days**. This is a



welcome step, as **arbitration processes have been dragged for years**, leading to significant lock-up of developers' funds.

### Concerns that remain

- **No compensation:** There is no provision for compensation in case a competing road comes in and causes traffic diversion from the project.
- **Reduced traffic due to axle load:** Recent revision permitting vehicles to carry increased load has caused a reduction in traffic volume and thus, loss in the revenue for the developers which is not addressed in the changed MCA.
- **Fast-track resolution of arbitration awards remains a challenge,** as the decision of DRB remains recommendatory in nature and courts remain the arbitration authority for dispute resolution for claims above Rs 25 crore in case the parties do not agree on dispute resolution board for arbitration.

### Conclusion

NHAI should look into concerns like traffic risks, and others as Private developers/investors in the BOT (toll) space **seek a firm, clear and bankable concession contract** to ensure elimination of all ambiguities and safeguarding of their investment.

**Note: A detailed article covering recent land reform initiatives like Model Land Leasing Act, Land pooling etc. will be covered in the updation document.**

### Types of investment models

- **Build Operate and Transfer (BOT) Toll model:** Under this model, a road developer constructs the road and he is allowed to recover his investment through toll collection. There is no government payment to the developer as he earns his money invested from tolls.
- **BOT Annuity Model:**
  - A developer builds a highway, operates it for a specified duration and transfers it back to the government.
  - The government starts payment to the developer after the launch of commercial operation of the project.
- **Engineering, Procurement and Construction (EPC) Model:**
  - Under this model, the **cost is completely borne by the government.** Government invites bids for engineering knowledge from the private players.
  - Procurement of raw material and construction costs are met by the government.
  - The **private sector's** participation is minimum and is **limited to the provision of engineering expertise**
- **Hybrid Annuity Model (HAM)**
  - HAM is a mix of BOT Annuity and EPC models.
  - As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity).
  - The remaining payment will be made on the basis of the assets created and the performance of the developer.

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## 8. SERVICES SECTOR

### Introduction

The Service Sector is the most dominant sector of the economy accounting for around 55 per cent of total size of the economy and GVA growth, two-thirds of total FDI inflows into India and about 38 per cent of total exports.

### Overview of the Services Sector

- **Share in India's Gross Value Added (GVA):** Services sector contributes around 55 percent to total GVA as well as to total GVA growth.
  - **Moderation in growth:** services sector growth (Year on Year) continued to moderate during 2019-20, reaching 6.9 percent from 7.5 percent in 2018-19.
  - **Sector-wise growth:** Growth of financial services, real estate, professional services, trade, hotels, transport and communication & broadcasting services decelerated whereas public administration, defence & other services witnessed acceleration.
  - **Decelerating Bank Credit:** Growth in bank credit to the services sector has continued to decelerate from 28.1 percent as on November 2018 to 4.8 percent on November 2019.
- **Gross FDI inflows increased:** Gross FDI equity inflows jumped by 33 per cent Year on Year during April-September 2019 to reach US\$ 17.58 billion, accounting for about two-thirds of the total gross FDI equity inflows into India during this period.
- **Trade in Services: Export**
  - **Maintained Services Exports Growth:** Services exports maintained their growth at 6.4 percent. (Almost equal to 6.6 percent last year (2018-19).)
  - **Software exports dominate:** India's services exports remain concentrated in software services accounting for almost 40 percent of total exports.
- **Trade in Services: Import**
  - **Increased Services Imports Growth:** Services import growth was 7.9 per cent (as compared to 7.3% last year (2018-19)).
  - **High Education imports:** India persistently runs a trade deficit in education services with education imports, reaching about US\$ 3 billion in 2018-19.

### 8.1. E-COMMERCE SECTOR

#### Why in news?

Recently, The Competition Commission of India (CCI) released a Report titled 'Market Study on E-commerce in India: Key Findings and Observations'.

#### Key features of E-commerce ecosystem in India

- **Fastest growing market in the world:** Revenue from the India's e-commerce sector is expected to increase from USD 39 billion in 2017 to USD 120 billion in 2020, **growing at an annual rate of 51 percent, the highest in the world.**
- **Funding:** Since 2009, the e-commerce sector has received around USD 13,338 million in investments from across the world.
- **MSME Participation:** As per a Working Paper of **United Nations Industrial Development Organization (UNIDO)**, nearly 43% of the MSMEs participate in online sales in India.
- **Dynamic pricing:** Online trade has led to increased price transparency and the consequent ease of **price-comparison for the customers**. It also enables **sellers to monitor competitors' prices** and use the same as an input in setting their own prices.
- **Strategic response to e-commerce:** Some smaller retailers are primarily using third party marketplace platforms to access the online consumers. Some have launched their own websites to complement the physical sales. Also, there are sellers who sell exclusively online, with no brick and mortar presence.

#### E-commerce sector and related terminologies

- **Types of e-commerce business models:**
  - **Inventory based model-** an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly. E.g.- Grofers.
  - **Marketplace based model -** means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller. E.g.- Amazon, Flipkart etc.
- **FDI Provisions:**
  - 100% FDI under automatic route is permitted in marketplace model of e-commerce.
  - FDI is not permitted in inventory-based model of e-commerce.

- **Growth enablers:** Besides the growth in **smartphone penetration and access to internet**, the growth of e-commerce has been enabled through **introduction of cash on delivery, discounts and deals offered by the marketplaces, faster deliveries including one-day delivery and access to a large product range**, especially in tier II and tier III cities where choices were limited.

### Challenges faced the sector

- **Low customer base:** India's total internet user base is set to grow from 665 million in 2019 to 829 million by 2021, yet e-commerce remains highly underpenetrated with **only 50 million online shoppers**.
- **Low share in retail sales:** As per World Bank report, online sales as a percentage of total retail sales were **only 1.6% in India**, versus over 15% for China and around 14% globally.
- **Catering to the demands of new consumer base:** Future consumers are set to emerge from India's tier-2 and tier-3 cities. Diverse array of languages, unfamiliarity with digital systems, and preferences for an eclectic array of products across micro markets remain key challenges.
- **Draft e-commerce policy** puts an additional obligation on online retail giants such as Walmart-Flipkart and Amazon to set up a local data centre for collection and storage of such data.
- **Issues related to online platforms:**
  - **Platform neutrality:** marketplaces use some critical data such as prices of competing products, consumer preferences, etc. to influence the competition in favour of the Preferred Sellers or Private Labels.
  - **Platform-to-business Contract Terms:** There is **no standard contract** that is made available to all business users by a platform. The contracts are customised, to address individual needs of the sellers/service providers who are not all similarly placed.
  - **Practice of deep discounting** leads to concerns such as unfair conditions and/or discrimination due to differential discounting structures, demotion in rankings, profitability erosion and loss of brand equity, etc.
  - **Exclusive arrangements** such as exclusive launch of a product on a particular platform or to list only one brand in a product category generally result in increased prices and reduced choices to consumers.
  - **Platform Price Parity Clause** restricts sellers/service providers from offering their goods or services at lower prices on other platforms.
  - **Lack of transparency and credibility** issues around the user review and rating policy of some of these platforms.

### Way forward

- **Government's role:** Efforts are needed via the expansion of formal banking and easy credit facilities for the citizenry, increased government support for 'Make in India' initiatives, particularly through the establishment of industrial corridors, logistics parks and special economic zones.
- **Promotion of robust data protection frameworks:** Levelling the playing field between offline and online players in terms of indirect taxation and easing restrictions on cross-border e-commerce transactions.
- **New-age logistics partners, and the advent of technologies** such as artificial intelligence (AI) and machine learning (ML), offers a solution to the existing issues, allowing ecommerce companies to reduce Return to origin (RTO) and COD rates.
  - RTO is when orders cannot be delivered and have to be shipped back to the warehouse.
- **Self-regulation:** Platforms may devise ways to govern, the following aspects to protect the interests of all contracting parties –i) negotiating framework for basic contract terms ii) discount policy iii) penalties and iv) conflict resolution.
- **Case-by-case analysis:** Issues related to **Platform Price Parity Clause**, Exclusive arrangements and deep discounting practices must be subjected to case specific analysis by the CCI to reconcile and balance out conflicting interests of stakeholders.

## 8.1.1. DRAFT E-COMMERCE RULES 2019

### Why in news?

The Ministry of Consumer Affairs recently introduced draft E-commerce guidelines for consumer protection, 2019.

### Model Framework for Guidelines on e-Commerce for consumer protection

The guidelines have been issued for Business-to-Consumer (B2C) e-commerce companies, including companies offering digital content.

<b>Liability of E-Commerce Firm</b>	<ul style="list-style-type: none"> <li>An e-commerce entity shall not directly or indirectly influence the price of the goods or services and shall maintain a level playing field</li> <li>It is prohibited from adopting any trade practice that is deceptive and influences transactional decisions of consumers             <ul style="list-style-type: none"> <li>falsely represent themselves as consumers to post reviews about goods and services in their name</li> <li>misrepresent or exaggerate the quality of goods and services in advertisements</li> <li>action against sellers of counterfeit products                 <ul style="list-style-type: none"> <li>✓ Amazon has launched <b>Project Zero</b> initiative in India, using artificial intelligence to eliminate counterfeit products.</li> </ul> </li> </ul> </li> <li>Provide clear terms relating to <b>return, refund, exchange, warranty / guarantee, delivery / shipment, mode of payments, grievance redressal mechanism</b> etc. to enable consumers to make informed decisions</li> <li>Mention <b>safety and health care information</b> of the goods and service advertised for sale</li> <li>Provide information on available <b>payment methods &amp; security</b> of those payment methods</li> <li>Ensure that <b>personally identifiable information of customers</b> is protected and that such data collection, storage and use comply with provisions of <b>Information Technology (Amendment) Act, 2008</b></li> <li>Accept the <b>return of products</b> in cases of <b>delay or defect</b> and process <b>refund</b> within a <b>fixed timeline</b></li> </ul>
<b>Liability of Seller</b>	<ul style="list-style-type: none"> <li>Require sellers to be responsible for <b>warranty and guarantee</b> of the goods and services sold and also provide <b>upfront information on the exchange, returns and refund process</b>.</li> <li>Display <b>single-figure total &amp; break up price</b> for the goods or service, inclusive of all compulsory charges</li> </ul>
<b>Consumer Grievance Redressal</b>	<ul style="list-style-type: none"> <li>Appointment of a <b>Grievance Redressal Officer</b> who shall dispose complaints in a time bound fashion</li> <li>Provide facility to consumers to <b>register their complaints online and track their status</b></li> </ul>

#### Issues with the draft rules

- Impact ease of doing business:** The new rules will increase the compliance burden on e-Commerce entities, and hence will negatively impact the ease of doing business in India.
  - Draft rules have generated a perception that the **government is attempting to put pricing curbs on e-commerce entities** with foreign equity.
  - Bias against foreign companies** may become a drag on the investment and adversely impact employment scenario in India.
- Against principles of free market:** Government intervention in checking prices (even if they are not predatory) is against the principles of free market.
  - Delivery timelines and refunds must be left to the individual seller.
  - There is no clarity on the level of government control on the discounts by the e-commerce platforms.
- Ambiguous definitions:** Some clauses of the draft rules are ambiguous, short on definitions and open to interpretation. E.g. an e-commerce entity has been defined in the draft rules, but e-commerce as a business has not been defined.
- Putting goods and services in same basket:** The draft rules put goods and services in the same umbrella, despite latter being harder to measure and regulate.
  - The Government is planning to expand the purview of these guidelines to include services such as video streaming, online ticket booking etc.
  - Also, how these rules apply to social media commerce like products sold on Facebook pages/WhatsApp groups is not known.

#### Predatory Pricing

- Predatory pricing** is the act of a **market leader lowering its prices below its costs** to gain an unfair advantage.
- Though the predator incurs **short-term losses**, it hurts other players and drives them out of the market.
- Later, with fewer competitors, the predator can **raise prices to recoup losses**. The market's **entry barriers should be high** enough to deter new entrants when the predator tries to recoup its losses. Such behaviour is considered **anti-competitive**.

### Way Forward

- **A single legislation should be enacted to address all aspects of e-commerce** so that the legal fragmentation seen across the various laws is reduced, viz. the Information Technology Act, 2000, Consumer Protection Act 1986 etc.
- **An independent regulator must be set up** to deal with FDI implementation issues, consumer protection issues, central registry/ repository dealing with promoting domestic production etc.
- Setting up an **accreditation system for vetting e-commerce platforms** which adhere to good business practices is the need of the hour.

## 8.2. TELECOM SECTOR

### Introduction

Telecom Sector aims to ensure that India plays an effective role in transforming the socio-economic scenario through accelerated, equitable and inclusive economic growth by laying special emphasis on providing **affordable and quality telecommunication services in rural and remote areas alongside the urban areas.**

### Current status of telecom connectivity and infrastructure in India

- **Telecom connectivity:** Total telephone connections in India grew by 18.8 per cent from 9,961 lakh in 2014-2015 to 11,834 lakh in 2018-19.
  - **Connection Composition:** The wireless telephony now constitutes 98.27 percent of all subscriptions whereas share of landline telephones now stands at only 1.73 percent.
  - **Tele-density:** The overall tele-density in India stands at 90.45 per cent, the rural tele-density being 57.35 per cent and urban tele-density being 160.71 per cent.
  - **Increased internet subscribers:** The number of internet subscribers stood at 6,653 lakh as compared to 2,516 lakh in 2014. Among them, the number of mobile internet subscribers was 6,436 lakh.
  - **Leader in data consumption:** India's monthly data consumption is the highest, with average consumption per subscriber per month increasing 157 times from 2014 to 2019.
  - **Tariff War:** Since 2016, the sector has witnessed substantial competition and price cutting by the Telecom Service Providers (TSPs) creating financial stress in the sector.
- **Telecom Infrastructure**
  - **Bharat Net:** It aims to provide broadband connectivity to all the 2.5 lakh Gram Panchayats (GPs) in the country.
  - **Public Wi-Fi Access:** Public Wi-Fi hotspots ensure last-mile delivery of broadband to users.
  - **Towers and BTS:** The number of Mobile Base Transceiver Stations (BTS) has increased from 7.9 lakh in 2014 to 21.8 lakh 2019 while Optical Fibre Cable has increased from 7 lakh km to around 14 lakh km.
  - **Project for LWE Areas and North East Region:** It aims at providing Mobile Services in 2,335 locations affected by Left Wing Extremism (LWE).

### 8.2.1. DISTRESS IN TELECOM SECTOR

#### Why in News?

- In a dispute between Department of Telecommunications and Telecom companies over the meaning of Adjusted Gross Revenue (AGR), the Supreme court has given a judgement in favour of government, according to which telecom operators will have to pay additional dues of over Rs 1.3 lakh crore.
- Government has also decided to merge the two loss-making telecom PSUs BSNL and MTNL as part of their revival package.
- A committee headed by **Rajiv Gauba** has been setup to help the struggling telecom sector.

#### Challenges being faced by Indian Telecom sector

- **Tariff war-** the price of data is at an average of Rs 8 per GB, which is one of the lowest in the world and calling service has also been made virtually free. So, monthly average revenue per user (ARPU) has plunged to Rs 113 in FY19 from Rs 174 in FY15.

THE ISSUE	
<p><b>AGR is annual revenue</b> from all carriers combined that accrues to the government. Licence fees, SUC is paid as a percentage of this revenue.</p> <p> Lower the AGR, lower all levies, fees and payouts to the government</p>	<p><b>Definition of AGR</b> has been a contentious issue since 2003, with operators arguing that definition in licence agreement was broad, covers non-core revenue and government saying all revenue should be included</p> <p></p>
<p><b>WHAT TELCOS SAY</b></p> <p>Revenue arising out of rendering telecom services should comprise AGR</p> <p></p>	<p><b>WHAT TELECOM DEPARTMENT SAYS</b></p> <p>A telco's AGR should include all revenue earned by a service provider, including that emanating from non-core sources such as rent, profit on sale of fixed assets or sale of scrap, corporate deposits, real estate transactions, handset, sales, dividend income &amp; interest and miscellaneous income</p> <p></p>

- **Low level of capital expenditure**- because of cut-throat competition in the sector, the sector is short of around 7 lakh crore investment that is needed to provide qualities as promised by 4G technology.
- **Large debts**- telecom sector is under a debt of around Rs. 4 lakh crores because of various investment related and other activities.
- **Limited Spectrum Availability**- government auction spectrum at an exorbitant cost and hence the available spectrum is less than 40% as compared to European nations and 50% as compared to China.
- **Import dependence**- India imports around 40 billion dollars of telecom equipment including infrastructure to setup 5G technology.
- **Over the top services**- Over the Top (OTT) applications such as WhatsApp hampers the revenue of telecommunication service provider.
- **High regulatory dues**- spectrum liabilities, penalties, interests etc further add to the burden.
- **High taxes**- taxes and levies in the Indian telecom sector, ranging from 29% to 32%, are one of the highest globally.

#### Merger of BSNL and MTNL

##### Reasons for their losses

- **High employee costs**- in MTNL it is 90 per cent of its revenues compared to the industry average of 5-6 per cent.
- MTNL provides telephony services in Delhi and Mumbai only, so it had to go for **expensive roaming agreements** and other arrangements like points of interconnection to enable its users in Delhi and Mumbai to get pan-India network.
- **Cheap mobile/internet connections** to politicians and government employees also drained its resources.
- **Absence of 4G services** (except in a few circles for BSNL) in the data-centric telecom market has progressively eroded their competitive strength. Their combined customer share is around 10.3% only.

##### Concerns that remain

- Poor accountability of **management** to performance.
- Merger will **not lead to competitive edge** in terms of technology, cost optimisation, market share and product development.
- **Unsustainable competitive tariffs** from private players.

#### Way Forward

- **Curb on predatory pricing**- government should fix a 'floor tariff' to save the industry from price war.
- **Reduce reserve price for spectrum auction**- government should refrain from putting high hopes of revenue generation from spectrum auction as it affects the sector badly.
- **Self-reliance on technology**- India would do well to spend on import of technology rather than equipment which will improve Make in India and will have a multiplier effect on the sector in long run.
- **Infrastructure sharing between telecoms**- BSNL can share its infrastructure for the use of private sector which will create revenue for BSNL as well as reduce investment load on private sector.
- **Value addition in services**- Internet services can be clubbed with services like entertainment, e-education, telemedicine etc. which can lead to more revenue generation for the sector.
- **Short- and long-term relief measures** in the form of relaxation of interests accrued or longer repayment periods are needed.

#### Steps taken by the government for telecom sector

- **Telecom Infrastructure** - BharatNet- to link each of the 2.5 lakh Gram Panchayats of India through optical fibre network.
- **Telecom Spectrum** - bringing in transparency in the allocation of spectrum by adopting an auction process.
- **Harnessing emerging technologies** - government is supporting research and study in 5G through financial assistance to institutions of national importance.
  - Transition to IPv6- it is a next generation Internet Protocol which is being promoted because of the problem of IPv4 exhaustion. National IPv6 Deployment Roadmap version-II was released in 2013 containing IPv6 transition guidelines/timelines.
- **Citizen and customer centric measures** - Full Mobile Number Portability (MNP)- One Nation Full Mobile Number Portability (MNP) was allowed recently.
- **Re-designation of the 'Telecom Commission' as the 'Digital Communications Commission'**

## 9. TRANSPORT SECTOR

### Introduction

Transport sector plays a critical role in socio-economic development of any economy. In this context, India's transport network is one of the most extensive in the world.

### Sector-wise status of transportation scenario in India

- **Roads Sector:** The share of transport sector in the GVA for 2017-18 was 4.77 per cent of which the share of road transport is the largest at 3.06 per cent, followed by the share of the Railways (0.75 per cent), air transport (0.15 per cent) and water transport (0.06 per cent).
  - **Traffic:** As per the National Transport Development Policy Committee Report, road transport is estimated to handle 69 percent and 90 percent of the countrywide freight and passenger traffic, respectively.
  - **Road Network:** India has a road network of about 59.64 lakh km. The total length of National Highways was 1.32 lakh km.
  - **Pace of construction:** Grew significantly from 17 kms per day in 2015-16 to 29.7 kms per day in 2018-19.
  - **Investment:** Total investment in the Roads and Highway sector has gone up more than three times in five year period of 2014-15 to 2018-19.
- **Railways:** Indian Railways (IR) with over 68,000 route kms is the third largest network in the world under single management.
  - **Traffic:** Indian Railways carried 120 crore tonnes of freight and 840 crore passengers making it the world's largest passenger carrier and 4th largest freight carrier. (Revenue Earning Freight and Passenger Traffic grew at 5.34 percent and 1.85 percent respectively.)
  - **Decrease in accidents:** During 2018-19, consequential train accidents decreased from 73 to 59 in comparison to the corresponding period of the previous year.
  - **Swachh Rail, Swachh Bharat:** Number of bio-toilets has increased from about 20,000 in 2015 to 2.25 lakh in 2019. Also, there has been substantial increase in mechanized cleaning contracts and plastic bottle crushing machines.
  - **Modernization of stations:** 1,253 stations have been identified for development under Adarsh Station Scheme and a dedicated SPV, Indian Railway Station Development Corporation (IRSDC) Limited has been set up for the purpose.
- **Civil Aviation:** India is the third largest domestic market for civil aviation in the world.
  - **Increase in aircraft seat capacity:** Airlines in India have scaled up their aircraft seat capacity from an estimated 0.07 annual seats per capita in 2013 to 0.12 in 2018.
  - **Traffic:** The total passenger traffic (domestic and international) and air cargo handled at airports from 2014-15 to 2018-19 to 3447 lakh and 3,562,000 tonnes respectively.
  - **Udaan Scheme:** A total of 43 airports have been operationalized since Udaan scheme was taken-up.
  - **Capacity Expansion:** To ease the strain on existing airport capacities, 100 more airports are to be made operational by FY 2023-24.
  - **Reforms:** To boost the sector, government has envisaged reforms like-
    - ✓ Easing leasing and financing from Indian shores in conformance with the provisions of the Cape Town Convention and Protocol on Aircraft Equipment.
    - ✓ Encouraging domestic and international passenger and goods transfers.
    - ✓ Efficient use of air traffic rights and rationalizing the tax regime.
- **Shipping:** Around 95 percent of India's trade by volume and 68 percent in terms of value is transported by sea.
  - **Low Shipping Tonnage:** India's share in total world dead weight tonnage (DWT) is only 0.9 percent. (Despite having a large fleet strength of 1,419 ships.)
  - **Aging Fleet:** Average age of Indian fleet has increased from 15 years in 1999 to 19.71 years in 2019.

### 9.1. MULTI-MODAL TERMINAL

#### Why in news?

Recently the second riverine multi modal terminal on River Ganga was inaugurated at **Sahibganj, Jharkhand**.

### More on news

- It has been built under the **Jal Marg Vikas Project**.
- This is the **second riverine multi-modal terminal** in the country, the first has been built in **Varanasi** and was inaugurated in November, 2018. The last Terminal is also being constructed in **Haldia**.
- The **objective** behind the scheme is to promote inland waterways, primarily for cargo movement.
- **Inland Waterways Authority of India** is the **project Implementing Agency** for the project.

### Significance of Second MMT at Sahibganj

- The MMT at Sahibganj will **open up industries** of Jharkhand and Bihar to the global market and provide **Indo-Nepal cargo** connectivity through waterways route.
- It will play an important role in transportation of domestic coal from the local mines in Rajmahal area to various thermal power plants located along NW-1.
- Other than coal, stone chips, fertilisers, cement and sugar are other commodities expected to be transported through the terminal.
- It will also help to create **direct employment** of about 600 people and **indirect employment** of about 3000 people in the region.
- The **convergence of Road-Rail-River Transport** at Sahibganj will connect this part of the hinterland to Kolkata, Haldia and further to the Bay of Bengal.

### About Multi-Modal Transport

- Multimodal transport is the movement of good from point A to point B **using different modes of transport** by a single transport operator. It is an effective mode in a large and diverse country like India where an end to end delivery is a humongous task.
- The **Multimodal Transport Act** was passed by the Indian Parliament in 1993 to establish a standardized regime for the multimodal transport operators (MTOs).

### Benefits of multimodal transport

- **Minimizes time loss at trans-shipment points:** Multimodal transport operator maintains its communication links and coordinates that interchange onward carriage smoothly at transshipment points.
  - The burden of issuing multiple documentation and other formalities connected with each segment of the transport chain is reduced to a minimum.
- **Provides faster transit of goods:** The faster transportation of goods is made possible under Multimodal transport. It also reduces the **disadvantages of distance from markets**.
- **Increases competitiveness:** The inherent advantages of Multimodal transport system will help to reduce the cost of exports and improve their competitive position with pricing in the international market segment.
- **Establishes only one agency to deal with:** The consignor needs to deal with only the Multimodal transport operator in all matters relating to goods, or delay in delivery of goods at destination. This has direct implications for ease of doing business.

## 9.2. RAILWAYS

### 9.2.1. PRIVATE PARTICIPATION IN RAILWAYS

#### Why in News?

Ministry of Railways has invited **private participation** for operation of **passenger train services** over 109 Origin Destination (OD) pairs of routes using 151 modern trains on existing rail infrastructure.

#### Background

- Indian Railways (IR) is the **largest passenger and fourth largest freight transporting railway system** globally.

#### Past attempts to attract private sector into Indian Railways

- **Wagon Investment Scheme/Own Your Wagon Scheme (1992)** tapped private sector participation for augmenting wagon supply in IR. Private sector could procure wagons from approved builders, own them and lease them to IR
- **Container Policy Liberalization Scheme** in 2006 allowed private players to run container trains on the IR network.
- **Special Freight Train Operator Scheme (SFTO) Scheme** in 2010 to provide an opportunity to logistic service providers to invest in specialized wagons.



- **Bibek Debroy Committee in 2015** recommended that private entry into running both freight and passenger trains should be allowed.
  - Idea was to **bring in competition** with Indian railways via “liberalisation and not privatisation” in order to allow entry of new operators “to **encourage growth and improve services.**”
  - It also noted that passengers were willing to pay more, if they had guaranteed and better quality of travel and ease of access.
- Consequently, Indian Railway Catering and Tourism Corporation Limited (IRCTC), in which the government is the majority shareholder, was given pilot Tejas operations which were the first trains allowed to be run by a ‘non-Railway’ operator.
- **Current status of FDI in Indian Railways**
  - **100% FDI is allowed under automatic route in most of areas** of railway like high speed trains, railway electrification, passenger terminal, mass rapid transport systems, railway infrastructure etc.
  - However, FDI are **not allowed in train operations due to safety concerns.**

#### Why do we need more private participation?

##### IR faces certain challenges like:

- **Inability to meet demand:** As per Railway Board, 5 crore intending passengers could not be accommodated during 2019-20 for want of capacity, and there was 13.3% travel demand in excess of supply during summer and festival seasons.
- **Lack of modernisation and poor services:** services offered to passengers are considered poor like poor cleanliness, quality of food, safety issues, delays etc.
- **Decreasing modal share of railways:** Despite being more economical mode than road transportation, railways is losing its share in modal transportation mix.
  - An analysis by Economic Survey, shows that a steady shift to other modes of travel was affecting economic growth by as much as 4.5% of GDP-equivalent.
- **Losses in passenger services to IR:** phenomenon of cross-subsidy for passengers in low-cost trains through higher freight tariffs is being implemented. It also adversely affects the growth of freight transport.
- **Need for resources:** Rakesh Mohan Committee observed that Indian Railways over the past decade (1991-2002) has fallen into a vicious cycle of under investment, mis-allocation of scarce resources, increasing indebtedness, poor customer service and rapidly deteriorating economics.

#### About the recent step

- It would be the **first initiative of private investment for running passenger trains over Indian Railways network** attracting investments of an estimated ₹30,000 crore which is expected to begin in 2023.
- **Objectives:**
  - to introduce **modern technology** rolling stock with reduced maintenance,
  - provide **world class travel experience to passengers,**
  - **reduce demand supply deficit** in the passenger transportation sector.

#### Arguments against the move

- **Absence of any independent regulator:** There are apprehensions that if IR itself plays the role of regulator (or there is no independent regulator) then it would be detrimental to the competition and interests of private sector.
  - If same entity is effectively the policy maker, regulator and service provider, then as **Bibek Debroy committee** pointed out, it will be a “**clear conflict of interest**”. It may also lead to corruption as private operators will try to bribe to solve any problem.
  - Government has approved to setup **Rail Development Authority** for promoting competition, efficiency, ensure consumer welfare but it will be mostly advisory in nature and more powers to decide on operational issues are needed.
- **Railways is a public service:** **Rakesh Mohan committee report** had pointed out that the international experience on privatizing railways showed that it was “exceedingly difficult and controversial”.
  - For example: When Britain privatized its railways, it offloaded assets including tracks and routes that led to an underinvestment in infrastructure.
- **Unfair competition:** Railways also tend to cross-subsidize passenger fares through freight revenue. This translates to below cost pricing, which will make it difficult for private players to compete.
- **High saturation and over-utilized capacity on popular routes:** since passenger and freight traffic move on same tracks in India, increasing speed or capacity has been difficult. And it **remains to be seen whether the dedicated freight corridors can free up enough capacity.**

- IR's golden quadrilateral and its diagonals make up only 15 per cent of the total route of the railways but it transports 52 per cent of passenger traffic and 58 per cent of total freight load.

## 9.2.2. RAILWAY RESTRUCTURING

### Why in news?

Recently, Union Cabinet approved organisational restructuring of the Indian Railways (IR).

### Background

- Presently, the management and administration of Railways is governed by a pool of **Group A officers**, drawn from **Indian Engineering Services** (such as Indian Railway Service of Engineers etc.) and the **Civil Services** (such as Indian Railway Traffic Service etc.) in eight technical and non-technical cadres respectively.
- Restructuring of the Railways has been on the agenda for decades, as unification of services has been recommended by various committees including:
  - Prakash Tandon Committee (1994),
  - Rakesh Mohan Committee (2001),
  - Sam Pitroda Committee (2012)
  - Bibek Debroy Committee (2015).

### Railway restructuring: The approved reforms

- **Creation of Indian Railway Management Service (IRMS):** A unified central service by the **unification of the existing eight Group A services** of the Railways in consultation with **Department of Personnel and Training and UPSC** to facilitate recruitment and enable Railways to recruit engineers/non-engineers as per need.
- **Re-organisation of Railway Board:** Railway board will no longer be organised on departmental lines, and replaced with a leaner structure organised on **functional lines**.
  - The board will have a Chairman, who will act as 'Chief Executive Officer (CEO)' along with 4 Members responsible for **Infrastructure, Operations & Business Development, Rolling Stock and Finance respectively**.
  - The Board will also have some **independent members**, who will be highly distinguished professionals with deep knowledge and 30 years of experience including at the top levels in industry, finance, economics and management fields to help Railway Board in setting a **strategic direction**.
- The existing service of Indian Railway Medical Service (IRMS) to be consequently renamed as **Indian Railway Health Service (IRHS)**.

### Need for restructuring

- **To curb departmentalism and bring more efficiency, accountability and cohesion:** Railway departments are currently working "in silos", which manifests itself in the form of unhealthy competition among departments as well as pursuing narrow departmental goals at the cost of organisational goals and objectives; and
  - Unification of services will end this '**departmentalism**', promote smooth working, **expedite decision making**, and create a **coherent vision** for organisation.
- **For Better personnel management:** Officers from a particular service are likely to grow only within their respective departments, except some general roles such as divisional railway manager (DRM), and general manager (GM).
  - Providing three different entries in the organisation **created the distinct problem of fixing seniority among all services**, each having a different (and not fixed) date of entry every year.

#### Issues raised with respect to restructuring

- Merger of services decision is said to be unscientific and against established norms, because it proposes to **merge two fundamentally dissimilar entities**, with multiple disparities i.e. between IAS and IES.
- The **decision that posts of some the general managers from the various departments would be raised to the "apex" level** and hence at par with the board members is problematic.
- **Even after the merging of cadres, departments will continue to exist**, and it would be the executive's job to settle the disputes at the end of the day.
  - Thus, it should be understood that the problem is not departments but the composition of the same, and their role in the Railway organization.

- **Modernising the railway:** Govt has set a vision of making railways a 100% safe, fast and reliable mode of transport for passengers and freight. The plan is to modernise the entire network by investing around Rs 50 lakh crore by 2030.
  - This requires speed and scale, and a unified, agile organisation to work single-mindedly on this task and capable of responding to challenges.

**Bibek Debroy recommendation on Indian Railways and corresponding steps**

Bibek Debroy recommendation	Steps Taken since 2014
Allow private entry in running of private trains.	Efforts towards this have started with Tejas express being run by IRCTC.
Change the composition of the Railway Board.	has been recently announced, with the Board functionally pruned.
Decentralise decision-making to zones/divisions and even further below.	has been done
Separate the core functions of running trains from non-core functions like schools and medical services.	is being implemented at the zonal level
Set up a regulator.	Not done
Unify various railway services.	Recently proposed
Transit to commercial accounting	has been completed at zonal level
Unite the Railway Budget with the Union Budget.	has been done.

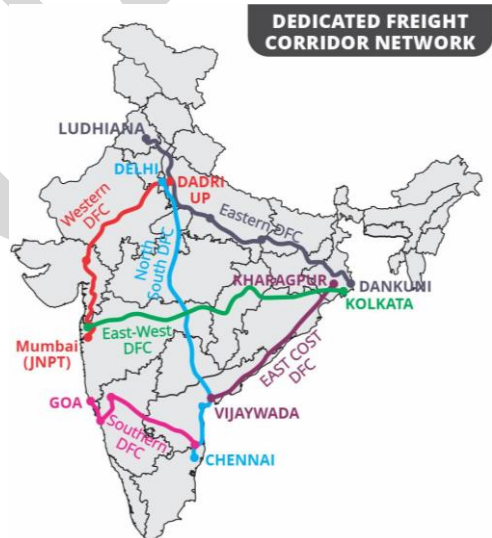
**9.2.3. DEDICATED FREIGHT CORRIDOR (DFC)**

**Why in News?**

Indian Railways conducted a trial run on Rewari –Madar Section of Western Dedicated Freight Corridor (WDFC).

**About DFC**

- DFC is a high-speed and high-capacity railway corridor **dedicated exclusively for freight (goods and commodity) movement.**
- The project was first proposed in April 2005 to **address the needs of the rapidly developing Indian economy.**
- **In 2006**, the Government of India established a dedicated body, the **Dedicated Freight Corridor Corporation of India (DFCCIL)**, to develop two corridors- **Western Dedicated Freight Corridor (WDFC) and Eastern Dedicated Freight Corridor (EDFC).**
- **Four more Freight Corridors** were also announced in 2010.
  - East-West Corridor (Kolkata-Mumbai)
  - North-South Corridor (Delhi-Chennai)
  - East Coast Corridor (Kharagpur-Vijaywada)
  - Southern Corridor (Chennai-Goa)



**Significance of DFC**

- **Reduce unit cost of transportation** by speeding up freight train operations & higher productivity:
  - DFC can allow **train speed to a maximum of 100 kmph** from the current average speed of around 25kmph.
  - It will allow a **time-tabled freight services** for movement of the cargo to the gateway ports with guaranteed transit time. This would enhance international connectivity from India.
- **Improving Carrying Capacity:** By adopting state-of-the-art technology, DFC will make significant improvement in basic design features (More height, width, container stack etc.) that will enable it to withstand heavier loads at higher speeds.
  - The current axle load of wagons is 22.9MT which for the DFC would be enhanced to 32.5 MT. The enhancement would cater to the transportation requirement for the next 50 years.

- **Increase rail share in freight market:** by providing customized logistic services. It will also introduce of high-end technology & IT packing of Freight Services.
  - There will be segregated freight infrastructure for focused approach on both passenger and freight business of Railways.
- **Decongestion of traffic:** The golden quadrilateral which is just 16% of rail network carries 58% of total freight traffic.
  - **Golden Quadrilateral** is a national highway network connecting most of the major industrial, agricultural and cultural centres of India.
- **New Economic Activity:** It will facilitate fresh industrial activity and multi-modal value-addition services hubs along the corridors. For example:
  - **EDFC benefit will include coal for power plants in the northern region** from coalfields in Bihar, Jharkhand and Bengal.
- **Reduction in Pollution:** As per a 30 year greenhouse gas (GHS) emission forecast, if there were no dedicated freight corridors, the GHG emissions would be 582 million ton CO<sub>2</sub>, while the emissions with the two DFCs in service would be less than one-fourth at 124.5 million ton CO<sub>2</sub>.
  - Also, the goods moved by road had 3 times the emission rate in comparison to the corresponding movement by rail.

### Challenges faced

- **Issue of Land Acquisition:** Due to route alignment, the railways have to acquire large swathes of private land that are already developed, making the construction of the corridor difficult. The ministry is also required to pay market price for any land acquisition, further compounding to financial problem.
- **Concern over technology:** While the railways want to run double-stacked containers in the Delhi-Mumbai corridor on diesel locomotives, Japanese International Cooperation Agency (JICA), which has financed the project, has suggested electric ones, saying it is more environment-friendly.
- **Double stack vs single stack:** The project has adopted different technical standards for WDFC and EDFC. WDFC would have moving dimensions made for double stacked containers and moving dimensions for EDFC are being made for single stack container operations.
  - This makes **seamless movement of double stack trains from WDFC to EDFC impossible.**
  - **Double-stack rail transport** is a form of intermodal freight transport where railroad cars carry two layers of intermodal containers.
- **Slow progress:** The progress for both Logistics Parks and Delhi Mumbai Industrial Corridor has been very slow which will have an impact on overall objective of project.

### Way Forward

**New and modern technologies and practices** need to be adopted. For example, in order to leverage the full efficiency of the DFC, need for a locomotive that can take **advantage of the increased axle loading capability**. This could be accompanied with increasing

- Another important step could be to **allow private participation**, along with Indian Railways in bringing end users.
- **Clear policies** which can integrate and fasten up the process of land acquisition need to be developed.

## 9.3. ROADWAYS

### 9.3.1. ROAD INFRASTRUCTURE FUNDING

#### Why in news?

National Highway Authority of India (NHAI) recently unveiled the **Infrastructure Investment Trust (InvITs) roadmap**.

#### More on news

- Union Cabinet in December 2019 authorised **NHAI to set up InvIT**.
  - The trust **enabled the NHAI to monetise completed national highways** with toll collection record of at least one year and meet its funding requirements.
- Now, NHAI will **initially raise ₹15,000-20,000 crore in its maiden InvIT offer** and then go for a larger round.

- It is part of the **government's plans to tap alternative sources of financing to boost public spending in the roads and infrastructure sector** amid declining private sector interest in the build, operate and transfer model, where the entire initial cost is borne by them.
- **₹1 trillion National Infrastructure Pipeline (NIP)** was also unveiled for the next five years. 19 per cent of the investments was earmarked to be channelised to road sector.
- NHAI currently addresses its funding requirement through **ToT (toll-operate-transfer), partnering NIIF (National Investment and Infrastructure Fund), issuance of bonds to LIC and central budgetary allocations.**

#### Issues in Road infrastructure funding

- **Lack of financial support from government:** The budgetary allocation to the Ministry of Road transport and Highways has **failed to keep pace with the government's ambitions**, forcing the former to look elsewhere for funds.
- **Decline in Private investment in infrastructure:** Growing stressed assets in the sector and market volatility have caused confidence deficit and even aversion among international and domestic investors.
  - Declining interest of private sector in **present models of financing**, such as the Build, Operate and Transfer model.
- **Lack of commercial bank funding:** Due to a growing concentration of risks/ stressed assets in banks in terms of sector exposure and asset-liability maturity mismatch.

#### Infrastructure Investment Trust (InvITs) for NHAI

- These are **investment scheme similar to mutual funds** that allow investment from individuals and institutional investors in infrastructure projects to earn a portion of the income as return.
- NHAI's InvIT will be a **trust established under the Indian Trust Act, 1882** and Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014.
- This will enable **NHAI to monetise completed national highways** that have a toll collection track record of at least one year.

#### Significance of InvIT

- Through the InvIT route, NHAI will now have an **another funding route by mobilizing additional resources through capital markets** to monetize its completed and operational National Highways projects.
- It can **channelise new investments to greenfields projects like Bharatmala Pariyojana.**
- InvIT is expected to help **NHAI attract patient capital (for say 20-30 years) to the Indian highway market** given that investors are averse to construction risk and are interested in investment in assets which provide long-term stable returns.
- InvIT is highly likely to **attract the interest of foreign investors** especially pension funds, sovereign wealth funds and insurance companies.
- Regulatory framework build around InvITs **offers corporate governance, stable long-term returns** because of mandatory distribution rules, lower risks, high quality assets and tax benefits on income distributions.

#### Way Forward

- Government could resort to **'Asset reusing'** (otherwise called capital recycling) to reinvest capital or assets in projects which have potential.
- Government could establish a **'Road Infrastructural Project Fund'** to smoothen funding.
  - It ought to have a solid administration, autonomous reporting, and well-defined characterized key performance indicators approved by an independent audit to guarantee great execution.
- It could explore the option of issuing **securities** with a 30-to-50-year tenor. Bank and bond financing can supplement each other; it lessens financial delicacy and upgrades the effectiveness of capital allotment.
- A **well-developed bond market** broadens the subsidizing base, provides risk management apparatuses, reinforces corporate administration and upgrades discipline by restricting the impact of borrowers on banks.

## 9.4. SHIPPING

### 9.4.1. MAJOR PORT AUTHORITIES BILL, 2020

#### Why in News?

Lok Sabha recently passed **The Major Port Authorities Bill 2020** that sought to provide autonomy to India's major ports and improve their efficiency and competitiveness.

#### Background

- India is strategically located on the world's shipping routes with a **coastline of approximately 7,517 km** and 14,500 km of potentially navigable waterways.

- Maritime transport handles around **70% of India's trading in value terms**.
- **India has 204 ports, out of which 12 are major ones** and handle 55% of the cargo traffic.
  - Major ports together had handled 699.04 million tonnes (MT) of cargo during 2018-19.
  - Jawaharlal Nehru Port Trust is the largest major port in India.
- **Non Major ports are largely given to private parties** on concession for periods ranging up to 30 years while ownership remains with the concerned Provincial Government. This includes ports developed by corporate houses for captive use.
  - Gujarat accounts for ~70% of non-major port cargo, while Andhra Pradesh accounts for ~16%, Maharashtra, ~7% and Odisha, ~4%



### About Major Port Authorities Bill 2020

- Bill will **replace the Major Port Trusts Act, 1963** and seeks to provide for **regulation, operation and planning of Major Ports in India**
- It vests the administration, control and management of such ports upon the **Major Port Authorities Board**.
- It **shall apply to the Major Ports** of Chennai, Cochin, Deendayal (Kandla), Jawaharlal Nehru (Nhava Sheva), Kolkata, Mormugao, Mumbai, New Mangalore, Paradip, V.O. Chidambaranar (Tuticorin) and Visakhapatnam.
- **Features**

- **Creation of Major Port Authorities Board:** These Boards will replace the existing Port Trusts.
- **Powers of the Board:** The Boards of Port Authority have been delegated full powers to enter into contracts, planning and development, fixing of tariff except in national interest, security and emergency arising out of inaction and default.
- **Public Private Partnership (PPP) projects:** The Bill defines PPP projects as projects taken up through a concession contract by the Board. For such projects, the Board may fix the tariff for the initial bidding purposes.

- **Landlord model:** It will reorient the governance model in central ports to landlord model, whereby port infrastructure is leased to private operators.
  - ✓ **In Landlord Port Model,** ownership of the port remains with port authority. Infrastructure is leased to private firms that provide and maintain their own superstructure and install their own equipment to handle cargo. In return, landlord port gets a share of revenue from the private entity.

#### Why Are India's Ports Lagging So Far Behind Their Asian Competitors?

- **Lack of infrastructure:** Equipment incapable of handling large volumes, deficient dredging capabilities, outdated navigational aids and IT systems, lack of proper logistics companies, lack of proper equipment handling training etc.
- **Poor connectivity:** Poor hinterland connectivity, road, and railway problems make it challenging to export goods in a timely manner in India.
- **Underinvestment:** Years and years of underinvestment have left India with a bad need for infrastructure across various fields like roads, railways, ports, airports, telecommunications, and electricity.
- **Competition from private sector:** Major ports are facing increasing competition from private players. This is visible from the increase in traffic of private ports to 43% in 2016 from merely 10% in 1981.

- **Fixing of rates:** Under the Bill, the Board or committees appointed by the Board will determine rates for: (i) services that will be performed at ports, (ii) the access to and usage of the port assets, and (iii) different classes of goods and vessels, among others. Such fixing of rates will not be with retrospective effect
  - ✓ Currently, **the Tariff Authority for Major Ports (TAMP)**, established under the 1963 Act, fixes the scale of rates for assets and services available at ports.
  - ✓ The role of TAMP has been redefined in the bill. The port authority has now been given powers to fix tariffs which will act as a reference tariff for purposes of bidding for PPP projects. PPP operators will be free to fix tariffs based on market conditions.

- **Constitution of Adjudicatory Board by the central government:** This Board will replace the existing Tariff Authority for Major Ports constituted under the 1963 Act

### Significance of the bill

- **Decentralize decision making:** The bill aims at decentralizing decision making and to infuse professionalism in governance of major ports.
  - This will empower the Major Ports to **perform with greater efficiency** on account of full autonomy in decision making and **by modernizing the institutional framework** of Major Ports.
  - A compact Board with professional independent Members will strengthen decision making and strategic planning.
- **Transparency:** The bill is expected to help impart faster and transparent decision making benefiting the stakeholders and better project execution capability.
- **Attract private investment:** It would aid the major ports in being more competitive and nimble in the market vis-a-vis non-major ports and also boost their ability to attract more private sector investments in the medium to long term.
- **World class infrastructure:** The bill will help the ports develop world class infrastructure. It can make India's major ports compete with major world class ports.

### Other steps taken for port development

- **Sagarmala project:** It was launched in 2015 to strengthen port infrastructure and enhance capacity, improve operational efficiencies and port hinterland connectivity and smoothen the flow of water traffic
- **Central Port Authority (CPA) Act:** This law was passed in 2016 to grant more autonomy to the major ports.
- **Revised Model Concession Agreement (MCA):** Introduced in 2016, it includes incentives for the private sector to get involved with the ports through updated tariff guidelines and discounted revenue shares
- The Union Cabinet has given its 'in-principle' approval for setting up a Major Port at Vadhavan, located about 190 km north of JNPT in Maharashtra.

“ The Secret To Getting Ahead Is Getting Started ”



## ALTERNATIVE CLASSROOM PROGRAM *for*

# GENERAL STUDIES

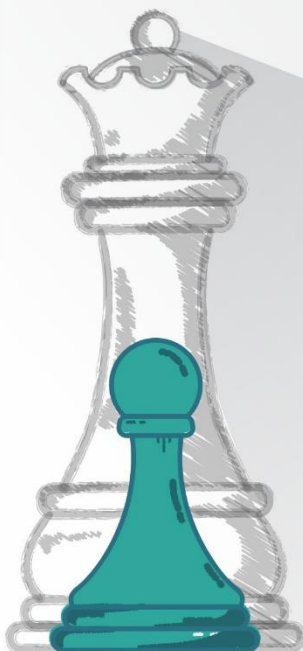
## PRELIMS & MAINS 2022 & 2023

### DELHI

Regular Batch	Weekend Batch
<b>25 Nov</b> 10 AM	<b>27 Oct</b> 5 PM   <b>21 June</b> 9 AM

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## 10. POWER SECTOR

### Introduction

India is the **third largest energy consumer in the world after USA and China.** (With a share of **5.8 per cent of the world's primary energy consumption.**)

India has improved its ranking to **76<sup>th</sup> position in the Energy Transition Index** published by the World Economic Forum (WEF) suggesting paradigm shift in the sector. This can be attributed to **Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya)** as **18 States have reported supply of more than 20 hours of electricity supply** while remaining states have reported about 15 or more hours.

**Capacity and its distribution: Thermal power** accounts for about **63 percent (with renewable energy- 23 percent and Hydro- 12.4 percent) of total installed capacity** and roughly half of the generation capacity is in the private sector.

### Structure of the power sector in India

Power generation, transmission, and distribution are the three main processes involved in the power sector.

- **Power generation:** India's installed capacity for power generation recorded a compounded annual growth rate (CAGR) of 8.9%, an increase from 124 GW to 344 GW between 2006 and 2018. India is now the third largest electricity generator in the world. Also, India is at 106<sup>th</sup> position in terms of per capita consumption in 2017, according to world energy statistics published by the IEA
- **Transmission:** The generated electricity is then transported over hundreds of kilometres to load centers using transmission lines and transmission towers to supply power to consumers. This stage connects electricity producers and end-consumers. Transmission has taken rapid strides in India, with a CAGR of 7.2% between fiscals 2012 and 2018, raising India's transmission line capacity to 3.9 lakh ckm (circuit kilometre).
- **Distribution:** The third stage which involves the distribution of power to all the consumers across the nook and corner of the country is where the DISCOMs come into the picture. DISCOMs in UTs are administered directly by the central government while the respective state governments govern those in the states.
  - Private DISCOMs are also operational in India but are limited to a few cities such as Tata Power Delhi Distribution Ltd and Reliance Energy Ltd in Mumbai.

### Key Challenges facing the Power Sector are:

- **Fuel Security Concerns:** Thermal capacity addition is plagued by the growing fuel availability concerns faced by the Industry. While a significant gas based capacity of more than 20,000 MW is idle due to non-availability of gas. Coal supplies by CIL is restricted to around 65% of actual coal requirement by coal based thermal plants, leading to increased dependence on imported coal with the cascading result of high power generation costs.
- **Under-procurement of Power by States:** Increasing power generation costs due to limited fuel availability, poor financial health of State Discoms, high AT&C losses have contributed in suppressed demand projections by State Discoms.
- **Inimical Financing Environment:** Over the last 4-5 years, the leading rates have increased significantly from the time of project appraisal resulting in project cost overrun and hence higher end tariffs.
- **Policy Paralysis:** The micro level policies governing the fuel cost pass-through, mega power policy, competitive bidding guidelines are not in consonance with the macro framework like The Electricity Act 2003 and the National Electricity Policy.

#### Global Energy Scenario: Highlighted by the Global Energy Review 2020

- About 4.2 billion people or **54% of the global population**, representing almost 60% of global GDP, **were subject to complete or partial lockdowns** as of the 28<sup>th</sup> of April 2020 and nearly all the global population is affected by some form of containment measures.
- Report provides projections of **energy demand and energy-related emissions** for 2020.
- It also provides an almost real-time view of the Covid-19 pandemic's extraordinary **impact across all major fuels.**

Global energy and CO<sub>2</sub> emissions in 2020

- **Global energy demand declined by 3.8%** in the 1<sup>st</sup> quarter of 2020. India's energy demand reduced by almost 30%.
- There would be reduction in emission which would be the **largest ever, six times larger than the previous record reduction of 0.4 Gt in 2009** due to the financial crisis.



Oil	<ul style="list-style-type: none"> <li>• <b>Average oil prices fell sharply</b>, with West Texas Intermediate hitting negative prices for the first time in history as excess storage became scarce.</li> </ul>
Electricity	<ul style="list-style-type: none"> <li>• IEA expects global electricity demand to fall by 5% in 2020. This would be the <b>largest decline since the Great Depression</b> in 1930s.</li> </ul>

## 10.1. POWER SECTOR POLICIES

### 10.1.1. DRAFT ELECTRICITY (AMENDMENT) BILL, 2020

#### Why in news?

Recently, the **Draft Electricity (Amendment) Bill, 2020** was made public for feedback from stakeholders.

#### Need of the bill

Bill seeks to amend **Electricity Act, 2003** and address following **critical issues in the Electricity Sector & Act:**

- **Poor financial condition of power distribution companies (discoms):** The regulatory Commissions while calculating tariffs often deferred the recovery of revenue for the future. This resulted in weakening of the financial health of the discoms due to under recovery of the prudent cost.
- **Delays in adoption of tariff:** The regulatory commissions adopt the tariff that has been determined through a transparent process of bidding in accordance with the '**tariff policy issued by the Central Government**'. But no time limit has been prescribed for the process.
  - Also, the Act mandates the regulatory Commissions to determine the tariff after receipt of the subsidies. Thus the tariff contains a subsidy component and is not cost reflective.
- **Enforceability of performance of the contracts:** The 2003 Act recognized the contracts for supply and purchase of electricity but does not specifically deal with the issues related to non-performance of the contract.
  - **Non-performance of the contract** created uncertainty, upset investment decisions and adversely affect ease of doing business.
- **Existence of multiple committees for selection of the posts of Chairpersons and members of related bodies:** This requires constitution of a different selection committee for every vacancy which causes inordinate delays in appointments.
- **Non Functional State Electricity Regulatory Commissions (SERCS):** due to vacancies and delays in appointments by the states.

#### Key Provisions of the Draft Electricity (Amendment) Bill, 2020

- **New contract dispute resolution authority to be formed:** An **Electricity Contract Enforcement Authority (ECEA)** will be established as a sole authority having original jurisdiction to adjudicate upon matters regarding contracts related to purchase, sale or transmission of electricity between a generating company and a licensee or between licensees.
  - The appeal against its orders will be heard by the **Appellate Tribunal for Electricity (APTEL)**.
- **Single Selection Committee to be established:** for selection of Chairperson and Members of the APTEL, ECEA, the Central Commission, State Commissions and Joint Commissions.
- **Enabling state as well as central power regulators to specify transmission charges under open access.**
- **Cost reflective Tariff and Simplification of Tariff Structure:** The appropriate commissions shall fix tariff for retail sale of electricity without accounting for subsidy.
  - **Any subsidy must be provided by the respective governments directly to the consumer.**
- **Reduction of Cross Subsidy:** The Tariff policy will specify a manner to gradually reduce cross-subsidies. Any surcharge and cross subsidies charged by SERCs shall also be progressively reduced in the manner provided in the Tariff Policy.
- **Cross Border Trade of Electricity:** The **Central Electricity Regulatory Commissions (CERC)** has been empowered to oversee and regulate the cross border trade of electricity as per the rules and guidelines prescribed by the central government.
- **Proposes a National Renewable Energy Policy (NREP):** to be prepared and notified by the **Central Government** in consultation with states. Under it a minimum percentage of purchase of electricity from renewable and hydro sources of energy will also be prescribed.

- **Renewable Purchase Obligations (RPO) to include Hydro energy sources:** The State Commissions are empowered to specify the RPO as per central guidelines.
- Creation of **National Load Dispatch Centre** have been specified.

### 10.1.2. PRIVATISING DISCOMS

#### Why in news?

The government is planning to privatise the electricity distribution companies (discoms) in Union Territories (UTs) by January 2021.

#### Need for privatisation in discoms

The distribution sector in India continues to be the weakest link in India's electricity value chain due to multiple reasons such as-

- **Indebtedness:** According to the Ministry of Power's (MoP) payment ratification and analysis portal (PRAAPTI) power producers' total outstanding dues owed by distribution firms rose over 47 per cent year-on-year to Rs 1.33 lakh crore in June 2020.
- **Financial incompetency:** There have been multiple reports of DISCOMs delaying payments owed to solar and wind energy developers in Andhra Pradesh, Tamil Nadu, Madhya Pradesh, and Telangana. This has made attracting investments into the sector extremely challenging.
- **Operational inefficiencies** due to huge technical and commercial losses (AT&C), which are primarily caused by power theft, poor payment collection procedures, and inadequate tariff hikes.
- India's average aggregate technical and commercial loss is at 21.4% leading to overdue bills affecting not only power producers but also contributing to twin balance sheet crisis in the banking sector
- **Increasing open access transactions:** A steep fall in prices of power generated by solar and wind energy projects are driving their most resourceful commercial and industrial (C&I) customers to engage in private power purchase through open access.
- **Lack of political will and transparency** in dealing with phasing out of energy subsidies.
- **Decline in demand during lockdown:** Agricultural consumers and domestic consumers pay a lower tariff which is compensated by a higher tariff for commercial & industrial establishments. As a result of lockdown, operations of commercial establishments and industries came to a grinding halt, affecting the revenue for DISCOMs.
- **Lack of progress in earlier initiatives:** The government, under various regimes, has tried to improve the condition of DISCOMs in India through relief packages. For eg- under UDAY programme, state governments took over 75% of DISCOMS' debt, issuing low-interest bonds to service the rest of the debt. DISCOMs were further supposed to reduce instances of operational and financial mismanagement. Although there were some initial signs of progress under UDAY, the program has not been able to help minimize DISCOM losses.

#### Other initiatives by the government to improve the condition of discoms

- **Bailout package of ₹90,000 crore** as part of a ₹20 trillion stimulus package to revive the economy. These funds were to be given to discoms against state government guarantees and accompanied by a temporary tariff reduction.
- **Proposed distribution reforms scheme**—tentatively named Atal Distribution System Improvement Yojana (Aditya)—to cut electricity losses below 12%. The scheme aims to ensure continuous supply of power, adopting models such as privatizing state-run discoms and promoting competition.
- **Power sector reforms**, including implementing the direct benefit transfer (DBT) scheme in the electricity sector for better targeting of subsidies and instilling financial discipline at discoms.
- According to **draft amendments to the Electricity Act, 2003**, the government has pitched for a cost reflective tariff and setting up an Electricity Contract Enforcement Authority to enforce power purchase agreements (PPAs).
- **One-time relaxation in working capital borrowing limits** imposed under Ujwal Discom Assurance Yojana (UDAY). Discoms will be allowed working capital borrowings from banks and financial institutions that may be up to 25% of last year's revenues to clear dues to power generation and transmission firms.

#### Benefits of privatising discoms

- **Examples from other states:** There are sufficient case studies when private players have been proved to run cash strapped Discoms successfully via more efficiency, increased revenue and improved consumer

services. For eg.- The aggregate technical & commercial (AT&C) losses in Delhi after the privatization in 2002 has been brought down from a high of 53% to around 8%.

- **Operational autonomy through** improved network efficiency and lack of political interference.
- **Better services for consumers:** Smart prepaid meters will allow transparency for consumers and also help DISCOMs reduce AT&C losses and ensures billing accuracy which leaves no scope for human errors.
- **Generating private sector appetite** amongst Indian and international investors, various PPP models will be tested and it will also provide confidence to larger states and utilities to undertake privatisation based on improvements achieved.

#### Way forward

- **Need replication in states:** Power being a concurrent subject in our federal set up, the Centre may set policy direction, but it is the states that will have to implement, including the decision to privatise. The UTs are a good place to start, though it should be propagated further into the state owned discoms.
- **More autonomy to regulatory bodies:** Privatization of DISCOMs will not work until the systemic challenges are addressed. For eg. State Electricity Regulatory Commissions (SERCs) do not formulate tariff orders on time and defer tariff hikes, which adds to the inability of DISCOMs to generate profit.
- **Reinventing revenue model:** Decentralized renewable power generation through rooftop solar and direct sourcing from corporate PPAs has increased in the total energy mix. It is of prime importance for the DISCOMs to reinvent their revenue model that is conducive to the growth of rooftop solar and open access power. This will also enable the next set of reforms for the sector towards the disintegration of content and carriage.

## 10.2. COAL, OIL AND GAS

### Introduction

Overall **production of raw coal in India** during the year 2018-19 was **730.4 million tonnes (MT)** growing at 8.1 percent. This was accompanied by **large imports** of coal was imported during April 2019 to September 2019 (~126 MT).

**India's oil production is one of the lowest among the major economies of the world** and has been declining over a period of time. This reduction in production can be attributed to **natural decline in ageing and matured fields and no major discoveries**.

Domestic production of **natural gas has been increasing since 2017-18** and is estimated to be **31.8 billion cubic metres (BCM) in 2019-20**.

### 10.2.1. COMMERCIAL COAL MINING

#### Why in news?

Recently, government launched auction process of 41 coal blocks for commercial mining under 'Aatmanirbhar Bharat Abhiyan'.

#### Background

- India has the world's **fourth largest coal reserve** and is **second largest producer after China**, still India stands as **second largest coal importer**.
- To ensure **energy security through assured coal supply**, address poor working conditions etc., **coal mining was nationalised in 1973 by Coal Mines (Nationalisation) Act, 1973**. So, **private sector firms were only allowed to mine coal for use in their captive (own) use**, e.g. cement, steel, power and aluminium plants etc.
- However, in 2014, Supreme Court cancelled **204 coal mines/blocks** which were allocated between 1993-2014, on the grounds of C&AG report, alleging loss of 1.85 lakh crore to Government.
- Later the government brought in the **Coal Mines (Special provisions) (CMSP) Act of 2015** to allocate coal blocks through auction.
- Prior to the enactment CMSP Act, **coal mines were never given out through bidding**. Companies used to apply for coal blocks and rights were given to them after scrutiny by an inter-ministerial committee.
- Recently, government came with the **Mineral Laws (Amendment) Act, 2020** which amends the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and the Coal Mines (Special Provisions) Act, 2015, under which current auction process is launched.

### Expected benefits of commercial coal mining

- **Economic gains:** Proposed auction of 41 coal blocks for commercial mining will **create more than 2.8 lakh jobs** and attract capital investment worth 33,000 crore. Allowing FDI in coal mining industry will **facilitate adoption of new technology**.
- **Reduction in imports:** Involvement of private players and investment by them will **help meet domestic coal requirement** and save forex reserve by reducing imports. The 41 mines proposed for auction **are expected to hit peak production of 225 million tonne (mt)** and expected to account for around 15% of India's total coal production in 2025-26.
- **Reduced cost to customer:** Higher production and surplus availability of coal, may **reduce the cost of electricity**, as currently coal-fired plants generate about 70 per cent of India's electricity.
- **Revenue to the Government:** It is expected that commercial coal mining will add **₹20,000 crore annually** to the state governments' revenue.
- **Development of the coal bearing regions:** Revenue generated through coal production will raise **contribution to District Mineral Foundation Fund** (setup under MMDR Amendment Act 2015) and could be spent on welfare schemes for locals and tribal in surrounding area.

### Problems with captive coal mining

- Captive coal blocks produced **only 25.1 million tonne (MT) in 2018-19**, much lower than the peak output of 43.2 MT in 2014-15 when the Supreme Court had cancelled the licences of 204 such coal mines.
- **Captive mining could not achieve desired results** as it presumed that power producers, steel makers and others have the expertise and inclination for mining.
- Also, it prevented **economies of scale**.

### Challenges

- **Cost of power production through renewable energy is increasingly getting lower**, hence private players also shifting investment in renewable energy sources rather than conventional sources like coal.
- Central Electricity Authority (CEA) expected that **coal-based thermal power plant's capacity utilization will fall to 48% by 2022**, as additional non-thermal electricity generation capacities rise. This might further discourage investors.
- CIL estimated that only about **21 billion tonnes (BT) could be extracted technically and economically**. Thus, India may run out of easily extractable coal down to the depth of 300 metres in the next few years. This will mean that companies will need to mine deeper, which would require increased mechanisation with an increase in the cost of production.
- Some states are raising concerns that **disregarding powers of state governments and Gram Sabha** to recognise mines allocation is **against cooperative federalism** and leads to loss of revenue to States/villages.
- There are **socio-economic concerns** like acquisition, rehabilitation and resettlement of people affected and risk of environmental degradation.

### Other recent steps taken in coal sector

- The **coal linkages have been rationalized** in order to reduce the distance in transportation of coal from the coal mines to the consumer.
- Under the **coal linkage policy**, power producers are linked to the coal producers. The commitments under the linkages are binding and the coal cannot be transferred to other consumers.
- Environment Protection Act was amended to **drop mandatorily washing coal** for supply to thermal power plant, citing reason it prompts industries to import coal. Instead, thermal power plants were **directed to install the technology for handling ash content**.
- Amendment in the **guidelines of preparation, processing and approval of Mining Plan** with simplified guidelines, and measures are being taken to formulate an **online single window clearance system**.
- **Announcements under Atmanirbhar Bharat Abhiyan**, including spending ₹50,000 crore on creating infrastructure for coal extraction and transport; **rebate on revenue share** payable to government for early production, producing excess of the scheduled target and for coal used in gasification etc.

### Way forward

- Setting up of an **independent regulatory body** for the coal sector to carve out coal blocks, oversee investments and also carry out valuation. **Coal Regulatory Authority Bill, 2013** was introduced for this purpose, but was lapsed.
- There should be fine **balance between short-term cost savings and long-term environmental impact** by promoting **sustainable coal consumption** and **reducing waste discharge**, through combining smaller mining areas to develop into one single mine of large capacities.

**Prakash Portal**

Recently, the Union Government jointly launched PRAKASH (Power Rail Koyla Availability through Supply Harmony) portal.

**About the Portal**

- The Portal aims at **bringing better coordination for coal supplies among all stakeholders** - Ministry of Power, Ministry of Coal, Coal India, Railways and power utilities.
- This is an important step in **ensuring adequate availability and optimum utilization of coal at thermal power plants.**

**10.2.2. UNIFIED GAS PRICE SYSTEM****Why in news?**

Government is planning to cut down the cost of transportation of natural gas by setting a fixed tariff for the transportation of natural gas for longer distances to boost gas consumption.

**Background**

- Currently, **tariffs for pipeline usage are divided into zones of 300km**, with the tariff increasing for zones further away from the point where gas is injected.
- Thus, **these tariffs increase the cost for buyers of gas** further away from the point of injection of natural gas. All of India's imported natural gas arrives at terminals on the west coast leading to costs for buyers increasing, the further east they are located.
- The government is **proposing a unified price system with one price** for those transporting gas nearby within 300 km and one price for those transporting gas beyond 300km.
- Also, Petroleum and Natural Gas Regulatory Board (PNGRB) has published a discussion paper on moving from a system where buyers of gas are charged for every pipeline, to a **single charge across a pipeline network.**

**Expected benefits of unified gas pricing system**

- **Reduced overall cost:** Currently, transport cost accounts for as much as 10% of the final cost of gas to an industry because of low international prices. Usually, it accounts for around 2-3% of the price of natural gas.
- **Reduction in tariffs:** Currently, if a buyer needs multiple pipelines even from the same operator, that transport tariff would increase by adding the tariffs under different zones.
- **Single market:** It would facilitate in **creating a single gas market** by attracting investment to complete the Gas Grid as well as ensuring equitable access to natural gas across the country.
- **Gas based economy:** It would enable improving the affordability of gas across the country and **attracting investments into the gas infrastructure.** This will help achieve government's aim to increase the share of natural gas in the country's **energy mix to 15% by 2030, from 6% today.**
- **Development of new gas markets:** Present system causes wide disparity in pipeline tariffs, and thus it hinders the development of new demand centers in far-flung and remote areas.

**Other challenges in gas pricing**

- **Pricing mechanism:** Under Domestic Natural Gas Pricing Guideline 2014 **domestically produced gas** is priced at the **average rate prevailing in gas exporting countries** such as the US, UK, Canada, and Russia.
  - The formula has **no mention about gas actually imported into India**, which means the pricing of domestic gas is not on the lines of market demand and supply.
  - Also, domestic Gas prices are notified with a lag of one quarter. The **time lag of a quarter** mean that the domestic gas price movement is often out of sync with current international prices.
- **Multiple pricing mechanisms:** There are multiple pricing regimes existing in the country for Natural gas supplies, with **Administered Price Mechanism for subsidized sectors such as fertilizers.** This controlled pricing may result in **disincentivizing investments in the sector, especially foreign players.**

**Steps taken for better pricing**

- **Gas price pooling, 2015:** Under the plan, price of cheaper domestic gas will be averaged or pooled with cost of expensive imported LNG to create a uniform rate for fertilizer plants.
- **Hydrocarbon Exploration Licensing Policy:** All gas production from new discoveries can be sold at market-based prices, though it remains subject to a price ceiling.

- **Not under GST:** As gas prices are not under GST, it has led to varying tax rates on natural gas production and related value chain, such as pipelines and retailing in different states.

#### Way forward

- **Decontrolling of prices:** India has to end central controls on gas pricing as it seeks to attract foreign investment to lift local output.
- **Unbundling of transportation and the marketing** of gas is to increase private participation and for the development of the pipelines network.
- **Better regulation:** Strengthen and clarify the roles and responsibilities with regard to the **regulatory supervision of natural gas market activities** (upstream, midstream and downstream).
- **Include under GST:** **International Energy Agency (IEA)** suggested to ensure gas is treated on a level playing field with other fuels for taxation and is included under the GST.
- **Grant infrastructure status to natural gas pipelines,** to incentivize investments which are prerequisite for increasing natural gas demand and thus reducing cost.

#### 10.2.2.1. INDIAN GAS EXCHANGE (IGX)

##### Why in news?

India's first gas exchange — the Indian Gas Exchange (IGX) — was launched recently as wholly owned subsidiary of **Indian Energy Exchange**.

##### About IGX

- It is a digital trading platform that will allow buyers and sellers of natural gas to trade **both in the spot market and in the forward market for imported natural gas** across three hubs — **Dahej and Hazira in Gujarat, and Kakinada in Andhra Pradesh**.
- **Imported Liquefied Natural Gas (LNG) will be regassified** and sold to buyers through the exchange, removing the requirement for buyers and sellers to find each other.
  - The bidding is done in an anonymous manner, where the buyer and seller do not know their counterpart.
- The price of **domestically produced natural gas** is decided by the government and it will **not be sold on the gas exchange**.
  - Domestic production of gas has been falling over the past two fiscals as current sources of natural gas have become less productive.
  - Domestically produced natural gas currently accounts for less than half the country's natural gas consumption; imported LNG accounts for the other half. Hence, IGX encourages trading in imported LNG.

##### Expected Benefits

- The exchange is expected to **facilitate transparent price discovery in natural gas** and facilitate the growth of the share of natural gas in India's energy basket.
  - India has set a policy target of increasing the **share of natural gas in India's energy basket from current 6.5% to 15% by 2030**.
- Trading platform will also drive competition across the value-chain, leading to innovative business models and efficient cost-structures, thus supporting the overall affordability of gas.

#### 10.2.2.2. NATIONAL GAS GRID

##### Why in news?

The Cabinet Committee on Economic Affairs has approved a Capital Grant as the **Viability Gap Funding** to Indradhanush Gas Grid Ltd for setting up the **North East Natural Gas Pipeline Grid**.

##### National Gas Grid

- Gas Pipeline infrastructure is an **economical and safe mode of transporting the natural gas** by connecting gas sources to gas consuming markets. Gas pipeline grid determines the structure of the gas market and its development. Therefore, an **interconnected National Gas Grid has been envisaged** to ensure the adequate availability and equitable distribution of natural gas in all parts of the country.

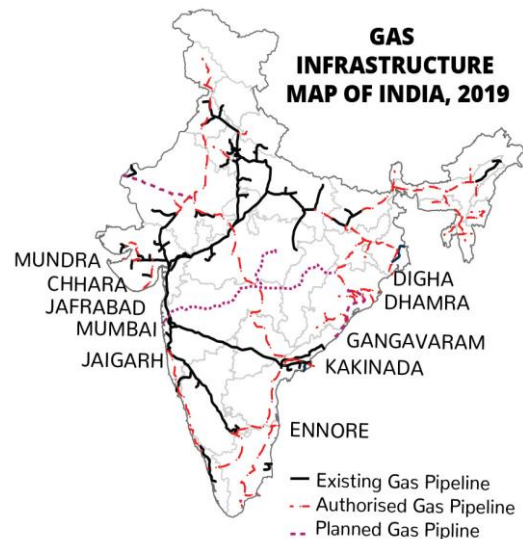
- At present, there are about **16800 km long Natural Gas pipeline network** which is operational in the country. In order to make available natural gas across the country, it has been envisaged to develop **additional about 14,300 km pipelines** to complete the National Gas Grid and same are at various stages of development.
- This would ensure easy availability of natural gas across all regions and also potentially help to achieve uniform economic and social progress.

### Aims and objectives of National Gas Grid

- To remove regional imbalance within the country with regard to access of natural gas and provide clean and green fuel throughout the country.
- To connect gas sources to major demand centres and ensure availability of gas to consumers in various sectors.
- **Development of City Gas Distribution (CGD) Networks** in various cities for supply of CNG and PNG.

### City Gas Distribution (CGD) Networks

- Under the Petroleum and Natural Gas Regulatory Board (PNGRB) Act 2006, PNGRB grants the authorization to the entities for developing a City Gas Distribution (CGD) network (including PNG network) in a specified Geographical Area (GA) of the country.
- **CGD sector has four distinct segments** – Compressed Natural Gas (CNG) predominantly used as **auto-fuel** and Piped Natural Gas (PNG) used in **domestic, commercial and Industrial segments**.
- Regulations pertaining to authorization/bidding of City Gas Distribution (CGD) networks were amended in 2018. PNGRB has authorized 229 GAs covering 407 districts for development of CGD network across the country.
  - It covers about 53% of the country's area and 70% of country's population. It will make available environment friendly fuel i.e. CNG/PNG to public at large.
- To promote the development of CGD network, the **Government has accorded the priority in domestic gas allocation to PNG (Domestic) and CNG (Transport) segments**. It has been decided to meet 100% gas requirement of CNG (Transport) and PNG(Domestic) segments through supply of domestic gas which is cheaper than imported gas.
- At present, CGD sector is consuming approx. 14.36 Million Metric Standard Cubic Meter per Day (MMSCMD) of domestic Gas for CNG (Transport) and PNG (Domestic) sector.



The **Ministry of Petroleum and Natural Gas** has released a draft policy on City Gas Distribution (CGD) Network.

#### Main provisions of the draft policy

- It suggests setting up of a **committee, under the chairmanship of the chief secretary**, which will help formulate policies and streamline the processes for **various permissions** to develop the CGD infrastructure.
  - It will cause setting up of a suitable **single-window clearance** mechanism for the same in the state for the promotion development of CGD infrastructure and ease of doing business.
  - Committee will also make a suitable mechanism for permissions from state divisions of the Petroleum and Explosives Safety Organisation, NHAI, the railways, etc.
- State transport corporations will accord priority to CNG/LNG buses, while purchasing new buses and retrofitting in present alternate fuel fleet.
- The draft also calls for **VAT rates** of CNG/LNG may be reviewed and rationalized with a **ceiling of 5%**.
- It also calls the states to **rationalize road tax** for CNG vehicles at par with electric vehicles.

### Conclusion

To usher in Gas based economy and to increase the share of natural gas in country's primary energy mix, Government is taking focused steps viz. enhancing domestic gas production, expeditious development of gas infrastructure including pipelines, City Gas Distribution (CGD) networks and Re-gasified Liquefied Natural Gas (R-LNG) Terminals as well as development of Gas market by providing open access to gas infrastructure.

## 10.3. RENEWABLE ENERGY

### Introduction

India is looking at using renewable energy to meet multiple objectives: energy security, energy efficiency, decarbonization, and sustainability, among others. India's fossil fuel requirements, which comprise nearly 90% of primary energy supply, are increasingly being met by imports.

India is also committed to meeting its commitments stated in the Paris Agreement. India had announced **175 Gigawatt (GW) targets for renewables by 2022** and **has already achieved 83 GW**. India also aims to increase the target till 450 GW.

### 10.3.1. POWER PURCHASE AGREEMENTS

#### Why in news?

Recently, various states have been working to renegotiate the **Power Purchase Agreements (PPAs)** with the renewable energy companies.

#### What are PPAs?

- A **Power Purchase Agreement (PPA)** is a contract between two parties, one who generates electricity and one who is looking to purchase electricity.
- In India, the state governments have entered into such agreements with private renewable energy companies to establish the power plant and sell the power back to the government.
  - With PPAs in place, India can boost renewable energy generation in the country and incentivise the global renewable energy companies to invest by giving them policy certainty about purchase of power.

#### Significance of Power Purchase Agreements

##### For the State-

- No Operating and Maintenance Responsibilities,
- No need to deal with complex system design and permitting process,
- A predictable cost of electricity over 15-25 years.

##### For the energy company-

- **Assured bulk purchase-** as the state is involved which will not default.
- **Better project structuring-** PPAs remove the uncertainties regarding the demand of electricity and some guarantee as to quantities purchased and price paid are required to make the project viable.
- **Buffer from competition-** as there is a possibility of competition from cheaper or subsidized domestic or international competition.

#### Current situation on PPAs with renewable energy companies

- In the recent times, some state governments have reviewed/ moved out from their respective agreements.
  - The **Uttar Pradesh government** stopped power purchase from 650 mw wind power plants stating that the Central Electricity Regulatory Commission did not approve the tariffs for these plants.
  - The **Andhra Pradesh government** has sought downward revision of 139 solar and wind contracts.
- There is a concern of mounting debts and untimely payments by the state power distribution companies (DISCOMs). In this backdrop, the Government of India has advised the state governments to uphold the sanctity of contracts.

#### Why these states want to renegotiate the PPAs?

- **Dynamic nature of tariffs-** Owing to changing tariffs, several State Electricity Boards (SEBs) want to revisit their tariff agreements. E.g. Andhra Pradesh's signed PPAs with various wind power generators around Rs 4.76 per unit in 2015, which appeared competitive at that time. Now, the Solar Energy Corporation of India (SECI) managed to get bids as low as Rs 3.46 per unit.
- **Long Tenure of PPA-** The PPAs are signed for longer durations like 15-25 years and the states are feeling the heat of higher tariffs they have agreed in the PPAs.
- **Financial conditions of DISCOMs-** The DISCOMs in these states are going through a financial crisis, and one of the main reasons for this was the higher tariffs in the wind and solar PPAs.

#### Possible impact of renegotiation of PPAs

- **Affect Investor Sentiment** –The cancellation of contracts and arm-twisting of agreements would effect investor sentiments & discourage new investments.



- **Will increase Non-Performing Assets-** As the banks have lent heavily to these developers, so with shutting down of projects, the loans may not be serviced. It could start a new cycle where the banks will be apprehensive in advancing loan to such generators.
- **India's renewable energy targets-** of installing 175 GW of renewable energy capacity before 2022 may get jeopardised due to this.

### Way Forward

The states should focus on improving the financial health of DISCOMs using mechanisms under UDAY and other reforms available. Inefficiencies in metering, collection, low power tariffs among others should be reviewed rather than blaming the PPAs for the poor financial health of DISCOMs.

### 10.3.2. BUNDLING SCHEME FOR ROUND-THE-CLOCK (RTC) POWER SUPPLY

#### Why in news?

Recently, Ministry of power issued guidelines for supply of RTC power to distributors through a Bundling Scheme, which is first of its kind scheme in world.

#### About Bundling scheme

- It is a plan to **sell renewable energy (RE) and thermal power in a bundle** so that end users can get uninterrupted supply of power.
- First phase of National Solar Mission provided for such a scheme to facilitate grid connected solar power.
- It will provide **RTC power to DISCOMs from RE sources** complemented/balanced with coal based thermal power.
- Scheme will facilitate renewable capacity addition and **fulfillment of Renewable Purchase Obligation (RPO)** requirement of DISCOMs.
- It will enable **procurement of power at competitive prices** in consumer interest, improve bankability of projects and ensure reasonable returns to the investors.
- Scheme will provide a **framework for an Intermediary Procurer** as an Aggregator/Trader for the inter-state/ intra-state, long-term, sale-purchase of power.

#### Benefits of Bundling Scheme

- It **will address issues of intermittency** (random energy generation from RE sources), limited hours of supply and low capacity utilisation of transmission infrastructure.
- These issues made DISCOMs to procure balancing power from other sources for grid stability and during periods of non-availability of RE
- It will **bring down the overall cost of power** supplied to utilities and will increase RE penetration.
- Through this approach, **thermal power can be utilized to balance RE** and provide RTC power to the DISCOM.
- Bundling will **ease financial burden on DISCOMs** and help them clear their dues. Also, power generators will get payments on time and their money instead of getting blocked can be ploughed back.
- It will help in providing **long-term power tie-up opportunity** to thermal power plant producers, which have been struggling to sell their power in present competitive market.
- It will help obligated entities in **meeting RPO** and also in grid-connected solar power generation.
- It will improve **thermal power capacity utilisation** as new coal-based thermal power plants have quite a high ramp rate (how quickly a power plant's power output is changing).

#### Concerns about the scheme

- Government will have no role in the bundling, apart from setting rules and **initiative would have to be taken by the power producers themselves.**
- Because of **limited number of potential bidders**, the scheme would not attract very competitive bids and may therefore not be cost attractive for DISCOMs.
- Both thermal and RE projects are facing **payment delays from the states.** Also, several states **do not honor the Power Purchase Agreements** they sign with renewable power projects.
- Scheme **has not addressed concern on the cost** which is highly dependent on cost of coal, on equipment cost in case of solar and on market demand in case of wind.

### 10.3.3. GREEN TERM AHEAD MARKET

#### Why in News?

Recently, Central Electricity Regulatory Commission (CERC) approved Green term ahead market (GTAM) contracts on the Indian Energy Exchange (IEX) platform.

#### More on news

- This step comes after **Real Time Market (RTM) trading was approved in power exchanges in June 2020.**
- **IEX currently trades through following models:**
  - **Day Ahead Market (DAM)**, where transactions in electricity are allowed for a day in advance;
  - **Term Ahead Market (TAM)**, where electricity is traded the same day to up to 11 days in advance;
  - **Renewable Energy Certificate (REC)**, where green energy attributes of electricity are traded; and
  - **Real time Market (RTM)**, where auction sessions are conducted at even time blocks on the hour, and delivery commences one hour after the trade session is closed.
- Though the renewable penetration in the country is increasing, the **participation of renewable energy in the existing DAM and TAM segment has remained negligible (less than 1%)** as there has been no segregation between conventional power and green power by the system. To overcome this issue, an alternative new model, namely GTAM was introduced.

#### About Indian Energy Exchange (IEX)

- IEX is the **first and largest energy exchange in India** providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates and Energy Saving Certificates.
- IEX is **regulated by Central Electricity Regulatory Commission.**

#### Advantages of Real Time Market in electricity

- Ensure **optimal utilization of the surplus electricity.**
- **Manage diversity in the demand pattern**, as electricity DISCOMS faced with sudden **shortage of supply can purchase energy.**
- Help to **mitigate challenges to the grid management due to intermittent and variable nature of renewable energy** generation (especially solar and wind energy).
- **Shorter bidding time, faster scheduling, and defined processes** will enable the participants to access resources throughout the all India grid for promoting competition.

#### Mechanism of G-TAM Trading



#### About GTAM

- GTAM has been specifically introduced for **selling off the power by the renewable developers in the open market** without getting into long term Power Purchase Agreements (PPAs).
- GTAM will provide an **exclusive platform for short-term trading of Renewable Energy.**

#### Potential Benefits

- It would **lessen the burden on RE-rich States** and incentivize them to develop RE capacity beyond their own RPO.
- This, along with the recently launched real-time trading in electricity will **support seamless integration of RE power**
- It would **enable Obligated entities to procure renewable power at competitive prices** to meet their RPO.
- **Promote RE merchant capacity addition** and help in achieving RE capacity addition targets of the country.
- GTAM platform will lead to **increase in number of participants in RE sector. Buyers of RE** through competitive prices and transparent and flexible procurement and **RE sellers** by providing access to pan-India market
  - GTAM witnessed an encouraging response since its launch and has **registered trade of three million units (MU) in the first 11 days.**
- It will provide a **platform to environmentally conscious open access consumers** and utilities to buy green power.

# 11. BUSINESS AND INNOVATION

## 11.1. BUSINESS POLICY REFORMS

### 11.1.1. DOING BUSINESS REPORT 2020

#### Why in news?

Doing Business 2020 Report, a World Bank Group flagship publication, was released.

#### Doing Business (DB) Project

- Doing Business 2020 is the 17<sup>th</sup> in a series of annual studies investigating the regulations that enhance business activity and those that constrain it.
- By documenting changes in regulation in 12 areas of business activity, Doing Business analyses regulation that encourages efficiency and supports freedom to do business.

### WHAT IS MEASURED IN DOING BUSINESS ?



- The data collected by Doing Business address three questions about government.
  - When do governments change regulation with a view to develop their private sector?
  - What are the characteristics of reformist governments?
  - What are the effects of regulatory change on different aspects of economic or investment activity?
- India has made a substantial leap upward, raising its ease of doing business ranking from 130 in 2016 to 63 in Doing Business 2020.

#### India's strategy to incorporate DB indicators

India adopted the Doing Business indicators as a core component of reform strategies. The DB 2020 documents following reforms taken by the Indian government in accordance with the Doing Business indicators (along with ranks in 2020).

- **Starting a Business (Rank-136):** India made starting a business easier by abolishing filing fees for the **SPICE (Simplified Proforma for Incorporating a Company Electronically)** company incorporation form, electronic memorandum of association and articles of association.
  - India also replaced the value added tax with the **GST (Goods and Services Tax)** for which the registration process is faster.
- **Dealing with Construction Permits (Rank-27):** India streamlined the process, reduced the time and cost of obtaining construction permits by strengthening professional certification requirements. It also improved building quality control by introducing decennial liability and insurance.
- **Trading across Borders (Rank-68):** India made trading across borders easier by enabling post-clearance audits, integrating trade stakeholders in a single electronic platform, upgrading port infrastructures, electronic sealing of containers and enhancing the electronic submission of documents with digital signatures.
- **Resolving Insolvency (Rank-52):** India made resolving insolvency easier by promoting reorganization proceedings in practice. India also made resolving insolvency more difficult by not allowing dissenting creditors to receive as much under reorganization as they would receive in liquidation.

#### Other recent reforms

- **Paying Taxes (Rank-115):** India made paying taxes easier by replacing many indirect taxes with a single indirect tax, the GST, for the entire country. India also made paying taxes less costly by reducing the corporate income tax rate and the employees' provident funds scheme rate paid by the employer.

- **Getting Credit (Rank-25):** India strengthened access to credit by amending its insolvency law. Secured creditors are now given absolute priority over other claims within insolvency proceedings.
- **Getting Electricity (Rank-22):** The Delhi Electricity Regulatory Commission reduced charges for low voltage connections. Getting electricity was also made easier in Delhi through a reduction in the time for the utility to carry out the external connection works.

Riding on these reforms, **India, for the third year in a row, is among the 10 economies that improved the most** on the ease of doing business after implementing regulatory reforms.

### Conclusion

- While the improvements are impressive and the rise in overall rankings in the last few years is noteworthy, the fact is that **India is still below its competitors** for global capital, particularly **China**, which is at rank 31.
- The **country lags in key metrics** such as “Starting a business (Rank-136)”, “Enforcing contracts (Rank- 163)” and “Registering property (Rank- 154)”.
- India has set the target to achieve the top-50 rank. **India must work upon judicial reforms** to ensure better contract enforcement and **land administration system**, the registered property indicator, where India also ranks pretty low and where there is a lot of room for improvement.
- Moreover, given the federal polity, rise in rankings from hereon will depend on how much the Centre is able to convince the States to reform their systems.

### 11.1.1.1. BUSINESS REFORM ACTION PLAN- EASE OF DOING BUSINESS RANKING

#### Why in News?

Recently, **Department of Industrial Promotion and Internal Trade (DPIIT) in collaboration with World Bank**, released 4<sup>th</sup> edition of Business Reform Action Plan (BRAP) ranking of states.

#### About BRAP

- DPIIT has developed **BRAP for State Reforms since 2015** and circulated it with States/UTs for implementation. It is designed keeping in mind 2 factors viz. Measurability and Comparability across States.
- Under BRAP, **DPIIT provides a set of recommendations meant to reduce the time and effort spent by businesses on compliance with regulation.**
  - It also recommends all states have a **single-window system** that provides all necessary information on permits and licenses required for starting a business.
  - DPIIT recommends that the **duration of licenses be extended or that they be renewed automatically** based on self-certification or third-party verification.
  - A state is also rewarded if a **set of regulations (like labour or environment laws) are not applicable to it.**
- BRAP aims to achieve the larger **objective of attracting investments and increasing Ease of Doing Business (EoDB) in each State** by introducing an element of healthy competition through a system of ranking.
  - State rankings will help **attract investments, foster healthy competition** and increase EODB in each State

#### BRAP Report 2018-19

- **It includes 180 reform points covering 12 business regulatory areas** such as Access to Information, Single Window System, Labour, Environment, etc.
  - For the first time since its inception in 2015, the **BRAP rankings relied entirely on the feedback it received from the businesses** for whom these reforms were intended.
- States are required to submit proof of implementing each reform on the DPIIT’s EoDB portal and submit a list of users of these reforms.

## 11.2. START-UP AND INNOVATION

### What is a Start-up?

An entity will be considered a start-up if it fulfils the conditions mentioned below:

- **Entity Type:** Incorporated as a **private limited company** (as defined in the Companies Act, 2013) or Registered as a **partnership firm** (under the Partnership Act, 1932) or Registered as a **limited liability partnership** (under the Limited Liability Partnership Act, 2008) in India
- **Turnover:** Must not exceed 100 crore rupees in any fiscal year
- **Age:** Below 10 years from date of incorporation
- **Nature of Activity:** Given that the entity is working towards – Innovation, Development or improvement of products/processes/services, Scalability, Job Creation or Wealth Creation.

### Status of Start-ups in India

- India is the **3rd largest start-up ecosystem** in the world.
- Around 28,000 start-ups are recognized by DPIIT.
- India is home to **32 unicorns** (start-ups with valuation greater than \$1 billion) with a combined valuation of more than \$100 billion.
- The entire start-up ecosystem raised \$50 billion funding between 2014 and 2019.
- **Leading sectors** that pervade the Indian start-up landscape are: Fintech, E-Commerce, Logistics, Enterprises, Health-Tech.

### Significance of Start-ups in India

- **Boosts employment:** The startup ecosystem, tangibly adds to job creation in the nation. On an average 12 jobs created per startup totaling up to more than 3.5 Lakh jobs.
- **High potential for growth:** It is estimated that the number of unicorns in India will increase by three times, to 95 in 2025 with a cumulative valuation of approximately \$390 billion.
- **Fulfilling societal needs:** Startups hold the key to address the critical needs of the country in areas like affordable healthcare, education, financial inclusion, etc.
- **Fostering a culture of Innovation and technology:** Startups work in an environment of changing technology and try to maximize profits by innovation. This also induces backward and forward linkages which stimulate the process of economic development in the country.
- **Attracting foreign investment and stimulating domestic investment:** Indigenous startups have the potential to grow into large multinational firms and enterprises and thus can initiate an attractive and flourishing investment environment.

## 11.2.1. INNOVATION ECOSYSTEM: WHAT, WHY AND HOW?

### Why in News?

Recently, India's rank improved in the **Global Innovation Index (GII)** by four places to 48<sup>th</sup> place in 2020 from 52<sup>nd</sup> position last year.

### About GI

- It has been **developed by the World Intellectual Property Organization (WIPO)** together with top business universities like Cornell University, INSEAD etc.
- It measures the **innovative capacity and outputs** of 131 economies, using **80 indicators** ranging from standard measurements such as research and development investments and patent and trademark filings, to mobile-phone app creation and high-tech net exports.

### Key Findings of the document

- **COVID-19 crisis will impact innovation**, leaders need to act as they move from containment to recovery.
  - The **pharmaceuticals and biotechnology** sector are likely to **experience R&D growth**. Other key sectors, such as transport, will have to adapt faster as the quest for clean energy is receiving renewed interest.
- The financial system is sound so far but **money to fund innovative ventures is drying up**. Venture Capital deals are in sharp decline across North America, Asia, and Europe.
- **Geography of innovation is continuing to shift**, as evidenced by the GI rankings. Over the years, **China, Vietnam, India, and the Philippines are the economies with the most significant progress** in their GI innovation ranking over time. All four are now in the top 50.
- Despite some innovation catch-up, **regional divides exist with respect to national innovation performance:** Northern America and Europe lead, followed by South East Asia, East Asia and Oceania, and

more distantly by Northern Africa and Western Asia, Latin America and the Caribbean, Central and Southern Asia, and Sub-Saharan Africa, respectively.

### What is an Innovation Ecosystem?

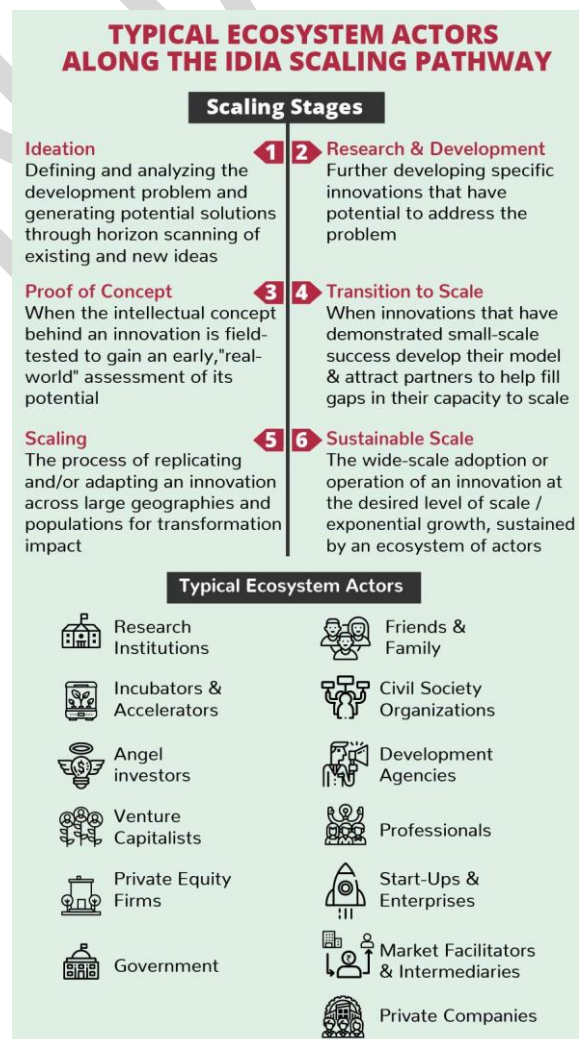
- An innovation ecosystem refers to a loosely **interconnected network of companies and other entities** that co-evolve capabilities **around a shared set of technologies, knowledge, or skills**, and work cooperatively and competitively to develop new products and services.
  - It is **made up of different actors, relationships and resources** who all play a role in taking a great idea to transformative impact at scale.
  - The effectiveness of **each part is moderated by other parts of the system** (e.g. entrepreneurs depend on being able to access financing).
  - A change to one part leads to changes in other parts** of the innovation ecosystem (e.g. an increase in internet connectivity will accelerate the design and testing of new technologies).
- The three defining characteristics of an innovation ecosystem** are the dependencies established among the members, a common set of goals and objectives and a shared set of knowledge and skills.

### Why innovation ecosystems are important?

- Innovation ecosystems create an **active flow of information and resources for ideas to transform into reality**. It can develop and launch solutions to solve real-world problems, faster.
- Technological innovation is considered as **a major source of economic growth**. It increases productivity and generate greater output with the same input.
- Countries depend on innovation as new digital technologies and innovative solutions create huge **opportunities to fight sickness, poverty and hunger**.
- An effective innovation ecosystem enables entrepreneurs, companies, universities, research organisations, investors and government agencies to interact effectively to **maximise the economic impact and potential of their research and innovation**.
- Innovation is a **key driver for sustenance and prosperity** of start-ups, conglomerates, governments by helping them improve their service delivery and performance.

### What are the challenges faced by innovation ecosystems in India?

- Indian innovations are **invariably incremental and not disruptive**- They are often 'first to India' and not 'first to the world'.
- Lack of Scalability**- to create **competitive marketable products** with speed, scale and sustainability.
- Slower progress** - Even though India is within touching distance of breaking into the top-50 innovator countries in the world, it is still quite far from a China, which filed, for instance, 53,345 patent applications with the WIPO in 2018 versus India's 2,013.
- Weak university research**: India is an odd juxtaposition of stellar successes like the Chandrayaan and digital payments and a large number of unemployable engineering graduates and institutes that have very limited autonomy. Moreover, while our top-rung universities and institutes (IITs Delhi & Mumbai, IISc) do well regionally, they have consistently remained out of the global 100.
- Quality of the STEM talent pool**- the gross enrollment ratio at the tertiary education level in India is a low 26% meaning, a vast reserve of potential research talent is lost.



### Steps taken to improve the innovation ecosystem

- **The India Innovation Growth Programme (IIGP) 2.0** is a unique tripartite initiative of the Department of Science and Technology (DST), Government of India, Lockheed Martin and Tata Trusts which enables innovators and entrepreneurs through the stages of ideation, innovation and acceleration, to develop technology-based solutions for tomorrow.
- **SIDBI manages the India Innovation Fund**—a registered venture capital fund that invests in innovation-led, early-stage Indian firms.
- **Innovate India:** It is a unique platform to display, promote and recognize innovations happening across the nation. It has been launched in collaboration with AIM-NITI Aayog and MyGov. Citizens from all parts of the country are eligible to share the innovation on the platform.
- **Technology Development Board (TDB)** provides soft loans and promotes the equity of Indian industry through the development and commercialization of indigenous technology and by adapting imported technology for domestic applications.
- **Accelerating Growth of New India's Innovations (AGNIi):** It aims to support the ongoing efforts to boost the **innovation** ecosystem in the country by connecting innovators across industry, individuals and the grassroots to the market and helping commercialize their innovative solutions.
- **Various schemes** such as Ramanujan Fellowship Scheme, the Innovation in Science Pursuit for Inspired Research (**INSPIRE**) Faculty scheme and the Ramalingaswami Re-entry Fellowship, Visiting Advanced Joint Research Faculty Scheme (**VAJRA**), Knowledge Involvement in Research Advancement through Nurturing (**KIRAN**), ATAL Innovation Mission (**AIM**), Self-Employment and Talent Utilization (**SETU**) etc.



## 12. MISCELLANEOUS

### 12.1. ATMANIRBHAR BHARAT: WHAT, WHY AND HOW?

#### Why in news?

Recently, the Prime Minister outlined Rs.20 lakh crore stimulus package which was accompanied with large scale structural reforms.

#### What does Atmanirbhar Bharat mean?

- Prime Minister in his address stated that India's self-reliance **does not advocate self-centric arrangements**. It is ingrained in the happiness, cooperation and peace of the world.
  - It is based on the premise of 'माता भूमिः पुत्रो अहम् पृथिव्यः' - the **culture that considers the earth to be the mother**.
- It has been clearly specified that this idea of self-reliance is **not about a return to the era of import substitution** or isolationism.
- Following elements are essential to the proposed concept of Atmanirbhar Bharat:
  - **Active participation in post-COVID-19 global supply chains:** Self-sufficiency in the present context refers to improving efficiency, competing with the world and simultaneously helping the world.
  - **Resilience:** This resilience refers to leveraging internal strengths, personal responsibility, and a sense of national mission (or "Man Making" as termed by Swami Vivekananda). Developing this resilience may require additional protection for domestic enterprises.
    - ✓ For example, the move to disallow global tenders up to Rs. 200 crores for foreign players aims to increase the system's resilience by protecting the MSMEs.
  - **Decentralized Localism:** It is about creating a system that takes pride in local brands, encourages local capacity-building and indigenisation.
    - ✓ For example, the scrapping of the ECA-APMC system enables localised decision-making by farmers even as they can participate in a national common market.
  - **System of Social Trust:** A system where economic entities are expected to be self-reliant, requires a generalised system of social trust and the ability to enforce contracts, which in turn requires reformation of the legal system.

#### Atmanirbhar Bharat v/s Import Substitution

Import substitution relied **extensively on imposing high import tariffs** and discouraging foreign trade, while **Atmanirbhar Bharat focuses on reforms and improving ease of doing business**, including for foreign firms in the country.

The Import Substitution model advocated a **centralised, top-down model** whereas Atmanirbhar Bharat emphasizes on **freeing Indian entrepreneurship and innovation** from bureaucratic hurdles.

#### Why being 'Atmanirbhar' is important?

- **Faster Economic Recovery:** India's ability to recover from the effects of COVID-19 and its economic fallout depends on the **resilience of domestic industries**.
  - In this light, the mission aims to promote Indian industries while making them competitive through reforms and government interventions.
- **Supply Chain Fragility:** Countries all over the world are now looking at boosting domestic capabilities to be able to **absorb future supply chain shocks**.
- **Emergence of developmental gaps:** Continuous **dependence on external sector** for a long time creates developmental gaps in an economy. For example, technological dependence on imports has negatively affected the level of indigenous innovation and R&D.
- **Health and Economic Security:** The fallout of COVID-19 has showcased how dependency of any form such as raw material, labour etc. can precipitate into a security crisis.
  - For example, absence of adequate Personal Protective Equipment (PPE) production capacity had created a crises situation for India during the initial period of the crises.
- **Geopolitical considerations:** High dependence on other countries for resources affects the geopolitical standing of the country in that region. For example, high import dependency of India on **China for Active Pharmaceutical Ingredients (APIs)**.



## How do we become 'Atmanirbhar'? – Strategy announced in the mission

The Prime Minister has announced Rs. 20 lakh crore stimulus and to ensure that all facets of the economy are addressed, **4L - Land, Labour, Liquidity and Laws** all have been emphasized in this package.

- The idea of Atmanirbhar Bharat is based on **5 pillars**:
  - First Pillar is **Economy**, emphasizing on Quantum Jump rather than Incremental change.
  - Second Pillar is **Infrastructure**.
  - Third Pillar is **Our System**, a special reference has been made to technology and contemporary policies as part of this system.
  - Fourth Pillar is **Our Demography**.
  - Fifth pillar is **Our Demand**.
- The package has tried to address all sectors of the economy in different parts viz.:
  - Part 1: Businesses including MSMEs.
  - Part 2: Poor including migrants and Farmers.
  - Part 3: Agriculture.
  - Part 4: New Horizons of Growth.
  - Part 5: Government Reforms and Enablers.
- The package has also highlighted the importance of preferring local products. In the light of this, citizens are urged to be **vocal about their local products** and help these **local products become global**.

### Why the package is being criticized?

- The key criticism regarding the package is that the **government doesn't seem to be raising its total expenditure** by much. (Overall rise in Government expenditure due to the package is close to **1% of the GDP**.)
- **Lack of immediate support**: Several experts and commentators have highlighted that the economic package lacked immediate relief to cope with current crises.
- **Exclusion of some structural reforms in agriculture sector**: Several structural reforms like decentralised procurement of perishable commodities, expansion of the rural jobs scheme and efforts to protect farmers' asset bases by giving seeds, fodder, fingerlings and day-old chicks were argued to be more critical to help farmers survive the current crisis.

### Way forward

To enable the vision of Atmanirbhar Bharat, several large scale and long-term measures like making subsidies performance dependent and strengthening public regulation will have to be taken in conjunction with aforesaid measures. More importantly, increased **investment in Education and Skill development is imperative** to complement the structural reforms announced in the package.

*Note: For detailed provisions of Atmanirbhar Bharat, please refer to respective sections of the Mains 365 series.*

## 12.2. DATA QUALITY: ISSUES AND EFFORTS

### Introduction

In 2019, the Ministry (of Statistics and Programme Implementation) had decided not to release the consumer expenditure survey results of 2017-2018 due to the data quality issues. On similar lines, the NSO survey on employment (PLFS) estimated the population in 2017-18 to be 1,074 million, when almost all experts estimated it to be upwards of 1,300 million (actually 1,339 million). The underestimation in 2017-18 at 20 per cent is a record. These instances question the data quality of our governmental surveys and reports.

Data quality implies accuracy, conformity (i.e. conformity to the standard data formats created by an organization), consistency (i.e. no conflicts between the same data values in different systems), reliability among other factors.

### What are the issues with regard to data quality?

- **Institutional and structural issues**:
  - **National Sample Survey Organization**: Under MoSPI, NSSO has become the part of the general bureaucracy and ceases to exist as an autonomous body. Moreover, the fear is that in absence of the oversight of independent bodies like the CSI and NSC, the statistical system may become amenable to political interference.
  - The **NSO will be headed by the secretary of the Ministry of Statistics and Programme Implementation (MOSPI)**. This is in contrast to the original plan proposed by experts to merge various statistical bodies such as the NSSO and others to create a unified statistics body that is accountable to Parliament, rather than the government.

- Moreover, need of **more skilled manpower and getting additional resources in the government is a major problem.**
- **Methodology issues:**
  - Statisticians have for long **used small surveys** to gather the raw data that are required to **make extrapolated estimations about the growth of the wider economy**, this increases the possibility of large-scale errors in data.
  - **Data is not published in a user-centric manner.** The current data formats are often not conducive for research and innovation.
- **Nature of Data:**
  - **Coherence of data:** The difference between estimates bodies is generally non-convergent. For instance, household consumption based on the NSSO surveys and the CSO data is large and widening over time.
  - **Shortcoming of data under MCA21:** MCA21 data used in the new series do not have a comparable long series of back data prior to 2009.
  - **Data ecosystem is incoherent due to different standards.** Ministries and Departments do not use a shared standard for common indicators.
    - ✓ **Attributes like region and time period defined differently.** This makes it difficult for datasets to speak to each other and present a coherent picture.
    - ✓ **Various datasets exist in silos**, resulting in a loss of cross-sectoral insights.

In the light of the issues, several efforts have been made by the Government like creation of **Standing Committee on Economic Statistics (SCES)**, **Sub-committee on Annual Survey of unincorporated sector enterprises** and services sector data and the **National Data Quality Forum**. Among these efforts, the most comprehensive reforms in with regard to data quality are- Vision document proposed by NITI Aayog on **National Data and Analytical Platform** and **Draft National Statistics Commission Bill, 2019**.

### 12.2.1. NATIONAL DATA AND ANALYTICAL PLATFORM VISION DOCUMENT

#### Why in news?

Recently, the NITI Aayog released its vision for the National Data and Analytics Platform (**NDAP**).

#### National Data and Analytics Platform (NDAP):

- It is a **flagship initiative of NITI Aayog** in the space of promoting larger access and better use of data.
- NDAP's Mission is to **standardize data** across multiple Government sources, provide **flexible analytics** and make it **easily accessible** in formats conducive for research, innovation, policy making and public consumption.

#### Salient features of the NDAP

- **Data Sources-**
  - Websites of over 50 Ministries and Departments of the Central Government and data.gov.in.
  - Websites of all Departments and Ministries of the State Government, not exceeding 250.
- **User-centric-** The platform will be powered by a **user - friendly search engine**, backed by seamless navigation, with a world-class user interface. Data will be provided in a **machine-readable format** with **customisable analytics**. It will also provide **tools for analytics and visualization**.
- **Coherency-** Multiple data sets will be presented using a **standardized schema**, by using common geographical and temporal identifiers.
- **Regular Updation-** Standard Operating Procedures (SOPs) will be created to ensure data is updated regularly. There will be **regular tracking of compliance** to these SOPs.
- **Governance Structure-**
  - **High Powered Steering Committee** under the **chairmanship of Vice Chairman, NITI Aayog** will be set up to **provide direction**, oversee progress, guide on data sources, and address various inter-ministerial issues on collating data.
  - **Technical Advisory Group** consisting of sector and technology experts will be established to **provide expert consultation**. It will provide guidance on the development of the platform, management of data, and aligning the platform for user-needs.
  - **Project Management Unit** established at NITI Aayog to **coordinate with different stakeholders** and manage various facets of NDAP.

## Significance

- It intends to draw **inspiration from the best platforms around the world** e.g., platforms such as 'datausa.io' and 'data.gov.sg'.
- It seeks to **build on the success of existing Indian data platforms**. For example, data.gov.in provides ready access to data from 165 departments. DISHA, by the Ministry of Rural Development, provides access to data from 42 schemes across 20 ministries.
  - Various states also have a 'Chief Minister's Dashboard'. Initiatives like these provide a rich source of data for NDAP.
- It will allow **quick and easy availability to the most recent data**, which is published periodically without any hassle to help the welfare of the country.
- It aims to **democratize access** to publicly available government data.
- It will aid India's progress by **promoting data-driven discourse** and decision-making.
  - It will deepen the understanding of India's dynamic economy and social conditions. This will in turn help improve the crores of lives by making the government's actions more scientific and data driven.
- It will spearhead the **standardization of formats** in which data is presented across sectors.

## Conclusion

NDAP is a pan-India initiative by NITI Aayog. Its success requires extensive support and cooperation of various stakeholders such as Central Ministries, State Governments and guidance from experts to realise the vision and meet the timelines.

### 12.2.2. DRAFT NATIONAL STATISTICAL COMMISSION (NSC) BILL, 2019

#### Why in news?

Recently, The Ministry of Statistics and Programme Implementation (MoSPI) has sought suggestions on the Draft National Statistical Commission (NSC) Bill 2019 to make data collection more transparent and reliable.

#### Background

- The need for an independent apex advisory body for official statistics has been long felt. Rangarajan Commission was set up by the government in year 2000-2001 with a mandate to propose overhauling reforms for Official statistical system.
- In pursuance of the recommendations of Rangarajan Commission, **National Statistical Commission was set up as an interim measure by a Notification dated 1<sup>st</sup> June 2005**.
- It is an advisory body on statistical matters.
- The present draft NSC Bill 2019 proposes to establish a National Statistical Commission as the nodal and autonomous body for all core statistical activities for the country, to evolve, monitor and enforce statistical priorities and standards and to ensure statistical coordination.

#### The salient features of the Bill

- **The Composition of NSC:** The Bill proposes for the Commission to be composed of a **fulltime Chairman and five full time members** alongside several ex-officio members.
- **Statistical Audit:** It provides for **establishing National Statistical Audit and Assessment Organization within NSC with a Chief Statistical Auditor** in the rank of Secretary to the GoI.
- **Independent secretariat for the Commission:** To further strengthen the autonomy of the commission, the bill also proposes **setting up of an independent secretariat** for the Commission headed by a Secretary rank officer of GoI.

#### Powers and Functions of the National Statistical Commission (NSC)

- The Government shall seek advice from the Commission on **legislative measures to be undertaken** in the matters relating to official statistics.
- **To identify and evolve national policies and priorities** relating to the official statistical system.
- Laying down standard statistical concepts, definitions, classifications and methodologies
- **Establishing high professional standards and devising code of conduct** to build up ethos for the profession of statistics to achieve highest standard and professional excellence.
- **Promoting public awareness and devising measures for improving public trust** in official statistics.

- Promoting teaching, research and participation of academia in fields of official statistics.
- To exercise statistical coordination between Ministries, Departments, State Governments and other agencies.
- The NSO shall maintain a “warehouse” for Core Statistics, for dissemination amongst all users in the public and private sectors inside and outside the country and serve as the sole provider of information to foreign Governments, international bodies and United Nations agencies.
- Government also proposed to give sweeping power to the commission on its authority over non-government agencies, which produce vital data, such as Centre for Monitoring Indian Economy (CMIE).

### 12.3. NOBEL PRIZE IN ECONOMICS

#### Why in news?

Indian-American economist **Abhijit Banerjee** has won the **2019 Nobel Prize in Economics**, along with **Esther Duflo** of the Massachusetts Institute of Technology and **Michael Kremer** of Harvard University “for their experimental approach to alleviating global poverty.”

#### More about the news

- The awarding committee said the research conducted by these laureates has **considerably improved our ability to fight global poverty**.
- Their new experiment-based approach- called **Randomised Control Trials (RCTs)** has transformed development economics.

#### What are Randomised Control Trials?

- RCTs break larger questions about policy interventions into smaller, easier to test studies.
- For example, the big questions like ‘poverty’ are broken down into its various dimensions like—poor health, inadequate education, etc.
- Within poor health, they look at nutrition, provisioning of medicines, and vaccination, etc. Within vaccinations, they try to conduct various experiments and, based on such “evidence”, decide what needs to be done.
- This is extremely relevant when it comes to framing policy in low- and middle-income countries, where state capacity is quite limited and it is particularly necessary to be able to prioritise more effective policies over less.

#### How RCTs work?

- For instance, if one wanted to understand whether providing a mobile vaccination van and/or a sack of grains would incentivise villagers to vaccinate their kids, then under an RCT, village households would be divided into four groups A, B, C and D.
  - Group A would be provided with a mobile vaccination van facility,
  - Group B would be given a sack of food grains,
  - Group C would get both, and
  - Group D would get neither.
- Households would be chosen at **random** to ensure there was no bias, the groups are equal, and that any difference in vaccination levels was essentially because of the “intervention”.
- Group D is called the “**control**” group while others are called “**treatment**” groups.
- Such an experiment would not only **show whether a policy initiative works**, but would also provide a **measure of the difference it brings about**.
- It would also show what happens when more than one initiatives are combined. This would help policymakers to have the evidence before they choose a policy.

#### Is there a flip side to RCTs?

- Randomly assigning people or households makes it likely that the groups are equivalent, but randomisation “**cannot guarantee**” it.
- So, one group may perform differently from the other, not because of the “treatment” that it has been given, but because it has more women or more educated people in it.
- Also, RCTs do not guarantee if something that worked in Kerala will work in Bihar, or if something that worked for a small group will also work at large scale.

#### Some studies using RCTs

- **On vaccination:**
  - **Problem:** Low service quality one reason why poor families invest so little in preventive measures. For example, the staff at the health centres that are responsible for vaccinations are often absent from work.

