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Classroom Study Material

ECONOMY

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1. EMPLOYMENT AND SKILL DEVELOPMENT

1.1. EMPLOYMENT STATUS

Background

- Unemployment is the lesser of India's problems. The more serious problem is **severe underemployment**, low labour force participation of women and voluntary unemployment (especially among educated people).
- Fifth annual employment-unemployment survey find out that Agriculture (inclusive of animal husbandry, forestry and fishing) remains the largest sector of India's economy as a source of employment, which consist of 45.7% of India's workforce in 2014-15.
- McKinsey Employment Report on India 2017, contended that **government spending and increased entrepreneurial activity** have created gainful employment of 20-26 million people between 2014 and 2017.
- **NITI Ayog** asserted that **voluntary unemployment** is rising because people choose not to work **below a certain income level after 'investing' in education**. (One is classified as **voluntary unemployed** if he or she is not employed and is not willing to join the workforce)
- **Economic Survey (2015-2016)** shows the clear shift in employment to secondary and tertiary sectors from the primary sector.
 - This reflects increase in both casual labour and contract workers which has adverse implications on the level of wages, stability of employment, social security of employees owing to the 'temporary' nature of employment.
 - It also indicates preference by employers away from regular/formal employment to circumvent labour laws because of their multiplicity and the difficulty in compliance.
- However, the current employment paradigm is not sustainable. World Employment and Social Outlook Report predicts that the **number of jobless in India will increase from 17.7 million in 2016 to 18 million by 2018**. It also predicts the employment rate to go down from 3.5% to 3.4% in 2017.
- On the women front, unemployment rate was estimated to be 8.7 percent during 2015-16, whereas, for males, it was 4.3 percent for same year. Paradoxically, it had seen that greater equality in educational attainment achieved through higher enrolment of girls in schools, has not translated into equal opportunities for women in the labour market.

1.2. JOB CREATION

Necessity: It is estimated that the demographic dividend is expected to last for 25 years. Thus, to reap the benefits of this India will need to create 12-15 million non-agricultural jobs per year.

Steps to be taken

Government cannot be the sole provider for job. It will emerge from interactions of many drivers in the economy such as;

- **The growth of enterprises:** Make in India campaign, Start-Up India (making job-seekers into job-creators).
 - Small and micro create more employment per unit of capital, with wider expansion over in all-region. Moreover, they enable citizens to create jobs for themselves and earn incomes with less state expenditure.
- **The quality of physical infrastructure and the ease of doing business:**
 - Government needs to create formal-sector jobs so that disguised unemployment in agriculture can be shifted towards more labour-intensive goods and services sectors.

- For ease of doing business labour laws should be simplified.
- **Life-long learning systems and social security promote:**
 - The content of work is changing dynamically in many industries with new technologies (automation) and new forms of enterprises (Start-Up). Education and skill training no longer guarantee jobs as the tech landscape is changing and making jobs scarce.
 - This can be solved through **Digital India** which helps to promote the rapid use of technology as an enabler. Digital technology platforms and communication networks are becoming further accelerators for the empowerment of small and micro-enterprises.
 - **Develop better social security systems:** Enterprises need flexibility to adjust their workforce to remain competitive in a dynamic environment. They must be given flexibility so that they can grow and create more employment in the long run.
- **Coastal Employment Zones:** Creation of a handful of **Coastal Employment Zones**, which may attract multinational firms in labour-intensive sectors from China to India. The presence of these firms will give rise to an ecosystem in which local small and medium firms will also be induced to become highly productive thereby multiplying the number of well-paid jobs.
- **Mckinsey report suggests three ways to create opportunities for more gainful employment.**
 - More appropriate statistical measurement of employment,
 - Targeted government programmes, removing hurdles that stand in the way of investment and innovation.
 - Building industrial townships, focusing on manufacturing, and the development of tourist circuits, all through government programmes, could create more opportunities for gainful employment.
- NITI Aayog suggested that to tackle the voluntary unemployment the government should create a diversity of jobs for utilizing these voluntary unemployed.

1.3. REFORMS UNDERTAKEN BY GOVERNMENT-LABOUR REFORMS

- **The Payment of Bonus (Amendment) Bill, 2016:** The Payment of Bonus (Amendment) Act, 2015 envisages enhancement of eligibility limit under from ₹.10,000/- per month to ₹.21,000/- per month.
- **The Maternity Benefit (Amendment) Bill, 2016:** It has increased the maternity leave from 12 to 26 weeks with added crèche facility at workplace. Moving away from traditional motherhood concept, it provides maternity benefit of 12 weeks to commissioning mother (in case of surrogate child) and adopting mother (in case of adoption).
- **The Employees' Compensation (Amendment) Bill, 2016** it modifies the provisions of Employees' Compensation Act, 1923 to rationalize the penalties and strengthen the rights of the worker under the Act.
- **The Child Labour (Prohibition and Regulation) Amendment Bill, 2016** provided the complete ban on employment of children below 14 years and proposed more stringent punishments for violations in order to ensure Right of Children to Schooling and learning. Taking the consideration of vicious cycle of poverty, children are allowed to help in their

Constitutional Mandate

- **Article 23** forbids forced labor,
- **Article 24** forbids child labor
- **Article 42** says that state shall make provisions for securing just and humane conditions for work and for maternity relief
- **Article 43A** (to ensure worker's participation in management of industries).

family enterprises only in non-hazardous occupations and that too only after school hours or during vacations.

- **Industrial Employment (Standing Order) Act:** Due to the seasonal nature of industry a fixed-term employment has been introduced in the textiles and apparel sectors. It would also ensure same working conditions, wages and other benefits for fixed term employee in the sector as a regular employee. The employer can directly hire a worker for a fixed term without mediation of any contractor.
- **Payment of Wages (Amendment) Bill, 2016** it enable the Centre and state governments to specify industrial units which will have to pay wages only either through cheques or by transferring into bank accounts and move away from requirement of obtaining written authorization for payment of wages by cheque or through a bank account.
- **Pradhan Mantri Rojgar Protsahan Yojana:** It has been designed to incentivise employers for generation of new employment, in which Government of India will be paying the 8.33% EPS (Employee Provident Scheme) contribution of the employer for the new employment.
- **Provident Fund Contribution via Private Banks** Contribution to EPFO can be made through scheduled commercial banks and payment portal PayGov. It would cut down the delay with the payment aggregators and help in seamlessly credit payments to the subscribers and to improve its service delivery.
- **Proposal to Amend Plantation Labour Act, 1951:** The amendment will exclude 'in kind' components that are regarded as wages this is because the tea industry does not pay statutory minimum wages, citing the reason that the monetized value of the facilities under PLA 1951 compensates for wages.
- **Modal shops and establishment bill 2016:** The law tries to boost the employment generation in general, especially for Women. The law as they will be permitted to work night shifts, with adequate safety and other facilities such as drinking water, canteen, first-aid, lavatory and crèche facilities at workplace.
- **Governance Reforms through Technology**
 - **Shram Suvidha Portal** in central sphere is a multilingual platform to provide the transparent Labour Inspection Scheme, Unique Labour Identification Number (LIN).
 - Universal Account Number (UAN), Online Registration of Establishments (OLRE), Global Network Operations Centre, extension of AYUSH facilities to ESIC hospitals.
 - **National Career Service (NCS) Project:** The NCS Portal brings together job seekers, employers and other stakeholders on a common platform by providing a variety of employment-related services like job matching, career counselling and information on skill development courses, apprenticeships, etc.

Draft Labour Code on Social Security and Welfare

- On the recommendations of the **2nd National Commission on Labour**, government has taken steps for simplification, amalgamation and rationalization of Central Labour Laws and replacing them with 4 Labour Codes viz. Code on Wages, Code on Industrial Relations, Code on Social Security & Welfare, and Code on Occupational Safety, Health & Working Conditions.
- **Code of Social Security and Welfare** intends to make a drastic shift from an employment-based approach to rights-based approach factories even for a single worker, domestic help, Self-employed persons, including agricultural labourers, will also make contribution towards the schemes on their own.
- **Government Schemes**
 - ✓ **Startup India**

- It is a strong eco-system for **nurturing innovation** and startups in the country which will drive economic growth and generate large-scale employment opportunities.
- Start-up intended to create more jobs at a time when the manufacturing sector is facing a slump for job creation.
- It is based on an action plan, aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start-ups with jobs creation.
- Government to set up a **Startup India Hub** which will be a single-point of contact for Startups.

Start-up Definition (As defined by DIPP)

Startup means an entity, incorporated or registered in India:

- Not prior to seven years, however for Biotechnology Startups not prior to ten years,
- With annual turnover not exceeding INR 25 crore in any preceding financial year, and
- Working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation
- Incubator recognized by government, domestic venture fund or has an Indian patent.



✓ **Start-Up India Hub**

- It a common online platform for all stakeholders of the entrepreneurial ecosystem like startups, investors, mentors, academia, incubators, accelerators, corporates, Government bodies in India, etc. to discover, connect and engage with each other.
- Startup India Hub comes under Invest India, the official Investment Promotion and Facilitation Agency of the Government of India, mandated to facilitate investments into India.

Benefits

- It will solve the problem of information asymmetry and lack of access to knowledge, tools, experts, and funding especially in the nascent ecosystems across Tier II and III towns.
- It will enable users to connect with ecosystem stakeholders, access free learning resources, tools & templates on legal, HR, accounting & regulatory issues and discussion forums.
- ✓ **Start-Ups Intellectual Property Protection Scheme**
 - On the pilot, bases government has extended Start-Ups Intellectual Property Protection (SIPP) scheme for 3 years till March 2020.
 - The facilitators shall be empanelled by the Controller General of Patent, Trademark and Design (CGPDTM) to protect and promote Intellectual Property Rights awareness for startups and to encourage creativity and innovation amongst them.
 - DIPP has empanelled several facilitators for implementation without any user-fee.
- ✓ **Start-up Village Entrepreneurship Programme (SVEP)**
 - The objective of SVEP is to energise and streamline economics growth by providing necessary thrust from the grass root, i.e. villages towards creation of sustainable self-employment opportunity.

✓ **Technology and Innovation Support Centers**

- TISC programme of DIPP, provides innovators in developing countries access to locally based, high-quality technology information and related services, helping them exploit their innovative potential and to create, protect, and manage their intellectual property (IP) rights through **Cell for IPR Promotion and Management (CIPAM)**.

CIPAM

- A professional body created under **DIPP (Department of Industrial Policy and Promotion)** entrusted with the implementation of the **National IPR Policy 2016**.
- It aims to spread awareness about IPR (Intellectual Property Rights), promoting the filing of IPRs through facilitation, providing inventors with a platform to commercialize their IP assets.

✓ **Uchhattar Avishkar Yojana:**

- Under research and academic support for Start-up India, Government has earmarked INR 250 crore per annum towards fostering **very high-quality** research amongst IIT students.
- This format has been devised to ensure that the research and funding gets utilized bearing in mind its relevance to the industry.

✓ **Indian Enterprise Development Service (IEDS)**

- Government approved the creation of IEDS in office of Development Commissioner under Micro Small and Medium Enterprise ministry (MSME)
- It will not only strengthen the organization but will also help to achieve the vision of "Startup India", "Stand-up India" and "Make in India".

✓ **NIDHI**

- A Grand Challenge program ("National Initiative for Developing and Harnessing Innovations) shall be instituted through Innovation and Entrepreneurship Development Centres (IEDCs) to support and award INR 10 lakhs to 20 student innovations from IEDCs.

✓ **ATAL Innovation Mission (Aim)**

- It was launched to serve as a platform for the promotion of Innovation Hubs, Grand Challenges, startup businesses and other self-employment activities, focused on technology-driven areas Entrepreneurship promotion through **Self-Employment and Talent Utilisation (SETU)**.
- To "Cultivate one Million children in India as Neoteric Innovators" in Schools, NITI Aayog will establish 500 **Atal Tinkering Laboratories (ATL)** in schools under the **Atal Innovation Mission (AIM)**.

✓ **Deen Dayal Upadhyay Swaniyojan Yojana (DUSY)**

- It was launched by Ministry of Rural Development to promote rural entrepreneurship under **Start-Up India campaign**, funded by the existing National Rural Livelihood Mission.
- It will provide financial assistance to the rural poor looking for self-employment. The scheme synergise with MUDRA Bank Loan Yojana, innovative credit linkages and self-help groups.
- It will provide the basic skillset required for self-employment in fields like driving, plumbing, agriculture, dairy farming, grafting and horticulture among others.
- The Ministry will also coordinate with other government departments such as textile, animal husbandry, and food processing to help rural poor setup their own business in these fields.

✓ **Standup India Scheme**

- To promote entrepreneurship among SC/ST and Women entrepreneurs under tagline of "**Karen Prayas, paye Vikas**".
- It intended to facilitate at least two such projects per bank branch, on an average one for each category of entrepreneur.
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of ₹. 10,000 crore.
- Creation of a credit guarantees mechanism **through the National Credit Guarantee Trustee Company (NCGTC)**. The loan under the scheme would be appropriately secured and **backed by NCGTC**.
- Presently only 9% of start-ups in India are led by women.

✓ **National SC/ST Hub**

- The objective of the SC/ST Hub is to provide professional support to entrepreneurs from the SC/ST and also promote enterprise culture and entrepreneurship among them.
- It will work towards strengthening market access/linkage, capacity building, monitoring, sharing industry-best practices and leveraging financial support schemes.
- It would also enable Central Public Sector Enterprises (CPSEs) to fulfil the procurement target set by the government. The Public Procurement Policy 2012 stipulates that 4 per cent of procurement done by Ministries, Departments and CPSEs would have to be from enterprises owned by SC/ST entrepreneurs.

✓ **Zero Defect-Zero Effect Scheme**

- ZED Scheme aims to rate and handheld all MSMEs to deliver top quality products using clean technology. It will have sector-specific parameters for each industry.
- The slogan of Zero Defect, Zero Effect (ZED) intended to produce high-quality manufacturing products with a minimal negative impact on environment.
- The scheme will also be cornerstone of the Central Government's flagship Make in India programme.

✓ **Schemes to Create Livelihoods – NRLM and DAY – NULM**

- It aims to address occupational and social vulnerabilities of urban poor through Deen Dayal Antodaya Yojana – National Urban Livelihood Mission (DAY – NULM).

Deen Dayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM)

- The objective to organize all rural poor households in the country (by 2024-25) and continuously nurture and support them till they come out of abject poverty.
- This was sought to be achieved through universal **social mobilization** by organizing at least one-woman member from each rural poor household into **Self Help Groups (SHGs)**.
- All 29 states and 5 UTs [except New Delhi and Chandigarh] are currently implementing the Mission in 3,814 blocks across 556 districts.

- The mission focus on create opportunities for skill development leading to market-based employment and helping the poor to set up self-employment ventures, setting up of individual and group micro-enterprises, formation of Self-Help Groups, building shelters for homeless, supporting street vendors in creating infrastructure, innovative support to rag pickers, differently abled etc.
- It is implemented through five key components: Social Mobilization and Institutional Development (SMID), Self-Employment Programmes (SEPs),

Employment through Skill, Training & Placement (EST&P) , Shelter for Urban Homeless (SUH) and Support to Urban Street Vendors (SUSV).

- **The Sub-Group of Chief Ministers on Skill Development** has suggested to modifying the operational guidelines to include self-employment in agriculture and allied vocations at par with placement in a job.
- **Impact Assessment of Day-NRLM**
- ✓ Recently an assessment study of Deen Dayal Antyodaya Yojana-National Rural Livelihood Mission (DAY-NRLM) the that there it has been successful in creating sensitive support structures right up to the block level such as;
- ✓ People have a higher number of livestock assets as compared to uncovered areas;
- ✓ Spend less on food consumption but more on education and show a higher proclivity to save in formal institutions.
- ✓ Have 22% higher (net) income than the households in the uncovered areas, largely due to income from enterprises.

1.4. HUMAN CAPITAL- SKILL DEVELOPMENT AND INNOVATION

Background

United Nation Development Programme in '**India Skill Report 2017**', highlighted that only 2.3% of India's workforce has undergone formal skill training compared to BRICS countries. Moreover, NSSO data shows that age group from 21-35 years face higher risk of working poverty as they fail to get suitable employment.

Why skill development is needed?

- In order to convert its demographic dividend into demographic assets.
- Lack of skill required for specific job among the young graduates and lack of opportunities; to turn the existing skills into entrepreneurship and innovations, has made a dent on human capital in India.
- Ambitious programme like Make in India, Smart Cities and Digital India, require huge skill workforce.

Why India lacks Skill Development?

- **Education:** The education system are heavily relied on producing the clerical work force rather than skill man power. This in turn reflect in the lack of demand for people who needed to be skilled.
- **Rapidly changing technology:** There is always mismatch between the speed of change in technology and speed of changing skill set accordingly. Thus it is difficult to estimate the quantity and areas in which skilled workforce is required. It also raises requirement of higher order skill sets.
- **Social acceptance:** our society gives lesser acceptance and recognition to vocational trained people than to other course. This lead to lack of moral to go for skill training.
- **Unequal demand for skills in industries:** various skill requirement and its demand varies industries wise.eg skill required for industries in coastal area will be different from hilly area industry.
- **Lack of infrastructure and poor quality of courses:** The infrastructure in most skill training centres is of poor quality and not upgraded. Hence there is a huge gap between the industrial requirement and practical training in vocational institutions.
- **Inefficient trainers:** Trainers in institution are following the conventional method of operating the machine, without updating the training methods.
- **Lack of Initiatives from industry:** industries prefer the cost cutting measures, by not hiring the trained and skilled labour as they, it is observed that SMEs prefer to hire an untrained or semi-trained worker at a cheaper pay-out than a formally trained or skilled worker.
- **Pending Labour reforms:** complexity of labour laws is an inhibiting factor. The employers generally prefer automation and contract labour over permanent to save themselves from labour laws development in India.

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- The third generation labour reforms require the huge skilled labour force and India has the sufficient human resource to boom the international labour market.
- The slowdown in China and its ageing population is a major opportunity for India to become the manufacturing house of the world.

Present Situation

- Due to acute shortage of skilled labour force and difficult business conditions, India stand on 92nd rank (206-17) on a **Global Index of Talent Competitiveness**.
- Similarly, on Human Capital Index 2017, India has been ranked low at 105th position out of 130 countries the lower rank, attributed to underutilization of more than half of human capital, low literacy rate amongst youth and dismal labour force participation.
- Moreover, Skill development governance of the country has been facing deep rooted corruption. The Sharda Prasad committee says that Sector Skill Councils (SSCs) are a **'hotbed of crony capitalism'** that has tried to 'extract maximum benefit from public funds.' For Eg. A board member of a SSC also being a promoter of it.
- Committee also highlighted the **lacunae in the governance of the National Skill Development Fund (NSDF)**.

Government Initiatives

The creation of a new Skill Development ministry in 2014 marked a paradigm shift in Skilling, moving it to a new trajectory.

- The Skill India Initiative was launched in 2015 which aims to equip 40 Crore people with employable skills by 2022.
- This initiative includes key government schemes on skill development like:
 - National Policy for Skill Development and Entrepreneurship 2015,
 - Pradhan Mantri Kaushal Vikas Yojana (PMKVY),
 - National Skill Development Mission and the Skill Loan Scheme.
- Apprenticeships are an effective mechanism for skill development as they offer efficient industry relevant training. The Government of India has set a target for training 50 Lakh apprentices by 2020.
- Increased allocations of ₹. 4,500 Crore to the Deendayal Antyodaya Yojana - National Rural Livelihood Mission and the launch of Skill Acquisition and Knowledge Awareness for Livelihood Promotion Programme (SANKALP) with an outlay of ₹.

National Policy for Skill Development and Entrepreneurship, 2015

Vision: "to create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure Sustainable livelihoods for all citizens in the country".

Aim to address three core area that exhibited the entrepreneurship:

Inhibiting factors: such as low aspirational value, lack of integration with formal education, lack of focus on outcomes, low quality of training infrastructure and trainers, etc.

Demand and Supply gap: bridging existing skill gaps, promoting industry engagement, operationalizing a quality assurance framework, leverage technology and promoting greater opportunities for apprenticeship training.

Equity: The Policy targets skilling opportunities for socially/geographically marginalised and disadvantaged groups and especially women.

Entrepreneurship: the Policy seeks to educate and equip potential entrepreneurs, both within and outside the formal education system. It also seeks to connect entrepreneurs to mentors, incubators and credit markets, foster innovation and entrepreneurial culture, improve ease of doing business and promote a focus on social entrepreneurship.

4,000 Crore in Budget 2017-18 highlight the government's continued commitment towards skill development.

Pradhan Mantri YUVA Yojana

- It will provide entrepreneurship education and training to over 7 lakh students in 5 years through 3050 Institutes in the spans over five years (2016-17 to 2020-21) with a project cost of ₹. 499.94 crore
- The scheme will also include easy access to information, mentor network, credit, incubator, accelerator and advocacy to create a pathway for the youth.

Pradhan Mantri Kaushal Vikas Yojana

- Implemented through the National Skill Development Corporation (NSDC) It is the outcome-based skill training scheme of MSDEs with objective to enable and mobilize a large number of Indian youth to take up outcome-based skill training and become employable and earn their livelihood.
- **Skill Certification Scheme** is to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.
- Individuals with prior learning experience or skills will also be assessed and certified under **Recognition of Prior Learning (RPL)**.

National Skill Development Corporation (NSDC) (2008)

- It is a **not-for-profit company** set up by the Ministry of Finance, under Section 25 of the Companies Act.
- It works under the Ministry of Skill development and Entrepreneurship.
- NSDC is a **Public Private Partnership Company** with the primary mandate of catalyzing the skills landscape in India. It creates vocational training institutions, fund patents and enable support for skill development.

Indian Institute of skills

- **Indian Institute of Skills:** Recently the Prime Minister laid the foundation stone of the first-of-its-kind "**Indian Institute of Skills**" inspired by the Singapore model of training. The Institute would adopt various best practices from the country.

National Apprentice Promotion Scheme

- In order to provide a platform to Fresher in Job market there is launch of Apprenticeship training and increase the engagement of apprentices from present 2.3 lakh to 50 lakh cumulatively by 2020. States may create a State Apprenticeship Cell and encourage engagement of apprentices to the maximum of 10% of total strength of private establishments and State Public Sectors.

Indian Skill Development Service

- In order to **attract dedicated young and talented administrators** for Skill Development. Government has come up with the establishment of ISDS. It will give **new impetus to the skill development ecosystem** of government like Skill India.

Sath Programme

- NITI Aayog has launched SATH, '**(Sustainable Action for Transforming Human capital)**' with the State Governments with special focus on transforming the vocational education through support on education, health and social security.

'Skill Banks' To Train Workers for Global Markets

- In order to make India "the human resource capital" of the world. In U.P and Bihar, the government has set up 50 global skill banks (training centres) to train potential immigrant workers in 110 job roles as per international standards. These training centres will impart

skills across sectors such as medicine and healthcare, hospitality, IT, construction, automobile and retail trade — where job opportunities exist or are likely to arise.

Deen Dayal Upadhyaya – Gramin Kaushal Yojana

- It intended to make demand-led skill training at no cost to the rural poor with mandatory coverage of socially disadvantaged groups (SC/ST 50%; Minority 15%; Women 33%). Moreover, it laid greater emphasis on projects for poor rural youth in Jammu and Kashmir (**HIMAYAT**), the North-East region and 27 Left-Wing Extremist (LWE) districts (**ROSHINI**)

Global Collaboration

- The Ministry of Skill Development and Entrepreneurship (MSDE) has been collaborating with a number of countries in the area of skill development and entrepreneurship. Joint Working Group meetings on active collaborations were held with China, UK, Australia, and Germany.

Way forward

It is estimated that the demographic dividend is expected to last for 25 years. Thus, to reap the benefits of this one-off opportunity India needs to significantly scale up its skill development initiatives and other structural improvements such as;

- The Ministry of Skill Development and Entrepreneurship (MSDE) should shed its regulatory function with the establishment of oversight regulatory body.
- The quality of outcomes from apprenticeship courses must be enhanced with increased transparency and robustness of the training along with certification procedures.
- Mandating educational institutions to recognize skill certifications and provide for upward mobility or lateral movements with placement rate target of for 80% of total enrollment for 2020.
- Sector Skills Councils with Qualification Packs (QP) and National Occupational Standards (NOS) must be synergize with National Skills Qualifications Framework (NSQF) should be required to cover all job roles in their sector over the next three years.
- In parallel with the Recognition of Prior Learning (RPL) initiative launched with PMKVY, the **identification of transferable skills** should also be established through developing framework of skills that are transferable across sectors and trades.
- The recommendation of **Sharda Prasad Committee of Scrap all existing overlapping skill councils**, introduction of an **oversight mechanism on the NSDC** through Parliamentary oversight, CAG audit, RBI supervision is need of the hour.

1.5. WORLD DEVELOPMENT REPORT, 2016- DIGITAL DIVIDENDS

Digital technologies are making inroads in the remotest parts of India owing to various government efforts and tech-inspired business initiatives of private sectors. No sector of Indian economy and public sector is left untouched by the digital revolution. The government has made significant efforts to strengthen digital ecosystem in India through initiatives like Bharat Net, Digital India, National e-governance Plan etc.

Digital dividends

- Growth, jobs and services are the most important returns to digital investments. By reducing information costs, digital technologies greatly lower the cost of economic and social transactions for firms, individuals, and the public sector.
- They promote innovation when transaction costs fall to essentially zero.

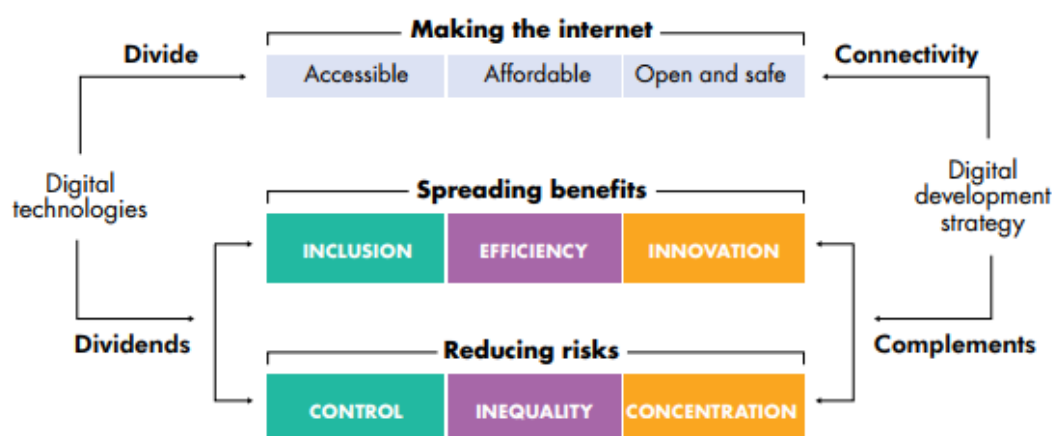
- They boost efficiency as existing activities and services become cheaper, quicker, or more convenient. And they increase inclusion as people get access to services that previously were out of reach.
- In India, it is expected that wide scale use of digital technologies would usher good governance, bring ease of doing business, create India as knowledge economy and empower people of India, especially vulnerable section of society.

However, the World Bank in its recent report highlighted that digital dividends are not spreading rapidly.

- Almost 1.063 billion Indians are offline and they cannot participate in the digital economy in meaningful way.
- There exist digital divides across gender, geography, age, and income dimensions.
- Approximately 40% population is living below poverty line, illiteracy rate is more than 25-30% and digital literacy is almost no-existent among more than 90% of India's population.

Not surprisingly, the better educated, well connected, and more capable have received most of the benefits—circumscribing the gains from the digital revolution.

What can be done reap digital dividends?



Source: WDR 2016 team.

- Making the internet universally accessible and affordable should be a global priority.
- Rapidly expand digital infrastructure and ensure its cyber security to imbibe confidence for digital technologies among people of India.
- To maximize the digital dividends requires better understanding of how technology interacts with other factors that are important for development.

The digital economy also requires a strong foundation consisting of **regulations**, that create a vibrant business climate and let firms leverage digital technologies to compete and innovate; **skills** that allow workers, entrepreneurs, and **public servants** to seize opportunities in the digital world; and **accountable institutions** that use the internet to empower citizens.

2. INCLUSIVE GROWTH: POVERTY AND RELATED ISSUES

Background

“End poverty in all its forms every-where-2030” has been assigned as **Goal-1 of Sustainable Development Goals**. The objective of eliminating poverty in all its dimensions such that every citizen has access to a minimum standard of food, education, health, clothing, shelter, transportation and energy has been at the heart of India's development efforts since Independence.

Measurement of Poverty

- The basic premise of estimation of poverty line in Alagh Committee (1979), Lakdawala Committee (1993) and Tendulkar Committee (2009) rest on ‘a minimum standard of living perspective, in which, nutritional requirements were implicit.
- However new panel on **Rangrajan Committee (2012)** provide an alternate method to estimate poverty levels and examine whether poverty lines should be fixed solely in terms of a consumption basket and purchasing power parity.
- The pace and pattern of growth have a significant impact on reducing poverty ratios but policymakers must pursue a two-fold strategy of letting the economy grow fast and attacking poverty directly through poverty alleviation programmes.

Social Progress Index

- It is an aggregate index of social and environmental indicators that capture three dimensions of social progress: Basic Human Needs, Foundations of Wellbeing, and Opportunity.
- India with a score of 53.06 ranks 101 out of 133 countries while top 3 countries are Norway (88.36), Sweden (88.06) and Switzerland (87.97).
- Social progress Index moves away from the limitation of **Gross Domestic Product (GDP)** (excludes environment, happiness, etc.) **Gini Coefficient** (ignores other aspects like health, education and other social benefits), **Gross Happiness Index** (ignores elements like gender equality, quality education and good infrastructure. subjectivity in the meaning of happiness.), **Human Development Index** (in capture of unequal distribution of wealth, environmental and infrastructural development.)

NITI Aayog Task Force

NITI AAYOG also proposed four options to arrive at a poverty line with due considerations from other stakeholders.

- To continue with the Tendulkar poverty line.
- Switch to the Rangarajan or other higher rural or urban poverty lines.
- Track progress over time of the bottom 30% of the population.
- Track progress along specific components of poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity.
- NITI Aayog is favouring for the Tendulkar line which set poverty ratio to 21.9 % as compared to Rangarajan committee which had a higher poverty ratio of 29.5%.
- To remove any criticism that many poor would be left behind if poverty line as per Tendulkar committee is adopted, NITI Aayog has underlined that it will only be used to track progress in combating poverty rather than identifying the poor for entitlements.
- SECC data as suggested by Saxena and Hashim committee will be used for entitlements.

Way Forward

- Combating Poverty can be achieved through growth, Jobs, Make in India and expanding the central role of agricultural growth in poverty reduction.
- Effectiveness in government programme such as National Food Security Act (NFSA), 2013, Mid-day Meal Scheme (MDMS), Employment: Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and Housing for All: Rural and Urban, is need of the hour.
- Moreover, identification of five poorest families in the village and endeavour to lift them out of poverty and Jan Dhan Yojana, Aadhaar, Mobile (JAM) trinity could play a vital role in widening the reach of poverty elimination to the vulnerable sections.

2.1. UNIVERSAL BASIC INCOME

Introduction

- Despite making remarkable progress in bringing down poverty from about 70% at independence to 22% in 2011-12 (as per Tendulkar report), still, multiple deprivations exist. A radical proposed solution to this is a **Universal Basic Income (UBI)**. It is a **right to basic income**.
- UBI is premised on the idea that **a just society needs to guarantee to each individual a minimum income** for a dignified life with access to basic goods.
- It is the acknowledgement of the economy as a common project and **promotes social justice**.

Basic limitations to UBI

- It may lead to a disincentive to work and the work productivity may decrease.
- It may promote spending on social evils like alcohol, tobacco etc.

Why Universalize?

- **Misallocation of resources** – Generally government allocates resources as per state capacity. Since richer areas have better administration, so they receive more resources than the **poorer areas**. Eg. In the top 6 welfare schemes in terms of their resources, under no scheme do the poorest districts receive more than 40% of the total resources
- **Exclusion of genuine Beneficiaries** – Because of misallocation, many poor are excluded from welfare resources. Eg. States having over 50% poor got only about 33% MNREGA funds in 2015-16.
- Some benefits of **'universalisation'** seen in recent schemes are;
 - With food security universalization by National Food Security Act and PDS infrastructure, subsidy to bottom 40% has increased substantially since 2011-12.
 - Due to improvements in MNREGA like digitizing job cards, geotagging assets etc. there was seen an **increase in women participation**.
- If there will be **'Universal' Basic Income**, misallocation will be lesser and the exclusion of beneficiaries will reduce. The reasons are:
 - It reduces allocation errors and administrative hassles as it is 'universal'.
 - It reduces leakage because income is transferred directly to beneficiary bank account.

What is universal basic income?

A basic income is an income unconditionally granted to all citizens on an individual basis, without means test or work requirement.

It is a form of minimum income guarantee that is being paid irrespective of any income from other sources.

UBI would have three components–
Universality– UBI for all.
Unconditionality– UBI without any conditions.

Agency– UBI can make a citizen move away from being a subject of government welfare programme to agents of its own change.

- In a society accepting inheritance money or accepting non-work related income without employment, UBI should not be a problem. Indian society already does this, but largely for the rich and privileged.
- UBI may be an acknowledgement of non-wage work-related contributions to the society, for example, home making women contribution.

Way forward

- According to poverty level, consumptions level, income and inflation, the Economic Survey gives out a minimum UBI of INR 7620/year for 2016-17. This is supposed to be 4.9% of GDP. The survey points out that UBI should be indexed to inflation for revision. There also is a need of a neutral political mechanism to consider UBI
- Central subsidies are 2.07% GDP while state subsidies amount to 6.9% of GDP. Although a fiscal space exists to start a UBI by rolling back on some subsidies, it is politically and administratively challenging.
- **Universalizing across groups** – UBI should be made universal first across easily identifiable vulnerable groups like widows, old, pregnant women etc.

2.2. RECENT STEPS BY GOVERNMENT

2.2.1. ENTIRE COUNTRY UNDER NATIONAL FOOD SECURITY ACT

- The Centre notified that the entire country has now come under the umbrella of National Food Security Act, with this move, now 81.34 crore people will get wheat at ₹. 2/kg and rice at ₹. 3/kg.

Background

- The National Food Security Act was enacted in 2013 with the aim to provide adequate quantity of quality food at affordable prices to the people.
- The act provides food security by offering essential grains and cereals at rock bottom prices of ₹. 1, ₹. 2 and ₹. 3. For two types of beneficiaries under the PDS: AAY (Antyodaya Anna Yojana, launched in 2000) and priority households.
- Every AAY household is entitled to get 35 kg of food grains every month while priority households (BPL families) are entitled to get five kg per person of food grains every month.

2.2.2. HILL AREA DEVELOPMENT PROGRAMME

- The Ministry for Development of North Eastern Region (DoNER) launched the “Hill Area Development Programme” (HADP) for Northeast that aims at giving a focused attention to the lesser developed hilly areas on the basis of Composite district Infrastructure Index

Reasons for launching the programme

- As a result of peculiar topography, there is a wide gap between the hill and valley districts in Manipur, Tripura and Assam in terms of infrastructure, quality of roads, health and education etc.

Composite District Infrastructure Index

- It has been prepared by Ministry for DoNER to help the in better targeting of schemes and projects within the North Eastern Region (NER) in order to reduce intra-regional disparity.
- It is based on 7 broad indicators:
 - Transport facilities
 - Energy
 - Water supply
 - Education
 - Health facilities
 - Communication infrastructure
 - Banking facilities
- The index is also expected to serve as a useful guide in formulation and implementation of various development policies by the Government of India.

- The approach of the Government is twofold: one is to ensure equitable development of every area, every section of society and every tribe living in the North Eastern Region and; second is to bring the eight North Eastern Region States at par with the more developed states in the rest of India.

2.2.3. PERFORMANCE OF PRADHAN MANTRI UJJAWALA YOJANA

- PMUY scheme provides free LPG connections in the name of woman head of BPL household identified through Socio-Economic Caste Census Data.
- It will help in replacing the unclean cooking fuels mostly used in rural India with clean and more efficient LPG resulting in empowerment of women and protecting their health.
- **PMUY** has achieved the target of providing 1.5 crore of LPG connection in financial year 2015-16 in just 8 months.
- Hilly states like J&K, HP, Uttarakhand, all NE states have a coverage of less than national average.
- SC/ST household constitute 35% of total connections released.

3. EASE OF DOING BUSINESS: REFORMS

The standard measures suggest that India is now a “normal” emerging market. It is open to foreign trade and foreign capital, government is not overbearing, either in a micro, entrepreneurship sense or in a macro, fiscal sense. Following **four standard measures** indicate India’s progress which is both qualitative and measurable:

- **Openness to trade:** Larger countries tend to trade more within its boundaries because of presence of large internal markets. But, India’s trade-to-GDP ratio has also been rising very sharply and has now surpassed China.
- **Open to foreign capital:** Despite significant capital controls, India’s net inflows are at par with other emerging economies. India’s FDI has risen sharply over time and in the most recent year; India received FDI of \$75 billion, close to what China was receiving in mid-2000s.
- **Public sector enterprises:** Even though there has not been much exit of PSUs, India has seen increasing share of private sector. India’s PSU spending as a share of GNI lies in the middle of emerging-market economies.
- **The share of government expenditure in overall spending:** On plotting government expenditure against per capita GDP, it has been observed that India spends as much as can be expected given its level of development.

Measures to facilitate ease of doing business include

- Online application for Industrial License and Industrial Entrepreneur Memorandum through the e-Biz website 24x7 for entrepreneurs;
- Limiting the documents required for export and import.
- Setting up of Investor Facilitation Cell under Invest India to guide, assist and handheld investors during the entire lifecycle of the business.

FDI Policy

- The Government has liberalized and simplified the foreign direct investment (FDI) policy in sectors like defence, railway infrastructure, construction and pharmaceuticals, etc.
- Sectors like services sector, construction development, computer software & hardware and telecommunications have attracted highest FDI equity inflows competitive federalism.

3.1. EASE OF DOING BUSINESS RANKINGS

Background

- The World Bank ranks the economies on their ease of doing business. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm.
- India has ranked poorly on this ranking for past few years. In the recent rankings for 2017, it has moved one rank up to the 130th position.

Positives from the Report

- The report praises the various reforms taken by the present Indian government specifically achieving significant reductions in time and cost to provide electricity connections to businesses.

- The ‘distance to frontier’ (DTF) score-used by the WB to measure the distance between each economy and the best performance in that category-has improved for seven of those 10 headers.

Should the marginal improvement be a matter of concern?

- India has improved by only one position. This is being looked by many as a matter of concern on account of two reasons:
 - India has taken a number of economic reforms in the past year like enactment of bankruptcy code, GST, introduction of single window system for building plan approvals and online ESIC (Employees’ State Insurance Corporation) and EPFO (Employees’ Provident Fund Organisation) registrations etc. Thus, a better ranking was expected.
 - Further, the present government aims to bring India in the top 50 economies in the Ease of Doing Business by 2018. The target seems extremely challenging now.
- However, the report does not truly represent the status of economic reforms taken by India. For instance:
 - One particular change in the ranking methodology seems to have done considerable damage to India’s improvement prospects. India ranks fourth from the bottom under the header “paying taxes”. Inclusion of new criterion ‘post-filing index’ has much to contribute to this.
 - The rankings cover only the two cities of Delhi and Mumbai. However, the reforms are being carried on all across India. In fact, states like Andhra Pradesh, Telangana have done remarkable efforts in economic reforms.
 - There is increasing competition from other countries who are trying to improve their rankings as well.

A Long Way To Go

	2017 Rank	2016 Rank
Overall	130	131
Starting A Business	155	151
Dealing With Construction Permits	185	184
Getting Electricity	26	51
Registering Property	138	140
Getting Credit	44	42
Protecting Minority Investors	13	10
Paying Taxes	172	172
Trading Across Borders	143	144
Enforcing Contracts	172	178
Resolving Insolvency	136	135

Source: World Bank Doing Business 2017 Ranking

Last Amongst BRICS Nations

Country	2015	2016	2017
Russia	62	51	40
South Africa	43	73	74
China	90	84	78
Brazil	120	116	123
India	142	131	130

Source: World Bank Doing Business 2017 Ranking

3.2. EASE OF DOING BUSINESS RANKING AMONG STATES

Background

- The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry had given out a **340-point Business Reform Action Plan (BRAP) for States/UTs** earlier this year.
- The BRAP included recommendations for reforms on 58 regulatory processes, policies, practices or procedures spread across 10 reform areas spanning the lifecycle of a typical business.

WHERE THEY STAND

	Rank 2015	Rank 2016		Score (In %)
Telangana, Haryana and Uttarakhand have improved the most in the DIPP-World Bank ease of doing business rankings.	2	1 ▲	Andhra Pradesh	98.78
	13	1 ▲	Telangana	98.78
	1	3 ▼	Gujarat	98.21
	4	4 ◆	Chhattisgarh	97.32
	5	5 ◆	Madhya Pradesh	97.01
	14	6 ▲	Haryana	96.95
	3	7 ▼	Jharkhand	96.57
	6	8 ▼	Rajasthan	96.43
	23	9 ▲	Uttarakhand	96.13
	8	10 ▼	Maharashtra	92.86

Source: DIPP

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- This study was recently released in its **Assessment of State Implementation of Business Reforms 2015-16**.

Significance

- The reordering of the ranking signals that **competitive federalism is rapidly taking root** as states move swiftly to showcase themselves as ideal investment destinations.
- The rankings show **greater acceptance of reform measures and seriousness about it among the states**. For example, previously, only 7 states implemented more than 50% of the reforms proposed as against 17 this year.
- The study **highlights the weakness in the World Bank's methodology of measurement of Ease of Doing Business Index** which is concentrated only on two cities- Delhi and Mumbai.
- It celebrates the achievements of the states and underscores the steps taken by them which could be emulated by others.

फाउंडेशन कोर्स
सामान्य अध्ययन

28 Sep | 10 AM

इनोवेटिव क्लासरूम प्रोग्राम के घटक

हिन्दी माध्यम में

- ▶ 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 करेंट ओरिएंटेड अप्रोच
- ▶ नियमित क्लास टेस्ट एवं व्यक्तिगत मूल्यांकन
- ▶ कॉम्प्रीहेंसिव स्टडी मटेरियल
- ▶ **PT 365** - लगभग 20 कक्षाएं
- ▶ **MAINS 365** - लगभग 20 कक्षाएं
- ▶ **PT** टेस्ट सीरीज - 35 मॉक टेस्ट पेपर
- ▶ मुख्य परीक्षा टेस्ट सीरीज - 25 मॉक टेस्ट
- ▶ निबंध टेस्ट सीरीज - 5 मॉक टेस्ट पेपर
- ▶ सीसैट - 15 मॉक टेस्ट पेपर
- ▶ निबंध लेखन - शैली की कक्षाएं
- ▶ करेंट अफेयर्स मैगजीन

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4. FINANCE AND BANKING

4.1. PROBLEMS OF BANKING

The Economic Survey 2015-2016, pointed out the twin balance sheet problem of overleveraged and distressed companies and the rising NPAs in Public Sector Bank balance sheets. Solving the structural and functional problems of banking requires 4R (Recognition, Recapitalisation, Resolution, and Reform) approach on both the banking and corporate sectors.

A. Recognition

I. Financial stability report-2017 – given by RBI

- Gross non-performing assets (GNPAs) may rise from 9.6 percent in March 2017 to 10.2 percent by March 2018
- But the overall capital to risk-weighted assets ratio (CRAR) of the banking system also improved to 13.6 percent from 13.4 percent during the period, largely due to an improvement in the capital adequacy of private and foreign banks.

II. Stressed assets

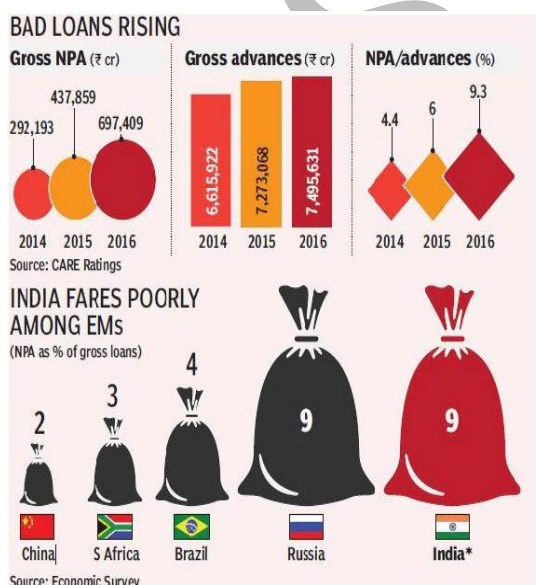
- Nonperforming assets, restructured loans and written-off assets — collectively called 'stressed assets' — have become a major challenge to the country's banking system.
- Bad loans have now shot up by 135 per cent from ₹ 261,843 crore in the last two years, despite the Reserve Bank of India announcing a host of restructuring schemes such as; Asset Quality Review: in which commercial banks to accelerate provisioning requirement and asked Banks to recognize stress assets on proactive basis.

III. Willful Defaulters

- Willful defaulters owe PSU banks a total of ₹.64, 335 crore or 21 per cent of total non-performing assets (NPA).
- The sharpest increase in NPAs in the banking industry was observed in mid-size corporates
- Large borrowers account for 56 per cent of gross advances and 86.5 per cent of gross NPAs. (Fin. Stability Report, 2017).

Stressed assets VS Non Performing Assets

- Stressed Asset - An account where principal and/or interest remains overdue for more than 30 days.
- NPA - A loan or advance for which the principal or interest payment remained overdue for a period of 90 days.



Willful Defaulters

An entity or a person that has not paid the loan back despite the ability to repay it. RBI circular on willful default covers several broad areas:

- Deliberate nonpayment of the dues despite adequate cash flow and good network, Siphoning off of funds to the detriment of the defaulting unit,
- Assets and proceeds have been misutilised; Misrepresentation/falsification of records;
- Disposal/removal of securities without bank's knowledge;
- Fraudulent transactions by the borrower.

Recommendations of standing committee on finance regarding willful defaulters:

- The Standing Committee on Finance recommended that state-owned banks make public the names of their respective top 30 stressed accounts involving wilful defaulters.
- This will act as a deterrent and enable banks to withstand pressure and interference from various quarters in dealing with the promoters for recoveries or sanctioning further loans.
- The committee recommended amending the RBI Act and other laws and guidelines.

Fugitive Economic Offenders Bill 2017

Need

- Till now India has various types of civil provisions dealing with issues of non-repayment of debt. While effective in serving this purpose, they make **no special provisions to deal with** –
 - High-value offenders.
 - Those who might have absconded from India when any criminal case is pending.
 - In case of such absconders, the general provision pertaining to **“proclaimed offenders” under Section 82 of the Code of Criminal Procedure, 1973.**
- Therefore this Bill would be a dedicated statutory backing for criminal prosecution of fugitive economic offenders.

Provisions of the Bill

- It empowers the government to confiscate properties of fugitive economic offenders. The proposed law will be **applicable in cases where value of offences is over ₹ 100 crore.**
- The Bill makes provisions for a **special court under the Prevention of Money Laundering Act** to declare a person a ‘Fugitive Economic Offender’.
- A **Fugitive Economic Offender** has been defined under the bill as a person who has an arrest warrant issued in respect of a scheduled offence and who leaves or has left India to avoid criminal prosecution, or refuses to return to India to face criminal prosecution.

Existing provisions to deal with issues of economic offences

1. RBI Master circular has defined **‘wilful default’** and has given deterrent measures like debarring a promoter from raising institutional finance for floating a new venture for 5 years.
2. **SARAFESI Act** is used to recover assets of financial institutions without involvement of courts.
3. Under **Recovery of Debts due to Banks and Financial Institutions Act, 1993** a debt may be recovered on the issue of a recovery certificate by the Debt Recovery Tribunal.
4. As per Insolvency and Bankruptcy Code, 2016, the debtor or the creditor can trigger the insolvency resolution process on default involving restructuring of the debts. If the plan fails, the liquidation / bankruptcy process is triggered.

Significance

- The bill could address the issue of default of bank loans and the mounting Non-performing assets (NPA) and prevent any crowding out of investment for the private sector that occurs when the bank’s NPAs rise.
- The bill would also address the problems in the investigations of the criminal cases and would save the time of the judiciary apart from upholding the rule of the law.

B. Recapitalization

- The government will pump in ₹ 10,000 crore into public sector banks (PSBs) in the next financial year (FY17) to meet their capital requirements and bail them out from a financial mess.
- Earlier in the year, as part of its **recapitalization programme for PSBs** (Indradhanush), the government announced an equity infusion of ₹ 25,000 crore for FY17.
- Of their ₹ 1.8 lakh crore capital requirement under **Basel-III norms**, the government has promised to pay ₹ 70,000 crore over four years till 2018-19 and has asked state-owned banks to raise ₹ 1.1 lakh crore from the market.
- For reviving growth PSBs loans have to increase by 12% which requires an additional ₹.2.4 trillion of capital by end-March 2019 to meet the Basel III requirements.

Other Steps taken

Indradhanush 2.0 a comprehensive plan for recapitalization of public sector lenders, with a view to make sure they remain solvent and fully comply with the global capital adequacy norms, Basel-III scheme is being implemented.

C. Resolving the NPA problem

I. Scheme for Sustainable Structuring of Stressed Assets

- Under the scheme, the banks can split the overall loans of struggling companies into sustainable and unsustainable based on the cash flows of the projects.
- The unsustainable debt could be converted into equity or a convertible security. Once the unsustainable debt is converted to equity, banks can sell this stake to a new owner who will have the advantage of getting to run the business with a more manageable debt.

II. Asset Reconstruction Company

- To tackle rising NPAs, the Union Finance Ministry and NITI Aayog has recommended to set up an Asset Reconstruction Company (ARC) with equity funding from the government and the RBI.
- PSBs condition is particularly bad as compared to private banks because they have to lend under various government objectives and under the compulsion of social banking.
- 100% FDI under automatic approval for ARCs.

Viral Acharya's recommendations:

The only real way of removing the stress off bank books is to effect a recovery and resolution in the stressed company.

1. The creation of a private asset management company (PAMC), which will handle the creation, selection and implementation of a feasible resolution plan for quick turnaround,
2. the involvement of two credit rating agencies which rate the company and not the debt issued to them and
3. finally, taking the voice away from the company's promoters who may implement delaying tactics on a regular basis to retain control,

Other steps taken by RBI

- 5:25 Scheme: It allows banks to extend long-term loans of 20-25 years to match the cash flow of projects while refinancing them every 5 or 7 years.

- Compromise settlement schemes.
- Strategic Debt Restructuring (SDR) - consortium of lenders converts a part of their loan in an ailing company into equity, with the consortium owning at least 51 percent stake
- Corporate Debt Restructuring (CDR) mechanism and Joint Lenders' Forum

D. Reforms

I. Banking Regulation (Amendment) Ordinance, 2017

To deal with stressed assets, particularly those in consortium or multiple banking arrangements.

Details

- **Expeditious resolution:** It authorize the Reserve Bank of India (RBI) to direct banking companies to resolve the issues related to specific stressed assets, by initiating insolvency resolution process.
- **Initiate insolvency:** Two new provisions had introduced namely, sections 35AA and 35AB, under Section 35A of the Banking Regulation of Act of 1949 through which banking companies can initiate insolvency proceedings.
- **Empowering RBI:** The RBI can now issue other directions for resolution, and appoint authorities and **oversight committees** to advise banking companies for stressed asset resolution.
- **Time-bound resolution:** in the wake of new Insolvency and Bankruptcy Code (IBC), 2016 which consolidated and amended the laws relating to reorganization and insolvency of corporate persons may lead to time-bound resolution.
- **Facilitating recoveries:** Ordinance could firm up with the IBC along with Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) and Debt Recovery Acts, which have been amended to facilitate recoveries.

II. RBI Revised Prompt Corrective Action

The RBI is set to revise guidelines for **Prompt Corrective Action (PCA) plan** required to be mandatorily set in motion by ailing banks.

What is PCA?

- PCA is a process or mechanism to ensure that banks don't go bust.
- Thus, RBI has put in place some trigger points to assess, monitor, control and take corrective actions on banks which are weak and troubled.
- PCA was first introduced after the global economy incurred huge losses due to the failure of financial institutions during the 1980s and 1990s.
- According to the latest Prompt Corrective Action (PCA) plan, the banks are assessed on three parameters, and they are:
 - ✓ Capital ratios
 - ✓ Asset Quality
 - ✓ Profitability

- **CRAR** is the acronym for **Capital to Risk-weighted Assets Ratio**, a standard metric to measure balance sheet strength of banks
- **ROA** stands for **return on assets**. It is the percentage of net income generated with respect to average total assets.
- **CET 1 ratio:** The percentage of core equity capital, net of regulatory adjustments, to total risk-weighted assets as defined in **RBI Basel III guidelines**
- **NNPA Ratio:** the percentage of net NPAs to net advances
- **Tier 1 Leverage Ratio:** the percentage of the capital measure to the exposure measure as defined in RBI guidelines on the leverage ratio.

- Indicators to be tracked for Capital, asset quality and profitability would be CRAR/ Common Equity Tier I ratio, Net NPA ratio and Return on Assets respectively.
- Breach of any risk threshold would result in invocation of PCA.

III. Corporate Bond Market

Measures to Strengthen Corporate Bond Market, RBI accepted many of the recommendations of the **Khan Committee** to boost investor participation and market liquidity in the corporate bond market. They include:

- Permitting commercial banks to issue rupee-denominated bonds overseas (masala bonds) for their capital requirements and for financing infrastructure and affordable housing
- Brokers registered with the SEBI and authorized as market makers in corporate bond market permitted to undertake repo / reverse repo contracts in corporate debt securities
- Banks allowed to increase the partial credit enhancement they provide for corporate bonds to 50 percent from 20 per cent.
- Permitting primary dealers to act as market makers for government bonds, to give further boost to government securities by making them more accessible to retail investors
- Simplified procedures to ease access to the foreign exchange market for hedging in over the counter (OTC) and exchange-traded currency derivatives up to a limit of US\$30 million at any given time.

IV. Insolvency and Bankruptcy code

Background

The objective of the code is reducing the delay in resolution of insolvency or bankruptcy cases and improving recoveries of the amount lent.

Need

- Today, bankruptcy proceedings in India are governed by multiple laws - the Companies Act, SARFAESI Act, Sick Industrial Companies Act, and so on. The entire process causes a lot of delay thus locking capital for a long period.

Salient Features of the law:

- Unified code for greater legal clarity.
- **Fixed a timeline of 180 days**, extendable by another 90 days, to resolve cases of insolvency or bankruptcy.
- **New regulator** - the Insolvency and Bankruptcy Board of India (**IBBI**) to regulate professionals/agencies dealing with insolvency and informational utilities.
- Specialized Bench at the National Company Law Tribunal (NCLT) to adjudicate bankruptcy cases over companies, limited liability entities.
- Debt Recovery Tribunal (“DRT”) shall be the Adjudicating Authority with jurisdiction over individuals and unlimited liability partnership firms.

The Insolvency & Bankruptcy Code 2015

APPLICABILITY: All kinds of corporate enterprises, limited liability partnerships, partnership firms and individuals

SCOPE: Insolvency, liquidation, voluntary liquidation (solvent insolvency) and bankruptcy

KEY OBJECTIVES:

- Preserve value by providing linear, time-bound and collective process
- Improve time taken to resolve failure and provide clear exit options to investors
- Increase recovery value
- Bring all insolvency & bankruptcy related law under one umbrella
- Develop other avenues of financing businesses (such as bond markets, venture capitals) other than banks

Resolution process

```

    graph TD
      A[Default] --> B[Appointment of an insolvency professional]
      B --> C[Calm period/moratorium period (180/270 days)]
      C --> D[75% of the creditors to approve]
      D -- Yes --> E[Implement the plan]
      D -- No --> F[Goes into liquidation]
    
```

Key pillars of the bankruptcy code

Tribunal	Regulator	Insolvency professional	Information utility	Credit committee
NCLT is the proposed forum for corporate bankruptcy and DRT is for individual bankruptcy	Legislative function on procedural details of the insolvency process. Statistical system functions. Legislative, executive and quasi-judicial functions on IP agencies & IUs	Professionals as part of an association; multiple competing private IP agencies, each with legislative, executive and judicial functions; oversight of a regulator	A private competitive industry of 'information utilities' that will store filings and make them available, such as facts about lending, pledges, etc	To comprise of financial creditors, but to ensure payments to operating creditors on priority

- The code allows the corporate debtor itself to initiate the insolvency-resolution process once it has defaulted on a debt.
- Prioritization of claims by different classes of creditors (Financial creditors and operation creditors.)

Issues with the present bankruptcy law

- The insolvency request can be stayed by the adjudicatory authority or an appeal against it can be filed in High court. So, the operational creditor may not have enough resource to pursue the case against the bankrupt company.
- Without repealing the existing laws, the bankruptcy law can further complicate the process.
- If the insolvency resolution plan is not submitted by the Insolvency Resolution Professional within 270 days or if it is disapproved by the adjudicatory authority then liquidation is the only option. However, the law is unclear if the corporation is given a chance to be heard before liquidation.
- The option of liquidation may also lead to parties not giving enough research towards recovery the ailing company.

Way Ahead

The Bankruptcy Law is a much-needed step towards reducing NPAs and improving ease of doing business in India. However, the law must be amended preferably by bringing experts from abroad countries that have experience of handling bankruptcies and distressed debt market.

V. Public Sector Asset Rehabilitation Agency/ Bad Bank

What is a Bad Bank?

- Bad Bank would be set up as a separate entity that would buy the NPAs from other banks to free up their books for fresh lending. In the meanwhile, it would work towards suitably disposing off the toxic assets.
- The concept was pioneered at the Pittsburgh-headquartered Mellon Bank in 1988 and has been **successfully implemented in many western European countries** post the 2007 financial crisis like Ireland, Sweden, France etc.

Advantages of Bad Bank

- The present method of **recapitalization can have only partial success** due to limitations of Indian financial capabilities. Further, it will not clear up the bad assets but would only give some more life to projects.
- Bad Bank would essentially help in clearing the books of banks and this could **make the banks more attractive to buyers**.
- The segregation would help in managing NPAs more effectively. The organizational requirements and skill sets are very different in a restructuring and winding up situation than in a lending situation. The **segregation could thus help in putting the best-suited processes and practices in a Bad Bank while the 'normal banks' could continue to focus on lending**.

Issues

- Raghuram Rajan was of the view that this **concept may not be relevant for India** since much of the assets backing the banks' loans are viable or can be made viable. E.g. a large chunk of projects stalled due to extraneous factors like problems in land acquisition or environmental clearance. They just need restructuring and additional funding.

- There are issues with respect to composition and management of the Bad Bank.
 - A majority stakes with government would render the Bad Bank with the same issues of governance and capitalization as PSBs.
 - On the other hand, a private majority shareholding could invite criticism of favouritism and corruption if the loans are not priced appropriately when transferred to a 'bad bank'.

Way Forward

- This must be complemented with other steps. The government must infuse more capital into the better-performing PSBs.
- It must also create, through an act of Parliament, an apex Loan Resolution Authority for tackling bad loans at PSBs. The authority would vet restructuring of the bigger loans at PSBs. This would mitigate the paralysis that has set in at the PSBs because of the fear factor and get funds flowing into stalled projects.
- Some assets are best classified as loss assets and should be written off in the books, even as efforts are made to recover whatever value can be recovered through liquidation.
- Banks ought to take a large enough haircut on existing debt to make the restructured project attractive for ideas of SDR. S4A, ARCs, NIIF to work:
- The proposed National Infrastructure and Investment Fund (NIIF), operating with private partners, will provide both equity and new credit to stress infra projects going through the SDR mechanism.

4.2. FINANCE INCLUSION

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost.

Global Microscopic report lauded the steps taken in the past 10 years to modernize the financial sector such as; Pradhan Mantri Jan Dhan Yojana and Aadhaar programme.

4.2.1. ISSUES WITH FINANCIAL INCLUSION

According to Deepak Mohanty committee set up by the Reserve Bank of India (RBI) the issues with financial inclusion are:

- Gender Inequality: Banks have to make special efforts to step up account opening for females, and the Government may consider a deposit scheme for the girl child – Sukanya Shiksha - as a welfare measure.
- For stability of the credit system: A unique biometric identifier such as Aadhaar should be linked to each individual credit account and the information shared with credit information companies
- Last-mile service delivery: A low-cost solution should be developed by utilization of the mobile banking facility for maximum possible G2P payments.

Recommendations

- The use of application-based mobile phones as points of sale for creating necessary infrastructure to support the large number of new accounts and cards issued under the Jan Dhan Yojana.
- It recommended a graded system of certification of business correspondents (BCs), from basic to advanced training.

- **Land records:** In order to increase formal credit supply to all agrarian segments, digitalization of land records backed by Aadhar-linked mechanism is the way forward.
- Encourage multiple guarantee agencies to provide credit guarantees in niche areas for micro and small enterprises (MSEs), and explore possibilities for counter guarantee and reinsurance.

4.2.2. SMALL FINANCE BANKS

- Recently microlenders, **Suryoday and Utkarsh**, have started the **small finance banks (SFBs)**.
- They are offering interest rates of more than 6% in order to compete with commercial lenders for savings bank deposits. Most of the commercial banks offer 4% on savings accounts.

Background

- **Small finance banks were key recommendations of the committee on financial inclusion chaired by Nachiket Mor.**
- Small finance banks are **niche banks** (banks that focuses and serves the needs of a **certain demographic segment of the population**) with main function to perform lending activities among weaker section
- The SGBs perform **both deposit-taking and loan-making functions.**
- The RBI estimates that close to **90 per cent of small businesses today have no links with formal financial institutions.**
- Taking into account of the above **it was concluded that small finance banks can play an important role** in the supply of credit to micro and small enterprises, agriculture and banking services in unbanked and under-banked regions in the country.

Characteristics of SFBs:

- Resident individuals/professionals carrying 10 years of experience in banking and finance and companies and societies owned and controlled by residents will be eligible to set up small finance banks.
- **SFBs** have a minimum paid up capital of ₹.100 crore.
- **SFBs** are mainly for the growth of agriculture and Micro, Small and Medium industries.
- **SFBs can** sell forex, mutual funds, insurance, pensions and can also convert into a full-fledged bank.

4.2.3. PRIORITY SECTOR LENDING NORMS

RBI recently has revamped PSL norms by including some new sectors such as social infrastructure, renewable energy and medium enterprises among others.

Challenges with Priority Sector Lending

- Currently, many banks find it difficult to meet their PSL requirement as they may not find it viable to lend to the rural or MSME sector.
- Despite agriculture being a prime focus, no substantial gain in capital investment has happened in agriculture because banks tend to lend for short-term just to

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

Categories under priority sector

1. Agriculture
2. Micro, Small and Medium Enterprises;
3. Export Credit;
4. Education;
5. Housing;
6. Social Infrastructure;
7. Renewable Energy; and
8. Others

fulfil RBI norms (Economic Survey 2014-15).

- So RBI issued a notification permitting the issue and trading in **Priority Sector Lending Certificates** (PSLCs) as recommended by Raghuram Rajan Committee, 2008, whereby banks can buy and sell such credits to manage their priority sector lending requirements.

What is PSLCs?

- PLCs are **tradable certificates** issued against priority sector loans of banks so as to enable banks to achieve their specified target and sub-targets for priority sector lending in the event of a shortfall.
- PLCs are to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks.
- All Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, Small Finance Banks (when they become operational) and Local Area Banks are eligible for PSLC trading.
- There will be no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow. The settlement of funds will be done through the e-Kuber portal.

4.2.4. BANK AUTHORIZATION POLICY

- The Reserve Bank of India (RBI) recently relaxed the branch authorization policy with the aims to bring all branches and fixed business correspondent outlets under the definition of banking outlets and **removing restrictions on opening branches in Tier 1 centres**.

Provisions of the revised policy

- It had **removed restrictions on opening banking outlets in Tier 1 to Tier 6 centres** without taking RBI's permission in each case.
- It is mandated that banks open **25% of these outlets in unbanked rural centres (URC)**.

Significance

- It would facilitate financial inclusion by better availability of banking services.
- The move will **significantly reduce costs for a bank while for opening branches in unbanked rural centres** because full-fledged banks in such areas are not always profitable due to lower footfalls.

4.2.5. INSURANCE LITERACY PROGRAMME FOR SCHOOL

The basic financial education consists of fundamental tenets of financial well-being of the country. Keeping this vision, **National centre for financial education** extended the insurance literacy for School education to implement the National Strategy for financial education.

National Strategy for Financial Education

- **National Strategy for Financial Education** will work under policy frame of Vision, Mission, Goals, Strategic action plan, Stakeholders.
 - **Vision:** A financial aware and empowered India through financial education for; role of money, advantage of savings, advantage of formal financial sectors, protection through insurance.
 - **Mission:** To undertake massive Financial Education campaign for all section of society, increasing the skill and competence, life cycle started from school and education institution.
 - **Goals:** It must be achieved with certain objects of; awareness for various types of

financial products and their features, Change in attitudes and make consumers understand their rights and responsibilities as clients of financial services.

- **Strategic Action Plan:** with timeframe of 5 years the introduction of financial education in school curriculum up to senior secondary level with a grievances redressal machinery available in the country by channelized the stakeholders such as NGOs, civil society, Independent research organisation.

Towards a Financial Literate society

- India has 30%-plus savings rate, but it is not channelized to investment. Such an initiative could help improve that situation.
- The above survey also highlighted that 76% of the Indian adult population lacks knowledge about basic finance and 14% of Indians save in a formal financial institution, which is later on reflected in terms of low financial Inclusion.

4.3. ISSUES WITH RBI

4.3.1. PROBLEMS IN THE GOVERNANCE OF RESERVE BANK OF INDIA

Issue

- **Empty regional boards:** There have been no new appointments to the local boards. Each regional boards sends one representative to central board.
- **Vacancy in central boards:** The current government has made only three appointments to 10 positions and the rest have remained vacant for a very long time.
- **Secrecy:** is given as a reason for interference by the government.
- The continuous but random changes in the procedures of replacing old notes and continuous interference gives the impression that RBI is a virtual department of the government
 - ✓ This will have long-term effects on the economy; especially how the rest of the world perceives policymaking in India.
 - ✓ Confidence in the financial sector and in how it is regulated will be seriously affected.

The central board of RBI, in the past 3 years, is shrinking. RBI board has four independent members and six executives (representing the RBI and government) while the expected structure should have 14 independent members and 7 executives.

RBI and its Functions

- It was established in 1935 under the provisions of **RBI Act, 1934.**
- RBI has seven major functions:
 - ✓ **Print Notes:** RBI has the sole autonomy to print notes. Govt has the sole authority to mint coins and one rupee notes.
 - ✓ **Banker to the Government:** It manages government's deposit accounts. It also represents govt. as a member of the IMF and World Bank.
 - ✓ **Custodian of Commercial Bank Deposits**
 - ✓ **Custodian to Country's Foreign Currency Reserves**
 - ✓ **Lender of Last Resort:** Commercial banks come to RBI for their monetary needs in case of emergency.
 - ✓ **Central Clearance and Accounts Settlement:** As RBI keeps cash reserves from commercial banks therefore it rediscounts their bills of exchange easily.
 - ✓ **Credit Control:** It controls supply of money in the economy through its monetary policy.
- The power to appoint RBI Governor solely rest with the Central Govt. and he holds office at the pleasure of Central Government (tenure not exceeding 5 years).

4.3.2. AUTONOMY OF RBI

Questions on autonomy of the RBI were raised after note-ban in November.

Where Does RBI Stand in Terms of Autonomy?

- According to a paper published in the *International Journal of Central Banking* in 2014, RBI was listed as the least independent among 89 central banks considered under the study.
- These rankings are likely to have improved since the adoption of **inflation targeting** in February 2015 and formation of **monetary policy committee** in October 2016.
- However, vacancies in RBI's board and government's reluctance to fill them up raises questions about the decisions taken and whether proper deliberations on those decisions are being held.
- During the previous government, a Financial Sector Legislative Reforms Commission was formed which made various recommendations to cut down RBI's powers.
- In 2013, a financial sector monitoring body, called Financial Stability Development Council was established which was to be chaired by the Finance Minister.
- In essence, the **RBI Act 1934**, does not empower RBI absolute autonomy. However, it does enjoy some independence when it comes to performing its regulatory and monetary functions.

Way forward

- The relationship between RBI governor and boards and the government has to be healthy, collaborative and mutually respectful.
- Post the north Atlantic financial crisis, central bank's role in the economy goes beyond monetary policy and extends to growth and financial stability. With stable tenures and board members from various fields, this can be achieved.
- The RBI board has had representatives from agriculture, social services and even scientists in the past. RBI is not just a monetary authority worried exclusively on issues of inflation, but much beyond.
- **Tenure:** Having a period shorter than five years (Raghuram Rajan term ended in 3 years) does not allow the governor sufficient time to implement his/her agenda and also politicizes the extension of tenure. Five-year tenure to the governor and deputy governors can be given.

4.4. PROPOSED PAYMENT REGULATORY BOARD

RBI has differed on opinions given by **Ratan Watal committee on payment regime** in India and especially on the recommendation of a new Payment Regulatory Board.

Background

- Watal Committee recommended constituting a **Payment Regulatory Board (independent of RBI) to promote competition and innovation** in the payment ecosystem in India.
- Presently **Board for Regulation and Supervision of Payment and Settlement Systems overlooks the payment ecosystem in India.**

Board for Regulation and Supervision of Payment and Settlement Systems

- It is a sub-committee of the Central Board of the RBI
- It is the highest **policy making body on payment systems.**
- It is empowered **to authorize, prescribe policies and set standards to regulate and supervise all the payment and settlement systems** in the country.
- Its secretariat is at the Department of Payment and Settlement Systems of RBI.
- It is a **statutory body set as per Payment and Settlements systems Act 2007.**

Need of the proposal

- Present Payment and Settlement Systems Act 2007 (PSS Act) restricts the reach of digital payments, thus promoting cash transactions however it is **silent on data protection issues**.
- Committee also says that the **present law does not focus on promoting competition in the payments sector**.
- Payment regime is a **more technology-business driven activity** that should be viewed independently from the banking sector.
- It is envisaged that an independent body focused on the goal to facilitate digital payments would increase the **digital payments from the current 5% to about 20% in 3 years**.

Challenges Involved

- It may be a **dilution to RBI's autonomy** after already constituting a Monetary Policy Committee (MPC) to set inflation targets.
- **Board for Regulation and Supervision of Payment and Settlement Systems is already quite independent** as it has membership of experts too outside the RBI.
- A separate competition law exists presently and enshrining it within PSS Act can lead to **overlapping jurisdictions**.
- **Defining what would constitute "an innovation"** would be difficult for the Payment Regulatory Board.

4.5. ROLE OF MARKET STABILISATION SCHEME BONDS

The government increased the ceiling of market stabilisation scheme (MSS) bonds to ₹. 6 lakh crore, from the earlier ₹. 30000 crore.

Background

- The demonetization drive has resulted in banks having lot of excess funds skewing bond yields and interest rates, disrupting the functioning of the market.
- The central bank also imposed 100% CRR requirement on deposits collected between September 16 and November 11, to suck out excess liquidity.
- Though the hike in CRR sucked out ₹.3.24 lakh crore from banks, there are certain challenges such as:
 - This amount will not earn any interest.
 - Jam the transmission of liquidity adjustment facility rates and lending rates

What is MSS scheme?

- MSS is a mechanism to give more powers to RBI to manage liquidity.
- To suck out the over-liquidity from the market
- It was first used in February 2004 when the country was flushed with dollar inflows, which needed to be converted into the rupee.
- Raised money goes to separate Market Stabilization Scheme Account (MSSA), not for government expenditure.

Significance

- MSS bonds bear an **interest rate** that can boost banks' income. This incentivizes banks to participate effectively in demonetization drive.
- **MSS as SLR bonds**: MSS bonds can also be used to calculate banks' mandatory bond holding.
- MSS bonds does not increase Government's fiscal deficit.
- According to CRISIL, the stock of G-secs with the RBI, necessary to conduct reverse repo operations, is limited. So MSS is needed.

4.6. CAPITAL AND MONEY MARKET

4.6.1. P-NOTES NORMS

Recently, SEBI has released a consultation paper on P-Notes planning to further tighten the norms for the issuance of Offshore

Derivative Instruments (ODIs)/P-Notes.

Need

- Owing to the opaqueness of the investment procedure of the P-Notes, it is considered to be a conduit for black money. Therefore its use needs to be restricted only to the genuine users.
- To avoid detection, quite a few ODI subscribers invest through multiple issues. Therefore proposal in the new consultation paper on P-Notes would be a step towards curbing their misuse.

Provisions of the paper

- SEBI has proposed to levy a regulatory fee of \$1,000 on every foreign portfolio investor (FPI) that issues ODIs or PNs. This fee would have to be paid by SEBI registered FPIs once every three years for each of their P-Notes subscriber.
- The regulator has also proposed to **prohibit ODIs from being issued against derivatives for speculative purposes.**

Significance

- It will **discourage the P-Notes subscribers** from taking this route and encourage them to directly take registration as a Foreign Portfolio Investor. This would also be a step towards preventing money laundering.
- It would also be useful to avoid any treaty shopping practices and tax avoidance.

P-Notes/Overseas Derivative Instruments

P-Notes are used by foreign entities who want to get an exposure to Indian equity without getting registered with SEBI. So, SEBI-registered FPIs buy shares on behalf of such entities and then transfer the securities to the actual beneficiaries.

- About 6% of the total foreign investment in Indian stocks and equity instruments is from P-Notes.
- Last year, SEBI issued Know Your Customer (KYC) norms for ODI subscribers, transferability of ODIs, reporting of suspicious transactions and periodic review of systems.
- In case such ODIs are transferred, the issuer should give the complete trail of such transfers to SEBI on demand.

SEBI STEPS

- Indian KYC reporting rules will apply to beneficial owners of P-notes
- Transfer of overseas derivative instruments will require prior permission of issuer
- Top 500 listed companies by market cap will have to disclose dividend distribution policies
- Regulations for infrastructure investment trusts to be relaxed

4.6.2. SEBI TO TIGHTEN ALGO TRADING RULES

The Securities and Exchange Board of India (SEBI) plans to further tighten the regulations for algorithmic trading.

What is Algorithmic Trading?

- Algorithmic trading is the process of using pre-set computer programmes to execute trades at a speed and frequency that is impossible for a human trader.
- Algo-trading provides the following benefits:
 - Trades executed at the best possible prices
 - Reduced transaction costs

Bid to Ensure Fair Play

OVER 80% of the orders placed on most of the exchange-traded products are generated by algorithms

SUCH ORDERS contribute to about 40% of the trades on exchanges

SEBI PLANS TO introduce various measures including minimum resting time for orders, speed bumps to delay order matching, randomisation of orders, frequent batch auctions, maximum order-to-trade ratio requirement, separate queues for co-location and non-co-location orders and review of tick-by-tick data



If Sebi decides to implement some of these measures, it would be the first to rein in algorithmic trading

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- Simultaneous automated checks on multiple market conditions
- Reduced risk of manual errors in placing the trades
- Reduced possibility of mistakes by human traders based on emotional and psychological factors

Rationale Behind this move

- To minimize instances of misuse of such systems that can be used to execute complex trading strategies at a very high speed.
- To create a level-playing field between algo-trading and non-algo-trading users.

4.6.3. SEBI TIGHTENS NORMS FOR CREDIT RATING COMPANIES

SEBI (Securities and Exchange Board of India) tightened disclosure norms for credit rating agencies. This has been announced in lieu with the sudden downgrades and rate cuts in the recent past.

What is it?

- SEBI has asked credit rating agencies to disclose the basis on which they rate companies, rating history as well as the responsibilities of the analysts.
- The criteria to judge companies would include criteria for analyzing financial ratios, treatment of consolidation of firms, parent's group support, and nature of business.
- The rating process has to be reviewed periodically and disclosed publically along with the original provision.
- **Significance** It can help bring transparency in rating process by curbing rate shopping and rating suspension.

4.7. FINANCE: STEPS TAKEN BY GOVERNMENT

4.7.1. WPI AND IIP BASE YEAR CHANGE

- The **CSO** and the **Department of Industrial Policy and Promotion (DIPP)** has shifted to 2011-12 base year from 2004-05 base year for Index of Industrial Production (IIP) and Wholesale Price Index (WPI) respectively.
- WPI and IIP have been revised in line with the recommendations of the **Saumitra Chaudhari Committee** which submitted its report in March 2014.
- A **Technical Review Committee (TRC)** has been constituted for the first time by the CSO in order to review the indexes and recommend appropriate methodological.

What is News?

- Apart from the WPI base year, its basket of goods and their weightage have also been overhauled. 199 new items have been added and 146 items have

Changes in composition

IIP old series (Base year: 2004-05)		New series (Base year: 2011-12)	
Item groups	Weight (%)	Item groups	Weight (%)
Mining	1 14.16	1 14.37	
Manufacturing	397 75.53	405 77.63	
Electricity	1 10.31	1 8	
Total	399 100	407 100	
WPI old series (Base year: 2004-05)		New series (Base year: 2011-12)	
Primary articles	102 20.12	117 22.62	
Fuel and power	19 14.91	16 13.15	
Manufactured items	555 64.97	564 64.23	
Total	676 100	697 100	

- **Taxes have been left out of WPI** in order to remove the impact of fiscal policy.

- The WPI will now be calculated based geometric mean rather than the earlier of arithmetic mean. CPI is calculated on geometric mean.

Implications

- The change in base year has brought all macroeconomic indicators on the same base making comparison easier.
- Change in WPI basket of goods and weight has brought it **closer to the CPI** and to changing consumption pattern in the country.
- Removing indirect taxes from WPI will make it a **compatible and appropriate deflator**. It will also bring it closer to **PPI (Production Price Index) and global practices**.
- Change in the IIP basket would **make it closer to the current production structure**.

4.7.2. CREDIT ENHANCEMENT GUARANTEE FUND

India Infrastructure Finance Co. Ltd (IIFCL) shall be promoter of a **credit enhancement guarantee fund**.

Significance of the proposal

- India is in the **need of about \$1 trillion investment** in the next 10 years for infrastructure, to have a sustainable development and growth.
- It will help **enhance the credit rating** of bonds issued by infrastructure firms.
- It will also help **to attract long-term investments** especially from global insurance, pension and sovereign wealth funds.
- Credit enhancement measures can help **reduce interest rate costs** by almost two per cent.
- It is a **long term initiative** as large infrastructure projects have long gestation projects and give returns slowly.

About Credit Enhancement Guarantee Fund

- It provides an additional source of guarantee that the borrower will not default on their loan.
- It also helps borrowers raise loans at reduced interest rates.
- It has a seed capital of ₹. 1500 crores and will be able to provide guarantees for up to ₹ 40000 crores worth of infrastructure projects.

4.7.3. FINANCIAL RESOLUTION AND DEPOSIT INSURANCE BILL 2017

The broad aim of the bill is to ensure early recognition of a financial firm, regulated by RBI, SEBI, IRDA or PFRDA, which could potentially be in trouble so as to lower the impact on the economy.

Features

- ✓ The Bill would provide for a comprehensive resolution framework to deal with bankruptcy situation for specified financial sector entities like banks, insurance companies and financial sector entities.
- ✓ The bill will result in the repealing of the Deposit Insurance and Credit Guarantee Corporation Act, 1961 to transfer the

Resolution Corporation

- This Corporation will take swift action for winding up or dissolving a firm. Once that happens, the Corporation will act like a receiver — ensure quick payments to depositors up to a certain limit to which their deposits have been insured and settle the claims of debtors and equity holders.
- It will have a corpus or fund built on premiums by firms which are covered under the new law, besides contributions from the government.
- It would protect the stability and resilience of the financial system; protecting the consumers of covered obligations up to a reasonable limit; and protecting public funds, to the extent possible.
- It is expected to cover all firms regulated by the RBI, SEBI, IRDA and PFRDA.

deposit insurance powers and responsibilities to the Resolution Corporation.

Benefits

- It will give comfort to the consumers of financial service providers in financial distress.
- It aims to inculcate discipline among financial service providers in the event of financial crises by limiting the use of public money to bail out distressed entities.
- The Bill aims to strengthen and streamline the current framework of deposit insurance for the benefit of a large number of retail depositors.
- This Bill seeks to decrease the time and costs involved in resolving distressed financial entities.

4.8. ROSE VALLEY CASE

Two MPs from All India Trinamool Congress (TMC) party have been arrested by CBI in Rose Valley case.

What is Rose Valley case?

- It is a chit fund scam where two entities - **Rose Valley Real Estates and Constructions and Rose Valley Hotels and Entertainment**, garnered ₹ 18000 crores from investors as instalments for property purchases promising extraordinary returns of 21%.

Background

- Two TMC MPs were arrested in the **Saradha scam in 2013**.
- In 2014 many unregistered chit schemes were ordered to be wound up and the money refunded to investors.
- Supreme Court also instructed the Enforcement Directorate (ED) and the CBI to probe such chit companies. **As a part of that process, the Rose Valley Group was uncovered.**

Reasons of such scams

- **Multiplicity of regulations and confusion over jurisdiction.** Eg. Centre and State regulate chit funds whereas SEBI regulates other collective investment schemes.

Chit Funds

- A chit fund is a **type of saving scheme** run by an individual or an institution.
- Subscribers pool instalments to the chit fund. After a period, each subscriber gets the entire pooled fund after a discount cut by the chit fund.
- The benefit of chit fund is that a subscriber can get a large amount of money in a short time.
- As per Supreme Court, Chit funds are a part of **concurrent list**.
- Chit funds are **registered by the State governments**. The unregistered ones are usually termed illegal.
- The Prize chits and Money Circulation (Banning) Act 1978 usually defines the illegal Chit funds.

Other fraudulent monetary schemes

1. Ponzi scheme

- It is an illegal investing scam promising high rates of return to investors.
- It has no underlying assets i.e. it **generates returns for older investors by acquiring new investors and not by earning returns/revenue by any assets like property etc.**

2. Pyramid Scheme is an illegal scheme similar to ponzi scheme.

- While in a Ponzi scheme, participants believe of earning returns from any asset, participants in a pyramid scheme are aware that they earn money by finding new investors.

Direct Selling and Money Circulation guidelines 2016

- It bars entities involved from charging any entry fee from agents.
- It have also **made provision for appointment of monitoring authority at both Central and state level to deal with money circulation schemes.**
- It prohibits such entities from using misleading and deceptive or unfair recruitment practices.

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- **Poor regulation.** E.g. Lack of registration of such companies.
- Low financial literacy in the investors about such schemes.
- Quick-get-rich attitude and greed in a consumeristic society.

Steps taken by the government

- **Collective Investment Schemes regulation** gives SEBI sweeping powers to oversee all such schemes that pool investor money.
- RBI has advised banks to carry out quick reviews of accounts opened in the names such as market agencies and retail traders.
- RBI has been sensitising state governments on the **Prize Chits and Money Circulation Scheme (Banning) Act, 1978** and the appropriate action needed.
- **'Direct Selling Guidelines 2016'** by SEBI **clearly defines money circulation schemes** and direct selling to help investigating agencies identify fraudulent players.

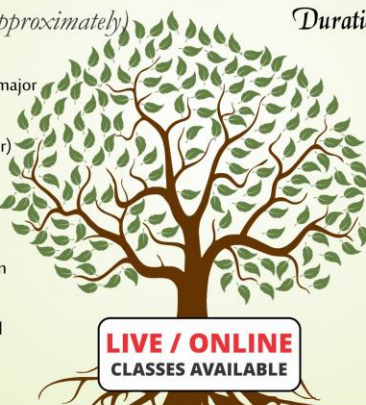
What needs to be done?

- Improve financial literacy of the investors.
- Resolve multiple regulation problems.
- Heavy penalty on non-registration of such schemes with the regulator.
- A coordinated effort and a political will by both centre and state governments to tackle the issue.

Conclusion

- The basic aim of such saving and investment schemes is to dupe investors fraudulently. Therefore there is a need to resolve both the supply side problems like regulation deficit etc. along with demand side problems like poor awareness, to curb the financial losses to the economy due to these schemes.

"You are as strong as your foundation"

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5. GOVERNMENT BUDGETING

5.1. BUDGETARY REFORMS

5.1.1. RAILWAY BUDGET SCRAPPED

On the proposal of Bibek Committee the 92-year-old practice of presenting a separate Rail Budget came to an end from FY 2017-18, with the Finance Ministry accepting Railway Ministry proposal to merge it with the General Budget.

Implications

- The financial matter such as; issue of raising passenger fares, and massive revenue deficit will be the Finance Minister's prerogative.
- The merger would mean, Indian Railway will get rid of the annual dividend it has to pay for gross budgetary support from the government every year.

Background

While the Union budget is a Constitutional requirement and is presented under **Article 112 of the Indian Constitution**, which mandates an annual financial statement, the Constitution does not talk about the railway budget in particular.

5.1.2. ADVANCEMENT OF BUDGET DATE

Presentation of the Budget was advanced by a month and moved to the last day of February.

Implications

- Implementation of the legislative changes in tax laws from the beginning of the financial year.
- This would synchronize the transfer of funds to states with their own state budgets.
- This will also preclude the need for seeking appropriation through '**Vote on Account**'
- This would pave the way for early completion of Budget cycle and enable Ministries and Departments to ensure better planning and execution of schemes from the beginning of the financial year.

5.1.3. MERGER OF PLAN AND NON-PAN CLASSIFICATION

- Differentiation of plan and non-plan expenditures in the budget statement has been done away with.
- Earlier Planning Commission had an important role in determining the quantum of plan expenditure.

Implications

- The Plan/Non-Plan bifurcation of expenditure has **led to a fragmented view of resource allocation** to various schemes, making it difficult not only to ascertain cost of delivering a service but also to link outlays to outcomes.
- The bias in favour of Plan expenditure by Centre as well as the State Governments has led to a neglect of essential expenditures on maintenance of assets and other establishment-related expenditures for providing essential social services.

- **Plan Expenditure** - Any expenditure that is incurred on programmes which are detailed under the current (Five Year) Plan of the centre or centre's advances to state for their plans is called plan expenditure.
- **Non Plan Expenditure**- This refers to the estimated expenditure provided in the budget for spending during the year on routine functioning of the government. Non- Plan expenditure is all expenditure other than plan expenditure of the govt.

- The system is based on past commitments and requirements and residual resources allocated to Plan budget. This has resulted in reduced flexibility in allocation within the Plan budget.

5.2. GENDER RESPONSIVE BUDGETING/GENDER BUDGETING

Gender Responsive Budgeting (GRB) refers to the practice of policy formulation (fiscal policy) and resource allocation in such a way that it furthers the gender agenda and benefits women as much as it benefits men.

Background

Gender Responsive Budgeting was institutionalized in India in 2005. The annual budget issues a gender budget statement which has two parts.

- Part A (first part) has “**women specific schemes**” i.e. schemes that have 100% fund allocation for women.
- Part B (second part) has “**Pro women schemes**” i.e. schemes that have minimum 30% fund allocation for women.

Need for GRB

- Gender equality is the focused task under both the **Paris Agreement** and **Sustainable Development Goals (SGDs-5)**.
- Women and girl children in India are confronted with gender based disadvantages which may translate into lesser benefits being enjoyed by them.
- Without gender analysis, schemes may reinforce patriarchal mindset due to faulty design or implementation.
- Women lag behind men on many social indicators like health, education, economic opportunities etc.
- India was ranked 87 in terms of gender equality in health, education, economy and political representation by World Economic Forum’s annual Global Gender Gap Report in 2016.

Challenges

- Women’s declining labour participation, under-representation in Parliament, skewed child sex ratio and prevalent gender based violence.
- The proportion of gender budget as a proportion of Union budget has either been stagnant or declined.

Recommendations

- Rather than just focusing on women centric schemes, gender-analysis must be carried out for all schemes with active involvement of women in the administrative and policy making procedure.
- GRB must be adopted not just in social sectors but also in conventionally indivisible sectors like road, transport, energy, and technology.

6. FISCAL MANAGEMENT

6.1. FISCAL DEVELOPMENTS

Fiscal consolidation: Fiscal deficit is projected at 3.5 per cent of GDP for the year, down from 3.9 percent in 2015-16. This was sought to be achieved through an 11.9 per cent increase in the gross tax revenue (over 2015-16 PA) and significant strides in non-tax revenue and non-debt capital receipts.

Tax Collection: On the whole, tax collections, especially union excise duties and service tax, have been buoyant in the current year till Nov 2016.

Revenue expenditure: The growth in revenue expenditure has been very high because of the salary component of revenue expenditure increased by 23.2 %.(7th pay Commission), Subsidies had increased up-to four folds (extension Food security) and increased in grant for assets creation to state government.

Liabilities: The **total outstanding liabilities** of Central Government are composed of external debt, internal debt and other internal liabilities like provident funds, small savings, etc.

6.2. PUBLIC DEBT MANAGEMENT CELL (PDMC)

The Finance Ministry has set up a Public Debt Management Cell (PDMC) with an interim arrangement and will be upgraded to a statutory Public Debt Management Agency (PDMA) in about two years.

About Public Debt Management Agency (PDMA)

- Public Debt Management Agency (PDMA) is a proposed specialized independent agency that manages the internal and external liabilities of the Central Government in a holistic manner.
- The government has now made clear that PDMA will be formed in 2 years.

Key Functions of PDMC

- It will only have advisory functions to avoid conflict with statutory functions of the RBI to plan government borrowings as well as manage its liabilities.
- It will further monitor cash balances, foster a liquid and efficient market for government securities and advise government on matters related to investment, capital market operations, fixing interest rates on small savings etc.
- It will develop an Integrated Debt Database System (IDMS) as a centralized database for all liabilities of government, on a near real-time basis and undertake requisite preparatory work for PDMA.

Need for PDMA

- Internal and external debts are managed by RBI and central government respectively. Establishing a debt management office would consolidate all debt management functions in a single agency and bring in holistic management of the internal and external liabilities.
- There is a severe conflict of interest in the RBI responsibility of setting the short term interest rate (i.e. the task of monetary policy) and selling bonds for the government.
- For an effective debt manager RBI action would lean towards selling bonds at high prices, i.e. keeping interest rates low. This leads to an inflationary bias in monetary policy.
- Management of government debt, regulation of banks and monetary policy are all interlinked which could be better coordinated by an agency like PDMA.

- Some functions that are crucial to managing public debt are not carried out. For instance, no agency undertakes cash and investment management, information relating to contingent and other liabilities are not consolidated. This will be taken care of by PDMA.

6.3. FRBM REVIEW COMMITTEE

FRBM review committee chaired by **NK Singh** which was setup to give recommendations on future FRBM roadmap presented its report recently.

Background

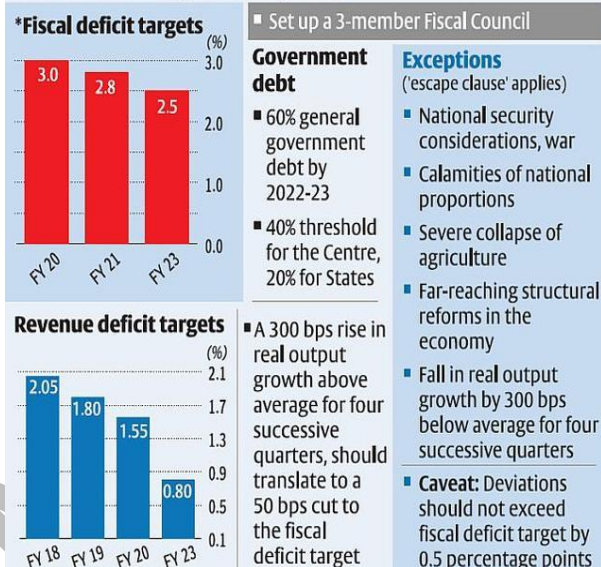
- FRBM law (2003) was enacted to **limit the government's borrowing authority under Article 268 of the Constitution**.
- The FRBM law envisaged a fiscal deficit of 3% of GDP by 2008-09, but **due to Global Financial Crisis** and amendments over the years the same target has been set now to 2017-18.
- The **government has set a fiscal deficit target of 3.2% of GDP in 2017-18**.

Recommendations

- Flexibility to the Centre on the fiscal consolidation** (e.g. adopting fiscal expansion for the near term) by maintaining a fiscal deficit to GDP ratio of 3% till 2019-20. After this, it recommends a reduction in fiscal deficit targets (See box).
- It **recommends escape clause** which would **allow the government to skip the fiscal deficit target** for a particular year. (see box)
- Existing FRBM Act should be scrapped and a new **Debt and Fiscal Responsibility Act** be adopted.
- It has also suggested the **creation of a Fiscal Council** which will:
 - Prepare **multi-year fiscal forecasts for the central and state governments**.
 - Provide **an independent assessment** of the central government's fiscal performance.
 - Government must also consult the council before invoking escape clauses.
- Instead of fiscal and revenue deficit numbers, the government should focus on **public debt as a proportion to GDP to 60% by 2023** (presently 68%). This is a simple measure of insolvency, also used by rating agencies.
- Establish a debt ceiling** (acting as a long term fiscal anchor) apart from year on year targets for fiscal and revenue deficits as in FRBM.

Tightening the FRBM Act

The NK Singh Committee's recommendations seek to place stringent controls over Central and State government spending

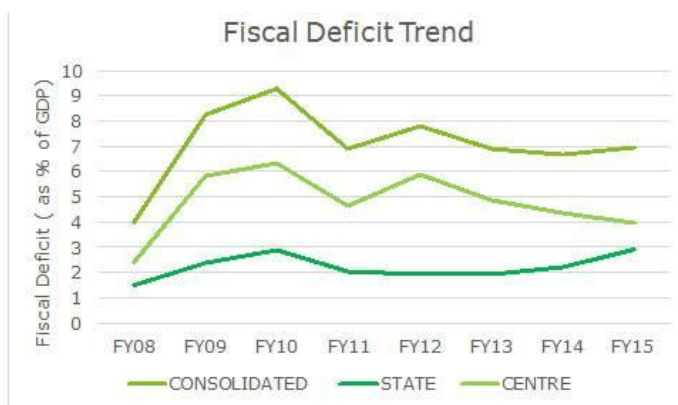


6.4. FISCAL CONSOLIDATION OF STATES

For the first time in 11 years, in 2015-16 the combined fiscal deficit of India's 29 States as a proportion of the size of their economies breached the 3% threshold recommended by successive Finance Commissions (See image).

Background

- The key trigger of the default at the time of 1991 economic liberalization was irrational public spending on borrowed money in the late-1980s. FRBM law (2003) was enacted to limit the government's borrowing authority under Article 268.
- Central government has projected a fiscal deficit of 3.2% of GDP for this year whereas States are expected to bring their fiscal deficit to 2.6%.
- The government has set a fiscal deficit target of 3.2% of GDP in 2017-18.
- Recently, **N.K. Singh panel on fiscal consolidation** has recommended a focus on overall government debt along with fiscal deficit and a 20% debt-to-GDP ratio for States by 2022-23.



(Source: RBI)

Reasons of poor consolidation

- The reason of the sudden increase in the States' debt is because of the UDAY restructuring exercise of the DISCOMs.
- Also, the private investments are drying up because of the crowding out phenomenon and the State governments have become one of the major contributors of the capital expenditure like transport, irrigation, power etc.

Challenges

- There are several challenges in the short and the long term that may further affect the State's fiscal expenditure like Pay Commission hikes, rising interest payments, ad hoc loan waivers etc.
- This matter is a cause for concern as **sovereign ratings are critical in determining the flow of capital globally.**

Way forward

- Not just the Centre, but States (with outstanding liabilities to GDP of around 24%) need to tighten their fiscal budgets by innovative methods like improving fiscal revenues by tools like REITs and reducing fiscal expenditures like cutting out unnecessary subsidies.
- At the state level also there is a need to **enhance the focus on efficiency of implementation of the government schemes at a micro level** so as to reduce expenditure without cutting down the development objectives.

6.5. FINANCE BILL 2017

The Lok Sabha signed off on Finance Bill 2017, ratifying the government's tax proposals announced in the budget.

Key changes proposed

- **Anti – Black Money**
 - **Linking Aadhar with PAN and Income Tax:** It has been made mandatory to quote Aadhaar number after July 1, 2017 when: (i) applying for a PAN, or (ii) filing the Income

Tax returns. This would help in weeding out multiple PANs held by one individual which were used for tax evasion.

- **Lowering limit on cash transactions:** Cash transactions above two lakh rupees will not be permitted: (i) to a single person in one day, (ii) for a single transaction (irrespective of number of payments), and (iii) for any transactions relating to a single event. The earlier limit proposed in the Budget was ₹ 3 lakh. This will ensure a paper trail for all high-value transactions.
- **Streamlining political funding:**
 - Contributions to political parties will have to be made only through a cheque, bank draft, electronic means, or any other scheme notified by the government.
 - Bill also contains provisions to introduce electoral bonds to make contributions to political parties.
 - It removes: (i) the limit of 7.5% of net profit of the last three financial years, for contributions that a company may make to political parties, (ii) the requirement of a company to disclose the name of the political parties to which a contribution has been made.
- **For Ease of Doing Business**
 - The merger of eight tribunals with existing ones and pay parity for judges will ensure that these quasi-judicial bodies are adequately staffed, ensuring faster disposal of cases.
 - Ambiguity over taxation of foreign portfolio investors removed.
- **Towards cashless economy** Payments regulator to be set up within the central bank and tax breaks to point-of-sale manufacturers and for small business using digital modes of payment collection.
- **Power to impose penalty by officers:** The Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996 were amended in 2004 to empower the adjudicating officer to impose penalties on offenders for various offences including their failure to furnish information, documents or returns. Amendments to the Finance Bill, 2017 propose to clarify that the adjudicating officer will always be deemed to have had this power.

What are the bill's aims?

ANTI-BLACK MONEY

- Linking Permanent Account Number with Aadhaar
- Legal cash transaction limit set at Rs2 lakh
- Streamlining political funding

EASE OF DOING BUSINESS

- Faster disposal of cases with merger of tribunals and pay parity for judges
- Ambiguity over taxation of foreign portfolio investors removed

LESS-CASH ECONOMY

- Payments regulator to be set up within the central bank
- Tax breaks to point-of-sale manufacturers and for small businesses using digital modes of payment collection

7. TAXATION

7.1. GOODS AND SERVICES TAX

Why in news?

- On July 1st the regime of GST has started.
- Before it, GST Council finalized the tax rates for almost all taxable products & services and also brought all states on board and drafted 5 bills related to GST
 - Parliament has passed 4 bills related to GST, to be implemented pan India - The Central GST Bill 2017, The Integrated GST Bill 2017, The Union Territory GST Bill 2017, The GST (Compensation to the States) Bill 2017
 - Draft State GST bill was forwarded to States & all States including Jammu & Kashmir have already passed the state GST bill.

GST implementation machinery

GST council

- It is a constitutional body set up as per Article 279A to decide issues relating to GST
- It consists of following members:
 - Union Finance Minister - Chairperson
 - Union Minister of State, in-charge of Revenue of finance
 - Minister In-charge of finance or taxation or any other Minister nominated by each State Government

GSTN (GST Network)

- It is a not for profit, non-Government, private limited company set up primarily to provide IT infrastructure and services to the Central & State Governments, tax payers & other stakeholders for GST implementation.
- Its 3 major functions include:
 - Registration
 - Tax Payment— 97% paid electronically
 - Filing for returns

Background

- In 2004, Vijay Kelkar recommended GST to replace indirect tax structure.
- In 2011, a bill was introduced but it was stuck in the tussle over the compensation to states.
- Recently, various issues related to GST caps, compensation, powers & responsibilities of GST Council were resolved.
- Later a **four-slab structure** of GST - 5% (on basic necessities), 12%, 18% and 28% (on luxury goods) was decided.
- Recently government gave a description about **reverse charge mechanism** under GST where liability to pay tax is of recipient of goods & services rather than the supplier when goods or services have been received from an unregistered person. GST Council has specified **12 categories of services for reverse charge** that include radio taxi, services by an individual advocate or firm of advocates etc.

Significance

- GST will merge **the indirect central government levies** like sales tax, service tax, excise duty, Customs duty, surcharges and cesses and **indirect state government levies** like VAT, Entry tax etc.
 - Earlier, **India's indirect tax regime was fragmented** with many taxes at both Centre & State level with varying rates of each in different jurisdictions. This created tariff & non-tariff barriers to trade.
- Encouragement to co-operative federalism
- GST is largely technology driven & so will **reduce the human interface leading to speedy decisions**.
- It would **improve revenue buoyancy by widening the tax base**. As of now, out of 120 crores population, only 80 lakhs are registered for paying customs and excise taxes etc.

- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market.

Advantages of GST

- **Unified National Market:** It is a step towards “One Country, One Tax, One Market” providing a relatively stable tax regime which will give boost to foreign investment and Make in India.
- **Impact on economy** - It is estimated to increase the GDP growth by 1.5 to 2%. Inflation in general for goods is going to be reduced due to removal of cascading effect as well as lower rates than present regime for most of them.
- **No Cascading effect:** GST prevents cascading of taxes as it is a destination based consumption tax & Input Tax Credit will be available across goods and services at every stage of supply.
- **Ease of doing business:** Harmonization of laws, procedures and rates of tax. It will improve environment of compliance as all returns to be filed online, input credits to be verified online reducing need to deal with different tax authorities. It would also discourage mere 'invoice shopping'.
- **Reduce Tax Evasion:** Uniform SGST and IGST rates will reduce incentive for evasion because of
 - **Elimination of rate arbitrage** between neighbouring States and that between intra and inter-state sales as integrated GST rate would be applicable
 - **'Self-policing feature'** of tax being levied on the value added to a good or service.
 - **Reduction in compliance costs** due to simplification as no multiple record keeping for a variety of taxes because 17 taxes and cesses is merged into one
- **Impact on consumer** - Half the consumer price index basket, including foodgrains, will be attract zero tax rate, thus enabling them to be part of GST chain but without burdening consumers

Effects on different sectors

Banking and Financial Services Sector: Taxed at 14.5% for services, while GST is expected to be 18 per cent to 20 per cent. Thus, services are likely to get costlier.

Real estate: Disputes due to ambiguity in provisions and multiple taxations would be reduced due to transparency & more efficient transaction-tracking methods. It will also significantly reduce tax evasion

Health Care Sector: The major concern of inverted duty structure adversely affecting domestic manufacturers may be taken care by GST by either removing it or refunding of accumulated credit

Agriculture: Impact would be mixed with some distorting Mandi taxes and other cess getting abolished, reduction in food subsidy bill due to rationalization of tax structure, smooth inter-state movement. While it may also affect the tax revenue of the states negatively and the food processing industry due to higher rates

Challenges

- **Digital infrastructure** - Availability of bandwidth for digital connectivity all over India to conduct electronic transfers and payments properly
- **Data privacy** – 51% of GSTN is privately held. This gives the control of tax and trade data to a private company and without adequate data protection measures; it could hurt India's financial security.
- **Issue of Parliamentary and Legislative autonomy** : GST Council (an executive body) will finalize a vote by a majority of not less than three-fourths of weighted votes of members present and voting (Centre to have 33% and states to have 66% weight of the total votes cast).

- **Federalism:** The states are giving up much of their most important power – ‘to impose taxes’ autonomously. States will no longer be able to change their tax rates individually. As both Centre and State is vested with power to make law on GST under Art. 246(A) unlike existing regime, both centre and state will have to work together which may create workspace challenge.
- **Urban local bodies** will have to deal with a huge fiscal gap once local body tax, octroi and other entry taxes are scrapped for GST system.
- **List of Exclusions & different rates** – Many exclusions like petroleum products, diesel, petrol, aviation turbine fuel, alcohol etc. & 4 different rates are undermining the principle of One Country, One Tax.
- **Pressure due to increased taxes** - Small companies with a turnover of Rs 10 lakh will have to pay GST as opposed to currently Rs 1.5 crore. Even unorganized sector, biggest job creator, may lose its competitive edge. They may have to raise prices to stay profitable.
- **For consumers** - Benefits from reduced cost due to lower taxes may not be passed on to them. Also, some are seeing GST as a regressive system of taxation as it more or less equalizes taxation across products which mean that rich will pay less tax on luxury goods and services and poor will pay more for basic goods and services

Steps taken to meet the challenges:

- **Exemptions to small business** - Businesses in the Northeastern and hill states with annual turnover below Rs.10 lakh would be out of the GST net, while the threshold for the exemption in the rest of India would be an annual turnover of Rs 20 lakh.
- **Anti – profiteering law** – According to Sec 171 – in case merchants etc., are getting input tax credit, commensurate benefit has to pass down to consumer.
- **GST registration numbers** – provisional IDs given and a 90 day window given for accustomisation.
- **Mandatory registration:** Tax can't be evaded now– as every person should be in the GST system if he wants to trade. E-way bill also has been passed where movement of good costing more than 50,000 beyond 10 Km is required to be registered online
- **Communication and awareness programs** - For this, Suvidha Kendras in government offices and various handholding programmes are started.
- **GST suvidha providers (GSP)** - GSTN has selected 34 GSPs to provide innovative and convenient methods to taxpayers and other stakeholders in complying with GST regime. It would smoothen the process of tax administration under GST.

Way Forward

- Having a GST would accrue multiple benefits to the Indian economy. The government should also try to remove the limitations like data privacy and also narrow down the list of exclusions in the long term.
- Progressive and step-by-step change - With multiple tax rates, GST may not be a simple tax and robs much of the benefits from lower administrative, compliance and distortion costs. But still the present regime is far better than the previous one, while the flaws in present regime have to be dealt with quickly.
- The fear of revenue loss has kept the government from taking a gamble on lower or fewer rates. That stance is unlikely to change soon, unless the economy turns around fast. So, the GST council should meet as frequently as possible to review the rates so as to push the country on par with developed nations.
- On priority, the government needs to address capability building among the lesser endowed stakeholders, such as small scale producers and retailers.

Though in the short run there may be some challenges but the benefits in the long run will more than compensate for them. Increased tax compliance is expected to lead to more revenue for the government and more development for the country. With ready availability of real time data, government policies can also be targeted better to produce the desired results.

7.2. TAX TERRORISM

- Finance Bill 2017 proposed that **tax official may not disclose the 'reason to believe' to conduct a searches and surveys**. This step is being considered to be a step towards tax terrorism.
- It plans to amend Section 132 (1) of the Income Tax Act for the same.
- The Budget 2017-2018 also proposes to give **tax officials power of provisional attachment for 6 months** with prior approval of a senior official.

Reasons of Tax Terrorism

- The root cause of tax terrorism is the **setting of unrealistic revenue collection targets** in the Union Budgets.
- **Complex and multiple tax laws** leads to loophole in taxation system
- Tax avoidance by **Base Erosion and Profit Shifting practices** leads to loss of revenue to government and it taking drastic steps leading to tax terrorism.

Need for the proposals

- The government says that this step will arrest a **decline in tax-GDP ratio** from 12 percent in 2008 and to 9 percent in recent times occurring due to a fall in collection of excise, customs duties and corporate tax.
- Presently assesses property is attached only after its request for stay on property's attachment is rejected by the Income Tax Commissioner.
- Proposed provisional attachment powers can **help curb the problem where the tax evaders sell their property** during the investigation to escape law.

7.3. DIRECT TAX REFORMS

Background

- Since 1980s, when the government announced the **Long Term Fiscal Policy (1985)**, there have been various efforts by the government to introduce direct tax reforms.
- Various committees, to consolidate the direct taxes, were constituted by the government like Raja Chelliah Committee (early 1990s), Vijay Kelkar Committee (2002), and recently Easwar Panel.
- Besides this, the Direct Taxes Code (DTC) was an attempt by the Government of India (GOI) to **simplify the direct tax laws in India**.
- DTC would revise, consolidate and simplify the structure of direct tax laws in India into a single legislation.
- The DTC, when implemented would have replaced the Income-tax Act, 1961 (ITA), and other direct tax legislations like the Wealth Tax Act, 1957.
- Three drafts of DTC were released in 2009, 2010 and 2013. The DTC 2013 proposes to introduce:
 - General Anti Avoidance Rules (**GAAR**),
 - Taxation of Controlled Foreign Companies (**CFC**),
 - Place of Effective Management (**POEM**) rule as a test to determine residency and tax indirect transfer of Indian assets.

- However, as argued by the government, since most of the provisions of the proposed code have already been integrated into existing tax law, government has moved away from the idea of DTC.
- Government, then constituted a 10-member committee **under Justice R V Easwar** to overhaul the provisions of the Income-Tax Act (I-T Act), 1961 with the aim of reducing litigation arising from ambiguous drafting of laws.

Need

- In India, the taxation system is complicated and there is an **urgent need for rationalization and simplification**. The messy tax structure has malign indirect effects, since it distorts the decisions of companies, investors and households.
- The income tax law contains some provisions which have become **superfluous, outdated or inconsistent with the underlying objectives of these provisions**. There have been dramatic qualitative changes in the world economy which have affected the fiscal policy of many countries. Thus, it becomes important, for India too, to adjust the laws with the needs of the current economic and political situation.
- **Indian corporate tax rate** is several points higher than even the median of countries from the Organization for Economic Cooperation and Development (OECD) which acts as a perverse incentive for tax arbitrage through transfer pricing. Direct Tax Reforms will help in **deeper tax cuts**.
- It will help **to increase the tax base** to deal with the problem of potential revenue loss due to lower tax rates and simplified tax structure.
- A **clean tax code** which will result in more **efficient capital allocation** in a growing economy.
- Clarity in terms of taxation framework in the country can **dramatically reduce tax terrorism** by undermining the discretionary powers of the tax department.
- A complicated tax structure in effect helps large business groups who can manipulate the system with the help of their in-house tax experts. A tax reform can minimize the distortions in savings behavior as well as reduce the incentives for mis-selling of financial products.
- In India, the ratio of indirect to direct taxes collected in the aggregate, is 52 to 48 which will further be aggravated by the introduction of GST. This can well be balanced by the introduction of direct tax reforms.

Easwar Panel Recommendations

Following are the important recommendations-

- **Income from sale of shares and securities:** The Committee highlighted that there is uncertainty in application of the appropriate tax on such income and to simplify such application, the Committee has recommended that capital gains tax should be applied on such income if: i) shares are held for more than 1 year by the taxpayer, or ii) shares are held for an amount up to Rs 5 lakh.
- **Expenditure on exempt income:** The Committee recommended that the Central Board of Direct Taxes should make administrative provisions to clarify and simplify the provisions related to exempt income. It noted that the uncertainty is resulting in 15% of the total income tax litigations.
- **Tax deducted at source (TDS):** The Committee noted that the thresholds for collecting TDS be raised to simplify administrative proceedings. It further recommended that TDS rates for individuals should be reduced from 10% to 5% to avoid administrative burden.
- **Audit of book of accounts:** The Committee recommended that the threshold, for taxpayers to get their books audited, should be raised.

- **Presumptive scheme for small businesses:** Under the presumptive income tax scheme, small businesses with total turnover over Rs one crore declare their income at a tax rate of 8%. According to the committee this should be raised to 2 crores.
- **Income Computation and Disclosure System (ICDS):** In the background of changes in Companies Act 2013 and introduction of GST the committee has recommended the implementation of ICDS be deferred to ease the burden on tax payers.
- **Non-residents:** The provision of deducting higher tax rate for the individuals who do not have a Permanent Account Number must be revisited as it impedes the ease of doing business for the Non-Resident Indians as they do not have a PAN.

7.4. GENERAL ANTI-AVOIDANCE RULES

Government of India had assured to make General Anti-Avoidance Rules (GAAR) effective from April 1, 2017.

Background

- GAAR was **first proposed in the Direct Tax Code 2009**.
- It was again proposed in the Budget Speech 2012 (by amendment to Income Tax Act) to be implemented by April 2014.
- **Parthasarathy Shome committee (2012)** was later set up after opposition, to recommend GAAR provisions.
- In the Budget 2016, its rollout date was decided to be 1 April 2017.

Need

- In recent times there have been **instances of tax avoidance** due to practices like transfer pricing, round tripping (parking money in low tax jurisdictions and rerouting it as FDI or FII) etc. Eg. **Vodafone Case**
- Oxfam report has pointed out that tax avoidance is a major cause of **economic inequalities**.

Components of GAAR

- GAAR is a **set of rules/framework** which helps the revenue authorities to decide:
 - Whether a particular transaction has **commercial substance** or not.
 - The **tax liability associated with a genuine transaction**.
- It allows the government to **tax overseas deals involving local assets**.

P. Shome Committee recommendations accepted by the government were—

- Non applicability of GAAR to transactions where tax benefit is less than ₹ 3 crore in a financial year.
- Exemption to FIIs.
- Approving Panel for tax benefits under GAAR would have a high court judge, Indian revenue service officer and a specialist in tax and trade practices.

Different Tax Reduction measures

- **Tax mitigation** – It is the situation when taxpayer **uses fiscal incentives like tax concession** given by the government to lower tax burden. Eg. Setting business in SEZ to avail tax benefits in it.
- **Tax Avoidance** – It is a situation where a taxpayer tries to **exploit the legal loopholes** to reduce tax liability which would otherwise be incurred.
 - It is an arrangement **solely entered into for tax advantages**.
 - E.g. Transferring profits within company by Base erosion and Profit Sharing.
- **Tax Planning:** It is a plan to minimize tax payment using options like retirement plans etc.

SOME RELIEF

- Arrangements approved by court or held permissible by the Authority for Advance Rulings will not be covered by GAAR
- Transaction proposed to be covered will be vetted first by commissioner and second by an approving panel headed by HC judge
- If the panel holds a transaction to be permissible and conditions remain the same, GAAR will also not be invoked in the next year
- GAAR will apply where the tax avoidance arrangement results in an aggregate tax benefit of ₹3cr or more for all parties across countries

- GAAR provisions would **apply on those who claim a tax benefits of over ₹ 3 crore.**
- **Exceptions:**
 - If the Limitations of Benefits (LOB) clause sufficiently addresses tax avoidance, then GAAR will not apply.
 - Court approved arrangements would be kept out of GAAR.
 - If an arrangement is permitted by the Authority for Advance Rulings, then GAAR will not apply.

Significance

- It will help the tax authorities to plug loopholes check tax avoidance and thus may **promote tax revenues for the government.**
- Through GAAR, the government can **curb the prevalence of P-Notes** which have become a tool to invest black money into the formal Indian economy.
- It will be a step towards **ease of doing business** in the long-term by promoting free and fair investments.
- India will **come in line with other developed countries** that have already implemented GAAR.

Challenge

- The powers and responsibilities of revenue authorities in relation to GAAR still remain undefined and it can lead to harassment of legitimate tax planning.
- There is subjectivity in differentiating between tax mitigation and tax avoidance practices.

Way forward

- The government has already started taking steps to avoid tax avoidance. It has introduced advanced pricing rules, Limitations of Benefits clause in Double tax avoidance agreements etc. Introduction of GAAR would reinforce the steps already taken to improve tax collection.
- The government would also have to create a balance between preventing tax avoidance and having a transparent and responsible administration to deal with it.

7.5. PLACE OF EFFECTIVE MANAGEMENT (POEM)

- Recently the **Central Board of Direct Taxes (CBDT) (Ministry of Finance)** released the final guidelines for determination of Place of Effective Management (POEM) for business in India.
- The Guidelines provide a **two-step approval process** in which the tax officer must seek the prior approval from a senior tax officer and approval of a three-senior officer board.

About POEM

- **Place of Effective Management is broadly defined as the place where the management decisions are taken rather than the place where these decisions are implemented.**
- The new guidelines, which will be effective from beginning of financial year 2016-17, **shall not apply to companies having turnover or gross receipts of ₹ 50 crore or less in a financial year** and are aimed at reining in tax evasion by shell companies.
- The guidelines are not intended to cover foreign companies or to tax their global income, merely on the ground of presence of permanent establishment or business connection in India.
- **Impact of POEM guidelines:** It will help as an anti-avoidance measure and is thought to bring the passive income of foreign subsidiaries of domestic companies and Indian subsidiaries of foreign companies under tax net.

7.6. CBDT SIGNS FOUR ADVANCE PRICING AGREEMENTS

- The Central Board of Direct Taxes (CBDT) announced signing of four more unilateral Advance Pricing Agreements (APAs) in February 2017 pertain to the manufacturing, financial and Information Technology sectors.

Related concepts

- The price at which divisions of a company transact with each other is called **transfer price**.
- A transaction in which buyers and sellers of any products act independently and have no relationship with each other is known as **Arm's length** transaction.

What are APAs?

An APA is a contract, usually for multiple years, between a taxpayer and at least one tax authority specifying the pricing method that the taxpayer will apply to its related-company transactions. **They can be classified as:**

- Unilateral APA- between taxpayer and tax authority of country where the taxpayer is located.
- Bilateral APA- between taxpayer, tax authority of host country and the foreign tax authority.
- Multilateral APA-between taxpayers, tax authority of host country and more than one foreign tax authorities.

Advantages of APAs

- Obtains certainty for complex, high-risk transactions to be done in future.
- Avoids double taxation as there is agreement between the tax authorities of countries.
- Avoids litigation costs and saves time for taxpayers and tax authorities.
- Reduces the burden of record keeping.
- It promotes the better business environment.

7.7. MULTILATERAL CONVENTION TO PREVENT BEPS

India recently signed the Multilateral Convention to implement Tax Treaty Related Measures to prevent Base Erosion and Profit Shifting (BEPS).

Multilateral Convention to implement Tax Treaty Related Measures to Prevent BEPS

- The Multilateral Convention aims at the swift and consistent implementation of the treaty related BEPS measures.
- The Convention is an outcome of the OECD / G20 BEPS Project. The convention was conceived as a multilateral instrument which would swiftly modify all covered bilateral tax treaties to implement BEPS measures.

Base Erosion and Profit Shifting (BEPS)

- It refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
- BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

Importance of the convention

- The Convention will have the effect of amending most of the bilateral tax treaties of the signatory jurisdictions in respect of treaty-related measures under the BEPS package for preventing artificial tax avoidance, prevention of treaty abuse, and improve dispute resolution.
- The Convention will ensure that the minimum standards regarding prevention of treaty abuse and amelioration of the international tax dispute resolution process are implemented in all covered tax agreements quickly.

7.8. CAPITAL GAINS TAX RULES

The Central Board of Direct Taxes (CBDT) has come out with a final notification specifying that the securities transactions where the securities transaction tax (STT) hasn't been paid would attract capital gains tax.

Background

- CBDT notification appears to be significantly **unfair for shareholders of companies whose shares are not frequently traded** on stock exchanges
- Finance Act 2017 was amended recently to curb the declaration of unaccounted income as exempt of long-term capital gains tax under the previous provisions of the Income Tax Act by entering into fake transactions.
- The amendment notification specifies the transactions on which the tax would apply and those on which tax would be exempt.

Need

- It will benefit foreign investors, venture capital houses and shareholders who have acquired shares upon corporate restructuring vide court-approved schemes on which no STT was paid.
- In order to **curb the practice of declaring unaccounted income as exempt from long-term capital gain by entering into sham transactions**, there was a need to amend the Income Tax Act.

Capital Gains tax

- A capital gains tax is a tax levied on **capital gains, profits an investor realizes when he sells a capital asset for a price that is higher than the purchase price**. Capital gains taxes are only triggered when an asset is realized, not while it is held by an investor.
- India classifies this tax into short term (capital gains made within 36 months) and long term capital gains (made beyond 36 months). (subject to certain exceptions. for example, the holding period of 24 months has been specified for unlisted shares and immovable property).

Provisions

- The STT will not apply to all transactions of acquisitions of equity shares entered into after October 1, 2004, except
 - Listed shares in a preferential issue of a company whose shares are not frequently traded in a recognized stock exchange.
 - Acquisition of existing listed equity shares in a company not through a recognized stock exchange of India.
 - Acquisition of shares of a company while it is de-listed.

7.9. TAXING AGRICULTURAL INCOME

NITI Aayog member Bibek Debroy proposed the idea of taxation of agricultural income above a certain threshold.

Need

- NITI Aayog says, that a blanket relief of taxation on agricultural income has been misused by many non-farmers to evade tax.
- The tax base in India is around 1.5% of the population only. This makes it a necessity to tax agricultural income so that the population involved in agriculture can also be brought under the tax net.

- Green revolution has improved the status of some farmers. Therefore, agricultural taxation is needed to reduce the inequality between the rich and the marginal farmers.

Present scenario of agriculture tax

As per Section 10(1) of the Income Tax Act, agricultural income earned by the taxpayer in India is exempt from tax and it includes –

- Any rent or revenue derived from land which is situated in India and is used for agricultural purposes.
- Any income derived from such land by agriculture operations including processing of agricultural produce to make it fit for the market.
- Any income attributable to a farm house subject to satisfaction of certain conditions specified in this regard in section 2(1A).

Significance

- It would expand the tax base and improve revenues of the government, leading to an increase in the expenditures on social sector schemes.
- It would curb the evasion of taxes by falsely showing income as agricultural income.
- Rich farmers above an income threshold can be taxed which will be a step towards economic equity.
- Taxation requires regular and systematic maintenance of accounts which would further help the farmers to **secure need-based loans on documented records**.
- Adequate formal documentation would help the Government to identify the difference between small and big farmers and roll out targeted subsidy schemes in future.

Background

- In 1925 British India, a Indian taxation enquiry committee was formed to assess the feasibility of taxing agricultural income.
- The idea was also recommended in post-independence India by KN Raj committee in 1972 with examination of feasibility and implementation issues too.
- The Kelkar task force report of 2002 estimated that 95% of the farmers were below the tax threshold.

Challenges

- **According to NSS data**, the average annual income of the median farmer net of production costs from cultivation is less than rupees 20,000 in 17 states. Therefore taxation of such a small agriculture income may impose negative externality on farmers.
- With different subsidies still existing at different agricultural stages, the taxation of agricultural income would further distort agricultural revenue structure.
- Agricultural income is highly monsoon dependent and therefore taxing agricultural income may become a negative externality.
- Farmers may become victim to the exploitation of the tax officials.

Way Forward

There is a need of prioritizing the data collection on farmers' incomes. The data needs to be collected at the village level and then a threshold can be set to tax the agricultural income. Also, the state governments need to be taken into confidence for because Agriculture is mentioned in the State List of the Constitution.

7.10. DEMONETISATION OF ₹ 500 AND ₹ 1000 NOTES

Significance of Demonetisation Move

- In effect, the tax on all illicit activities, as well as legal activities that were not disclosed to the tax authorities, was sought to be permanently and punitively increased.
- Demonetisation was aimed at signaling a regime change, emphasizing the government's determination to penalize illicit activities.
- India's demonetisation is unprecedented in international economic history, in that it combined secrecy and suddenness amidst normal economic and political conditions.
- Also India's action is not unprecedented in its own national history (for ex: 1946 and 1978), But the recent action had large, albeit temporary, currency consequences.

Motivation behind the action

- Dual dimensions of cash (table 1)
- Value of high denomination notes (INR 500 and INR 1000) relative to GDP has also increased in line with rising living standards.
- High value notes are associated with corruption because they are easier to store and carry, compared to smaller denominations or other stores of value such as gold.
- India's economy is relatively cash-dependent. India's level is somewhat higher than other countries in its income group and as measured by transparency international higher the amount of cash in circulation, the greater the amount of corruption.
- Amount of black money calculated using 'soiled notes' (notes returned to Central Bank because they are too damaged) has been found to be substantial, as it represents about 2 percent of GDP.

Table 1. Dual Dimensions of Cash

Function	Origin/nature	
	White	Black
Transactions	Company pays employee salary in cash; payment and receipt are declared to tax authorities	Small enterprise pays for input in cash; neither declares the transaction to tax authorities
Store of value	Household keeps savings in cash for emergencies	Businessman hoards undeclared cash, with a view to distributing it to his candidate during elections

Analytics

Table 2. Impact of Demonetisation

Sector	Impact	
	Effect through end-December	Likely longer-term effect
Money/interest rates	Cash declined sharply	Cash will recover but settle at a lower level
	Bank deposits increased sharply	Deposits will decline, but probably settle at a slightly higher level
	RBI's balance sheet largely unchanged: return of currency reduced the central bank's cash liabilities but increased its deposit liabilities to commercial banks	RBI's balance sheet will shrink, after the deadline for redeeming outstanding notes
	Interest rates on deposits, loans, and government securities declined; implicit rate on cash increased	Loan rates could fall further, if much of the deposit increase proves durable
Financial System Savings	Increased	Increase, to the extent that the cash-deposit ratio falls permanently
Corruption (underlying illicit activities)		Could decline, if incentives for compliance improve

<i>Unaccounted income/black money (underlying activity may or may not be illicit)</i>	Stock of black money fell, as some holders came into the tax net	Formalization should reduce the <i>flow</i> of unaccounted income
<i>Private Wealth</i>	Private sector wealth declined, since some high denomination notes were not returned and real estate prices fell	Wealth could fall further, if real estate prices continue to decline
<i>Public Sector Wealth</i>	No effect.	Government/RBI's wealth will increase when unreturned cash is extinguished, reducing liabilities
<i>Formalization/digitisation</i>	Digital transactions amongst new users (RuPay/ AEPS) increased sharply; existing users' transactions increased in line with historical trend	Some return to cash as supply normalises, but the now-launched digital revolution will continue
<i>Real estate</i>	Prices declined, as wealth fell while cash shortages impeded transactions	Prices could fall further as investing undeclared income in real estate becomes more difficult; but tax component could rise, especially if GST imposed on real estate
<i>Broader economy</i>	Job losses, decline in farm incomes, social disruption, especially in cash-intensive sectors	Should gradually stabilize as the economy is remonetized
<i>GDP</i>	Growth slowed, as demonetisation reduced demand (cash, private wealth), supply (reduced liquidity and working capital, and disrupted supply chains), and increased uncertainty	Could be beneficial in the long run if formalization increases and corruption falls
	Cash-intensive sectors (agriculture, real estate, jewellery) were affected more Recorded GDP will understate impact on informal sector because informal manufacturing is estimated using formal sector indicators (Index of Industrial Production). But over time as the economy becomes more formalized the underestimation will decline. Recorded GDP will also be overstated because banking sector value added is based (<i>inter alia</i>) on deposits which have surged temporarily	Informal output could decline but recorded GDP would increase as the economy becomes more formalized
<i>Tax collection</i>	Income taxes rose because of increased disclosure Payments to local bodies and discoms increased because demonetised notes remained legal tender for tax payments/ clearances of arrears	Indirect and corporate taxes could decline, to the extent growth slows Over long run, taxes should increase as formalization expands and compliance improves
<i>Uncertainty/Credibility</i>	Uncertainty increased, as firms and households were unsure of the economic impact and implications for future policy Investment decisions and durable goods purchases postponed	Credibility will be strengthened if demonetisation is accompanied by complementary measures. Early and full remonetisation essential. Tax arbitrariness and harassment could attenuate credibility

Maximizing Long-Term Benefits, Minimizing Short-Term Costs:

- **Follow up Actions:** A number of follow-up actions would minimize the costs and maximize the benefits of demonetisation. These include:
 - ✓ Fast, demand-driven, remonetisation: Supply of currency should follow actual demand and not be dictated by official estimates of “desirable demand” to re-establish internal convertibility.
 - ✓ Inter-convertibility of cash:
 - There should be no penalties on cash withdrawals, which would only encourage cash hoarding.
 - Internal convertibility is a bedrock of every single financial system in the world, for some very practical reasons. Unless people have confidence that money deposited in bank accounts is freely convertible into cash, and vice versa, they will be reluctant to deposit their cash.

- ✓ The proportion of low denomination notes should certainly rise at the expense of higher ones. But there should not be any restrictions on aggregate supply.
- ✓ The government windfall arising from unreturned notes should be deployed toward capital-type expenditures.
- ✓ **Digitalization:**
 - Public policy must balance benefits and costs of both forms of payments.
 - The transition to digitalization must be gradual; take full account of the digitally deprived; respect rather than dictate choice.
 - The cost of incentivizing digitization must be borne by government.
 - Cyber security systems must be strengthened considerably.
- **Complementary Actions:** A five-pronged strategy could be adopted:
 - ✓ A GST with broad coverage to include activities that are sources of black money creation—land and other immovable property—should be implemented;
 - ✓ Individual income tax rates and real estate stamp duties could be reduced;
 - ✓ The income tax net could be widened gradually and, consistent with constitutional arrangements, could progressively encompass all high incomes. (After all, black money does not make fine sectoral distinctions);
 - ✓ The timetable for reducing the corporate tax rate could be accelerated; and
 - ✓ Tax administration could be improved to reduce discretion and improve accountability. Action need to be taken to allay anxieties about over-zealous tax administration.

Way forward: It is imperative that the effort to collect taxes on newly disclosed (and undisclosed) wealth does not lead to tax harassment by officials. There must be a shift to greater use of data through greater information sharing between direct and indirect tax departments, smarter evidence-based scrutiny and audit, greater reliance on on-line assessments with correspondingly less interaction between tax payers and tax officials.

7.11. PRADHAN MANTRI GARIB KALYAN YOJANA

Taxation Laws (Second Amendment) Bill, 2016 proposes to introduce a scheme named the 'Pradhan Mantri Garib Kalyan Yojana, 2016'.

Features

- Its aim is to use black-money collected post-demonetization in welfare schemes for the poor.
- The government wants to **give people an opportunity to pay taxes with penalties** and declare undisclosed income through the proposed Pradhan Mantri Garib Kalyan Yojana (PMGKY).
- PMGKY will allow people to deposit previously untaxed money by **paying 50% of the total amount: 30% as tax and 10% as penalty on the undisclosed income, as well as 33% of the taxed amount as cess.**
- The declarant will **also have to deposit 25% of undisclosed income in a deposit scheme** to be notified by the RBI under the Pradhan Mantri Garib Kalyan Deposit Scheme, 2016.
- **If the declarant refuses** the option of using the government deposit scheme, **85% of the amount will be deducted as taxes and penalties.**
- For money that is found in raids, taxes and penalties of nearly 90% of the amount will be levied, leaving just 10% with the owner.

8. CASHLESS ECONOMY

8.1. 'LESS-CASH' ECONOMY AND CASHLESS ECONOMY

What is cashless and less cash economy?

A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal.

On the other hand, when majority of them are done using digital means, then it is called a 'less' cash economy.

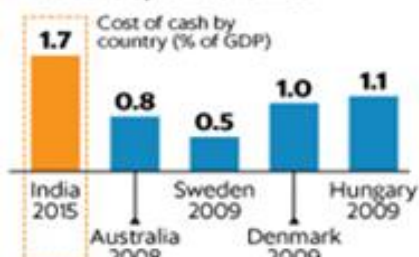
Present state of India

- India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world-12.42% in 2014, compared with 9.47% in China or 4% in Brazil.
- Majority of India is digitally illiterate (WDR, 2016 Digital Dividends Report) and lacks basic access to financing services
- Therefore, RBI has also recently unveiled a document-“Payments and Settlement Systems in India: Vision 2018”- setting out a plan to encourage electronic payments and to enable India to move towards a cashless society or economy in the medium and long-term.

Major ways of digital transactions:

- National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement in India (RTGS) and – bank services.
- Utilising mobile wallet services provided by banks, UPI etc.,
- Others forms pertains to debit cards and credit cards which are referred as plastic money. These cards can be used in Point of Sale (PoS) machines that are maintained by vendors.

At 1.7% of GDP, India incurs a much higher cost of cash compared with most developed economies

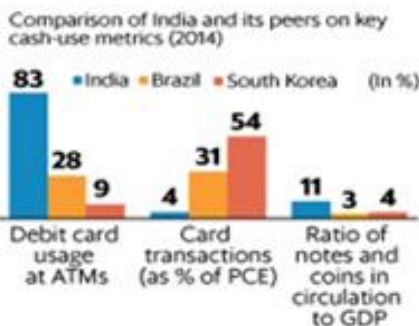


For Sweden and Australia, the cost of cash has been computed for cash and card payments. Hungary's estimate includes B2B direct debit and government payments to individuals for pensions in cash, and Australia's cost of cash excludes households.

India's net cost of cash



India ranks high on key cash-use metrics



Card transactions are represented as a percentage of personal consumption expenditure (PCE) for 2015.

For Major benefits, the corresponding challenges to reach these benefits and suggested solutions are compiled in the table below. Please refer:

Benefits	Challenges	Solutions
a. Increases financial inclusion	<ul style="list-style-type: none"> Despite the success of Jan Dhan Yojana in improving financial inclusion, 23% JDY accounts lie empty. Insufficient focus on financial and digital literacy Consumer Behaviour & Financial Literacy: Common man finds the usage of cards, mobile banking and PoS terminals to be a complex process. 	<ul style="list-style-type: none"> Using JDY accounts for DBT etc. may make these accounts to put to use. Innovative steps such as: (MeitY) has launched a TV channel named 'DigiShala' Vittiya Saksharata Abhiyan (VISAKA) was launched by HRD Ministry to make people aware about cashless economic system.
b. Reduces the Shadow economy and prevents money laundering	A large shadow (~19% of economy) Remittance based Economy (60% of remittance funds are used for day today finances) have become deeply rooted.	<ul style="list-style-type: none"> Incentives: Simplified tax rules, reducing exemptions, e-filings, etc. Follow Easwar panel recommendations Implement GST As deterrent: strengthen recent Benami Transactions (Prohibition) Amendment Act of 2016,
c. <u>National Security</u> : Creates hurdles in the terror financing network and makes them vulnerable to get caught by security agencies	<ul style="list-style-type: none"> Innovative methods of terror financing by drug smuggling, money laundering from <u>tax havens and secret banks like Swiss banks</u> etc., 	<ul style="list-style-type: none"> <u>Plastic notes</u> are suggested as a way out of FICN menace. Recent agreements of DTAA and BEPS are good way forward.
d. Enables Digital Commerce	<ul style="list-style-type: none"> Lack of proper laws (for ex: no law passed by the parliament which legalises mobile payments) The majority of the mobile payment service providers are noncompliant with the strict provisions for dealing with sensitive personal data including financial data as mandated by IT Act, 2000 and rules under it. Also, IT Act is not comprehensive. India lacks laws to protect consumers if they lose money. 	<ul style="list-style-type: none"> New holistic laws should be drafted for the changed situation. RBI must now identify certain payment systems as critical and afford them systemic important status
	<ul style="list-style-type: none"> Cybertheft, Data theft (for ex: NPCI debit cards data stolen) Lack of trust among customers 	<ul style="list-style-type: none"> A dedicated cybersecurity law in place which mandates the Rights, Duties and Obligations of all stakeholders Cyber insurance for providing consumer protection

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	<ul style="list-style-type: none"> Lack of adequate remedies and redress mechanisms available for customers 	<ul style="list-style-type: none"> Draft Security rule for e-wallet firms. The personal information of the customers will be treated under Section 72A of the Information Technology Act.
e. Enables Digital Economy	High cost of acceptance Infrastructure: Cost of Point-of-sale terminals; high operating and maintenance costs (for ex: There are over 1 million point of sale terminals for over 500 million debt and 20 million credit i.e., 856 PoS for million Indians.	<ul style="list-style-type: none"> Encourage investment and bring rapid expansion in the technology sector. Ceiling on cash usage on all types of large-sized transactions Requires an enabling framework such as Lucky Grahak Yojana and Digi Dhan Vyapar Yojana. No retrospective taxes for merchants engaging in digital payments.
f. Boosts Economy: increase in the pace of circulation of money. (Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging and 0.3% increase for developed markets)	<ul style="list-style-type: none"> High propensity to save in and use cash in India. Lack of compelling value proposition to shift into cash-less economy. Why should someone shift, when actually banks tax sometimes up-to 1%? Fraud or hidden charges. 	<ul style="list-style-type: none"> More options for 'less cash' economy such as USSD system of *99# and Use Aadhar as a mechanism for promoting digital and mobile payments. Recent steps such as Cabinet approving draft ordinance to empower states and allow industries to pay workers' wages digitally, through a direct bank transfer to accounts or by cheque
g. Reduced cost of transactions – and high cost of cash, nearly 2.7% of GDP (A 0.4% reduction in cost of cash can also boost savings by 4 trillion by 2025. This sources much-needed investment for 'Make in India')	<ul style="list-style-type: none"> Internet penetration is low at 30%, and smartphone penetration lower at 17%. 73% of Indians do not have Internet access Out of 27% connected, only 15% have broadband connection 	<ul style="list-style-type: none"> This is the most important and pivotal challenge, to NOFN, partnership with private sector (For ex: Reliance Jio etc.)
h. Increases tax compliance	Loopholes and multiple exemptions (high tax expenditure of India) in Indian tax laws. (For ex: many private sector companies manipulate their balance sheets to save tax	<ul style="list-style-type: none"> Initiative such as Project Insight must be extended to all types of taxes.

8.1.1. RATAN WATAL AND CHANDRABABU NAIDU COMMITTEE

Ratan Watal Committee

- A Medium term strategy for accelerating growth of Digital Payments in India.
- The strategy must be backed with regulatory regime which is conducive to bridging the Digital divide by promoting competition, interoperability and open access in payments.
- Greater use of Aadhaar and mobile numbers for making digital payments as easy as cash. This is needed besides, enhanced digital security.
- The payments terrain should be open to accommodate new kinds of participants in the system. This will foster further innovation and competition, without the regulator having to play catch-up.
- Digital credit guarantee fund - to resolve cases of insolvencies
- Creation of a Technical advisory body - to provide advice to RBI about the concerns and mechanism to regulate the digital payment system.
- Accountability of Operator - Digital Payment Operator shall be made mandatory liable in case of any cyber-attack to ensure they are equipped with best and secure technology.
- RBI with a strengthened and holistic Payments and Settlements Act is the need of the hour.

Chandrababu Naidu Committee

- Capping on maximum allowable cash limit in all types of large transactions
- It suggested measures to enable all sections of the population to migrate to the digital payments.
- To bring all government insurance, educational institutes, fertilisers, PDS and petroleum sectors within the ambit of digital payments.
- Digital payment security, including an insurance scheme to cover losses incurred in digital transactions on account of fraud,
- Aadhaar-enabled micro ATM infrastructure in all the 1.54 lakh post offices.
- Non-income tax payers and small merchants should be given a subsidy of ₹ 1,000 for purchasing smart phones.
- No retrospective taxation to merchants doing digital transactions.
- Naidu said digital transactions are cost-effective compared to physical currency.
- The biggest constraint in the exercise is attitudinal changes in the people.

8.2. BANKING CASH TRANSACTION TAX

The **Committee of Chief Ministers on Digital Payments** has recommended bringing back **BCTT (Banking Cash Transaction Tax)** in order to promote digital payments.

BCTT (Banking Cash Transaction Tax)

- BCTT is a type of tax that was levied on cash transactions above a **specified limit by an individual or Hindu Undivided Family (HUF)** from any non-saving account of a scheduled bank in a single day.
- It was not applicable in the state of Jammu and Kashmir.
- Cash transactions were taxed at 0.1%.
- The tax was first introduced in **2005** under the Finance Act, 2005. It was later rolled back from **1 April 2009**.
- The tax was introduced to track unaccounted money and trace its source and destination.
- **Tax Administration Committee headed by Parthasarathi Shome** had also recommended reinstating the BCTT in 2014.

9. AGRICULTURE AND ALLIED SECTOR

9.1. BACKGROUND

Agriculture is the backbone of India's economy. Nearly, 58 per cent of the rural households depend on agriculture as their principal means of livelihood. The Economic Survey 2015-16 had pointed out that growth rates of agriculture have been dismal at 4.9 percent in 2016-17 (PE) which has been attributed to mainly deficiency in rainfall for two consecutive years. Moreover, the latest **National Sample Survey on Situation Assessment Survey of Agricultural Households (NSS-SAS)**, pointed out that;

- Land Fragmentation and demographic pressure has pushed down the land i.e. man to land ratio is less than 0.2 hectares of cultivable land per head of rural population.
- The predominance of small operational holdings is a major limitation to economies of scale in agriculture. Further, the small and marginal farmers have low bargaining power, since they have very little marketable surplus and low price takers in a market.
- **Non-farming income comprises 40% of the income of farm households**, but access to non-farm sources of income is highly skewed as about 53% of farm households reported zero income from such sources.

9.1.1. AGRICULTURAL DISTRESS

Agriculture is facing problems such as fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs and low productivity. The focus point of agricultural distress rest on the producers i.e. farmers. National Sample Survey Office (NSSO), pointed out that every agrarian household is under a debt of ₹ 47,000 while its average annual income is ₹ 74,676.

Modern agriculture requires investment in farm machinery and use of **purchased inputs like seed, fertilizer, agrochemicals**, and hired labour, which requires huge input cost. Most often, savings generated from unremunerated crop enterprise such as animal husbandry inadequate for such investments. **Rising expenses on health, education, social ceremonies** and non-food items put additional financial demand on farm families.

Agricultural Debt

- Majority of the farmers have to take loans from non-institutional sources with approx. 4 time higher interest rate than banking channels.
- The **amount of short-term institutional loans exceeds the total cost of inputs** including hired labour indicating that a part of crop loans is likely spent on non-agricultural purposes for example marriage, social ceremonies and to pay the interest of informal loans.
- The vicious cycle of loan and interest payment put the farmers into debt trap, which further disincentives them to opt-out of the farming.

Farmers Suicide

- National Crime Records Bureau (NCRB) data shows that in 2015, a total of 12,602 people in the farming sector committed suicide in the country and **more than 72% of farmers who committed suicide in 2015 had less than two hectares of land (small farmers)**.
- Farmer Suicide adds the socioeconomic cost to family in particular and disincentives for future generation to join the agriculture as an occupation in general.

9.2. FARMER PROTESTS AND LOAN WAIVER

The recent bumper production of crops leads to lower remunerative price for various crops, set the farmers unrest in Madhya Pradesh and Rajasthan.

Reasons

- Supply-demand mismatch of farmer products lead to under recovery of input cost to farmers.
- Predominance of small landholdings coupled with single source of income (crops) and multiple sources of loans (government, cooperative and private) multiplies the problem.
- Delay in the payment from procurement centres and distress selling to **arhatiyas** (produce aggregators who works on commission)
- Lack of basic infrastructure storage facilities such as decentralized warehouses in majority of locations is also a barrier to creation of buffer stock.
- Cash crunch due to the recent demonetization policy. This has led to deflation in the farm sector. **RBI's monetary policy review statement** in June 2017 asserted the remarkable fall in prices across agricultural commodities resulting in "**fire (distress) sales**" on account of demonetization.
- Farmers have also been demanding the crop loans @4 percent according to Swaminathan committee recommendation.

Government Steps

- Maharashtra government has addressed demands like ensuring crop procurement prices of at least 50% above production costs, a complete waiver of farm loans, 100% subsidy on drip/sprinkler irrigation systems, and a minimum milk purchase price of ₹ 50.
- Governments have also disbursed loans immediately for the next cropping cycle.
- Interest Subvention Scheme (ISS) for farmers for the year 2017-18. This will help farmers getting short-term crop loan up to Rs. 3 lakh payable within one year at only 4% per annum.

Loan Waiver

The recent farmers loans waived off by Uttar Pradesh government has set a ripple effect for similar loan waivers demand by farmer community in various states.

National Commission of Farmers (2004-06) headed by MS Swaminathan

Recommendations Land

Reforms: Distribute ceiling-surplus and waste lands.

Establish a National Land Use Advisory Service to link land use decisions with ecological, meteorological factors.

Irrigation Reforms

Increase water supply through rainwater harvesting and aquifer recharge should become mandatory. "**Million Wells Recharge**" programme, specifically targeted at private wells should be launched.

Promote the establishment of Community food and water Banks Operated by Women Self-Help Group on principle of Store Grain and water everywhere.

Credit and Insurance: Establish an Agriculture Risk fund to provide relief in natural calamities.

Issue Kishan Credit Card especially to women at Joint Patta and develop an integrated credit-cum-crop-livestock-human health insurance package.

Food Security and Farmer Welfare

Promote the establishment of Community Food and Water Banks operated by Women Self-help Groups (SHG), based on the **principle of 'Store Grain and Water everywhere'**.

Set up State level Farmers' Commission with representation of farmers for dynamic government response to farmers' problems.

Set up Village Knowledge Centres (VKCs) or Gyan Chaupals in the farmers' distress hotspots.

MSP should be at least 50% more than the weighted average cost of production.

The "net take home income" of farmers should be comparable to those of civil servants.

(PTO)

Challenges to loan waiver

- Since, only a third of small and marginal farmers have access to bank credit (financial inclusion) two third of them will not benefit from the loan waivers.
- In 2013, Public Accounts Committee chaired by K.V Thomas pointed out that **Agricultural Debt Waiver and Debt Relief Scheme**, lead to corruption, error in inclusion and exclusion of beneficiary, inadequate documentation, and unused fund with the institutions.
- On the other hand, RBI has observed that the a farmer loan waiver undermines the honest credit culture even for farming communities
- Loan waiving is one major cause of **Non-Performing Assets** and crowding out of the infrastructure and private financing.
- This could also **lead to States violating their FRBM targets** making them **fiscally irresponsible** and creating losses to the State exchequer.

Solutions of agricultural distress

- **Radhakrishnan report on agricultural debt** has emphasized the need for state governments to maintain a flexible approach, adjusted to ground conditions in each state.
- A **dedicated institutional credit mechanism** is needed for the farmers to avoid dependence on informal costlier credit.
- To **improve agricultural resilience against the vagaries of monsoon**, there is a need for changing the cropping patterns according to the agroclimatic zones and sustainable agriculture Eg. Pulses in water deficient areas.
- Improving irrigation infrastructure by emphasizing on new technologies like sprinkler and drip irrigation as is being focused in Pradhan Mantri Krishi Sinchayee Yojana.
- The government also needs to **improve its storage infrastructure** on the recommendation of **Shanta Kumar committee** on restructuring of FCI.
- **An adequate procurement and MSP mechanism for different crops** and in different locations.
- To protect the farmers from any post-harvest financial losses, there should be a greater coverage of the insurance, especially for the small and marginal farmers.
- To maximize farmer's profit - Agricultural marketing and real-time price discovery is needed
- Allied sectors like animal husbandry should be promoted along with traditional agriculture to create a buffer to fall upon.

Way ahead

Loan waiver is only a suboptimal solution not intended to solve the root cause of agricultural distress. Moreover, it would further put a dent on credit culture of farming community. A holistic action framework ranging from front end to back end support for agriculture is need of the hour.

9.3. DOUBLING THE FARMER INCOME

Government intends to go beyond Food Security and give back a sense of income security to our farmers In this regard, Government intends to double the farmers' income by 2022 by allocating ₹ 35,984 crore for agriculture and farmers' welfare. The objective of two-fold increases the farmer income requires a holistic change in both the structural and functional aspect of agriculture sectors

A total of 40 recommendations for increasing incomes of farmers, have been divided into five parts, as under:

Increasing incomes by improving productivity	Water and Agro-Input policies	Integrated Farming System	Better market price realization	Special Policy Measures
<p>Biotechnology is set to play critical role in crop and livestock production</p> <p>Improving agricultural productivity in rain-fed regions of India,</p> <p>Bridging yield gaps among the States</p>	<p>Fertilizer Subsidy and Rationalizing the NPK pricing</p> <p>check flood of spurious pesticides in market</p> <p>Geographically suited farm Mechanisation in India</p> <p>Integrated water use policy</p>	<p>Animal Husbandry promotion through ‘Pashudhan Sanjivani’, Animal Health Card, Creation of E-Pashudhan Haat.</p> <p>Promotion of intensive vegetable production</p>	<p>Revision of the APMC Act</p> <p>The launch of NAM requires easing of norms of licensing</p> <p>Reforms to the APMC Acts to permit pan-India trades,</p> <p>Agro infrastructure, storage systems</p> <p>Reducing post-harvest losses</p>	<p>Structural reforms in agriculture pertaining to land leasing</p> <p>nationwide crops competitiveness study,</p> <p>Agriculture to be brought to the Concurrent List:</p> <p>Review of current scenario of farm credit and subsidy</p> <p>ICT-based agricultural extension</p> <p>agriculture in the First Green Revolution areas</p> <p>Integrating all central and state subsidies,</p>

9.4. REVENUE INSURANCE SCHEME FOR PLANTATION CROPS (RISPC)

Recently Commerce ministry has approved the **Revenue Insurance Scheme** for **plantation crops**.

About

- Aim of the scheme is to protect farmers against risks like yield loss, pests attacks and income loss caused by fall in international/ domestic prices.
- It will be implemented on **pilot basis for 2 years** in West Bengal, Kerala, Karnataka, Andhra Pradesh, Assam, Tamil Nadu and Sikkim covering various plantation crops **including Tobacco**.
- Depending on the performance, this scheme will be considered for extension to other districts.
- This scheme can be considered as the improved version of **Price stabilization fund scheme** which was discontinued in **2013**.

Price stabilization fund scheme

- This scheme was launched in **2003 (discontinued in 2013)** under Commerce Ministry covering all plantation crops.
- Its objective was to provide the hedge to farmers against fall in prices of commodities.

9.5. IRRIGATION

9.5.1. CENTRAL ASSISTANCE UNDER AIBP

Union Minister for Water Resources, River Development and Ganga Rejuvenation released the first installment of ₹. 1500 crore to the states as central assistance for 99 prioritized irrigation projects under Accelerated Irrigation Benefits Program (AIBP).

- This amount has been released for 50 projects in the states of Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan and Telangana.
- These irrigation projects will cover **drought prone districts** of the states to increase production and are also aimed at containing incidents of suicide by farmers.
- A High-Level Empowered Committee (HLEC) comprising Finance Minister, Minister (WR, RD & GR), Minister of Agriculture, Cooperation and Farmer's Welfare, Minister of Rural Development, Vice Chairman of NITI Aayog has been constituted to review the progress of the identified 99 projects.
- The HLEC will also monitor other components under **Pradhan Mantri Krishi Sinchai Yojana** and provide policy guidance for mid-term course correction.

The Union Government launched the Accelerated Irrigation Benefits Programme (AIBP) in 1996-97 for providing financial assistance, to expedite completion of ongoing Major/Medium Irrigation (MMI) projects including Extension, Renovation and Modernization (ERM) of irrigation projects and Surface Minor Irrigation schemes as well as Lift Irrigation Schemes (LIS).

Pradhan Mantri Krishi Sinchayee Yojana

Launched in 2015 with an outlay of ₹ 50,000 crore, the scheme aims to improve irrigation coverage.

It has four components: Accelerated Irrigation Benefits Programme (aibp), Har Khet Ko Pani, Per Drop More Crop and Watershed Development

Background

- Of the nearly 142 million hectares of net sown area, only about 64 million hectares, less than half, has assured access to irrigation facilities. The rest still depend on rainwater.
- Moreover, even within the overall irrigated land, nearly 60 percent is based on pumped groundwater, banking on free or highly-subsidised power provided to farmers in most states, thereby putting further pressure on a fast-depleting critical resource.

Areas of concern

- One of the major reasons for the projects to remain incomplete is inadequate release of funds by central government.
- Other issues include time and cost overruns in most of the projects, problems in land acquisition and technical difficulties like constructing tunnels in some places.
- A government survey of the projects has shown utilisation gaps – the difference between the irrigation potential created and the area actually being irrigated – of between 25 to 55 percent. That means these projects are serving substantially lower area and lesser number of farmers that they are meant to do.

Other Steps taken by the Government

- A **dedicated irrigation fund** has been created under the National Bank for Agriculture and Rural Development (NABARD), which has been asked to issue tax-free bonds to borrow money.
- An initial corpus of ₹ 20,000 crore has already been set up through the budget, which NABARD can leverage to mobilize further money from the market.

- The government has now asked the **Central Water Commission** and other agencies to take up 50 out of the 143 completed projects each year and work towards **increasing their efficiencies**.
- Each of these projects would now also have **water user associations** that will decide on how the water is distributed to every claimant in the area.

9.6. AGRICULTURE MARKETING

9.6.1. DRAFT MODEL LAW ON AGRICULTURAL MARKETING

Centre has unveiled a draft model law, **Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act (APLM), 2017** which will replace the **Agriculture Produce Markets Committee Act, 2003**.

Agriculture is a 'state' subject, so it depends on states whether to adopt the provisions partially or in totality.

Objective

- To create a **single agri-market** where with single licence one can trade agri-produce as well as livestock.
- Better **price realization** for farmers.
- **Doubling farmer's income** by 2022.

Provisions of the Draft Model Act

- **Intra-state trade** made available by paying a single fee.
- Traders will be able to sell perishables like fruits and vegetables outside existing mandis (wholesale markets).
- The draft law proposes to **cap market fees and commission charges payable by a farmer** after bringing produce to a wholesale market.
- Cap on levy of market fees is proposed at 2% (of sale price) for fruits and vegetables and 1% for food grains.
- Warehouses and cold storages are to act as regulated markets
- All **regulatory powers will lie with the office of the director of agricultural marketing** in the state, who will also issue licenses to traders and new private players. As of now, this power lies with the mandis - managed by a board of directors.
- Farmers can directly sell their produce to bulk buyers.

Significance

- It will lead to a **barrier-free unified agricultural market** with one trader licence (interstate trading licence).
- It will allow private players to set up wholesale markets thereby breaking the monopoly of traditional 'mandis'.
- Increased competition among buyers will lead to **better farm-gate prices**.
- The new law will also **reduce wastage of farm produce**.
- Promotion of **electronic trading**.

AN OVERHAUL FOR AGRICULTURAL MARKETS

- **Centre's plan:** Freeing up trade in agriculture produce by giving farmers a wider choice of markets beyond the local mandi
- **Current scenario:** Over-regulation by states and local trader cartels limit wholesale prices received by farmers. With the centre pushing them, many states are now amending their marketing laws governing agricultural produce.
- **Implications:** As more states join the reform agenda, farmers can expect prices that are remunerative and transparent

9.6.2. AGRICULTURAL MARKETING AND FARM FRIENDLY REFORMS INDEX

The NITI Aayog launched the first ever “Agricultural Marketing and Farmer Friendly Reforms Index” to rank States and Union Territories.

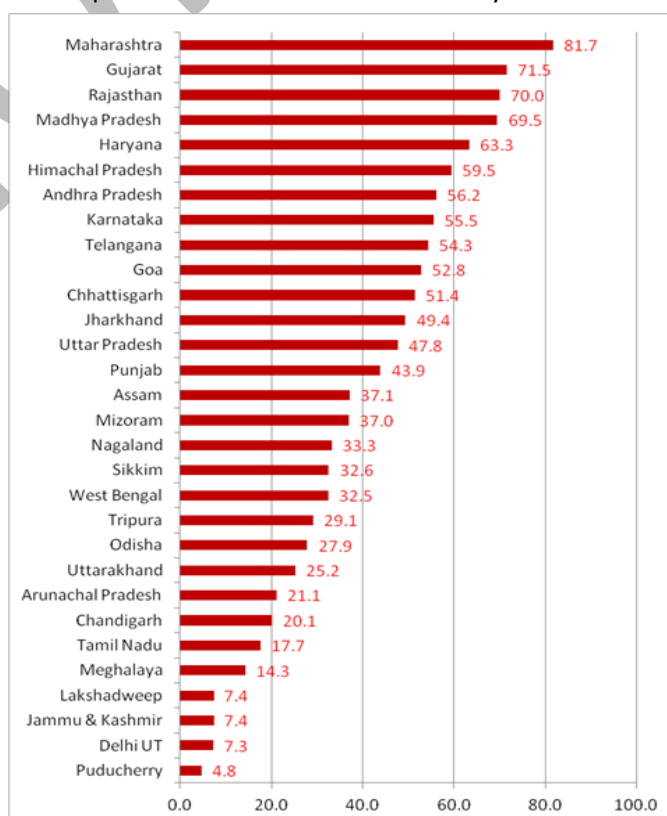
The Central government first introduced reforms in the APMCs or wholesale markets (mandis) through the APMC Act in 2003, urging states to adopt it as agri-marketing is a state subject under the Constitution.

Features and ranking

- The **indicators** used to assess represent **competitiveness, efficiency and transparency** in agromarkets.
- The rankings are based on implementation of seven provisions proposed under model APMC Act, joining eNAM initiative, special treatment to fruits and vegetables for marketing and level of taxes in mandis.
- The other parameters included in the index are relaxation in restrictions related to lease of farmland to tenant farmers, and the freedom farmers have to fill and transport trees on their own land, which allows them to diversify their incomes.
- The index has a score, ranging from “0” implying no reforms to value “100” implying complete reforms in the selected areas and states and Union Territories have been ranked in terms of the score on the index.
- **Maharashtra** achieved **first rank** in implementation of various reforms as it implemented most of the marketing reforms and offered best environment for doing agribusiness.
- **Gujarat** ranked **second** closely followed by Rajasthan and Madhya Pradesh.
- **Puducherry** got the **lowest** rank followed by Delhi and Jammu & Kashmir.
- Almost two third states including U.P., Punjab, West Bengal, Assam, Jharkhand, Tamil Nadu and J&K could not reach halfway mark of reforms score.
- Some states and UTs either did not adopt APMC Act or revoked it. They include Bihar, Kerala, Manipur, Daman and Diu, Dadra and Nagar Haveli, Andaman and Nicobar. They are not included in the ranking.

Proposed agricultural reforms

- NITI Aayog has also identified **three key areas for agricultural reform**, which reveal **ease of doing agribusiness** as well as opportunities for farmers to **benefit from modern trade and commerce** and have wider option for sale of her/his produce.
- The reforms are:
 - ✓ **Agricultural market reforms:** So that the benefits that can be accrued from agriculture are tapped by embracing marketing principles that



ensure best possible reforms.

- ✓ **Land lease reforms:** Relaxation in restrictions related to lease in and lease out agricultural land and change in law to recognise tenant and safeguard land owners' liberalisation.
- ✓ **Reforms related to forestry on private land – felling and transit of trees:** The reforms lay stress on the untapped scope of agroforestry in supplementing farmers' income. Reforms also represent freedom given to farmers for felling and transit of trees grown on private land to diversify farm business.

Way forward

- The states can **use the index as a yardstick** and **improve** on the indicators where they are lagging behind as it is aimed at helping states identify and address problems in the farm sector, which suffers from low growth, low incomes and agrarian distress.
- The **states** should be encouraged to **adopt the mentioned reforms** as they aim to **overhaul the agricultural sector**, which will ultimately be beneficial for farmers.

9.6.3. APMC: DE-NOTIFICATION OF FEW ITEMS

The Finance Minister conveyed in his budget speech that the States would be urged to denotify perishables from APMC.

Positive Impact of the decision

- Gives an opportunity to farmers to sell their produce directly and get **better prices**
- **Less food inflation** - as cascading effect of multiple charges by APMC (mandi tax, multiple fees etc.) and commissions of agents will be reduced
- **Reduce post-harvest loss**
- It will promote **contract farming** in the fruits and vegetable sector which will enable companies to pass on the innovative technologies, good agricultural practices and supply agricultural material to the farmers.

Challenges

- It will lead to promotion of **corporate agriculture** which may become another platform of harassment of farmers
- **Inefficiencies of market-** According to the Shanta Kumar Committee, only 6% farmers get the benefit of MSP and remaining 94% are dependent on the markets. Thus demand by farmers for a hike in MSP along with 50% profit (as recommended by National Commission for Farmers) points towards the inefficiencies in market

Present situation

- Presently, markets in agricultural products are regulated under the Agricultural Produce Market Committee (APMC) Act enacted by respective State Government.
- This Act notifies agricultural commodities produced in the region such as cereal, pulses, edible oilseed and even chicken, goat etc.
- The first sale in these commodities can be conducted only under the aegis of APMC through the commission agents licensed by the APMC.
- The central government had first circulated the model APMC Act in 2003 for the states to adopt it. Yet, close to 50% of the states have not made necessary changes to their respective state agricultural marketing acts.

Way forward

- After persuading the States to drop fruits and vegetables from APMC schedule of regulated commodities, other commodities should also be de-notified

- State governments should also be specifically persuaded to provide policy support for alternative or special markets in private sector
- It should be ensured that farmers get best prices possible for their products in the market

9.7. AGRICULTURAL SPOT AND DERIVATIVE MARKETING

Recent Budget has proposed **to integrate spot and derivatives market for farm produce** using electronic National Agriculture Market platform.

Significance

- Integration of spot and derivatives market will:
 - **End uncertainty on delisting of commodities.**
 - It would **help farmers to get best prices for their produce.**

Related information

- **Spot Market** - It is an electronic trading platform which facilitate-
 - Purchase and sale of specified commodities like agricultural commodities, metals and bullion
 - It provides **spot delivery contracts** which are immediate contracts or those in 11 days.
- **Derivatives Market** - Derivatives are financial contracts that derive their value from an underlying asset.
 - These could be stocks, indices, commodities, currencies, exchange rates, or the rate of interest.
 - These help make profits by betting on the future value of the underlying asset.

9.8. OPTIONS TRADINGS IN AGRICULTURAL PRODUCE

SEBI recently allowed options trading in selected commodities, including farm produce.

What is it?

An option is a financial derivative wherein one party sells its contract to another party, wherein the selling party offers the buyer the right, but not the obligation, to buy or sell a security at a predetermined price and date.

Overview

- Security to farmers as they will benefit from a stable price regime since assured prices are only set for wheat, rice and sugarcane by the government.
- Additionally, options give the farmers the right to buy and sell in the future but there is no obligation to do so. Hence, there is flexibility in decision-making.

Concerns

- There are concerns that if speculators dominate trading, the impact on prices could be significant.
- Given the experience with futures trading where cartelisation and price-rigging led to speculative excesses (SEBI had to actually ban new contracts in *chana* and bar select players from castorseed), the impact of the introduction of options in essential commodities needs to be watched closely.
- It is hard to see how farmers, who are a disaggregated lot and deal in small, insignificant quantities of their produce, will master the nuances of options trading.

9.9. TRADE IN AGRICULTURAL PRODUCTS-WAREHOUSE RECEIPTS

Central Depository Services (CDSL) is set to launch the country's first demat facility for commodity markets that would primarily allow **warehouse receipts in demat form**. This would be a move to promote trade in agricultural products.

Background

- Traditionally, the lack of liquidity, quality testing and assurance, and delivery guarantees kept small farmers and institutional traders away from commodities market.
- The **grant of repository licensed to CDSL and NCDEX** and the **SEBI proposals to introduce commodity options** are positive signs.
- Currently, a farmer can take the product to a certified warehouse and receive a negotiable warehouse receipt with a unique identity (ISIN).

Significance

- It provides **better price realization** for farmers than the APMC markets.
- It is **safer collateral for lenders like banks and NBFCs** to make credit available to farmer.
- It gives a more efficient marketplace for hedgers and **lowers disruptions in supply for the end customer**.
- It also helps in **improving quality of agricultural produce** with quality of product linked to price realization.

Challenges

- Due to majority of smaller farm sizes in India, the **total produce is many times lower than a single tradable lot at the exchange**.
- MSP has become the market price instead of being the minimum assured price creating a **disincentive for farmers to carry the goods to the warehouses**.
- The suspension of forwards contracts, ban on trading of chana and castor in 2016 by the government has impacted volumes and market confidence thus **lowering private participation in this market**.
- The **storage cost at certified warehouses is higher** than the cost at the non-certified one.

Way Forward

- **Creating a pool of farmers** through initiatives like Farmer Producer Companies (FPC) will eliminate the problem related to small farmer lands.
- To encourage private companies to directly buy from the farmers, the rules for purchase and payments at various APMCs need to be standardized.
- Government should also **introduce standard price adjustments** based on location of the farm and the quality parameters to lower the influence of MSP.

Central Depository Services Limited

- A depository facilitates holding of securities in the electronic form and enables securities transactions.
- CDSL was set up with the objective to provide secure depository services at affordable cost to all market participants.
- It is promoted by BSE Ltd, and sponsored by India's leading banks.

Negotiable Warehouse Receipt (NWR)

- Warehouse Receipts are documents issued by warehouses to depositors (like farmers) against the commodities deposited in the warehouses.
- They may be either non-negotiable or negotiable.
- Negotiable warehouse receipts are those that are **transferable by simple endorsement/signature**. Therefore they can be traded.
- It has been defined in the Warehousing Act 2007.

9.10. FARMER PRODUCER ORGANISATIONS (FPOS)

A conclave was held in Delhi to discuss the idea of creating a national-level association of FPOs as a lobbying platform.

What is FPO?

- A Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
- A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members.
- FPO is one type of PO where the members are farmers.
- Farmers, who are the producers of agricultural products, can form groups and register themselves under the Indian Companies Act.

Institutions involved

- NABARD initiated the Producer Organisation Development Fund (PODF) and SFAC has set up nearly 250 FPOs since 2011.
- To strengthen their capital base, SFAC has launched a new Central Sector Scheme "Equity Grant and Credit Guarantee Fund Scheme for Farmers Producer Companies".

Objectives of FPO

- To overcome a host of challenges confronting small and marginal cultivators – from fragmentation of holdings to inadequate access to credit, technology, extension services and markets.
- It is modelled on the role played by the National Dairy Development Board during the Operation Flood programme that involved support to dairy cooperatives from the village to the apex level.
- Collectivization of Producers especially small and marginal farmers so as to form an effective alliance.
- Supply of inputs such as seed, fertilizer and machinery, market linkages, training & networking and financial and technical advice are also among the major activities of FPO.

Current Status

- Across India, almost 3,000 FPOs have now either been registered or are in advanced stages of mobilisation.
- The National Bank for Agriculture and Rural Development has set a target of promoting another 5,000 in the next three years.
- World Bank and Asian Development Bank, too, have incorporated FPO development as a standard feature in several agricultural intervention projects that they are funding.

Challenges

- It takes 4 to 5 years to form a FPO that can stand on its feet
- There is not much clarity in terms of choosing the most appropriate structure of the FPOs.
- Farmers are afraid of companies as they are unaware about them.
- Influential and bigger farmers tend to join cooperatives. FPO's are with small and marginal farmers in majority membership.
- The lack of engagement with RRBs that have extensive rural networks compared to commercial banks.

Way forward

- Providing them urgent credit in an organised, institutional form.

- Providing comprehensive Early Stage funding for activities such as bulk purchase of inputs.
- Designing appropriate loan products.
- Encouraging Value Chain Financing under Priority Sector Lending. It will also incentivize innovation.
- Warehouse Receipts-based Lending and Price Risk Mitigation.
- Setting up a Dedicated Agri-Business Bank (NBFC) with the help of SFAC or NABARD.
- The RBI guidelines on priority sector lending by banks already mention FPOs. This needs to be broadened to include “agri-input supply, agro-machinery rental/operation, agri-processing, packing, storage and transport units” owned by FPOs into the ambit of agricultural priority sector lending.
- There is a need to promote FPOs on a scale similar to the SHG movement. SHGs got become prominent because of NABARD’s continuous nurturing of the concept and coordinating with various Government agencies to create an enabling policy environment.
- Regional Rural Banks could play a pivotal role in financing FPOs. The RRBs could directly provide operational working capital limits such as cash credit facility, crop loans to farmers, SHG loans to FIGs/SHGs for raising crops and such other agricultural needs.

9.11. DIRECT BENEFIT TRANSFER IN FERTILIZER SECTOR

Pilot projects to introduce Direct Benefit Transfer (DBT) in fertilizer sector have been taken up in 16 districts.

Why fertilizer sector is suitable for DBT?

- Fertilizer sector has high leakages of about 40%. DBT can help in prevention of leakages to make subsidies efficient and targeted.
- **Central government control** over fertilizer sector is high. This minimizes administrative complexity.
- Government has a real-time **Fertilizer Monitoring System** that monitors the fertilizer supply chains.
- Economic Survey considers it ideal to introduce DBT in fertilizer sector with
 - **Direct Benefit Transfer** given in cash
 - **Biometrically Authenticated Physical Uptake (BAPU)** – certifying identity using Aadhar and physically taking subsidized goods.

Challenges of DBT in Fertilizer Sector

- With respect to fertilizer subsidy, the **beneficiaries and entitlements are not clearly defined.**

Direct Benefit Transfer (DBT)

- **DBT scheme was started on 2013** to:
 - Reform Government delivery system for simpler and faster flow of information/funds.
 - Ensure accurate targeting of the beneficiaries by preventing de-duplication and fraud.
- **DBT Mission was created in the Planning Commission** to implement the DBT programmes.
- In 2015 it was placed in Cabinet Secretariat under Secretary (Co-ordination & PG).
- JAM i.e. **Jan Dhan, Aadhaar and Mobile** are the three enablers of DBT.

Uniqueness of DBT in fertilizer sector

- The subsidy would be given to the fertilizer companies rather than to the beneficiaries as given in DBT in LPG.
- The subsidy varies with different fertilizers and also from company to company.

Some other reforms in fertilizer sector

- **Neem Coated Urea** – It checks diversion of urea from agriculture uses and also reduces leaching of nitrogen into soil.
- **Gas price pooling** - Under this, price of domestic natural gas is averaged or pooled with cost of imported LNG to create a uniform rate for fertilizer plants.

- Subsidy in case of Urea is more than double its MRP. Therefore, **farmer may be burdened financially** to give MRP and subsidy upfront to receive the DBT afterwards.
- Before DBT, there is a need of reforming the subsidy structure in fertilizers which promotes the excessive use of Urea and destroys soil health.

Suggestions

- **Decanalizing urea imports:** Allowing more agencies to import urea and giving them more freedom in procurement decision would allow flexibility in adjusting to demand.
- Bringing urea under **nutrient based subsidy** compared to current practice of cost based subsidy.
- Secure long-term supplies from locations where energy prices are cheap. For eg. Agreements from Iran and Oman.

Way Forward

- Government should make full use of universalization of banking via the Jan-Dhan Yojana, efficient targeting via Aadhaar, and the increasing spread of smartphones, to extend DBT to fertilizer sector.

9.12. INCREASE OIL PALM PRODUCTION

Cabinet recently approved measures to increase oil palm area and production in India.

Need

- The total production of edible oil in the country is about 9 million MT while the domestic requirement is around 25 million MT. This gap is met through imports amounting to about ₹. 68,000 crores in 2015-16.
- The waste land or degraded land in the oil palm growing states can be given on lease/rent to private entrepreneurs. However, financial assistance under NMOOP is available for at most 25 hectare.

Background

- Palm oil makes **70% of vegetable oil import** and is one of the cheapest due to high productivity per hectare.
- Malaysia, Indonesia, Nigeria, Thailand and Columbia are the major oil palm producing countries.

Proposed Changes

- Cabinet **relaxed land ceiling limit to assist areas more than 25 hectare** under NMOOP.
- Norms of assistance for **planting materials, maintenance, intercropping and bore-well** relaxed.
- Annual Action Plan of the State will be approved by Dept. of Agriculture, Cooperation & Farmers Welfare.

National Mission on Oilseeds and Oil Palm (NMOOP)

- It aims to bring an additional area of 1.25 lakh hectare under oil palm cultivation by the end of 2016-17.
- Increasing irrigation coverage under oilseeds from 26 percent to 38 percent;
- Diversification of area from low-yielding cereals crops to oilseeds crop
- Inter-cropping of oilseeds and use of fallow land along with area expansion under oil palm.
- Enhancing procurement of oilseeds and collection.

Significance

- Private entrepreneurs and cooperative bodies will show interest to **invest in oil palm plantation** and would be able to derive maximum benefit of 100% FDI.
- It will help **utilize the wetlands** in oil palm production.
- Revision of cost norms would also **motivate farmers** to pursue oil palm production.

Challenges

With high demands of oil palm, substantial tracts of tropical forests are being cleared to make room for oil palm cultivation. This threatens the ecosystem services.

9.13. E-TECHNOLOGY IN AID OF FARMERS

Agriculture is an information intensive sector where farmers should be well versed in the latest farming technologies and business techniques. ICT plays an important role in addressing the challenges faced in management of natural resources & production of commodities.

The potential role of ICT in agriculture

- **Information dissemination throughout crop-cycle** - through technologies (like Satellite Communication, Geographic Information System (GIS), computer network, video and mobile phones) regarding weather conditions, input requirements like soil health, fertilizers etc. Example – DD kisan.
- **Increasing productivity** – by precision farming, popular in developed countries, which extensively uses IT to make direct contribution to agricultural productivity.
- **Agriculture marketing** - Awareness of up-to date information on prices for commodities, inputs and consumer trends help improve farmer's livelihood. For example National agriculture market is possible only due to ICT
- **Collectivization of producers** – to facilitate appropriate alliances and overcoming the barrier of small landholdings and achieving economies of scale. Example – farmer producer organizations.
- **Insurance:** PMKSY aims to assess the damage to crops for insurance purposes through satellite and Drone imagery. This will improve accuracy and compensation.
- **New employment opportunities** - in rural sector- eg:- information kiosks .This will reduce the disguised unemployment.

Started during 11th FYP, NeGP-A aims to achieve rapid development of agriculture in India through ICT enabled multiple delivery channels such as Internet, Government Offices, Touch Screen Kiosks, Krishi Vigyan Kendras , Kisan Call Centres, Agri-Clinics, Common Service Centers, Mobile Phones (Broadcast, IVRS, interactive messaging using unstructured Supplementary Service Data and Voice Recognition for ensuring timely access to agriculture related information for the farmers of the country.

Considering the potential of ICT in this sector government has taken many initiatives under NeGP-A. Some of which are as follows:-

- **Agricultural services** like Pesticide registration, Display on the Web of Seed Testing Results, Prices and arrival details, District level Agro-met advisories, Information on fertilizers/seeds/pesticides etc.
- **Mobile applications** for increasing awareness by providing information – Example: Kisan Suidha, Pusha Krishi, India weather etc.

- **Development of web portals** - Farmers' Portal where a farmer can get information on a range of topics, mKisan Portal where officials and scientists can send targeted advisories to farmers, Crop Insurance Portal for complete information related to Crop Insurance scheme
- **e-Mandi**: has been launched to make procurement of agricultural products smoother and provide competitive remuneration, especially for small and marginal farmers.
- **Modernisation of land records** - Many States have computerized their land records and are providing computerized copies of Records of Rights on demand. These states have also placed their land records data in public domain

Thus, ICT can play a major role in facilitating the process of transformation of rural India provided the existing bottlenecks are addressed soon.

9.14. COMMERCIALISATION OF GM MUSTARD

Genetic Engineering Appraisal Committee (GEAC) gave a positive recommendation for the commercial use of GM mustard for 4 years subject to certain field conditions.

Background

- India, so far, has permitted only GM cotton, a non-food crop. NITI Aayog recently, in its three-year draft action plan had backed GM food crops also.
- India spends about \$12 billion on imported edible oil which is bound to increase with the increase in population and per capita income.
- In 2010, the GEAC had also approved the commercialization of Bt brinjal. However, the then environment minister declined to sign off on the proposal due to strong protests. As of now, there is a case pending before the Supreme Court.

About GEAC

- It is a statutory body under MoEFCC.
- It is the apex body for approval of proposals relating to release of genetically engineered organisms and products into the environment.
- The GEAC considers proposals for trial only after approval from the RCGM (Review Committee on Genetic Manipulation- a body comprising scientists) under Dept. of Biotechnology.

Arguments in favour of GM mustard

- **Superior crops** - they generate better yields and are resistant to pests and diseases. They are needed in future to address threats from climate change.
- **Biotechnology advancement** - GM crops is central to push for investment and growth in the biotechnology sector.
- **Swadeshi GM** - GM mustard, unlike Monsanto's Bt cotton, has been indigenously developed in the public sector by Delhi University-based Centre for Genetic Manipulation of Crop Plants.
- **GM oil imported** - India imports thousands of tons of GM edible oil (and other GM food items) every year with no evidence of health effects or deaths due to genetic alterations.

Arguments against GM mustard

Sarson Satyagraha, a broad platform of hundreds of organisations representing farmers, consumers, scientists and others, and other such organizations have raised following concerns:

- **Risks involved** - GEAC has shown unscientific attitude with regard to citizens' health and environment and have failed in their very mandate to protect citizens from risks of GMOs and no knowledge of whether GEAC consists of any agricultural experts and representative of farmers

- **Impact on food chain** - Use of GM mustard will increase chemicals in our food and farms.
- **Loss in employment** - Even 25% adoption of GM mustard will lead to loss of more than 4 crore employment days by poor women in mustard growing areas
- **Lack of transparency** - There is still opacity, i.e., there is no public data on effects of GM on human health, food chain, allied sectors (beekeepers, orchards and ayurvedic medicine makers and practitioners) etc.
- **No indigenisation** - It is not "Swadeshi GM" as the genes used are the property of multinationals, which want to have control on seeds.
- **Monopoly and yield loss** - It would cause yield losses for farmers will be forced to buy seeds every season than using farm-saved seeds, affecting their sovereignty, crop diversity and profitability.

Way forward

- **Consultation with state governments** on the issue given that agriculture is a state subject.
- **Grievance redressal of all stakeholders** - all the grievances of farmers and the public must be resolved before allowing GM mustard by putting the safety documents online and addressing the concerns in all comments received.
- **Legal measure** - There should be a liability clause, that is, if something goes wrong the liability should be fixed statutorily like in case of US law, liability is huge in case the GM tech effects the regular varieties of crops. It will ensure that case of non-accountability, in case of pink bollworm pest attack on BT cotton, does not repeat itself in case of other GM crops.

10. FOOD PROCESSING SECTOR

10.1. BACKGROUND

The food processing sector contributed 1.6 % of India's GDP in 2015-16. It made up 10.12% of GDP attributable to agriculture and 9% of manufacturing GDP during the same year. Food processing industries cover a wide array of activities ranging from traditional agro-based industries such as rice and flour mills to the processing of tea and coffee to the dairy industry.

The sector is an important source of both direct and indirect employment, accounting for 11.95% of formal employment in 2015-16

The sector contributes directly to economic growth through reducing food wastage, creating jobs and export earnings. However, growth and productivity are plagued by several challenges. According to the World Bank Enterprise Survey, value added per worker in agribusiness in China was almost four times that in India in 2014.

Food processing firms, particularly Small and Medium Enterprises (SMEs), have difficulties in accessing finance. The lack of quality infrastructure, including cold storage, storage for non-perishables, distribution networks and transportation, raise costs and inhibit competitiveness. Additionally, small farm sizes, restricted access to markets, uncertainty related to price, availability and quality of raw materials, and limited skilled manpower pose further challenges to the sector's growth.

10.2. SAMPADA SCHEME

The government has given its approval for restructuring the schemes of the Ministry of Food Processing Industries (MoFPI) under **new Central Sector Scheme – SAMPADA (Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters)** for the period 2016-20.

Need

- India ranks number one in total food production globally. Despite the large production of food products in India, post-harvest losses are of major concern.
- India has a less than 10% processing level of the large production base.

Draft National Food Processing Policy 2017

- It advocates adoption of **sustainable environmental practices** like energy generation from bio waste
- For Quality, health and safety of products, the policy suggests compliance with FSSAI Act 2006 and **introduces self-regulation.**
- **Administrative issues –**
 - Each state should set up an **independent Department** to handle all matters related to food processing.
 - States should **create an e-platform**, to facilitate all necessary clearances in a time bound manner.
- **Infrastructure Development –**
 - The policy recommends following a cluster approach to tap the benefits of economies of scale in food processing.
 - States should register in the eNAM platform to promote direct procurement of all raw materials, especially horticulture produce.
 - Ceiling on Land Lease act should be raised or abolished to encourage entrepreneurs procure lands for bigger units.
 - Land should be allotted on priority to Mega food parks.
 - Technology adoption like barcoding, RFID tags etc. should be supported.
- It also **aims to promote entrepreneurship** in this sector by reforming labour laws, promoting incubation centres, setup skilling centres in each state etc.

- A well -developed Food Processing Industry helps in the reduction of wastage, improving value addition, promoting crop diversification, better return to farmers, promoting employment as well as increasing export earnings.

Background

- During 2015-16, the food processing sector constituted as much as 9.1 and 8.6 per cent of GVA in Manufacturing and Agriculture sector respectively.
- The government has allowed **100% FDI (automatic route) in trading including through e-commerce**, in respect of food products manufactured and/or produced in India.
- The government has set up a **Special Fund of ₹. 2000 crores** in NABARD to give affordable credit at concessional rate of interest to designated food parks and agro-processing units.
- Food and agro-based processing units and cold chain infrastructure have been brought under the ambit of Priority Sector Lending (PSL).

Provisions

- The **objective of the scheme** is to supplement agriculture, modernize processing and decrease agri-waste.
- **It is an umbrella scheme** incorporating ongoing schemes of the Ministry of Food Processing:
 - Earlier schemes like Mega Food Parks, Integrated Cold Chain and Value Addition Infrastructure, Food Safety and Quality Assurance Infrastructure, etc.
 - New schemes like Infrastructure for Agro-processing Clusters, Creation of Backward and Forward Linkages, Creation of Food Processing & Preservation Capacities.

India and Russia have agreed to collaborate in setting up integrated irradiation centres in India.

In India post-harvest losses in food grains, fruits and vegetables are extremely high amounting to around 40-50%.

An agro irradiation centre is one where food products are subjected to a low dosage of radiation to treat them for germs and insects, thereby increasing their longevity and shelf life.

Other Schemes of Food processing Industry

- **Mega Food Park Scheme**
 - It aims to provide modern infrastructure facilities for the food processing with a cluster based approach based on a hub and spokes model.
 - It includes creation of infrastructure for primary processing and storage near the farm in the form of Primary Processing Centres (PPCs) and Collection Centres (CCs) and common facilities and enabling infrastructure like roads, electricity, water etc. at Central Processing Centre (CPC).
- **Integrated Cold Chain and Value Addition Infrastructure**
 - It is a Central Sector scheme.
 - Financial assistance is given in the form of grant-in-aid upto maximum of ₹. 10 crore per project.

The Food Safety and Standards Authority of India have rolled out a scheme for strengthening of food testing infrastructure in the country.

- Under this scheme, 45 State/UT Food Testing labs (at least one in each State/UT with a provision of two labs in larger states) and 14 Referral Food Testing labs will be upgraded to enable them to obtain National Accreditation Board for Testing and Calibration Laboratories (NABL) accreditation.
- **Mobile Testing Labs-** 62 Mobile Testing labs will also be established across all States/UTs.
- **School Food and Hygiene Programme-** Basic Food Testing labs will be set up in 1500 schools/colleges across the country to promote a culture of safe and wholesome food.

Significance

- Convergence of various schemes would help in **better implementation of the programmes.**
- The scheme would also help in **reducing the post-harvest losses.**
- With rise of disposable income, this scheme would help in **fulfilling the demand of processed foods** like edible oils, juices etc.
- Food industry as compared to other industries has the largest number of factories and engages the largest number of employees. This scheme would **boost the employment prospects.**
- Processed foods can also help **address the problem of malnourishment** by increased availability of nutritionally balanced food.

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11. FISHERIES SECTOR

11.1. NATIONAL POLICY ON MARINE FISHERIES 2017

National Policy on Marine Fisheries was launched recently by the Department of Animal Husbandry, Dairying and Fisheries.

Background

- India is the second largest producer of fish in the world contributing to 5.43% of global fish production.
- India is also a major producer of fish through aquaculture and ranks second in the world after China.
- After Independence, **fish production has been increased from 7.5 lakh tonnes in 1950-51 to 100.70 lakh tonnes during 2014-15.**
- Marine Fisheries is the fastest-growing food producing sector in the world with a great potential to meet the food, especially protein requirement of a large number of population.
- After 2015 report of B.Meenakumari on deep sea fishing, the government had decided to revise the existing Marine Fisheries policy of 2004.
- Government has also **envisaged a program named 'Blue Revolution'** based on integrated approach to tap India's potential in the fisheries sector.
- Government has identified thrust areas to enhance fisheries production from 10.79 million metric tonnes (mt) (2014-15) to 15 mmt in 2020-21.
- **Components of envisaged program**
 - **Productivity enhancement** shall be achieved by production oriented activities such as:
 - ✓ Production of quality fish seeds
 - ✓ Cost effective feed and adoption of technology.
 - ✓ Use of High Yielding Varieties of brooders
 - It will have a **sub-mission on Fish Fingerling (finger-shaped fishes)**. About ₹. 520 crores will be used to establish hatcheries and Fingerling rearing ponds.

Branches of fisheries

1. **Marine Fisheries** – It is that branch of fisheries which deals primarily with marine fishes and other sea products.
 - ✓ E.g. Oil sardines, mackerels, Bombay ducks, tunas and the prawns, catfishes, polynomids , pomfrets, crabs, oysters, marine algae
2. **Inland fisheries** - Inland fisheries **include both fresh water and brackish water fisheries**. The commercially important fresh water fishery resources are carps, mullets, chanos, and prawns. Some brackish water fisheries include shrimps.

Blue Revolution

- Blue Revolution in technical sense refers to **integrated development and management of Fisheries**.
- In a broader sense, blue revolution is now assumed to **encompass even infrastructure development and creation of livelihood** for communities along coasts.

Pilot Project on Ornamental Fisheries

- It is a fishery sub-sector dealing with breeding and rearing of **coloured fish** of both freshwater and marine water.
- They are used for aesthetics like aquarium.
- The major objectives of the pilot project are:
 - Promote ornamental fish culture with cluster-based approach.
 - Augment ornamental fisheries trade and exports.
 - Rural and peri-urban employment opportunities
 - Employ modern technology and innovation.

About the Policy

- The **aim of the policy** is to ensure the health and ecological integrity of the marine living resources of India's EEZ through sustainable harvests.
- The **overall strategy would be based on seven pillars**, namely sustainable development, socio-economic upliftment of fishers, principle of subsidiarity, partnership, inter-generational equity, gender justice and precautionary approach.
- The policy would be in line with the **FAO's Code of Conduct for Responsible Fisheries** on conservation, development and management of fisheries.
- **Some of the provisions of the policy are -**
 - **Monitoring, Control and Surveillance** (to prevent accidents and trespassing)
 - ✓ For better monitoring and surveillance, chip-based smart registration cards for fishermen and their fishing vessels would be introduced.
 - ✓ Training and awareness would be given to fishermen to avoid crossing the International marine boundary line (IMBL).
 - **Integrated approach on fisheries management –**
 - ✓ **Species-specific and area-specific** management plans with **spatial and temporal measures** for sustainable utilization of resources.
 - ✓ Conservation of Ecologically and Biologically Significant Areas (EBSAs) and Vulnerable Marine Ecosystems (VMEs), endangered species etc.
 - ✓ It would **blend traditional knowledge and scientific business principles**.
 - ✓ Use of Information technology and space technology for improving the capacities of the fishing community. Eg. Using these to forecast weather
 - ✓ **Traditional Use Rights for Fisheries** (areas where mechanized fishing is prohibited and small-scale fishers are allowed) would be continued.
 - ✓ Government would also introduce schemes to kill traditional fishers.
 - **Commercializing Fisheries:**
 - ✓ **Fisheries Data and Research** - Government would implement a **National Marine Fisheries Data Acquisition Plan** with all stakeholders.
 - ✓ **Mariculture-** Government will encourage schemes to set up mariculture farms/parks and setting up of hatcheries for supply of seed for development of the sector. There would also be a focus on preventing post-harvest losses.
 - ✓ **Island Fisheries** – India's islands would be exploited for the lucrative and commercial value fisheries like Tuna, snapper, groupers etc. Krill fishing would also be promoted in Areas Beyond National Jurisdiction (ABNJ).
 - ✓ **Fisheries Trade** – Government would focus on diversifying trade market, harmonizing FSSAI standards with international bodies, reducing the influence of middlemen and eco-labelling of fishes.
 - ✓ Entrepreneurship development, private investment, public-private partnership for marine fisheries sector will be encouraged.
 - ✓ Government with the help of NABARD will provide institutional credit to the fishers.

B Meenakumari Committee on deep sea fishing

- Allow fishing in the EEZ - between 22 km and 370 km beyond territorial waters – for vessels with a length of 15 metres or more by getting a "letter of permission" from the Centre.
- These ships can be owned or acquired by Indian entrepreneurs or by joint ventures with up to 49 per cent foreign investment.
- **Create a buffer zone between the near-shore and offshore regions** (waters between 200 m and 500 m in depth) along the coast and regulate fishing there "in order to augment resources in the near-shore areas as well as the deep-sea regions in the EEZ".

- **Marine environment and Fisheries -**
 - ✓ Review and periodically evaluate existing marine protected areas (MPAs)
 - ✓ It would provide **legislative support to ensure tenure rights of traditional fishermen** so that their livelihood is not affected by conservation measures.

Significance

- Monitoring and surveillance will ensure that Indian fishing fleet do not engage in **'Illegal, Unreported and Unregulated' (IUU) fishing**.
- **Women SHGs** would be promoted in the women dominated post-harvest sector of fisheries.
- The policy if well implemented would **promote SDG Goal 14** of conserving and sustainably using Oceans, Seas and Marine Resources for Sustainable development.
- It would also help in **boosting the primary sector** of our economy and improve its growth rate.

Challenges

- The policy recommends rescinding Letter of Permit scheme thus allowing private investments in deep sea fishing (as recommended by B. Meenakumari committee). This may threaten the small-scale and traditional fishers community.
- Some State recommendations like a separate Ministry of Fisheries, extending the territorial limit of States etc. have not been taken up in the policy.

Way forward

- Recently the government has formulated an umbrella scheme **'Blue Revolution: Integrated Development and Management of Fisheries'** by merging all the existing schemes. This umbrella scheme will cover inland fisheries, aquaculture and marine fisheries including deep sea fishing, mariculture and all activities undertaken by the National Fisheries Development Board (NFDB).
- The government should make this policy in tandem with the scheme to promote Blue revolution in the country.

11.2. INDIA REPORTS FISHERY SUBSIDIES TO WTO

India has notified the World Trade Organisation (WTO) on the subsidies it pays fishermen.

Background

- According to the UN FAO's 'State of World Fisheries and Aquaculture', almost a third of commercial fish stocks are now fished at biologically unsustainable levels.
- So, there have been demands from US-led group of nations for a ban on subsidies given for illegal, unregulated and unreported (IUU) fishing.
- This led India to file subsidies data in WTO which are worth ₹.284 crore in 2014-15. Tamil Nadu had the highest subsidy with ₹.169 crore (of which ₹.148 crore is in fuel category)

Necessity of subsidies

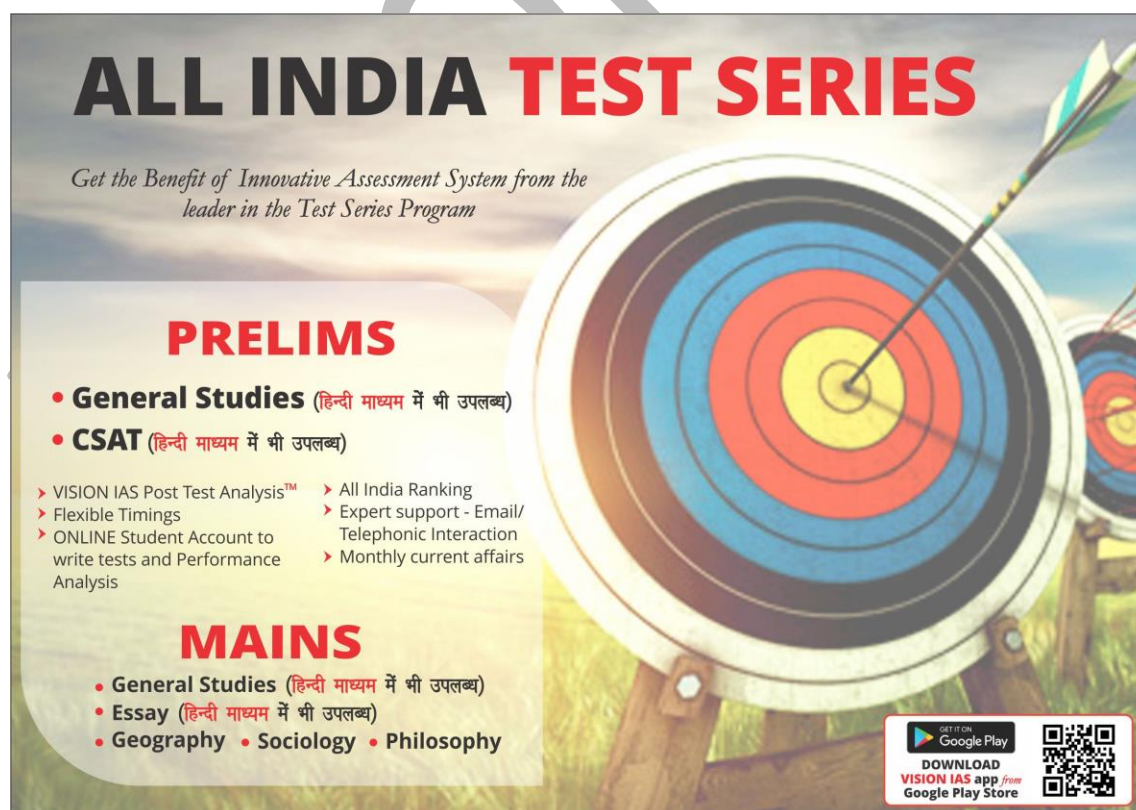
- To protect and secure the livelihood of traditional and poor fishing communities.
- The subsidies were provided to fishermen who were either homeless or poor boat owners, those with registered craft and members of fishermen cooperative societies. They went for vital components such as:
 - a. Fuel, purchase of inboard machine, purchasing nets, accessories, life-saving jackets etc.,
 - b. Insurance cover to fishermen for accident due to cyclone/mishap/calamities etc.,

India's stand

- Ban on subsidies for IUU fishing could lead to prohibition even on fishing that could be termed non-IUU.
- This could, in turn, harm the interests of lakhs of subsistence fisher folk in poor and developing nations.

Way forward

- US too gives certain subsidies that benefit several sectors, including fishing industry. All the subsidies must be included.
- Also, currently there is no unanimity among WTO members on what constitutes IUU fishing. This should be achieved first.
- 'Cherry picking' of topics of interest to developed nations and prioritising negotiations on fisheries subsidies should be stopped.



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12. INDUSTRIAL POLICY AND ASSOCIATED ISSUES

12.1. DOMESTICALLY MANUFACTURED STEEL PRODUCTS POLICY

The government recently approved the policy for providing **preference to domestically manufactured iron & steel products** on Government procurement.

Need

- This policy seeks to accomplish the **PM's vision of 'Make in India'** with objective of nation-building and **encourage domestic manufacturing**.
- A major part of new steel demand is expected to come from **affordable housing, expansion of railway networks, development of domestic shipbuilding industry, opening up of defence sector for private participation and an anticipated growth in automobiles**.
- Steel consumption is poised to go up to 160 kg by 2030-31 from the present level of around 61 kg.

Features

- The policy is applicable on all government tenders where price bid is yet to be opened.
- It provides a **minimum value addition of 15% in notified steel products** which are covered under preferential procurement.
- In order to provide flexibility, **Ministry of Steel may review specified steel products** and the minimum value addition criterion.

National Steel Policy 2017

- The policy envisages a **crude steel capacity of nearly 300 mt by 2030-31**, which is similar to the earlier target set by the earlier National Steel Policy, 2005.
- In a shift away from earlier policies, it **not only sets a directional roadmap** by setting 160 kg per capita steel consumption but also **puts in place a policy on how to achieve it, produce new products and access key raw materials**.
- India currently imports around 70 per cent of coking coal requirement. It aims at raising the availability of washed coking coal to reduce import dependence on coking coal by 50 per cent by 2030-31.

Domestic crude steel capacity to be 300 million tonne by 2030-31 (122 million tonne in 2015-16) entailing an investment of ₹10 lakh crore

Steel demand estimated to grow 3-fold to 212 to 247 million tonne by 2030-31



Per capita consumption of steel to go up to 160 kgs by 2030-31 (from 61 kgs now)

India to emerge as net exporter of steel by 2025-26

To domestically meet entire demand of high-grade automotive steel, electrical steel, special steels and alloys for strategic applications by 2030-31

Iron and Steel Industry of India

- India is the **third largest producer of finished steel** in the world coming after China and Japan.
- The steel sector in India is valued at over 100 billion dollars and contributes 2 percent to the GDP.
- The sector employs 6.5 lakh people directly and 13 lakh people indirectly.
- Despite the global economic slowdown, India was the only economy that showed positive growth in steel sector in 2015.
- Act as a feeder industry to provide raw materials such as iron ore, coal and limestone, along with labour, capital, site and other infrastructure.
- All the important steel producing centres such as Bhilai, Durgapur, Burnpur, Jamshedpur, Rourkela, Bokaro are situated in a region that spreads over four states — West Bengal, Jharkhand, Odisha and Chhattisgarh.
- Bhadravati and Vijay Nagar in Karnataka, Vishakhapatnam in Andhra Pradesh, Salem in Tamil Nadu are other important steel centres utilising local resources.

- Each **domestic manufacturer shall provide self-certification** to the procuring Government agency declaring that the iron & steel products are domestically manufactured.
- It shall not normally be the responsibility of procuring agency to verify the correctness of the claim. In few cases, the onus of demonstrating the correctness shall be on the bidder when asked to do so.
- In case any manufacturer is aggrieved, a **grievance redressal committee** set up under the Ministry of Steel shall **dispose of the complaint in a time-bound manner, in four weeks.**
- There are provisions in the policy for **waivers to all such procurements**, where specific grades of steel are not manufactured in the country, or the quantities as per the demand of the project cannot be met through domestic sources.
- It shall be the **responsibility of every Government Agency** to ensure implementation of the policy.

Problems of Steel Industries

- Steel companies are plagued with huge debts with lack of domestic demand.
- Quality of metallurgical coke is not good enough. Coke is the raw material used in blast furnace iron making. It is made through carbonization of coal.
- High input costs.
- Cheap imports from China, Korea and other countries are also a matter of concern for domestic producers.

Significance

- It shall **promote growth and development of domestic steel industry** under the Make in India scheme and shall contribute in reviving the manufacturing sector of the Indian economy.
- It may **reduce the inclination to use, low-quality low cost imported steel** in Government funded projects.
- This would also help prevent the dumping of steel in India with excess domestic capacity and would also lower the prices of this raw material.

Other Government Steps to boost domestic steel

- To boost the demand and consumption of steel, an **Institution for Steel Development & Growth (INSDAG)** was set up involving leading steel producers in the country.
- Metal Scrap Trade Corporation (MSTC) Limited and the Ministry of Steel have jointly launched an e-platform called '**MSTC Metal Mandi**' under the 'Digital India' initiative, which will facilitate sale of finished and semi-finished steel products.
- The Development Commissioner for Iron & Steel had launched a **National Campaign for increasing the demand for steel in non-traditional sectors**, particularly in the construction, rural and agro-based industrial sectors. Draft National Steel Policy

12.2. NATIONAL CAPITAL GOODS POLICY, 2016

Among all the sectors, it is the Capital Goods sector that is often called the 'mother of all manufacturing industry.

The Capital Goods sector in India contributes 12% to the total manufacturing activity. It provides direct employment to about 1.4 million people and indirect employment to 7 million people.

Objective

- To ensure improvement in technology across sub-sectors, increase availability of skilled labour and promote growth and capacity building of MSMEs
- To increase the contribution of the Capital Goods sector from the current 12% to 20% of total manufacturing activity by 2025.

- Department of Heavy Industries and Public Enterprises, the government has a clear mission to achieve an increase in production from USD 35 billion in FY 2014-15 to USD 115 billion in 2025.
- The agenda also envisages increasing exports from the current 27% to 40% of

- **Capital Goods:** Any good (plant, machinery, equipment) that is used to manufacture other products (either directly or indirectly)
- **Other Government Initiative to strengthen the policy.**
- Creating an ecosystem for globally competitive Capital Goods sector through implementation of a uniform Goods and Services Tax (GST) across all sub-sectors
- Creation and Expansion of Market for Capital Goods sector by revisions to the primary qualification criteria of public procurement contracts.
- Promotion of exports with Heavy Industry Export & Market Development Assistance Scheme (HIEMDA)
- Technology and IPR promotion with Integrated Industrial Infrastructure Park and Technology Acquisition Fund Programme.

production. It emphasises on raising the share of domestic production in India's demand from 60% to 80% to make the country an exporter of capital goods.

12.3. DRAFT NATIONAL POLICY ON SOFTWARE PRODUCTS

- Government released the Draft National Policy on Software Products for public consultation.

Need for a new Software policy

- The first Software policy came up in 1986. It resulted into **Software Technology Park (STP)** scheme in 1991. But, past few years have seen serious decline in growth, owing to rapid transformation in technology and Software industry, globally.
- As a maturing industry, with a distinct and strong charter of growth, there is a need to evaluate the sector and to draw out strategies with a **medium to long-term perspective** and **introduce innovative solutions** to leverage its full potential.
- There is a need to address weaknesses in regard to developing innovative software products that address the challenges thrown in implementing ambitious programmes like Digital India, Make in India, Smart cities etc.
- There are fostering new opportunities for the industry such as decline in working age population in many developed and developing economies, increased technology adoption and globalization. Thus, there is a need for focused strategies to increase the global spread of our IT-ITES sector which at present drives its business mainly from limited geographies.
- With internet penetration reaching 400 million and with more than a billion mobile phone connections, the opportunities to leverage the soft power of Indian IT professional for producing niche innovative IT solutions for Indian needs is enormous.
- Though India is well positioned to further grow in services sector, however for the holistic growth there is a need for a National Policy on Software Products that can synergise the efforts of the Government and Industry to create a robust Software Product Industry.

Mission of the Draft Policy

- To create conducive environment for creation of 10,000 technology startups to develop software products and thereby generating a direct and indirect employment for 3.5 million persons.
- To strive for a tenfold increase in share of the Global Software product market by 2025.
- To create a specialized talent pool of 100,000 professionals by 2025.
- Apart from the above, the policy also talks about -

- Developing linkages with other sectors including care & social infrastructure and service sector.
- Creating disruptive innovations and cutting-edge technologies, improved R&D and innovation ecosystem.

Strategies identified by the Draft Policy

- **Ease of Doing Business:**
 - Ensure ease of business and address concerns that may be specific to the software product industry through an **Inter-Ministerial Coordination Group**.
 - Creation of a **Single Window** online platform through Software Technology Parks of India (STPI).
- **Funding, Seed Funding and Stock Options**
 - Allocate a defined portion of Fund of Funds of 100, 000 crores in **Electronic Development Fund** with a support of 100 Crores by MeitY under PPP model.
 - Creation of **Innovation Fund** by Ministry of Finance exclusively for domestic Software Product Industry promoted by resident Indian nationals.
- **Employment Generation**
 - Aligning the **National Skills Mission** with the need of Software Products companies so as to generate millions of skilled IT professionals.
- **Tax on Software Products**
 - Demarcating tax regime for 'Software Products' from 'Software Services' by **clearly defining software products**.
- Further, the policy also talks about:
 - Launching a "**National Software Product Mission**" with Industry participation.
 - Promotion of Software Product through **Training and Education** and R&D.
 - Establishing **30 dedicated entrepreneur parks** spread over the country in Tier-II and Tier-III towns.
 - Trade promotion and **improving access to domestic market**.

12.4. MODIFIED SPECIAL INCENTIVE PACKAGE SCHEME

The cabinet recently approved amendments to the **Modified Special Incentive Package Scheme (M-SIPS)** in a bid to achieve net zero imports in the electronics sector by 2020.

What is MSIPS?

- The M-SIPS policy was launched in July 2012 for a three-year period by the **Ministry of Electronics and Information Technology (MeitY)**.
- Its primary objective was to encourage investments in **Electronics System Design and Manufacturing (ESDM) Sector** and speed up the disbursement process.
- The policy encourages companies to produce domestically by providing

National Policy on Electronics (NPE)

- NPE's vision is to create a globally competitive Electronics System Design and Manufacturing (ESDM) industry to meet the country's needs and serve the international market.
- Develop an ecosystem for a globally competitive ESDM sector in the country by attracting investment in excess of USD 100 Billion and generating employment for 28 Million people at various levels.
- To develop core competencies in strategic and core infrastructure sectors like telecommunications, automobile, avionics, industrial, medical, solar, information and broadcasting, railways, intelligent transport systems, etc.
- A number of state governments have also come up with separate state specific policies for electronics sector.

them 20-25% subsidy on capital expenditure.

- The Government has increased fund allocation to this scheme in budget 2017-18.

Importance

- The scheme is expected to boost domestic production in the electronics sector.
- It is the key strategy towards achieving net zero balance of electronics w.r.t imports and exports.
- Several government-driven initiatives and incentives for electronics sectors are – Electronics Development Fund (EDF), Electronics Manufacturing Clusters (EMCs) scheme, National Knowledge Network & National Optical Fibre Network.
- Domestic production will make the country self-dependent in electronics and will also aid in job creation.

12.5. PUBLIC PROCUREMENT ORDER 2017

The Government has issued **Public Procurement (Preference to Make in India), Order 2017** recently to encourage 'Make in India' and promote manufacturing and production of goods and services in India with a view to enhancing income and employment.

Need

- The national procurement policy involves **purchases of at least ₹2 trillion a year** and also covers autonomous bodies, government companies and entities under the government's control.

Salient features

- The government has defined local goods and services as those where at least 50% of the value addition has been done in India.
- For **procurement of goods of value less than ₹ 50 lakhs** by government, only local suppliers would be eligible. Bids would be invited for **procurement of goods of value more than ₹ 50 lakhs** by the government. Procurement less than ₹ 5 lakhs are exempted from this order.
- 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. False declarations can be debarred for up to 2 years.
- Purchase preference shall be given to local suppliers in all procurements undertaken by procuring entities in the manner specified. As per the order, the minimum local content shall ordinarily be 50%.
- **Condition of Reciprocity** - Entities from countries where Indian suppliers are not allowed to participate or compete in bids for government procurement, **may be restricted or excluded from public procurement tenders in India.**

Significance

- It would promote manufacturing and production of goods and services in India and enhance income and employment.
- It would also improve competitiveness of the domestic industries vis-a-vis foreign companies.
- In the long-term, this policy would also be a benefit towards raising manufacturing exports and earning foreign reserves.

- It would **stimulate the flow of capital and technology** into domestic manufacturing and services.

Challenge

- It could be beneficial in the short term, but restrictions and protectionism in the long terms can hurt efficiency.
- Political interference and bureaucratic red tape in procurement may also hurt the procurement process and market liberalization.

Way Forward

- A **committee under the chairmanship of Ramesh Abhishek (Secretary of DIPP)** has been set up to oversee the implementation of the policy. This if implemented properly would reduce the leakages that are prevalent in the public procurement process. It would also introduce competition within the process and make it more efficient.

12.6. SPECIAL ARM UNDER COMMERCE MINISTRY

“Special arm under commerce ministry” is suggested for future trade policy by a Govt. commissioned report submitted by a global consultancy firm for future trade policy. Currently, it is pioneered by PMO and Ministry of External Affairs.

What does the Report say?

- India’s future trade (policy) model should have the Commerce Department at the helm, supported by External Affairs and Finance ministry.
- Directorate General of Foreign Trade (DGFT) should be created at apex for all trade promotion activities for the country.
- Makes a strong case for a higher profile for the Indian Trade Service (ITS) in matters of trade policies & systems.
- At present, the officials belonging to the IAS, IRS and IFS have a relatively superior role over its cadre regarding decisions on crucial trade policy matters.
- Implementation of work should be done by using digital platform extensively.
- Recruitment of professional with specific expertise in trade policy formulation.

What is the role of DGFT?

- Providing services such as trade representation in foreign countries, research & development, market intelligence, business matchmaking services as well as public relations, advertising and marketing services.

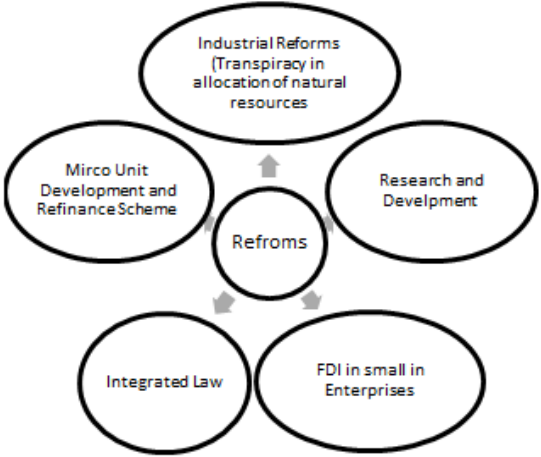
Suggested Role of Transformed DGFT (DGFT 3.0 - pre- and post-liberalization being the earlier two versions)

- Provide (foreign trade) monitoring and training services.
- Hold export promotion campaign.
- Industrial trade fair.
- Greater focus on small and medium firms

Significance

- It will improve India’s ease of doing business (currently ranked 130/190)
- Deploying digital technology will transform the Trading across the border and ease of doing business.
- Revive the goods export from contraction happened since December 2014 and current demonetization.
- It fits in appropriately as small yet efficient in the policy of Government being a facilitator and enabler for doing the business.

12.7. OTHER INITIATIVE FOR INDUSTRIAL EXPANSION

<p>Business Reforms action Plan 2017 About BRAP 2017 Recommendations for reforms on regulatory processes, policies and procedures spread across 12 areas that includes labour regulation; contract enforcement; inspection; single window system; land availability and allotment, etc.</p>	<p>Standing committee report on industrial policy Chaired Mr Bhupender Yadav had submitted the report on 'Industrial Policy in the Changing Global Scenario' for 360° reform in Industrial Policy 1991.</p> 	<p>Trade Infrastructure for Export Scheme (TIES) Ministry of Commerce had launched the Trade Infrastructure for Export Scheme (TIES), to enhance export competitiveness by bridging gaps in export infrastructure, creating focused export infrastructure, first mile and last mile connectivity for export-oriented projects and addressing quality and certification measures.</p>
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13. FOREIGN INVESTMENT

Balance of Payments

- **Current Account:** current account deficit (CAD) progressively contracted from 4.8 per cent of GDP in 2012-13 to 1.1 per cent of GDP in 2015-16.
- Positive factors helping narrowing of CAD:
 - Sharp contraction in trade deficit outweighed the decline in net invisible earnings.
 - Decline in oil import bill due to low prices by around 18 per cent Sharp decline in gold imports led to a reduction in India's overall imports.

Capital/finance account: Net capital flows remained higher than the CAD leading to net accretion to India's foreign exchange reserves.

- **External Debt:**
 - India's external debt stock stood at US\$ 484.3 billion, recording a decline of US\$ 0.8 billion over the level at end-March 2016, mainly due to a reduction in commercial borrowings and short term external debt.
 - The shares of Government (Sovereign) and non-Government debt in the total external debt were 20.1 per cent and 79.9 per cent respectively at end-September 2016. International Debt Statistics 2017', published by World Bank, indicates that India continues to be among the less vulnerable countries.

Asia Pacific Trade and Investment Report, 2016

- India's international and intra-regional trade cost remained higher compared with trade cost of best performing economies in Asia and Pacific, although a declining trend has been observed since 2009.
- FDI flow in country may increase because of various initiatives of Government like "**Make in India**" and **easing of FDI regulations** in different sectors like aviation, defence, pharmaceuticals compounded by robust economic growth and large domestic market.
- Trend towards FDI diversion by Indian business community is observed as overseas investment from India contracted by 36% reflecting Indian investors' confidence more in Indian market than abroad.
- FDI inflow in India during 2010-15 expanded at the rate of 10% on an average while in 2015 alone FDI flow expanded at staggering 27.8% which was significantly higher than Asia-Pacific region avg of 5.6%.
- Services, Construction development, Computer software and hardware and Telecommunications sectors attracted highest investment.
- India also emerged largest trading partner with South Asian countries like Nepal, Sri Lanka, Bhutan.

13.1. RULES EASED: MERGER WITH FOREIGN FIRMS

Indian companies have been permitted to conduct outbound mergers, according to a notification by the **Ministry of Corporate Affairs**.

Key Features

- With outbound mergers permissible, there would be opportunities for **Indian companies to acquire, restructure or list on offshore exchanges**.

Outbound Merger

- Outbound merger and acquisitions (M&A) refers to investments by a company of Indian origin in a foreign based company.
- The Companies Act, 1956 had no provisions for outbound mergers (only inbound mergers). It was replaced by Companies Act, 2013.

- The merger would be in compliance with the **Companies Act, 2013**, and require prior approval of **RBI**.
- The government had recently exempted firms, with Indian revenue of less than ₹. 1,000 crore, from seeking the prior approval of the **Competition Commission of India (CCI)** while going in for a merger.

13.2. FDI IN TOBACCO SECTOR

Ministry of Commerce has proposed a blanket ban on Foreign Direct Investment (FDI) in tobacco sector.

Background

- Although **FDI in tobacco manufacturing has been banned since 2010** in India, foreign tobacco companies can invest through technological collaborations, licensing agreement and by forming trading companies.
- The proposal has been opposed by NITI Aayog.

Issues involved

- India has an **\$11 billion tobacco industry**. There will be a loss of employment and foreign exchange with proposed restrictions.
- India **can be challenged under various BITs** on account of causing discrimination in domestic and foreign manufacturers.

Bilateral Investment Treaty (BIT)

- A BIT is a treaty between two countries that provides basic protections to the investors of one state investing in another. Eg. Most Favoured Nation provision

- India has about 83 BITs with different countries

India's model draft on BIT

- After losing in the 2011 White Industries case, India prepared a model BIT. Some of its provisions are-
 - ✓ **Deleting the MFN clause.**
 - ✓ **Enterprises based definition of investment-** Investors who do not set up an enterprise in India to carry business cannot seek protection under BIT.
 - ✓ **Compulsorily exhausting the local courts first** before approaching international tribunal for dispute resolution.
 - ✓ List of subject exceptions where provisions of BIT would be invalid are health, environment etc.

Significance of the proposal

- As per its obligation under **WHO's Framework Convention on Tobacco Control (FCTC)**, India has to reduce higher consumption of tobacco products.
- Such proposal may help in reducing government's health expenditure related to tobacco consumption.

Limitations of the proposal

- It will end participation of foreign companies in India leading to loss of investments and livelihoods of tobacco farmers.
- WHO's FCTC does not contain any provisions for banning FDI in tobacco sector as a means of reducing tobacco use.
- Foreign tobacco companies like Phillip Morris International of USA says such a **ban may be protectionist and discriminatory**.
- It is unsure that banning foreign manufacturers would reduce tobacco use. The foreign manufacturers may be replaced by domestic ones with the problem unsolved.

Way Forward

- India should **consider alternative regulatory mechanisms** which may better achieve a reduction in tobacco consumption like plain packaging regulations, increase taxes on

cigarettes, involving bidis in taxation etc. rather than having a blanket ban on FDI in tobacco sector.

13.3. FIPB TO BE ABOLISHED

Government announced in the Budget 2017-18 its intention to abolish FIPB (foreign investment promotion board) in fiscal year 2018.

Background

- Foreign Direct Investment (FDI) flows into India in **two ways**, the automatic route and through government approval.
- FIPB offers a single window clearance mechanism for FDI applications in sectors under **the approval route**. The board has handled investment proposals worth up to ₹5,000 crore.
- FIPB is located in the **Department of Economic Affairs**, Ministry of Finance and the Finance Minister is in charge of the FIPB.

Reasons Cited

- At present, **more than 90%** of the FDI inflows are routed through the **automatic route** which do not require prior approval from the FIPB and are subject to sectoral rules.
- For the rest of the FDI (about 8% of the total FDI inflows), every department concerned has a framework or a regulator for it.
- Further, FIPB has successfully implemented e-filing and online processing of FDI applications.
- Therefore, the government feels that it has now reached a stage where FIPB can be phased out.

13.4. GREEN BONDS

According to the **Climate Bonds Initiative**, \$81 billion worth of labelled green bonds were issued in 2016, compared to \$42.2 billion in 2015.

India's Position on Green Bonds

- Indian Renewable Energy Development Agency Ltd has issued bonds to finance renewable energy **without the tag of green bonds**.
- In 2015, **EXIM bank** launched India's first dollar-denominated green bond of \$500 million.
- India has become the **seventh largest green bond market in the world**.
- In January 2016, SEBI also released **first Green Bond guidelines** relating to listings, norms for raising money etc.
- Banks have also been permitted to issue green masala bonds.
- The upcoming year will witness **the first 'blue bond' issuance** in India.

What is Climate Bonds Initiative?

- The Climate Bonds Initiative is an **international, investor-focused not-for-profit organization**.
- It's the only organisation working to **mobilize \$100 trillion bond market for climate change solutions**.
- Its **objective is to develop** a large and liquid Green and Climate Bonds Market in developed and emerging markets.
- It would help aggregate money for fragmented sectors and support governments to tap debt capital markets.

Green Bond

- A bond is a debt instrument with which an entity raises money from investors.
- **The capital for green bond is raised to fund 'green' projects like renewable energy, emission reductions etc.**
- First Green Bond was issued by World Bank in 2007.
- There is no standard definition of green bonds as of now.

BLUE BONDS

It is a type of green bond which specifically invests in climate resilient water management and water infrastructure.

- As per Smart cities initiative, municipal bond market will be refuelled for water supply projects (a category of Blue Bonds) in cities like Pune and Hyderabad.

Significance of Green Bonds

- India has a target of building **175 GW of renewable energy capacity by 2022**. This requires \$200 billion in funding.
- India's INDC for Paris deal obligates India to achieve its emission intensity targets.
- Budget allocations are insufficient** with most of it allocated to the coal sector.
- Higher interest rates in India raise renewable energy costs by about 25 per cent. **Green bonds carry a lower interest rate than the loans offered by the commercial banks.**
- Investor suffers low risk because the **risk of the project stays with the issuer rather than investor.**
- It will promote a faster and a sustainable growth as per the 12th FYP.

Different climate financing initiatives existing today

- Global Environment Facility (GEF)** is a multilateral body of governments, civil society, banks etc. acting as a financial mechanism to environmental conventions like UNFCCC etc.
- Green Climate Fund** was created by UNFCCC in 2011 as an operating entity of financial mechanism of the UNFCCC.
- Carbon taxes and cess by the national governments.
- Clean Development Mechanism** – It involves investment by developed countries in emission reduction projects in developing countries
- Joint Implementation (JI)** - JI enables developed countries to carry out emission reduction projects in other developed countries.
- Perform Achieve Trade (PAT)** - It is a market-based trading scheme under National Mission on Enhanced Energy Efficiency (NMEEE). It involves trading in **energy efficiency certificates** to offset emissions.

Challenges in success of Green Bonds in India

- Concerns on **projects targeted under green bond**. Eg. French utility GDF Suez's \$3.4 billion green bond issue funded a dam project hurting the Amazon rainforests.
- Most green bonds in India have a **shorter tenor period** of about 10 years (compared to international issuances). A typical loan is for minimum 13 years.
- Many target buyers **may not invest in any bonds that are rated lower than the AAA-**.
- There is a lack of viable and bankable projects owing to pricing issues.
- There is inadequate infrastructure (such as inefficient metering in water infrastructure) to implement green projects.
- There is a **limited reliability and creditworthiness of urban local bodies in India**.
- Presently, Indian corporates tap **overseas market due to greater awareness and dedicated investors**.
- Standalone green projects such as rooftop solar still are unattractive to investors due to the small-scale and vast geographical spread.

Masala Bond

- Masala bonds are rupee-denominated bonds** issued by **Indian entities in the overseas market** to raise funds (traded only at the London Stock exchange).
- Masala bonds have been named so by the **International Finance Corporation (IFC)**, an **investment arm of the World Bank** which issued these bonds to raise money for infrastructure projects in India.

Way Forward

- There is a need for developing a **formal definition of 'green'** to ensure understanding across sectors. Innovative mechanisms such as **aggregation and securitization** could be used to provide mainstream debt to small-scale green projects. **Collective participation of regulators, policymakers, corporate and financial institutions** is going to be crucial in pushing green bonds further to address climate change.

14. INFRASTRUCTURE

14.1. INFRASTRUCTURE FUNDING

14.1.1. WHOLESALE LONG TERM FINANCE BANKS

A RBI discussion paper has proposed to set up **long-term finance banks** especially to fund **infrastructure and Greenfield projects of industries**, with a minimum capital requirement of ₹. 1,000 crores.

Need

- India is in the **need of \$1.5 trillion investment in infrastructure** in next 10 year to sustain or increase the present growth levels.
- India is **suffering from Twin Balanced sheet problem** with stressed banks and overleveraged companies. Therefore **dedicated paths of infrastructure funding** are the need of the hour.
- Tenor of the infrastructural loans is very long and therefore it does not incentivize institutions like Banks. Therefore there is a need of separate infrastructure banks.

Proposal of RBI

- The **eligibility criterion for promoters of a Wholesale and Long-term Finance Bank (WLTFB)** is the similar to on-tap universal banking licenses. Eg.
 - Individuals with 10 years of experience in banking and finance, with total assets of at least ₹ 5,000 crore and with less than 40 per cent of their total income from non-financial sources, can apply for the licence along with business groups,
 - Large industrial houses cannot take more than 10 percent stake in these banks.
 - These banks would be exempted from opening branches in rural and semi-urban areas and would not be forced to lend to agriculture and weaker sections of the society.
- WLTF Banks would be allowed to **raise funds from selling rupee-denominated bonds, commercial bank borrowing** and certificate of deposits.
- They would have to **maintain a Cash Reserve Ratio** but not for funds raised through infrastructure bonds.
- WLTF banks would **not be required to maintain Statutory Liquid Ratio**.

14.1.2. STATES ALLOWED OVERSEAS LOANS

Cabinet cleared a proposal recently to **enable State government entities to directly access funding from international bilateral financing agencies**.

Background

- Presently, **external development assistance from bilateral and multilateral sources is received by the Government of India**
 - For projects or programmes in the Central sector
 - For projects executed by Central Public Sector Undertakings
 - On behalf of the State Governments for State sector projects or programmes to be implemented by the State Governments or local bodies and state PSUs.
- The existing guidelines do not allow direct borrowings by the State Government entities from external agencies.

Need

- State entities **have to approach State governments** to avail international funding and any such funding is included in the State's borrowing budget which **leads to violation of the Fiscal Responsibility and Budget Management (FRBM) Act.**

Proposal

- State entities with revenue of greater than ₹. 1,000 crore and working on infrastructure projects above ₹. 5,000 crore, are permitted to directly take money from bilateral Official development assistance partners.
- The concerned State Government will furnish guarantee for the loan and the Government of India will provide counter guarantee for the loan.

Significance

- This would help States **access investments for big infrastructure projects.**
- The States would be able to take loans on the basis of a central government guarantee **without burdening the State exchequer** and not disturbing the state's FRBM targets.
- It will reduce the pressure on the State Budgets and allow them **to spend more on welfare schemes.**

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15. ENERGY

15.1. GLOBAL ENERGY ARCHITECTURE PERFORMANCE INDEX REPORT

The Global Energy Architecture Performance Index, prepared in collaboration with **Accenture**, is part of the **World Economic Forum's System initiative** on Shaping the Future of Energy.

- The index benchmarks the energy system performance of 127 countries according to 18 indicators covering **three core dimensions: energy access and security, sustainability and contribution to economic growth.**
- The list was topped by **Switzerland followed by Norway and Sweden** in the second and third place, respectively.
- India has marginally improved its position to **87th place on a global energy architecture performance index.** Regarding India, the report noted that it is "facing a vast array of challenges in the power sector in order to meet its growth targets".
- Among the BRICS nations, Brazil was the top performer as it was ranked at the 30th place, followed by Russia (48th), South Africa (76th), India (87th) and China (95).

15.2. INDIGENOUS NUCLEAR POWER

Cabinet has recently cleared the proposal to construct 10 indigenous pressurised heavy water nuclear reactors (PHWR) with each having a capacity of 7,00 MWe, to be built by Nuclear Power Corporation of India Ltd (NPCIL). They will more than double the country's current installed nuclear capacity of 6,780 MWe.

Significance of the decision

- **Doubling nuclear capacity** - These plants will more than double the country's current installed nuclear capacity
- **Domestic nuclear capacity building** – The move shows strong belief in the capability of Indian scientists to build our technological capacities which will help India to come at the forefront of global nuclear supply and manufacturing chain in future
- **Increase in employment** – These plants would create ₹. 70,000 crore worth of business for domestic manufacturers (especially in equipment manufacturing industry) and generate about 33,400 jobs.
- **Reducing dependency** – India is facing troubles in international collaborations such as bankruptcy filed by US company Westinghouse and cost issues with French company Areva.
- **INDC commitments** – It not only ensures the nation's energy security but also meet India's clean energy commitments for carbon-free sources of power under Paris deal.

About NPCIL

- It is a Public Sector Enterprise under the **Department of Atomic Energy**
- It is registered as a **Public Limited Company** under the Companies Act
- Its main objectives are operating atomic power plants and implementing atomic power projects for generation of electricity
- It also has **equity participation in BHAVINI**, another PSU of Department of Atomic Energy (DAE) which implements Fast Breeder Reactors programme.

Associated Concerns

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- **Safety concerns** - The government has to adhere to strict safety standards in the design, building and operations of the proposed reactors.
- **Regulatory issues** – Independent body should regulate public sector nuclear power plants to avoid conflict of interest in having Atomic Energy Regulatory Board, a government body, overseeing them.

Plant	Unit	Type	Capacity (MWe)
Tarapur Atomic Power Station (TAPS), Maharashtra	1	BWR	160
Tarapur Atomic Power Station (TAPS), Maharashtra	2	BWR	160
Tarapur Atomic Power Station (TAPS), Maharashtra	3	PHWR	540
Tarapur Atomic Power Station (TAPS), Maharashtra	4	PHWR	540
Rajasthan Atomic Power Station (RAPS), Rajasthan	1	PHWR	100
Rajasthan Atomic Power Station (RAPS), Rajasthan	2	PHWR	200
Rajasthan Atomic Power Station (RAPS), Rajasthan	3	PHWR	220
Rajasthan Atomic Power Station (RAPS), Rajasthan	4	PHWR	220
Rajasthan Atomic Power Station (RAPS), Rajasthan	5	PHWR	220
Rajasthan Atomic Power Station (RAPS), Rajasthan	6	PHWR	220
Madras Atomic Power Station (MAPS), Tamilnadu	1	PHWR	220
Madras Atomic Power Station (MAPS), Tamilnadu	2	PHWR	220
Kaiga Generating Station (KGS), Karnataka	1	PHWR	220
Kaiga Generating Station (KGS), Karnataka	2	PHWR	220
Kaiga Generating Station (KGS), Karnataka	3	PHWR	220
Kaiga Generating Station (KGS), Karnataka	4	PHWR	220
Kudankulam Nuclear Power Station (KKNPS), Tamilnadu	1	VVER -1000 (PWR)	1000
Kudankulam Nuclear Power Station (KKNPS), Tamilnadu	2	VVER -1000 (PWR)	1000
Narora Atomic Power Station (NAPS), Uttarpradesh	1	PHWR	220
Narora Atomic Power Station (NAPS), Uttarpradesh	2	PHWR	220
Kakrapar Atomic Power Station (KAPS), Gujarat	1	PHWR	220
Kakrapar Atomic Power Station (KAPS), Gujarat	2	PHWR	220
Total Nuclear Power Plant Capacity : 6780 MWe			

- **Time and cost overruns** – It has been the norm in the setting up of nuclear power plants so far. This needs to be changed to ensure operationalization of new plants within a timeframe.
- **International aversion to nuclear power** - India's nuclear quest runs contrary to the global pushback against nuclear power.

Current status of India's nuclear capacity

- NPCIL is presently operating 22 commercial nuclear power reactors (details shown in the figure)
- The total installed capacity in India is 6780 MWe, constituting 2.1% of the total installed capacity in India.
- The reactor fleet comprises of three types of reactor
 - PHWR
 - Boiling water reactor (BWR)
 - VVER (Pressurized water reactor type)
- India today has civil nuclear cooperation agreements with several countries, including France, Russia, UK, US and Japan.

Comparison of different types of reactor

The different types of reactor have been compared in the following table:

	BWR	PWR	PHWR	FBR
Purpose	Electricity	Electricity, nuclear-powered ships	Electricity, plutonium production	Electricity, plutonium production
Coolant	water	water	Heavy water (D ₂ O)	Molten, liquid sodium
Moderator	water	water	Heavy water (D ₂ O)	Not required
Fuel	Uranium dioxide	Uranium dioxide (UO ₂)	UO ₂ or metal	Plutonium dioxide and UO ₂ in different combinations
Enrichment level	Low-enriched	Low-enriched	Not-enriched	Various mixtures of P-239 and U-235

Why India chose PHWR?

- Availability of fuel - guaranteed as India has put most of its PHWR under IAEA safeguards.
- No need of establishing expensive enrichment facility as it uses natural uranium as fuel.
- Availability of indigenous technology, expertise and resources.
- More energy-efficient than comparable Light Water Reactor.

15.3. CENTRE TO DOUBLE SOLAR PARK CAPACITY

Cabinet has approved the **doubling of solar park capacity to 40,000 MW**.

State will identify the solar park developer and also the land on which it would be built.

Need of the move

- The move is aimed at India's greenhouse emissions commitment at the global stage as part of INDCs.

Solar Energy Corporation of India (SECI)

- It is a **not-for-profit company** under Ministry of New and Renewable Energy.
- It is currently the **implementing agency of many solar programs of government of India**.

- As of now, 34 solar parks have been commissioned equivalent to 20000 MW. Now this move would add other such parks.

Eligibility of the scheme

- All the States and UTs are eligible for this scheme.
- Solar Energy Corporation India (SECI)** will administer the scheme under Ministry of New and Renewable Energy.

Intended Nationally Determined Contributions

- They are the public commitments on post-2020 climate actions that were made by countries at the COP21 meet of UNFCCC in 2015.
- The aim of the commitments is to hold the increase in global average temperature to well below 2 degree Celsius.

Significance of the move

- This move would help set up at least 50 solar parks of about 500MW each by 2019-2020. This would help **promote transition towards a better energy security**.
- It would give India an ecologically sustainable growth by reduction in carbon emissions and carbon footprint.
- It would **generate large direct & indirect employment opportunities** in solar and allied industries like glass, metals, heavy industrial equipment etc.
- The solar parks will also provide **productive use of abundant uncultivable lands** which in turn facilitate the development of the surrounding areas.
- Centre would also give a grant of up to 25 lakh apart from a central funding assistance of 20 lakh per megawatt or 30% of the project cost, whichever is lower. This would **improve credit flow for green projects**.

15.4. ENERGY SAVING CERTIFICATES

Under the Draft Energy Savings Certificates regulations, Central Electricity Regulatory Commission (CERC) has approved the trading of ESCs on power exchanges.

Proposal

- The Power System Operation Corporation Limited has to perform the role of registry of the ESCs.
- The Bureau of Energy Efficiency has been assigned the role of administrator for exchange of ESCs.
- CERC will supervise and approve the procedures as framed by the Administrator from time to time. It would also exercise market oversight over the power markets.

Perform Achieve and Trade scheme

- It is a scheme under the **National Mission on Enhanced Energy Efficiency**.
- It was introduced as an instrument to reducing specific energy consumption in energy-intensive industries.
- It is aimed at major industries like thermal power, fertilizer, cement etc.
- It is a market-based mechanism that allows the trading of ESCerts (energy saving Certificate)
 - ESCerts were introduced in 2013 by the Bureau of Energy Efficiency (BEE) for industries which achieved energy efficiency standards.
 - They are issued by BEE or Ministry of Power.
 - One certificate is equal to the energy consumed in terms of **one metric tonne of oil equivalent (mtoe)**.

Renewable Energy Certificates

- It addresses the mismatch between availability of Renewable Energy sources and mandatory Renewable Purchase Obligations.
- Its value is equivalent to 1 MWh of electricity injected from renewable energy sources.

Significance of the move

- This would **create a transparent and efficient platform** to exchange ESCerts.
- It would enable power exchanges like Indian Energy Exchange to become a one-stop-shop to buy and sell Electricity, Renewable Energy Certificates and ESCerts.

Way Forward

- Trading of the ESCs through power exchanges is a welcome step. The government should also setup a **floor price to the ESCerts** so that in case of oversupply of them, their prices do not fall below market prices.

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16. COAL AND HYDROCARBON

16.1. SHAKTI POLICY

- Cabinet recently approved a coal linkage policy called **Scheme to Harness and Allocate Koyla Transparently in India (SHAKTI)**. It aims to auction long-term coal linkages to power companies.

Need

- Due to increased demand for electricity, the dependence on coal is also rising. Because of the supply-demand mismatch of the coal, the power companies are forced to import coal from abroad. Therefore a rise in the coal production and a coal linkage policy to link power producers to the coal producers is the need of the hour.

Provisions of the policy

- Coal linkages would be awarded to designated state-owned power distribution companies (DISCOMs). DISCOMs would assign linkages to state or central power generation companies via allocation, and through auction to private units.
- The independent power producers (IPPs) having Power purchase agreements (PPAs) will participate in the auction and will bid for discounts on the existing tariff. This would be adjusted from the gross coal bills.
- IPPs without Power Purchase Agreements (PPAs) shall be bidding for linkage over the notified price of the coal company.

Significance

- It is expected to **revive 30,000 MW of power plants** in the country, which are awaiting fuel supply.
- It would also reduce dependence on imported coal. Most of the thermal power projects were on the verge of turning into non-performing assets (NPAs), as they could not sell power despite having PPAs because they lacked fuel supply. This would get solved.
- This policy would help cut tariffs on electricity applicable to consumers.

Challenges

- The linkage policy spares project developers of the up-front capital costs and risks of a captive mine. This might reduce direct gains to government treasury for a short term.

SHAKTI
Scheme for Harnessing & Allocating Koyala (Coal) Transparently in India

ACCOUNTABILITY

- Transparent bidding for coal linkages
- Elimination of discretion in allocation

AFFORDABILITY

- Competition will help reduce power tariffs
- Ensuring 24x7 affordable 'Power for All'

ACCESSIBILITY

- Alleviate bank problems & assist revival of stressed assets
- Ensuring coal to all power plants

FUELLING CHANGE

Installed coal-based thermal power capacity: **1,85,617 MW**
Of which, private-sector: **70,237 MW**

Thermal capacity with letter of assurance (LoA) from CL: **1,08,000 MW**
Fuel supply agreements (FSA) signed in 2013: **78,000 MW**

Potential private-sector gainers from the new policy

Plants with LoA, PPA but no FSA	Plants with PPA, but no LoA/FSA	Plants without FSA/PPA
~12,000 MW	~8,000 MW	~10,000 MW

SHAKTI SOLUTION

Benefits:

- Policy will ensure all power projects get adequate coal supply
- Bring in transparency in allocation
- Reduce power costs for consumers
- Minimise use of imported coal

Route: PSU power generators will be allocated fuel linkage based on power ministry's recommendations

Auction route for private firms

Power generation in India
Thermal – 69.3% in which coal accounts for 60.8%.
Hydro (renewable) – 14.0%
Nuclear – 1.9%
Renewable Source – 14.9%

- Some observers feel that giving coal linkages **on allocation basis** to thermal stations owned by the Centre or state governments and to private developers **on competitive bidding basis** distorts the competitive power market.

Way forward

- This policy is a welcome step towards the government's vision of Power to all and 24*7 electricity. It would also be beneficial towards the rising urbanization and aspiration of the population of India.

Recent initiatives:

Coal Mitra web portal to facilitate coal swapping among government and private firms.

TAMRA, a web portal and mobile application, to streamline the process of various statutory clearances required for mining operations.

Mining Surveillance System a satellite-based monitoring system developed by Ministry of Mines aims to establish responsive mineral administration through public participation by curbing instances of illegal mining activity using automatic remote sensing detection technology.

16.2. ROADBLOCKS IN HYDROCARBON INDUSTRY OF INDIA

Farmers in Neduvasal village of Tamil Nadu are protesting against an onshore hydrocarbon project block allotted under the Discovered Small Fields bidding.

Need of new energy projects

- India **now imports more than 80 per cent of its crude oil and 40 per cent of its natural gas** requirement. This leads to sufficient depletion of foreign currency reserves and lose control on domestic inflation.
- Demand is rising with economic growth but **domestic production has been falling**.

Challenges to the new domestic projects

- Due to scarcity of land**, there are protests at many places by farmer community against **onshore oil projects**.
- Hydrocarbon Pricing:**
 - Oil Sector:**
 - ✓ The new Hydrocarbon exploration licensing policy promotes revenue sharing contracts rather than production sharing model.
 - ✓ This might discourage large investment in this sector because of higher risks in revenue sharing contract.
 - Gas sector:**
 - ✓ Unlike crude oil, domestic gas prices are not market-linked but are formula-based.
 - ✓ It is determined every 6 months as a weighted average of four international benchmarks- US-based Henry Hub, Canada-based Alberta gas, UK-based NBP and Russian gas
- Investments:**
 - PSU companies are also seen to make sub-optimal investments.
 - Eg. ONGC acquired GSPC's 80 percent stake in the not-so-successful Deen Dayal asset for \$1.2 billion.
 - **Sub-optimal capital allocation** impedes the ability of the PSU companies to invest in the future prospects.
- Poor Infrastructure:** Due to lack of **poor evacuation infrastructure** in gas sector like poor pipeline connectivity, the sector has not achieved its full potential in India.

Under recoveries

- It denotes **notional losses** that oil companies incur due to the difference between the subsidized price at which the companies sell certain products like diesel and the price which they should have received for meeting their production cost.

Government steps to promote hydrocarbon sector

- **Pricing reforms:** Fuel prices like petrol and diesel have been deregulated especially after the slump of global oil prices. This has improved the profit margins of oil companies too.
- The Hydrocarbon Exploration Licensing Policy has the following provisions:
 - **Revenue-sharing contract:** Sharing revenue with the government as soon as commercial production begins.
 - **Unified licensing policy:** Exploration of all possible hydrocarbons in a block
 - **Open acreage licensing:** Bidders can select the exploration blocks on its own without waiting for the formal bid round.
 - Pricing and marketing freedom for new gas production from difficult terrains.
- Indian oil companies have also signed **contracts to explore shale gas** in the United States.
- **Renegotiation of long-term projects** with major gas suppliers to boost foreign investment.
- **Planning of strategic reserves** in places like Vishakhapatnam, Padur, Bikaner etc. in times of low oil prices.
- In the recent Budget, the government has proposed to create an **integrated public sector 'oil major'**. This would enhance finances to bid for big-ticket foreign assets that see intense competition from major international players.

16.3. FUEL ADMINISTERED PRICE MECHANISM

Recently, Administered Price Mechanism (APM) for petrol and diesel were dismantled by the government.

Background

- The Narasimha Rao government had set up a “**R Committee**” (R for Reforms) under Vijay Kelkar to plot a blueprint for dismantling Administered Price Mechanism.
- But such mechanisms could not fructify because, in the 2000s, the price of crude oil became highly volatile and political consensus on reforms withered.

Provisions

- India **lifted price control on diesel in 2014 and on petrol in 2010** allowing state companies to charge market prices. At present, **state companies review prices at the end of every fortnight** depending on the prevailing international prices.
- From now on, the **daily sales at all the petrol pumps would be linked** to the international prices of crude oil.

Fuel Administered Price Mechanism

- The APM was created after the Government **nationalized the international oil majors** – Caltex, Esso and Burmah Shell in the early 1970s.
- With the APM, the Government also established a system of **Oil Pool accounts**, which was administered by the **Oil Coordination Committee (OCC)**.
- The **OCC has been reduced to Petroleum Planning and Analysis Cell** under the Petroleum Ministry to oversee the functioning of the downstream oil companies.
- In Administered Pricing, **under the cost plus formula**, prices of all petroleum products are **fixed on the basis cost of procuring and refining crude oil**.
- Cross subsidization among petroleum products was in existence under the administered pricing mechanism. The prices of petrol and diesel subsidized the prices of liquefied petroleum gas (LPG) and kerosene.

Dynamic Fuel Pricing

IndianOil, BPCL and HPCL are considering ways to roll out the plan to review petrol and diesel prices daily

Executives of these companies met Oil Minister Dharmendra Pradhan and the ministry officials on Wednesday to discuss the idea of daily fuel pricing

- ▶ **The automation** at most filling stations, which allows companies to centrally change prices, has made it much easier for companies to convey price changes to their 53,000 filling station across the country
- ▶ **Daily changes mean** prices wouldn't rise or drop sharply
- ▶ **Prices would change** just by a few paise every day, bringing no shock to customers
- ▶ **This means** companies can easily take price hikes without worrying about political backlash

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Significance

- Now, **oil companies are free to take independent decisions based on import parity and market forces** in pricing of petroleum products.
- It shifts India a step closer to **becoming a competitive market economy** with the entry of more private players. This would improve the inefficient allocation of scarce resource like fuel.
- It would also help move the oil public sector units into profits. It would also reduce the burden on exchequer.

Challenge

- The sustainability of this mechanism would face challenges when the crude oil prices rise.
- It would create an inequality of prices of fuel in different states. For Eg. The coastal state fuel prices would reduce whereas the fuel prices of hinterland would rise after the market-linked pricing steps in.
- **Retail presence, logistics arrangement and risk management** would be the three critical factors for oil companies to succeed in the new competitive free market. **Extensive retail presence would be the most critical success factor** for companies.

16.4. INDIA AS A GAS BASED ECONOMY

Recently, government pointed out that natural gas is one of the cleanest and most environment-friendly fuels having extremely low Carbon Dioxide emissions compared to other fuels like coal and oil.

Steps being taken to increase use of natural gas

- **Steps to 'make India a gas based economy'**
 - ✓ Development of Gas Sources either through Domestic gas Exploration & Production activities or through building up facilities to import natural gas in the form of LNG,
 - ✓ Development of Gas Pipeline Infrastructure and Secondary distribution network.
 - ✓ Development of gas consuming markets like Fertilizer, Power, Transport and Industries etc.
- **Steps to enhance domestic natural gas production** through several policy initiatives such as:
 - ✓ Policy to grant relaxation, extension, and clarifications at development and production stage for early monetization of hydrocarbon discoveries
 - ✓ Marginal Field Policy- Discovered Small Field Policy
 - ✓ Uniform Licensing Policy-Hydrocarbon Exploration and Licensing Policy
 - ✓ Policy for Grant of Extension to small and medium sized discovered fields
 - ✓ Policy for Marketing Freedom for Gas Produced from Deepwater and Ultra-Deepwater areas etc.; and
 - ✓ Policy on testing requirements for discoveries made under New Exploration and Licensing Policy (NELP) Blocks.
 - ✓ To incentivize gas production from difficult areas, Government has granted marketing, including pricing, freedom for the gas produced from difficult areas as well as under

Urja Ganga Project:

It aims to provide piped cooking (PNG) gas to residents of the eastern region of the country and CNG gas for the vehicles.

The project envisages laying a 2,050-km pipeline connecting Jagdishpur (UP) to Haldia (West Bengal) by 2018. It will include five states including UP, Bihar, Jharkhand, West Bengal and Odisha.

Hydrocarbon Exploration and Licensing Policy (HELP) under which acreages will be provided in future.

Need for these steps

- Natural gas is one of the cleanest and most environment-friendly fuels having extremely low Carbon Dioxide emissions compared to other fuels like coal and oil.
- The move towards a gas-based economy will not only showcase India's commitment to climate change as a globally responsible economy but will also draw huge investment to the sector, besides creating jobs.
- India's gas supply deficit is expected to widen from 78 million cubic metres a day (mcmd) this fiscal year to 117 mcmd in 2021-22. This can have significant economic, strategic and geopolitical implications. The implementation of these policy initiatives and other reform initiatives is expected to enhance domestic natural gas production

16.5. DBT FOR KEROSENE

About

- After the success of Direct Benefit Transfer (DBT) in LPG/Cooking gas, the government is planning to launch DBT in Kerosene as well.
- It has initiated the process by a pilot programme in 4 districts of Jharkhand.
- Under the DBTK Scheme, PDS kerosene is being sold at non-subsidised price, and, subsidy, as admissible, is being transferred to consumers directly into their bank accounts.
- This initiative of the governments is aimed at rationalising subsidy, cut subsidy leakages and reduce administrative costs. It, thus, seeks to benefit all stakeholders.

Challenges in Implementation

- Lack of a streamlined and unified digital consumer database: The LPG consumers were all under Public Sector Oil marketing companies which made it easier to compile a consumer data. However, in case of Kerosene the consumer data is with individual states under their PDS system. Thus, coordination among the large number of State-level actors, especially in the case of a non-digitised PDS beneficiary database, can create barriers.
- Differences between centre and states: While the Centre bears the fiscal impact of subsidy, the States determine the beneficiaries and quantum of subsidy. This is an important political currency for State governments. Thus, states must be aligned to this idea for its successful implementation.
- The price difference between diesel and unsubsidized kerosene will still be high enough to give an incentive to the middlemen to divert the fuel as a diesel substitute.
- Another challenge is in ensuring that the subsidy is accessible to its major beneficiaries-poor households. Presently, the bank branches are not readily available in remote locations which increase the cost of withdrawing money.

Way Forward

- Studies show that kerosene is predominantly used as a lighting fuel in rural India, with less than 1 per cent of households using it as a primary cooking fuel.
- Thus, there is need to move towards solar-assisted solutions for lighting and LPG for cooking. This would be economically beneficial to government as well as households in the long-run.

17. ELECTRICITY

17.1. DRAFT NATIONAL ELECTRICITY PLAN (GENERATION)

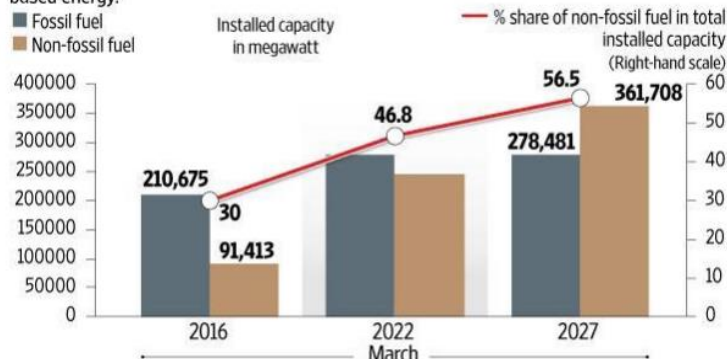
Central Electricity Authority released the draft National Electricity Plan (generation).

Key features of the draft Plan

- The document assumes capacity addition from gas at 4,340 MW, hydro at 15,330 MW, nuclear at 2,800 MW and renewable sources at 115,326 MW as committed capacity during 2017-22.
- For the period 2022-27, priority has been given to development of hydro and nuclear-based projects for power generation.
- Coal based capacity addition will not be required in this period, as a capacity of 50 GW is already under construction against a requirement of 44 GW.
- It said that the renewable energy generation will contribute about 20.3 percent and 24.2 per cent of the total energy requirement in 2021-22 and 2026-27, respectively.
- It scaled down India's peak power demand over the next 10 years than the corresponding projections made by 18th Electric Power Survey (EPS) report due to energy conservation measures.
- It has also suggested some measures to improve energy efficiency:
 - developing an energy efficiency code for buildings,
 - undertaking energy efficiency schemes in the small and medium enterprise sector,
 - using energy efficient pump sets in agriculture, and
 - Bringing in regulatory instruments such as demand based pricing.

GROWTH EXPECTATIONS

The rising share of renewables has led to a sharp drop in requirements of coal and gas based energy.



Coal based capacities of 50,025MW are in different stages of construction and are expected to be available during 2017-22; Non fossil fuel includes hydro, nuclear and renewable energy.

Source: Central Electricity Authority

- Central Electricity Authority (CEA): It is a statutory organization under the Electricity Act, 2003.
- It is required to prepare a National Electricity Plan in accordance with the National Electricity Policy.

Recent Initiative:

24X7 Power for all aims to provide 24X7 power access in the country anywhere anytime by 2019.

Saral Eindhya Vitaran Application (SEVA) App for increasing the Consumer Connect as well as the **transparency and accountability in coal dispatch**.

Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY) : Flagship programme of power ministry to facilitate 24*7 power supply esp in rural area villages earlier called Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

GARV II app to provide real-time data about rural electrification in all (6 lakh) villages of the country.

UDAY (Ujwal DISCOM Assurance Yojana): for the financial turnaround and revival of Power Distribution companies (DISCOMs), and importantly also ensures a sustainable permanent solution to the problem.

Issues involved

- Some analysts have said that there could be huge power shortages if the government sticks to the CEA's estimates because the assumed expansion in renewable energy, hydroelectric and gas-based projects may not materialise.
- While the plan has scaled down peak power demand, there are concerns that demand pull that would be created by key government initiatives such as the 'Make in India' initiative, access to electricity to villages/households and new smart cities have not been taken into account.

17.2. POWER TRANSMISSION PLANNING**Why in News**

- The Mata Prasad committee, constituted by Central Electricity Regulatory Commission (CERC), in its recently released report has suggested an overhaul in transmission planning to facilitate transfer of power on economic principles.

Key Suggestions

- Transmission planning should be aligned to meet customer aspirations in contrast to the long-term power purchase agreements (PPAs) arrangement. Transmission planning can also be done on the basis of projected load of the states and anticipated generation scenario based on economic principles of merit order operation.
- In case of renewable energy sources, the transmission system may be planned by the central transmission utility (CTU) based on estimated capacity additions in perspective plan and renewable purchase obligations of each state. This is crucial as the Centre has already launched renewable energy capacity addition of 175 Gw by 2032.
- To promote the power market, the transmission corridor allocation should be suitably made. 5% of each flow gate may be reserved for day-ahead collective transactions, which may be released for the contingency market in case of non-utilisation of the corridor by power exchanges. This would be annually reviewed.
- The committee has emphasised the need for the creation of a central repository of generators in the Central Electricity Authority of India (CEA), where any generation project developer proposing to set up a new generation plant must register itself. This will not only provide vital data for the transmission planning process but will alleviate problems due to uncoordinated generation additions.
- The committee has also made a strong case for hand-holding of states by CEA and CTU for accurate demand forecasting.

Significance

The recommendations would be helpful in better long-term planning of transmission system which plays a key role in India's power infrastructure.

18. PORTS AND INLAND WATERWAYS

18.1. MERCHANT SHIPPING BILL

The Cabinet approved a new Merchant Shipping Bill, 2016. It provides for repealing of the Merchant Shipping Act, 1958, as well as the Coasting Vessels Act, 1838.

Key Features of Bill

- Augmentation of Indian tonnage promotion
 - allowing substantially-owned vessels to be registered as Indian flag vessels;
 - recognising Indian controlled tonnage as a separate category;
- development of coastal shipping in India by:-
 - dispensing with the requirement for issuing of licences to Indian flag vessels for coastal operation and for port clearance by the Customs authorities; and
 - Making separate rules for coastal vessels to develop & promote coastal shipping.
- Introduction of welfare measures for seafarers, such as:
 - seafarers held in captivity of pirates will receive wages till they are released and reach home back safely;
- Registration of certain residuary category of vessels not covered under any statute and to make provisions for security-related aspects.
- Incorporation of all International Maritime Organisation (IMO) Conventions/Protocols (**See box**)
- The Coasting Vessels Act, 1838, which is an archaic legislation of the British era providing for registration of non-mechanically propelled vessels to a limited jurisdiction of Saurashtra and Kutch, is proposed to be repealed since in the Merchant Shipping Bill 2016 provisions have been introduced for registration of all vessels for the whole of India.

International Conventions

- the Intervention Convention 1969,
- the Search and Rescue Convention 1979
- the Protocol for Prevention of Pollution from Ships Annex VI to Marine Pollution Convention,
- the Convention for Control and Management of Ships Ballast Water and Sediments, 2004,
- the Nairobi Wreck Removal Convention, 2007,
- the Salvage Convention 1989 and
- the International Convention for Bunker Oil Pollution Damage, 2001.

Implications

- Provisions of the Bill will simplify the law governing merchant shipping in India and will help India's Sagarmala project and development of Coastal Economic zones.
- Redundant provisions will be dispensed with and the remaining provisions will stand consolidated and simplified so as to promote ease of doing business.

18.2. MAJOR PORTS AUTHORITY BILL, 2016

Why in news

- Union cabinet approved Major Ports Authority Bill, 2016 that will replace Major Ports Trusts Act, 1963.

Issues with the ports

- Port Trusts are not leasing out the land to Private operators in time.
- Multiple agencies are involved in decision-making process leading to delay.
- Multiple stakeholders are interpreting the concession agreements in their own way causing differences and litigations.

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- Presently there is no independent board to look into disputes between stakeholders.
- Even though 100% FDI is allowed in Port sector, still tendering process inviting bidding from top MNC's is not usually followed citing security issues.

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 own equipment to handle cargo. In return, the landlord port gets a share of the revenue from the private entity.

SERVICE PORT MODEL

Port authority owns the land and all available assets-fixed and mobile-and performs all regulatory and port functions. The port trust is both landlord and the cargo terminal operator.

Highlights of the bill

- It proposes to simplify composition of **Board of Port Authority (BPA)** comprising of only 11 members including 3-4 independent directors from present 17-19 members.
- Bill propose to divest **Tariff Authority of Major Ports (TAMP)** of its power to regulate tariffs and delegate this power to **BPA** to fix tariff which will act as a reference tariff for purpose of bidding PPP projects.
- **BPA** will be empowered to lease land for port-related use for up to 40 years and for non-port related use up to 20 years and also fix rates for other port services and assets like land.
- Bill proposes to introduce **internal audit** of Central Ports as mentioned in companies act 2013 including provisions of CSR and development of infrastructure by port authority.
- **Independent Review Board (IRB)** will be setup to carry out the residual function of **TAMP** like looking into disputes between port and PPP concessionaires, to review stressed PPP projects and suggest measures to cope with stressed PPP projects.
- **IRB** will also look into complaints regarding services rendered by the private operators.

Implications

- The bill would give more autonomy and flexibility to major ports in the country bringing professional approach in their governance.
- It will help in faster, independent decision-making which will be beneficial for the government, stakeholders and country at large.
- A compact Board with professional independent members will strengthen decision-making and strategic planning.
- It will significantly improve the project execution capabilities of the ports.
- Bill will help in reorienting the governance model of Central ports to Landlord port model. Presently most major ports in India carries out terminal operations as well, resulting in hybrid model of port governance.

Conclusion

- India has been following hybrid format of long obsolete service port model which is consistent with centralized economy.
- While globally landlord port model is followed consistent with market-oriented economy this resulted in conflict of interest in India between the port trusts and the private sector, with the former acting both as port regulators and providers of commercial services in many instances.
- So there is urgent need for smooth transition to landlord port model to increase their efficiency.

18.3. JAL VIKAS MARG PROJECT

Ministry of Shipping is implementing phase 1 of Jal Vikas Marg Project (capacity augmentation of National Waterway-1) between Varanasi and Haldia with technical and financial assistance of World Bank.

Jal Vikas Marg Project was announced during Budget 2015-16.

About Jal Vikas Marg Project

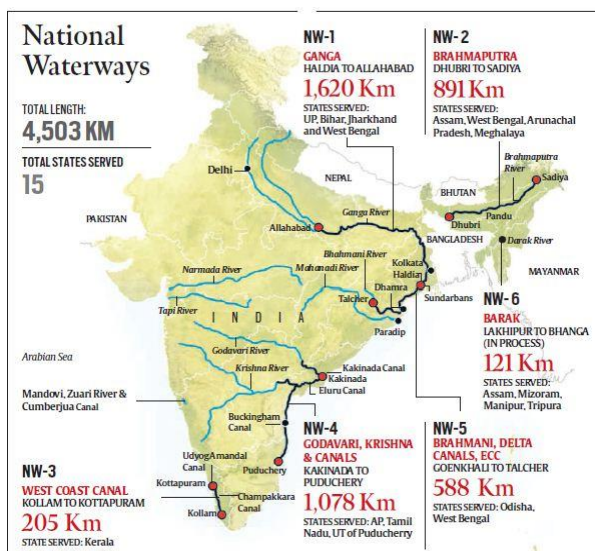
- This Project envisages developing a **navigable channel** (achieve **Least Available Depth** of 3.00 meters for commercial navigation of 1500-2000 tonnes of ship) between 1,620 km **Allahabad and Haldia** (National Waterway-1) stretch on river **Ganga**. This project will be completed in **6 years**.
- **Main objective** of the project is to provide an **environmentally friendly, fuel-efficient and cost-effective** alternative mode of transportation.
- **National Waterway-1 (NW-1)** is a waterway passing through Uttar Pradesh, Bihar, Jharkhand and West Bengal serving major cities like Allahabad, Varanasi, Patna, Howrah, Kolkatta, Haldia, etc.
- **International Waterway Authority of India (IWAI)** is the implementing agency of this project.
- With development of National Waterway-1, huge quantities of bulk cargo can be transported thereby helping in economic development of the region.
- **IWAI** along with **Dedicated Freight Corridor Corporation of India (DFCCIL)** will create logistics hubs with rail connectivity at important nodal points along the National Waterway.
- The project includes **development of fairway; multi-modal terminals at Varanasi, Haldia and Sahibganj; strengthening of river navigation system; conservancy works, modern River Information System; Digital Global Positioning System; Night navigation facilities; Modern methods of channel marking** and construction of a new state of the art **navigational lock at Farakka**.
- This Project Will Result in Employment Generation; Provide Cheap, Efficient and Environment-Friendly Option Transportation of Cargos; Economic Development of Areas Along the Nw-1 and Also Their Hinterlands; Maximum Utilization of Nw-1, Etc.

About Inland Waterway Authority of India

- It is an apex statutory body created in 1986 for development and regulation of **inland waterways** for shipping and navigation under **Ministry of Shipping**.
- The head office of the Authority is at **Noida (UP)**.

About National Waterway (NW)

- India has about **14,500 km** of navigable waterways which comprise of rivers, canals, backwaters, creeks, etc.
- India has total of **111 NW** out of which **106** were Created in 2016 as per **NW Act, 2016**.



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19. ROADS

19.1. TRANSIT ORIENTED DEVELOPMENT POLICY

To address the challenges of urbanization, the Ministry of Urban Development has come out with a Transit Oriented Development (TOD) Policy.

Background

- Transit Oriented Development projects are already being taken up in Ahmedabad, Delhi (Kakardooma), Naya Raipur, Nagpur and Navi Mumbai.
- Current progress of Transit Oriented Development is seen in the fact that –
 - Over **300 km of Metro lines** are operational in seven cities and another 600 km of metro line projects are under construction.
 - **Bus Rapid Transport Systems in 12 cities** are under different stages of progress.
 - **Mass Rail Transit System** of 380 km length is being taken up in Delhi.

Transit Oriented Development

It enables people to live within walking or cycling distance from transit corridors like the Metros, Monorail and Bus Rapid Transit (BRT) corridors.

About the Policy

- The **city densification will be promoted along mass transit corridors** through-
 - **Vertical building construction** by enhancing Floor Area Ratio.
 - Promotion of **Non-motorized Transport** for walking and cycling.
 - **Seamless integration of different transport modes** with first and last mile connectivity through feeder services.
- It **seeks to enhance understanding of States and UTs on TOD** as a solution to rising urban challenges like-
 - Haphazard urban growth and sprawl
 - Urban mobility problems related to congestion of roads and rapidly rising private vehicles on roads
 - Uncontrolled pollution
 - Housing choices
- It is proposed to be financed by **channelizing a part of increases in property values** after investments in transit corridors through **Betterment Levies and Value Capture Financing**.
- It also aims at **inclusive development** by having **mixed neighbourhood development** with a range of housing choices including affordable housing and ensuring spaces for street vendors.
- States and UTs will be required to
 - Incorporate TOD in the Master Plans and Development Plans.
 - **Identifying 'Influence Zones' from transit corridors** for tapping revenue streams.

Floor Area Ratio

It is the ratio of a building's total floor area as compared to the size of the land upon which it is built.

Other policies to promote Transit Oriented Development

- TOD is also being incentivized under **two more initiatives viz., Metro Policy and Green Urban Mobility Scheme**.
- Under the **new Metro Policy**, TOD has been made mandatory while under **Green Urban Mobility Scheme**, TOD is recommended as an essential reform with priority in central assistance.

Significance of the proposal

- It would **promote decongestion of roads** of the country by improving the ridership of the mass transit system.

- Increased private sector participation will result in **economic development and employment generation**.
- It may also open **more avenues of better land use** from the land that has been achieved by planning. Eg. Affordable Housing
- There is a need to **integrate land use planning with transportation and infrastructure development**. This is because of the need of **compact development as against the present pattern of unplanned and haphazard urban growth**

Challenges Involved

- Transit Oriented development may encounter **funding constraints**.
- It would also require **changes in behaviours of people** to indulging in more cycling and walking.
- It may also involve issues in terms of land acquisition and rights of way.
- The older infrastructure may need to be destroyed and be rebuilt again in a planned manner. This would **require people's consent and political will** on the part of the government.

Way Forward

- National Urban Transport Policy focuses on shift from moving vehicles to moving people. The new Transit Oriented Development policy will help to fulfil this aim. It would also help in decongeexpand this into other cities as well.

19.2. EASTERN DEDICATED FREIGHT CORRIDOR

About

- It is an under construction freight corridor by Indian railways connecting Indian states from Punjab to West Bengal.
- It is 1,840 km long and extends from Ludhiana in Punjab to Kolkata in West Bengal as a series of projects with three sections.

Why in News?

- Recently, the International Bank for Reconstruction and Development (IBRD), part of the World Bank Group, signed an agreement with the Union government to lend \$650 million to DFCCIL for the third phase of Eastern Dedicated Freight Corridor.
- The first two phases of the EDFC are already being implemented by the DFCCIL with the help of financial assistance provided by the World Bank in the form of loans worth \$975 million and \$1,100 million respectively.

Significance of the Project

- It will enhance rail transport capacity, improve service quality and boost freight carriage on the corridor.
- It will directly benefit the power and heavy manufacturing industries located in the Northern and Eastern parts of India as these industries depend heavily on a smooth railway network for the efficient transportation of their raw materials along with the distribution of bulk and consumer goods.
- In addition to this, railway passengers would also be benefitted as the existing passengers lines would get decongested.
- It will help in developing institutional capacity of DFCCIL to build, maintain and operate the entire Dedicated Freight Corridor network.

19.3. OTHER INITIATIVE BY MINISTRY OF ROAD AND TRANSPORTATION

<p>Indian Bridge Management System</p> <p>IBMS is being developed to create an inventory of all bridges in the country and rate their structural condition so that timely repair and rehabilitation work can be carried out based on the criticality of the structure. Improving the transport efficiency as well as reducing accidents.</p> <p>Every bridge in the country is assigned a unique National Identity</p> <p>Classified according to their engineering characteristics and structural components and assigned a Bridge Classification and Structural Rating Number respectively.</p> <p>Socio-Economic Bridge Rating Number: structure in relation to its contribution to daily socio-economic activity of the area in its vicinity.</p>	<p>Logistic-Efficiency Enhancement Programme</p> <p>It is a detailed Project Reports (DPR-survey) to critically examine the existing logistics infrastructure and destination of freight movement in the country under LEEP.</p> <p>This programme has been undertaken under Bharat Pariyojana</p> <p>This is done so as to reduce cost and time of freight movement across 44 different freight corridors (economic corridors), inter corridors and feeder routes</p> <p>It aims to enhance the freight transportation in India through improving cost, time, tracking and transferability of consignments through infrastructure, procedural and Information Technology (IT) interventions.</p>	<p>Launch of INAM-Pro+</p> <p>It is a web portal designed by National Highways and Infrastructure Development Corporation Ltd (NHIDCL) and launched by the Ministry two years back</p> <p>It is a common platform to bring cement buyers and sellers together.</p> <p>It is an upgraded version of INAM-PRO to include everything related to construction materials, equipments/machinery and services like purchase/hiring/lease of new/used products and services in the domains of Construction Materials</p>
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20. AVIATION

20.1. CIVIL AVIATION REFORMS

There are some proposals in recent times to reform civil aviation sector

- Amending the Airports Authorities of India Act (AAI Act) to monetize the land with AAI.
- Transformation of PSUs like Air India, Pawan Hans etc.

Airports Authority of India

- It is a statutory body constituted in 1995.
- It is entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and air space in the country.

Issue 1: Amending AAI Act

- **Need of the proposal**
 - Airports Authority of India Act is **very restrictive on monetizing the lands** under the possession of the Airports Authority of India.
 - For eg. The Act mentions land for activities like hotels, restaurants, restrooms and do not have a comprehensive list.
- **Significance of the proposal**
 - Monetizing the land better would allow government to **build more airports** in line with Civil Aviation Policy.
 - Building airport infrastructure would become self-funded and self-sufficient.

Issue 2: Transformation of civil aviation PSUs

• Background

- **Air India** has the largest fleet in India including new planes. It also has a 17% market share and controls 14.6% of the domestic passenger market.
- Air India has a debt of ₹ 46,570 crores. A bailout package for 10 years was approved in 2012 and already ₹ 24,000 crores has gone into it.
- In 2016, government completed the strategic sale of Pawan Hans Ltd also.

CAG report on Air India (2011)

- **Failed acquisition plans** - Report says that the basic reasons that Air India is financially crippled is that –
 - **Money was wasted to purchase and lease aircrafts.**
 - Acquisition took 8 years (1996-2004).
 - In early 2004, planes were inducted despite being no demand for that.
 - No cost benchmarks were set before buying planes.
 - Acquisition was funded by raising high interest loans and debts.
- **Merger of Air India and Indian Airlines** – It would have benefitted only before massive fleet expansion by both.
- **Subsidized and free travel for VIPs hurt airline.**
- **Liberalized policy on international routes** like non-stop flights to US were loss making.

• Need of the proposal

- A recent report ranked Air India as **globally the third-worst performing airline** in 2016
- Although Air India's losses have decreased compared to previous year and it also had an operational profit in 2014-15, **Air India needs funding to sustain it.**

• Significance of the proposal

- Government has limited resources to finance the airline. Also, money used for its restructuring can be used in other welfare schemes.
- It would help the government shift focus from non-core activities to core activities of governance.

Challenges Involved

- The private sector has the objective of maximizing profit. Privatizing the national airlines may be an obstacle to the objectives of the recently proposed civil aviation policy. For eg. Capping of air fares.
- There is also an apprehension towards staff retrenchment after the proposed privatization.

Way Forward

- In recent times **airport privatization has taken the form of awarding management contracts rather than a change in ownership**. For eg. Jaipur and Ahmedabad airports. This is a welcome step.
- FDI in civil aviation sector has also been relaxed to 100% with government approval for above 49%. This is also a gradual step in opening the civil aviation sector of India.
- Civil Aviation PSUs should be reformed gradually starting from alternatives like outsourcing smaller operations to private sector.

20.2. REGIONAL CONNECTIVITY SCHEME 'UDAN'

About

- UDAN is an innovative scheme to develop the regional aviation market.
- The objective of the scheme was **"Ude Desh Ka Aam Naagrik"**.

Key Features

- UDAN will be applicable on flights which cover between 200 km and 800 km with no lower limit set for hilly, remote, island and security sensitive regions.
- The scheme seeks to reserve a minimum number of UDAN seats i.e. seats at subsidized rates and also cap the fare for short distance flights.
- This would be achieved through two means:
 - A **financial stimulus** in the form of concessions from Central and State governments and airport operators like tax concessions, exemptions from parking and landing charges etc.
 - A **Viability Gap Funding** to the interested airlines to kick-off operations from such airports so that the passenger fares are kept affordable.
 - The VGF would be provided by a market-based model. The operators would submit their proposals to the implementing agencies would then be offered for competitive bidding through a reverse bidding mechanism and the route would be awarded to the participant quoting the lowest VGF per Seat.
 - Such support would be **withdrawn after a three-year period**, as by that time, the route is expected to become self-sustainable.
- A **Regional Connectivity Fund** would be created to meet the VGF requirements under the scheme. The RCF levy per departure will be applied to certain domestic flights along with 20% contribution from states.
- For **balanced regional growth**, the allocations under the scheme would be equitably spread across the five geographical regions of the country viz. North, West, South, East and Northeast.
- The selection of airports where UDAN operations would start would be done in consultation with State Government and after confirmation of their concessions.
- The scheme UDAN envisages providing connectivity to un-served and under-served airports of the country through **revival of existing airstrips and airports**.

- The scheme would be in operation for a period of 10 years.

Significance

- The scheme would ensure affordability, connectivity, growth and development.
- This would help in generating employment. As per the International Civil Aviation Organisation that every rupee invested in civil aviation adds ₹ 3.5 to the economy and every job created directly generates 6.1 jobs indirectly.
- It provides an additional business opportunity by increasing the potential for moving existing perishable cargo, fragile goods and high-value export-oriented products by air.
- The state governments would reap the benefit of development of remote areas, enhance trade and commerce and more tourism expansion through the introduction of small aircraft and helicopters.
- For incumbent airlines, there was the promise of new routes and more passengers while for start-up airlines there is the opportunity of new, scalable business.
- Commercialising the 'unserved' and 'underserved' airports (416 in total) will "democratise" publicly-owned sites which have hitherto been reserved for elite use. The average citizen would get a participative stake in their use and development.

Criticisms

- Airlines represent luxury. In a poor country like India, it seems a case of misplaced priorities when governments and passengers have to bear the cost of additional subsidies to connect regional air routes.
- India is the fastest-growing aviation market in terms of passenger traffic. Between January and September 2016, passenger traffic within India grew 23.17%. Aviation regulator's data showed that all the licensed airlines overshot their regional connectivity quota. In other words, they flew more than what is mandated by regulations. It suggests that from this stage market dynamics may drive regional connectivity. State subsidies, therefore, are best used elsewhere.
- The assumption that three years would be enough to make a route sustainable might be misplaced. It does not take into account a scenario of fuel cost increase that would significantly change the air cost dynamics.

The environment for airlines to operate is already highly taxed (taxes on ATF is among the highest in the world). So another levy to fund the regional connectivity scheme is annoying airlines further.

21. RAIL

21.1. RAIL SAFETY

The Railways Ministry is planning to consult the World Bank to identify areas that require investment from the special rail safety fund announced in the Budget.

Background

The **union budget 2017-18** made following announcements for rail safety:

- For passenger safety, a **Rashtriya Rail Sanraksha Kosh** will be created with a corpus of ` 1 lakh crores over a period of 5 years.
- Besides seed capital from the Government, the Railways will arrange the balance resources from their own revenues and other sources.
- Government will lay down **clear cut guidelines** and timeline for implementing various safety works to be funded from this Kosh.
- Unmanned level crossings on **Broad Gauge lines** will be eliminated by 2020.
- Expert international assistance will be harnessed to improve safety preparedness and maintenance practices.

Reasons for rail accidents in India

- Derailments constitute 50% of the total rail accidents, followed by 36% accidents at unmanned level crossings gates.
- **Lack of fire detection systems:** Most trains in India still lack effective systems to detect smoke and fire.
- **Lack of anti-collision technologies:** These are devices that automatically halt the train if it overshoots a red signal. India, which has the world's fourth-largest railway network after the U.S. China and Russia, still doesn't have such safety devices.
- **Staff deficit:** Speeding and skipping red signals are the main causes of concern, human error is another common cause of accidents. The reason for this is partly that there is a shortage of staff, meaning that workers are often overworked.
- **Inappropriate maintenance of tracks:** According to the Khanna Railways Safety Review Committee Report, nearly 25 per cent of the total railway track in India is over age and is due for replacement.
- **Resource crunch:** The Khanna Committee had further reported that resource crunch is said to be the main cause of all these happenings in the Indian Railways.
- **Poor Rolling stock:** Rolling stock, namely locomotives of most trains are not equipped with the Linke Hoffman Busch (LHB) coaches.
- **Negligence of the Government:** There were three high-level committees constituted on the Railways constituted recently like Sam Pitroda Committee on Modernization of Railways, Anil Kakodkar Committee on Railway Safety review, Bibek Debroy Committee on Restructuring of Railways etc. All of those reports are lying dormant and recommendations un-implemented.
- Accidents also occur due to sabotage.

Steps needed for reducing railway accidents

- Strict auditing regarding the integrity of tracks needs to be carried out regularly.
- Ultrasound fault detection machines used for precise fault detection need to be expeditiously installed.

- Strict legal action should be taken against employees for allowing trains to be loaded heavily beyond the prescribed limits.
- Need to ensure materials used in the construction of tracks are of high quality. Strict auditing of signalling and integrity of tracks.
- Use LHB coaches in place of the ICF coaches so that even if derailments occur due to sabotaged tracks, casualties are minimized.
- The customization to Indian conditions of foreign technologies like Anti-Collision Device and the Train Protection and Warning System
- A time-bound filling up of vacancies in Critical Safety Categories and Manpower Planning Issues addresses the demand by railway unions.
- Prioritizing the completion on Sethu-Bharatam ('zero accident' regime,) to eliminate all unmanned level crossings on the broad gauge network in 3-4 years.
- There should be an independent body like Railway Safety Authority under the government with chairman and experts from outside.

21.2. RAILWAY DEVELOPMENT AUTHORITY

Government has approved to set up a Rail Development Authority (RDA) based in Delhi, with an initial corpus of ₹. 50 crore, through an executive order.

Need

- Central governments have been fixing the fares mostly based on political considerations. This has led to **instances of cross-subsidization and losses to freight sector.**
- **This initiative has been emphasised by various committees** like:
 - Rakesh Mohan expert group (2001).
 - National Transport Development Policy Committee (NTDPC) (2014).
 - Bibek Debroy Committee on Mobilisation of Resources for Major Railway Projects and Restructuring of Railway Ministry (2015).

Functions of the authority

- **Its primary functions will be:**
 - To **recommend tariff** commensurate with costs.
 - Frame **principles for social service obligation**
 - Suggest **policies for private investment**
 - **Fix efficiency standards and resolve disputes** related to any concession agreements.
 - Collect, analyze and disseminate information and statistics concerning the rail sector.
- It will act within the parameters of the Railway Act 1989 and make recommendations to the Railway Ministry on passenger and freight fares.
- It will be an independent body. The provisions of a separate budget and the appointment and removal process would help maintain its independence.

Composition of the authority

- It will have a **chairman and three members** with a fixed term of five years each.
- The Central government will appoint the chairman and members by **choosing from a panel of names recommended by the search and selection committee** consisting of –
 - Cabinet Secretary (Chairman)
 - Railway board chairman
 - Department of personnel and training secretary

- Chairman of any regulatory body of the Central government nominated by the cabinet secretary.
- They would be **removed by the government** on grounds like insolvency, conviction, misbehaviour, etc.

Significance

- It will recommend passenger fares and set performance standards for rail operations thus creating a **level playing policy for private-sector participation**.
- The move will **improve the services offered to passengers** and will enhance transparency and accountability
- It would also promote competition and encourage market development.

Challenge

- Its recommendations **would not be binding**. It would only give its recommendations to the Railway Ministry which will be the final authority to take decisions. Therefore, **this move may remain tokenistic**.
- It is a **statutory body** as it is made through an executive order. This reduces its legitimacy and makes it **prone to political interference**.

Way forward

- The government has taken a welcome step by setting a RDA to help improve the competitiveness of the rail sector. But this may become futile if the authority is not made independent, autonomous and statutory.

21.3. DRAFT TOURISM POLICY OF INDIAN RAILWAYS

Government of India has recently come out with a draft tourism policy to transform the business of railways.

Passenger segment of the Railways is in losses and this could help boost the revenues of this segment.

Policy Features

- **Introduce dedicated train services** for domestic and international tourists.
- **Involve several service providers**, including Indian Railway Catering and Tourism Corporation (IRCTC), to manage services like hotel accommodation and sightseeing for tourists.
- **Auction dedicated tourist coaches** to tour operators.
- Reviving steam trains to be operated in hill stations and **improve finances of hill rail by PPP**.
- **'Bharat Darshan Trains' for the masses** with affordable rates will be launched.
- To promote religious tourism:
 - **Astha Circuit Trains**: To be operated by the Railways at its own expense.
 - **State Tirth Trains**: To be run on request from state governments at their cost.
- Advance booking of seats for foreign tourists one year in advance to plan their journey effectively.

IRCTC

- It is a **public sector enterprise (PSE)** inducted in 1999.
- It is a **Mini Ratna Category 1 PSE**.
- **Its functions include:**
 - ✓ Upgrade and manage the catering and hospitality services at stations, on trains and other locations
 - ✓ Develop budget hotels, special tour packages, information & commercial publicity and global reservation systems.
 - ✓ **Manufacture packaged drinking water for Rail Passengers.**

- India would also position itself in the luxury train segments by launching new luxury and semi-luxury tourist train for up-market tourists.

21.4. INDIAN RAILWAYS LAUNCH NON-FARE REVENUE POLICIES

Railway Ministry has unveiled the Railways' **first non-fare revenue policy** including out-of-home advertising policy, train branding policy, content-on-demand, rail radio policy and an ATM policy.

Need of the policy

- In 2015-16, Indian Railways posted the lowest revenue growth of 4.6% since 2010-11. It is much lower than the 10-19% growth in last four years.
- Freight which earns 60% revenue to railways saw just 0.6% growth in volume, compared with 4-5% growth in the last four years.
- Lack of pricing freedom on passenger segment causes its high cross-subsidization with freight revenues. This creates economic inefficiencies.

Provisions of the policies

- The **non-fare revenue policy** includes
 - ✓ Selling outdoor spaces at railway stations for advertising hoardings and billboards.
 - ✓ Providing radio and video content through Wi-Fi on stations and on trains.
 - ✓ Leasing out spaces at platforms to ATMs.
 - ✓ Selling branding of rights of trains and stations.
- **Train branding policy** would allow advertising of vinyl wraps on train exteriors and interiors on a 10-year contract basis.
- **Out-of-home advertising policy** shall allow advertising at areas hitherto unused. Eg. Road Over Bridges, Level Crossing Gates etc.

Significance of the policy

- It would provide **recreational activities for the passengers** on their personal electronics. This will **boost customer satisfaction**.
- The move will **reduce its dependence on traditional revenue** streams such as passenger and freight traffic.
- Move can **increase rail competitiveness** compared to other transport sectors like Airways and roads. As a spill over, it may **decongest roads and also make public travel cheaper**.

Way Forward

As per Railway Budget 2016-17, Indian railways earned less than five percent of revenues from non-tariff sources. In Japan, 25-30 per cent of revenue comes from non-fare sources. Railways should aim to reach that level in seven to eight years. This will be a right step towards modernizing our railways.

22. HOUSING

Sustainable development Goal-11, ensure access for all adequate, safe and affordable housing for all by 2030. Taking into consideration government has initiated various affirmative actions.

22.1. "HOUSING FOR ALL" IN RURAL AREAS

The Prime Minister has **launched the "Housing for All" in rural areas**, to propose to provide an environmentally safe and secure pucca house to every rural household by 2022.

About the "Housing for All" in Rural Areas

- Under banner of **Pradhan Mantri Awaas Yojana (Gramin)- PMAY-G**
- The implementation of housing developments in the rural areas of the nation will be done under the name of Gramin – Awaas Yojana.
- As per the **Ministry of Housing**, the project cost will be shared by both the central government and the state govt.

Provisions

- There is a **provision of Bank loan up to ₹. 70,000** by identified the beneficiary **using the Socio-Economic Census 2011** data and validating it through the Gram Sabha.
- The programme **provides for skilling 5 lakh Rural Masons by 2019** and allows over 200 different housing designs across the country based on a detailed study of housing typologies, environmental hazards and the households' requirements.
- **Local materials will be used largely** - along with a complete home with cooking space, electricity provision, LPG, toilet and bathing area, drinking water etc through convergence.
- **The payment process-** will be through **IT/DBT mode with Aadhaar linked Bank accounts** with consent, to ensure complete transparency and accountability.
- **Skill training of Masons-**There is a provision for orientation of beneficiaries. **A 45 days on-site hands-on skill training of Rural Masons helps poor households to move up the skilling ladder.**

22.2. NEW HOUSING SCHEMES FOR THE POOR

Government announced two new housing schemes under the **Pradhan Mantri Awas Yojana**, to help the middle class and the poor buy or build homes.

Main Features

- The number of houses being built for the poor, in rural areas, is being **increased by 33 per cent.**
- Subsidized loans will be made available for building or expanding homes in rural India and to **urban poor.**
- **Interest subvention** of 4% on loans of up to 9 lakh rupees and 3% on loans of up to 12 lakh rupees.
- Under the new scheme of housing for all 2022, the central assistance per house for EWS has been planned to increase to 1.5 lakh rupees from 70,000 rupees.

Benefits

- Lower than market price makes it affordable for EWS.
- Buying or making houses registered under such govt schemes offer various benefits, including pricing, location and security of investments.

- Easy and quick legal clearances are also ensured as the govt ensures these things before putting the properties for sale.
- Rural housing schemes can give a boost to employment for the locals.

Challenges

- Availability of land and its acquisition is the biggest impediment.
- Exclusion and inclusion errors in selection of beneficiaries due to faulty BPL lists.
- Such schemes generally concentrate just on house construction and lack other amenities and facilities like drinking water, electricity supply, cooking gas etc when compared to private developers.
- Subpar construction quality of government schemes turns houses as poor investments for the long-term.
- Large section of migrants such as in New Delhi and Mumbai are left out because of allocation generally on domicile basis.
- Lack of monitoring of the implementation of these schemes and presence of corruption. In many cases, houses were not built-in spite of release of funds to the beneficiary.
- Slow pace of the implementation of the schemes. 4.4 million new rural houses for poor have to be built this year but rural development ministry has built just 1.1 to 1.8 million houses annually in the last five years.

Way Forward

- Effective targeting of beneficiaries is required before releasing funds under the scheme.
- Capacity building of PRIs and ULBs to ensure proper implementation and monitoring of schemes.
- Convergence of unskilled construction work with NREGA can address scarcity of labour and high labour cost.
- Encouraging participation of private sector to provide efficient water, electricity and other amenities.

22.3. REAL ESTATE (DEVELOPMENT AND REGULATION) ACT, 2016

The Real Estate (Development and Regulation) Act, 2016 that was passed and comes into effect fully from May 2017. Only 13 states and UTs have notified rules for regulation of real estate sector on the lines of this model law, raising concern over implementation.

Provisions of the Act

- **Mandatory registration** with real estate regulatory authorities (**RERA**) of projects of at least 500 square meter area, or those comprising eight flats.
- The regulator's website should have the necessary **public disclosure** of details related to each project.
- **Project developers will now be required to deposit at least 70% of their funds**, including land cost, in a **separate escrow account** to meet the cost of construction.
- A provision for imprisonment up to 3 years in case of promoters and 1 year in case of agents and buyers for violation of orders of appellate tribunals.
- **A clear definition of carpet area** and buyers will be charged for the carpet area and not super built-up area.
- **Appellate tribunals** will adjudicate cases and regulatory authorities will dispose complaints **within 60 days**.
- Regulatory authorities can also register projects to be developed beyond urban areas, promote a single-window system of clearances, and grade projects and promoters besides

ensuring digitization of land records. They will also have to draft regulations within three months of formation.

- It will **regulate both commercial and residential projects** and setup state-level regulatory authorities to monitor real estate activity.
- The builders would also be responsible for fixing structural defects for five years after transferring the property to a buyer.
- All the real estate developers and agents are required to register with their respective state authorities before 30 July 2017.

Significance

- The provisions of the Act will bring in **accountability and transparency** to the sector.
- It will attract **foreign investment** to the sector.
- It will help the consumer from being cheated.

22.4. DRAFT URBAN RENTAL HOUSING POLICY

Ministry of Housing and Urban Poverty Alleviation has come out with a draft Urban Rental Housing Policy recently.

Need

- First National Housing Policy came out in 1988. Although it had some provisions of tax concessions and subsidies but it did not address the sections of society which did not have enough to afford a house but to rent a house.
- There has also been an increase in the rural to urban migration with rising urbanization in the country. The lack of a proper rental housing policy has led to a rise in slums due to migration.

Salient Features

- **Ministry of Housing and Urban Poverty Alleviation** defines its own role as 'facilitator'. It will just **extend fiscal and non-fiscal concessions** for rental housing created by the state or through PPP and under corporate social responsibility.
- It classifies rental housing into two broad categories: **Social rental housing for urban poor and market-driven rental housing.**
 - **Social rental housing** is targeted at the economically weaker sections (**EWS**), low-income groups (**LIG**) and the section defined as '**tenants by constraint**' which includes the urban poor belonging to SCs, STs and OBCs, migrants, transgenders and senior citizens.
 - **Market-driven rental housing** includes **institutional rental units** such as hostels for students and working people, **public rental housing** for the PSU employees and government departments and **private rental housing** for everyone else.
- It talks of setting up a **fund for rental vouchers** to be given on a pilot basis in select smart cities. These vouchers, equivalent to a certain cash amount would partially offset the cost of rent incurred by the urban poor.

Challenges

- The policy **explicitly refuses to address the issue of homelessness** because homelessness is treated as a livelihood issue and therefore comes under National Urban Livelihood Mission and not housing policies. This may create gaps in policymaking if not properly coordinated within various ministries.

- The Centre's role in the draft policy is **restricted to demand-side intervention**, whereas measures to increase the supply of social rental housing stock is needed whose entire onus has been put on the market.
- Housing being a state subject, is primarily the responsibility of state governments to ensure housing for all.
- Few states and union territories such as Chandigarh, Chhattisgarh, Gujarat, Mumbai Metropolitan Regions etc. have their own rental housing policies. However, these have **failed to check the spread of informal housing**.
 - E.g. Mumbai has inserted a domicile requirement in its urban rental policy which defeats the very purpose of the policy.
- Unlike many central government schemes that offer budgetary support for construction of homes, the draft rental housing policy provides for no central funding.

Way forward

- The focus of most of the policy interventions till now are oriented towards home-ownership which is unlikely to solve the housing shortage in urban India keeping in view that majority of the urban housing shortage pertains to EWS and LIG categories. Therefore a cohesive and a dedicated policy towards rental housing was the need of the hour.

22.5. SMART CITIES: PROBLEMS IN IMPLEMENTATION

US Trade and Development Agency (USTDA) officials entrusted with engaging with India on the Smart Cities initiative have flagged certain issues in its implementation.

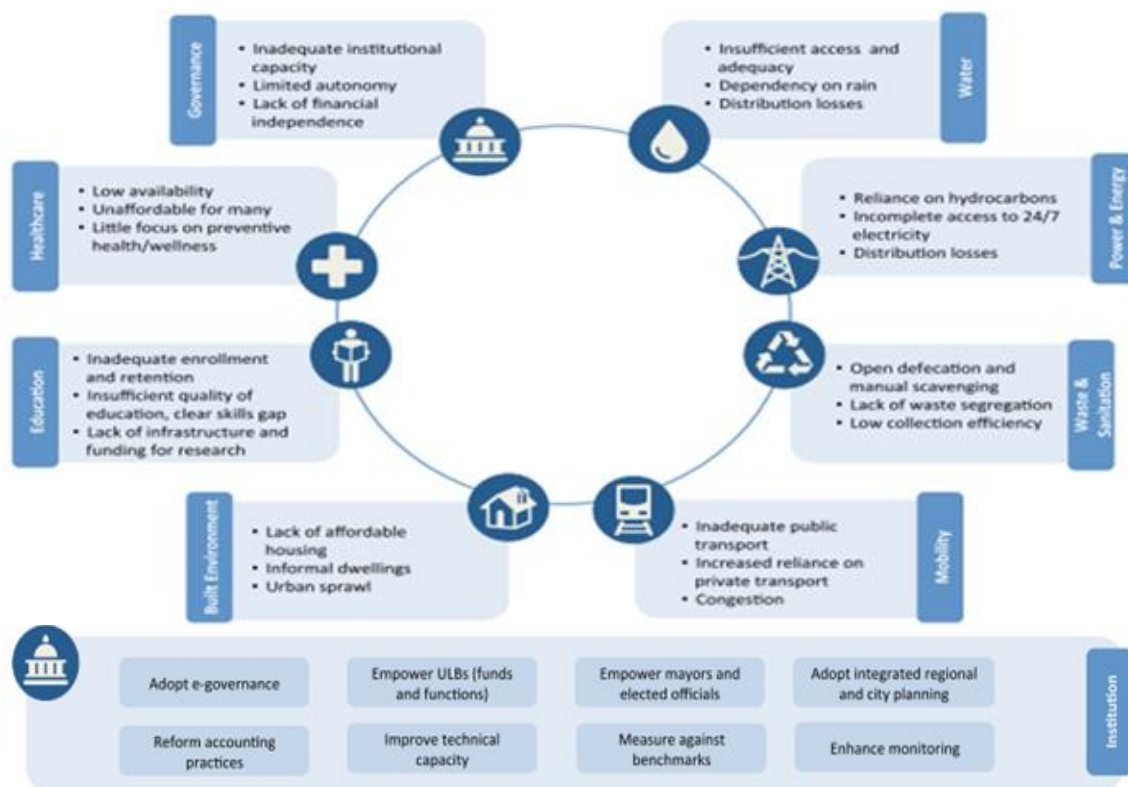
US is partnering in developing Ajmer, Allahabad and Visakhapatnam as smart cities

Issues Flagged by USTDA Officials

- Lack of clarity in governance for execution of projects and on the role and functions of Special Purpose Vehicles at different levels of government
- No allocation of fund to some state governments due to requirement for some prior work to be done by states shows lack of adequate cooperation between centre and state governments.
- No exclusive investment desk along the lines of the ones provided to Japan and Korea. Such a desk will be conducive for attracting investment from US investors

Way Forward

- **Single-window systems:** Easing the permitting process will accelerate project execution, reduce cost and time overrun, and improve intra- and interdepartmental collaboration.
- **Institutional reforms:** Better collaboration and a unified command structure across multiple planning and administrative bodies within a city.
- **Devolution of power** to local government to determine and collect user charges and taxes in order to make local bodies financially independent.



22.6. WORLD BANK'S "EASE OF LIVING" INDEX

- World Bank is all set to rank cities globally on a "ease of living" index.
- This news comes at a time when the World Bank is planning to tweak the "ease of doing business" index.

What is it?

- The index is being launched keeping in mind that as cities grow and expand, the ease of living becomes an important parameter.
- The index could include categories on social inclusion, cost of living, public transport, housing, education, health, environment-friendliness, crime/safety, governance and corruption.

Where India Stands Now?

- India was ranked a lowly 130 on the "ease of doing business" index 2016.
- India has recommended the World Bank that reforms undertaken in the entire country and not just in Delhi and Mumbai be considered for the "Ease of Doing Business" Index.
- The Ease of Doing business index measures how easy it is to setup new business in a particular country depending on different parameters such as getting a licence, infrastructure, govt. policy and so on.

23. OTHER SECTORS OF INDIAN ECONOMY IN NEWS

23.1. TEXTILE SECTOR

23.1.1. POWERTEX INDIA

It is a comprehensive scheme for Powerloom Sector Development that was launched recently by Union Textile Ministry for three years.

Background

- Second five-year plan encouraged the **expansion of weaving capacity** and therefore by 1980s and 1990s, many handlooms were converted to powerlooms.
- Powerlooms are spread over most states except a few in eastern India which still relies more on handlooms.
- Fastest growth of powerlooms occurred **only in 3 states – Maharashtra** (largest powerloom industry of India), **Tamil Nadu and Gujarat**.

Provision of the scheme

- It aims to **boost common infrastructure and modernization of the powerloom** sector.
- It has nine major components like Group Workshed Scheme (GWS), Yarn Bank Scheme, Common Facility Centre (CFC), Tex Venture Capital Fund etc. Two new schemes have been added recently namely Pradhan Mantri Credit Scheme for powerloom weavers and Solar energy scheme for powerloom
- Minimum number of looms needed for **group work shed scheme** has been brought down to 24 from 48.

Other Government Schemes on powerloom

- Government of India has launched **various subsidy schemes for power-loom sector** such as:
 - **Amended Technology Up-gradation Fund Scheme (A-TUFS)**.
 - **In-situ Up-gradation Scheme** for Plain Power-looms for up-gradation of technology.
 - **Group Workshed Scheme** for giving assistance for constructing workshed for powerloom sector
 - **Integrated Scheme for Powerloom Sector Development (ISPSD)** for providing extending assistance for marketing support in the form of Buyer Seller Meets

23.1.2. TECHNICAL TEXTILES

TechnoTex 2017 was recently launched in Mumbai with the theme of **“Technical Textiles: Towards future”** by **Ministry of Textiles and FICCI**.

Powerloom

Looms operated with the aid of electric power for manufacturing of cloth are called as **Powerlooms** whereas the looms operated without aid of power are **Handlooms**.

Challenges related to powerloom sector

- **Marketing:** dependent on the middlemen who eat into the profits.
- **Finance:** lack of access of financial institutions giving dedicated funding towards this sector
- **Raw Material:** not available in adequate quantity at reasonable prices and prices fluctuate.
- **Technology:** Most powerlooms are old and obsolete. Hence, productivity and quality of product suffers.
- **Lack of entrepreneurial skills**

Need

- Technical textile is judged to be a **sunrise sector** because its potential has yet not been tapped. Also, high consumer disposable income raises the demand for such technical textiles
- Although China is ahead on technological aspect of its production but its costs are becoming prohibitive.

Technical/Functional textiles

- They are a group of textiles not used for aesthetic purposes but for its functional properties.
- They can be woven or non-woven.
- E.g. Geo textiles are permeable fabrics that are used in association with soil and have the ability to separate and filter.

Background

- Government launched **Scheme for growth and development of technical textiles (SGDTT)** (2007-2010). It's 3 components were:
 - Baseline survey to build technical textile industry database.
 - Setup centres of excellence for infrastructural support like **BTRA for Geotextiles, SASMIRA for agrotextiles, NITRA for Protective Textiles and SITRA for Medical Textiles.**
 - Awareness generation among entrepreneurs.
- Subsequently, government launched **Technology Mission on Technical Textiles** (2010-2014) to overcome the issue of technical textile industry. It has 2 mini-missions -
 - **Mini Mission-I** – For standardization, creating common testing facilities, indigenous development of prototypes and IT-based resource centres.
 - **Mini Mission-II** – It focuses on **support for domestic and export market development** through assistance for business start-ups, contract research and participation in international exhibitions.
- All technical textiles based machinery is covered under Technology Upgradation Fund Scheme.

Significance

- **Technical textile** has many benefits like:
 - Agricultural textiles are used in shading and in weed and insect control.
 - **Environmental conservation**- Geotextiles like non-woven bags stored with sand are used to prevent soil erosion.
 - **Meditech products** include use in hygiene, personal care and surgical applications. E.g. Diapers etc.
 - **Industrial textiles** used in industrial products like filters, printed circuit boards etc.
- Technical textiles can be a potential source of export revenue.

Challenges

- Presently, it is a **fragmented structure with various small and medium industries.**
- There is a **lack of database on units** working on technical textiles.
- Awareness among consumers and the entrepreneurs is low.
- There is an irregular supply and irrational pricing of raw materials used in technical textiles production.
- Competition from neighbouring countries like China, Bangladesh etc.

23.2. PHARMA SECTOR

23.2.1. NATIONAL BIOPHARMA MISSION

The program named Innovate in India (i3) i.e. the national biopharma mission was recently launched by the government.

Need for the mission

- Indian biopharmaceutical industry is still 10-15 years behind their counterparts in the developed countries and faces stiff competition from China, Korea and others.
- The lacuna primarily exists due to; disconnected centres of excellence, less focus on translational research, staggered funding.

Thus there was an immediate need felt to focus on consolidated efforts to promote product discovery, translational research and early stage manufacturing in the country to ensure inclusive innovation.

A **biopharmaceutical**, also known as a biological medical product, is any pharmaceutical drug product manufactured in, extracted from, or semisynthesized from biological sources.

About the mission

- It is anticipated to be a game changer for the Indian Biopharmaceutical industry.
- It aspires to create an **enabling ecosystem to promote entrepreneurship and indigenous manufacturing in the sector**.
- The Mission aims to make India a hub for design and development of novel, affordable and effective biopharmaceutical products and solutions.
- Currently, India has only 2.8% share in the global biopharmaceutical market, **the program would elevate this to 5% resulting in an additional business opportunity of 16 Billion USD**.
- The Mission will provide a **holistic and integrated approach** to strengthen and support the entire product development value chain for accelerating the research leads to product development.
- The Mission to be **implemented by Biotechnology Industry Research Assistance Council (BIRAC)**, a Public Sector Undertaking of Department of Biotechnology, will bring together expertise from national and international corridors to provide strategic guidance and direction to move promising solutions through the product development value chain.
- The program thereby stands unique in its approach as it becomes a cradle to innovate, co-create and co-facilitate scientific discoveries and offers young entrepreneurs an avenue to engage with the best in the industry.

23.2.2. JANAUSHADHI PARIYOJANA

The railway ministry has given an in-principle approval to opening up of Jan Aushadhi Kendras at railway stations and other railway establishments under the Pradhan Mantri Bhartiya Janaushadhi Pariyojana.

Background

- India is the World's Pharmacy and our Pharmaceutical sector is growing at a pace of 20-21% and India is exporting quality generic medicines to many countries.

About the Scheme

- **Pradhan Mantri Bhartiya Janaushadhi Pariyojana** is a campaign launched by the **Department of Pharmaceuticals**, to provide quality medicines at affordable prices to the

masses through special kendra's known as **Pradhan Mantri Bhartiya Jan Aushadhi Kendra (PMBJK)**.

- **Bureau of Pharma Public Sector Undertakings of India (BPPI)**, established under the Department of Pharmaceuticals with the support of all the Central PSUs, **coordinates procures, supplies and markets generic drugs** through PMBJK.
- Procured generic medicines are sold at a price which is 50% - 90% less as compared to the branded medicines in open market.
- All drugs procured under this scheme are tested for quality assurance at NABL (National Accreditation Board Laboratories) accredited laboratories and is compliant with WHO GMP (Good Manufacturing Practices) benchmarks.
- State Governments provide space in Government Hospital premises or any other suitable locations for the running of the Jan Aushadhi Kendra. PMBJK may also be opened **by any Government agencies in any Government building owned by Government bodies**.
 - Any NGOs/ Charitable Society/Institution /Selhelp Group/Individual Entrepreneurs/ Pharmacist/Doctor can also open the Jan Aushadhi Kendra at outside of the hospital premises or any other suitable place.
 - Government also provides grants up to ₹ 2.5 Lakh.

Significance

- This is another government step to promote the use of generic medicines and reduce the dependence on branded drugs.
- Access of generic medicines on railway stations would boost the accessibility, affordability of essential medicines and improve the convenience of the customers.

23.3. COIR INDUSTRY

A severe shortage of water, affecting coconut farms in Tamil Nadu, Kerala and Karnataka has decreased the yield of the coir industry in these parts.

Background

- India accounts for about 66% of the global production of coir and coir products.
- **Kerala** accounts for majority of coir industry in India. The geographical location of the coir industry is dependent on the availability of raw material (Coconut) available in states like Karnataka, Kerala, Tamil Nadu, Andhra Pradesh and Odisha.

Basic facts on coir industry

- Coir is a fibrous mass extracted out from the coconut husk.
- It is an important cottage industry.
- Coir Industry in India consists of two distinct segments namely –
 - **White fibre** - It is smoother and finer but weaker. It is obtained from immature green coconuts. It is used primarily for rope manufacture.
 - **Brown fibre** – It is obtained by harvesting fully mature brown coconuts. It is stronger and thus used to make objects like brushes, mats etc.
- Coir exports in 2015-16 amounted to about ₹ 1900 crore.
- Main export destination of India is USA.
- This industry directly employs about 7 lakh people that are mostly from the rural areas. Women constitute about 70% of the workforce.

Coir Board

- It is a statutory body developed under Coir Industry Act 1953.
- It regulates the production and distribution of coir through registration and licensing.
- It also fixes standards for this industry.
- It is an advisory body to the government for production of coir products.
- It functions under the Ministry of MSME.

Government initiatives

- **Coir Udyami Yojana**- Rejuvenation, Modernization and Technology upgradation has been renamed as Coir Udyami Yojana.
 - This is a **credited linked subsidy scheme** which provides 40% as Govt. subsidy, 55% as Bank loan and 5% beneficiary contribution for setting up of coir units with project cost up to ₹.10 lakh
 - No collateral security/third party guarantee is required and there is no income ceiling.
 - Assistance is available to individuals, companies, self-help groups, NGOs, institutions registered under Societies Registration Act, 1860, co-operative societies, joint liability groups and charitable trusts.
- **Coir Vikas Yojana** -
 - It involves skill upgradation and quality improvement of the products.
 - It also **includes Mahila Coir Yojana** – training for men & women coir workers and providing subsidized rates to women workers.
 - Its other components are development of production infrastructure, domestic market promotion, export market promotion etc.

Significance of coir industry

- With **increasing awareness of environment-friendly products**, the demand for coir-based items is on the rise in the international and domestic markets.
- **Rise of e-commerce** have led to an increased demand and marketing of mats and mattresses made of coir.

Challenges

- Climate Change and shortages of monsoonal rains can affect the yields of coir industry.
- There is a competition from countries like Indonesia, Vietnam and Sri Lanka that can affect the profit margins of the Indian coir industry.
- Problems of raw materials include poor quality of raw materials and high cost of materials.
- Labour problems include labour absenteeism, low wages, low skills, low labour productivity.
- Other challenges include non-availability of financial credit, problems in marketing of finished goods etc.

23.4. GEMS AND JEWELLERY SECTOR

Prime Minister recently **reiterated his vision to make India the hub of gems and jewellery.**

Need

- Government aims to increase its share in the global jewellery export market to about 50% which is presently dominated by manufacturers from Italy, Germany, Turkey and Hong Kong.

Background

- It is estimated that 12 of 14 diamonds sold globally are cut or polished in India.
- India has a 60% share by value and 90% share by volume in global diamond market.
- The availability of high-skilled labour, low costs, technology and market determines this industry's distribution.
 - The hub of India's jewellery industry is Mumbai-

In terms of segments, exports for 2015-16 were as follows:

- Cut and polished diamonds: US \$ 20b
- Gold Medallions and coins: US\$ 5.2b
- Silver Jewellery: US\$ 3b

- ✓ It receives the majority of the country's gold and rough diamond imports.
- ✓ It has a number of modern, semi-automatic factories and laser-cutting units in SEZs.
- Most of the diamond processing is undertaken in Gujarat, (primarily in Surat, Bhavnagar, Ahmedabad and Bhuj) and in Rajasthan (Jaipur).
- Kolkata and Trichur is popular for its lightweight plain gold jewellery.
- Hyderabad in Andhra Pradesh is the centre for precious and semi-precious studded jewellery. Nellore in Andhra Pradesh is a source for handmade jewellery

Challenges

- Availability of raw material like **diamond roughs** is poor.
- The demands and consumption patterns have changed globally. Now **demand is more for fashion jewellery rather than heavy fabricated jewellery** which is in demand from Indian customers.
- **Lack of capability to manufacturer designs demanded by the foreigners.** Eg. Indian manufacturers have the expertise to make 22 and 20-carat gold jewellery but exports market demand 8 or 10-carat gold jewellery
- **Absence of large-scale machinery** to cater to the volume of jewellery demanded from abroad.
- **Government documentation** deters exports in this sector.

Steps taken by government

- Government is lobbying with Russian major Alrosa for **directly making available "Diamond Roughs"**.
- Gems and Jewellery sector has been designated as a focus area for export promotion. Also 100% FDI is allowed under the automatic route in this sector.
- Indian Institute of Gems & Jewellery (IIGJ) located in Mumbai is being strengthened for capacity building and skill development across India.
- GJEPC, with the help of the commerce ministry, is setting up a **gold craft and design institute at Udupi in Karnataka** to re-skill local artisans and revive Dakshina Kannada cluster in jewellery.
- Indian exporters have prepared an **export promotion strategy** and a target of \$60 billion worth of gems and jewellery exports in five years, from last year's \$35 billion.

Way forward

- Skill development with changes in demands from the consumers is essential.
- Currently, Indian manufacturers **export unbranded products** where importers tag them with their brand and charge a premium. Indian jewellers should shift from unbranded to branded jewellery for better profits. Paper Sector

23.5. PAPER INDUSTRY

The price of the raw materials for paper making industry like waste paper, recycled paper has been rising in the domestic and the international markets.

Challenges in the paper industry

- **Lack of Raw materials** like wood fibre mostly because of a less prevalent culture of agroforestry in India.
- **Shift in consumption patterns due to technology** - Computers and telecommunications have displaced the use of paper since 1980s. Eg. Storage devices

- India is still dependent on imports of waste paper and recycled paper because India's recovery rates of paper wastes is significantly low as compared to developed countries.
- Although India has cost advantage in labour and fuels, lower labour productivity and variation in coal quality reduces it.
- The paper and pulp industry is also considered to be highly polluting and is therefore put into the 'Red category' of the recent classification of the industries in India in terms of carbon footprint.
- Cheaper imports by countries like China because of stronger currencies and better technologies.
- **Withdrawal of subsidy for pulping** in the USA. This caused the raw material to become expensive.

Significance of paper industry

- Paper industry is a provider a large number of employment (about 0.5-1 million).
- Paper industry is **used for packaging purposes** of products ranging from FMCGs to pharmaceuticals.
- Apart from packaging, paper industry also produces paper for **writing and printing purposes**.

Government initiatives to promote paper industry

- In 1997, paper industry was de-licensed and 100% FDI was allowed in it.
- 26% FDI in print media is allowed, which is the main end use sector for paper industry.
- Government has set up the Central Pulp and Paper Research Institute for research purposes.
- The Government has also come out with a **National forest policy** and **National Agroforestry Policy (2014)** that can help in fulfilling shortage of raw materials.

Way Forward

- Paper industry should try to improve their pulping and paper **machine technology** instead of adding large capacities.
- Technology would also help in increasing the recovery of waste paper which is very low currently.
- Latest technology would also help them to conform to green emission norms.

Background

- The **location of the paper and the pulp industry** is based on Availability of raw material (large forest area), Transport (nearby rivers), Large amounts of energy Cheap labour, Availability of enough market.
- Industry concentrated near the Western ghats, Eastern Ghats, Tarai areas at Himalayan foothills, North-East areas etc.
- The **mills use a variety of raw material** like wood/bamboo (24%), waste paper/recycled fibre (65%) and agro-residues like bagasse, wheat straw and rice husk (11%).
- **Key drivers of this industry's growth** are urbanization and changing lifestyles, impetus on education, growth in organized retail and demand of better quality packaging like medicinal packaging.

National Agroforestry Policy 2014

- Setup institutional mechanism at national level to promote Agroforestry.
- Simple regulatory mechanisms for harvesting and transport of the agroforestry produce (presently regulations are imposed by multiple agencies).
- Accessible raw materials and credit to farmers.
- Develop a sound database and information system and invest in research.

24. MISCELLANEOUS

24.1. INTELLECTUAL PROPERTY VS COMPETITION LAW

The IPR is often seen overriding the Competition law brewing a fresh debate each time whether the two are good enough for the producers and consumers

India under section 84 of Patents Act 1980 granted compulsory license to NATCO for production the anti-cancer drug Nexavar against Bayer which was holding patent for Nexavar.

alike.

What is Competition Law?

- It seeks to avoid market barriers and benefit consumers by encouraging competition among a multiplicity of suppliers of goods, services and technologies.
- It has been put in place in order to ensure competitive environment among the firms.
- India's Competition Law was incorporated in Competition Act 2002, which was later amended in 2007.
- The Competition Commission of India (CCI) under the ambit of Competition Act prevents practices having adverse effect on competition, promotes and sustains competition in markets, protects the interests of consumers and ensures freedom of trade carried on by the participants.

What is IPR (Intellectual Property Rights)?

- Intellectual Property Rights are the rights given to a creator over the use of his creations. It is aimed at incentivizing creativity and innovation.
- It can include creations such a new **drug composition, business module, product, software** and so on.
- Some of the aspects of intellectual property include **patents, trademarks, copyrights, geographical indications and industrial designs.**

Issues

- The IPR is often seen overriding the Competition law brewing a fresh debate each time whether the two are **Interface between Competition Law and Intellectual Property Law**
- Intersection of the two laws is observed when there is interchange in the exclusive rights given by IP law to a company and the anti-competition practices that the Competition Law tries to protect.
- The Competition law stands abused when IPR holder imposes unfair and discriminatory conditions or price.
 - ✓ Limits or restricts production of goods or provision of services.
 - ✓ Denies market access to other entities.
 - ✓ Uses its dominant position in one market to enter into another market.
- In developing countries, strengthening of IP law has taken place without commensurate levels of anti-competitive practices.
- It poses challenges to policymakers to sort out the negative fallouts of excessive monopoly power because of rights of IP owner.
- In dealing with this, patent offices are not competent enough for determining "excessive" or "unaffordable" pricing for issuing compulsory licenses to third party under TRIPS.
- Competition Commission of India also does not have required competency to deal with this trade-off that exists between IP law and Competition law.

Way Forward

- There is need to balance competition and protection of intellectual property rights.

- Strengthen competition laws in order to control possible abuses emerging from the acquisition and exercise of IPR.
- Use the flexibilities allowed by the TRIPS Agreement to determine the grounds for granting compulsory licenses to remedy anti-competitive practices relating to IPR.
- Experts in economics should be recruited in Patent offices to infuse competence for determining excessive or unaffordable prices.
- Develop policies, including guidelines, to prevent and correct abuses in the acquisition and enforcement of IPR.

24.2. TRENDS IN CSR SPENDING

Highlights

- The latest figures on Corporate Social Responsibility show that Indian corporate world has spent ₹ 8,345 crore as part of their CSR obligation in 2015-16.
- This is a 28% jump over the ₹ 6,526 crore spent in the previous year.
- Education and health continues to be favourite sectors.
- Prime Minister's National Relief Fund along with other funds set up by the Central and the state governments has been the biggest gainer with a jump of 418%.

Issues

- While the compliance rate has increased, the unspent amount has increased. This shows that a large number of companies failed to meet their social obligation and did not spend the prescribed amount on CSR.
- Corporate is really not spending on CSR as much as they should as 28% growth indicates against 41% by PSUs.
- They are not owning and driving change rather than make a passive contribution to PM's Relief Fund. A lot of companies find it better to do the CSR in a passive way as it saves their time and human resources.
- Other reasons cited by companies for the unspent amount are- lack of being able to identify the right opportunity or project and not being able to find an implementing agency.

About CSR

- S.135 of the Companies Act was amended in 2013 to introduce the CSR provisions. The CSR Rules, 2014 govern the process.
- The Regulations mandate companies to spend at least 2 per cent of the average net profit (earned over the last three years) towards various social causes.

24.3. INDEPENDENT DIRECTORS ON COMPANY BOARDS

The role of Independent Directors has come into news in the light of developments in Tata group relating to removal of Cyrus Mistry.

Before this, their role had hit the highlights in Satyam Scandal case for not being vigilant enough.

Who are Independent Directors?

- 'Independent Director'(ID) refers to a non-executive director (but not the Managing Director of a company, nor any whole time director) who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience

- An ID must not have a conflict of interest and should not have any other pecuniary relationship with the company except only a pre-determined remuneration as a director onboard.

Key responsibilities of IDs

- To meet at least once a year among themselves, without the presence of non-independent directors and management to review the performance of non-independent directors and the chairperson of the company.
- To ensure company is being run on the sound principles of corporate governance.
- To safeguard the interest of all stakeholders, particularly those of minority shareholders and balancing the conflicting interest of stakeholders.

Can IDs prevent mismanagement of a company?

- IDs suffer from having inadequate knowledge about the company and rely on what the management tells them.
- They have inadequate time to look at all aspects in details.
- As such, IDs are not capable enough to prevent large-scale fraud or mismanagement in a company.

Independent Directors and Companies Bill

- The 2013 Act does not permit an Independent Director to have a pecuniary relationship with the company, other than his remuneration.
- However, the 2016 Amendment Bill permits an Independent Director to have a monetary relationship, up to 10% of his total income, with the company. This amount may be modified by the central government.
- Under the existing law, an independent director's relative should not have been a senior employee of the company in the last three years. The proposed change in law seems to take away this restriction.
- However, concerns have been raised that these proposed changes in law strikes at the root of independence of directors.

24.4. NOBEL PRIZE IN ECONOMICS

Oliver Hart from Harvard and MIT professor Bengt Holmstrom won this year's Nobel Memorial Prize in Economics for their study of contracts and human behaviour in business.

What is Contract Theory?

- How contracts are designed defines our incentives in various situations in the real world. Contracts can be
 - formal or informal, depending on whether they are enforced by law or social norms
 - complete or incomplete, which is based on whether they take into account all possibilities that lay in the future
- Contract theory is, partly at least, an attempt to understand the nuances in our contracts and how those contracts could be better constructed.
- The two economists provided "a comprehensive framework for analysing many diverse issues in contractual design, like performance-based pay for top executives, deductibles and co-pays in insurance, and the privatization of public-sector activities."

- It has become especially relevant in the years after the 2008 financial crisis, which was blamed on the short-term risk encouraged by huge cash bonuses paid to investment bankers.
- It also touches on themes of moral hazard, which arises where those that take the risks don't share in the costs of failure.

Significance

- It has greatly influenced many fields, ranging from corporate governance to constitutional law.
- This theory generates precise hypotheses that can be confronted with empirical data and lays an intellectual foundation for the design of various policies and institutions, from bankruptcy legislation to political constitutions.
- The use of contract theory in public policy is something that the Indian government needs to learn, be it the design of telecom auctions or the public distribution system.

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