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Classroom Study Material

ECONOMY

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1. BUDGETING

1.1. OUTCOME BUDGETING

Why in News?

Delhi government released its “Outcome Budget” for 2017-18 calling it “an historic innovation for ushering in transparency and accountability in public spending”.

What is Outcome Budgeting (OB)?

- It is a budgeting scheme that gives **project-wise outlays** for all central ministries, departments and organisations listed against corresponding outcomes (measurable physical targets) to be achieved during the year. It measures the **development outcomes of all government programmes**.
- Outcome based performance budgeting symbolizes a shift from traditional budgeting in the sense that it goes beyond **budgeting by inputs** (how much can we spend) towards budgeting by **measurable outcomes** (what can we achieve with what we spend).
- The Outcome Budget is expected to sharpen the budgetary projections by **listing the projected outcomes** under various schemes.
- The outcomes are expected results not only in terms of monetary units or physical infrastructure but also in terms of **qualitative targets and achievements**. The first step is **defining the desired outcomes** (mostly long term) for the concerned ministry, department or function.
- This is followed by the process of **identifying the interventions** required for achieving target outcomes.
- Finally, **the expenditure** required for implementing the identified interventions is estimated, which forms a line item in the budget for that particular year.

Background

- Since 1968, Government departments had been preparing performance budgets trying to link financial aspects to physical results. However, this remained a supplementary device without any perceptible impact on resource allocation.
- Later, a revised version of Outcome Budget was introduced in India in 2005-06, for the first time, as the focus needed to be shifted from outcomes towards outlays.
- However, limited progress has been made in this area since then. India today follows a performance budgeting framework which tracks outcomes at the level of individual programmes. It misses the link to overall development indicators for that sector.

Significance of Outcome Budgeting

- **Accountability of the Executives:** The information on services to be provided to the people and the linking of funds to the results is a powerful innovation that defines accountability of the executive. It arms citizens with data to hold governments accountable, and in turn empowers the governments to better orient the bureaucracy towards results.
- **Outcome based information:** The performance-oriented budgets provide information on the use of public resources, as against the conventional budgeting practice of highlighting only allocations under different programmes. An outcomes-based approach shifts the perspective to the short and long-term outcomes of governance.

- **Crucial for Inclusive growth:** Well laid information on the pattern of use of resources provides opportunity for their better use in future. While effective use of resources is a prerequisite for an inclusive growth process.

Challenges to Outcome Budgeting

The outcome budget is yet to emerge as a robust fiscal instrument to influence the decisions over public finances and provide a framework to judge the performance of the government.

- **Incompatible administrative structure:** Much of the development interventions in India are routed through the state governments. But key line departments in most states are yet to adopt planning and service delivery processes which are oriented around outcomes.
- **Lack of debate:** Outcome budgets are separately placed by the departments later in the Budget session. They do not receive the needed debate and scrutiny and thus remain unseen in the public arena.
- **Lack of Knowledge:** There also exists limited knowledge and understanding on the linkage between specific Government interventions and the outcomes they are likely to impact. This makes the whole exercise of OB futile in the long run.
- **Underdeveloped Components:** The building blocks of the outcome budget — measurement of performance indicators, specification of standards, costing of programmes, and a monitoring and evaluation system — are still evolving in India
- **Lack of clarity about the link between two kinds of budgeting:** Performance information contained in the individual outcome budgets should play an active role in programme formulation and resource allocation. However, due to the separate presentation of the two types of budgets there is no clarity on the same.

Way Forward

- India needs effective programmes to eradicate poverty and to meet the needs of primary health and education. Resources committed without precise outcomes, and without accountability might get deflected and wasted.
- The outcome budget in India provides an opportunity, which needs to be strengthened and taken forward. The important factors in this context are the ability to prepare measures under different government programmes to evaluate results, and utilise this performance information in shaping the Budget decisions, both in programme formulation and resource allocation.

2. BANKING AND FISCAL POLICY

2.1. CONSOLIDATION OF PUBLIC SECTOR BANKS

The government is working on a consolidation of public sector banks with a view to creating 3-4 global-sized banks and reduces the number of state-owned bank from 21 to about 10-12.

Significance of Merger/ Large-Size bank

- The consolidation would impact on cost cutting and acquiring efficiency in the wake of mounting problem of stressed balance sheet and NPA.
- The amalgamation could cater for the massive credit requirements of the growing economy, absorb shocks and have the capacity to raise resources without depending unduly on the state exchequer.
- Consolidation would check the competition within different branch of same bank and facilitate their resources diversion to other underserved segments.

Narsihman Committee Report 1991

- Merger of public sector banks to make them stronger.
- It had envisaged a three-tier banking structure with three large banks with international presence at the top, eight to 10 national banks at tier two, and a large number of regional and local banks at the bottom.
- Setting up large number of local bank for banking penetration
- Factors like regional balance, geographical reach, financial burden and smooth human resource transition have to be looked into while taking a merger decision.
- Efficient use of Section 44A of Banking Regulation Act 1949 (lays down the norms for voluntary mergers) and Section 45 of the Act. (Forced mergers).
- Consolidation should be on par of competition in order to avoid oligopolistic practices.

Challenges

- It would be difficult to arrive at the swap ratio as rights of minority shareholders in proposed consolidated bank have to be protected.
- Obstacle in merger will be large-scale shutting of branches in urban centres, reduction in staff strength and exploring the right business synergy and work culture.

2.2. DOMESTIC SYSTEMATIC IMPORTANT BANK

Recently RBI listed HDFC as Domestic – Systematically Important Bank (DSIB) under the bucket structure identified last year.

What are Domestic- Systematically Important Banks (DSIBs)?

- DSIBs are also referred to as **“Too Big To Fall” (TBTF)** because of their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection.
- Banks whose assets cross **2% of the GDP** are considered DSIBs. If these banks fail, they can have a disruptive effect on the economy.
- D-SIBs are categorised under **five buckets**. According to these buckets the banks have to keep aside the **Additional Common Equity Tier 1 as a percentage of Risk Weighted Assets (RWAs)**.

Financial Stability Board

FSB is an international body that monitors and make recommendations about global financial system.

It promotes international financial system by coordinating with national financial authorities and international standard setting bodies as they work towards development of strong regulatory and supervisory policies.

- At present **State Bank of India** is placed under **Bucket 3**, mandating to maintain an additional 0.45% of RWAs from the start of fiscal year 2018 which will rise to 0.6% from April 2019.
- **HDFC and ICICI** are under **Bucket 1** according to which they have to maintain 0.15% from April 2018 which will rise to 0.2% by next fiscal year.
- D-SIBs are mandated under special provisions and are closely monitored by the central bank to ensure their better functioning and prevent the indulgence of such banks in any grey areas such as money laundering etc.
- The Systematically Important Banks domestically are identified by Central Banks of a country and globally by BASEL committee on banking supervision.

Way Ahead

- D-SIBs are monitored by central banks i.e. RBI to overcome the extreme situations such as global financial crisis. However, D-SIBs are not a one stop solution to such exigencies.
- RBI should also develop similar mechanisms to control **Non-Banking Financial Companies** such as insurance and pension sector firms also known as shadow banks.
- The additional capital which D-SIBs need to keep aside is much lower than other nations. Therefore RBI should develop more stringent measures as other countries.

2.3. SHELL COMPANIES

Ministry of Corporate Affairs (MCA) has cancelled the registration of 2.1 lakh **dormant companies** and directors of about 1.07 lakh shell companies among them will also be disqualified.

What are Shell Companies?

- These are companies **without active business operations with significant assets**. They can be set up by for both legitimate and illegitimate purposes.
 - The **legitimate purpose** may include promoting a start-up by raising funds and
 - **Illegitimate purpose** includes hiding ownership from the law enforcement, laundering unaccounted money and avoiding tax.
- In India Shell companies are **not defined under Companies Act, 2013** or any other legislation. However some laws can help curbing illegal activities such as money laundering and can indirectly be used to target shell companies — Benami Transaction (Prohibition) Amendment Act 2016; The Prevention of Money Laundering Act 2002 and The Companies Act, 2013 etc.

Difference between Dormant Company and Shell Company

A company is Dormant company if It has chosen to get a 'dormant' status from the Registrar of companies in compliance with the requirements Section 455 of Companies Act 2013.

Or the company has not filed annual returns for two financial years consecutively

A shell company on the other hand is one which is typically suspected of illegal activities mainly tax evasion and financing the illegal activities.

Significance of the move

- The defunct companies strain the regulatory system. There were about 13 Lakh registered companies prior to action and after closing of around 2.10 Lakh Companies, there will be 11 Lakh companies having Active status in the Registry
- The measure is important in context of government crackdown on shell companies in post demonetisation phase and also curbing the menace of black money. The crackdown has

been successful after demonetisation as layering of transactions has been very little in that phase.

- Weeding out of shell companies will improve corporate governance and pave the way for ease of doing business by enhancing investor confidence in Indian regulatory system.

Concerns

- The companies which are not shell companies may face economic losses and restrictions on trading.
- It may also negatively impact on Start-ups in the country and hurt prospects for Start Up India Programme.
- Apart from the role of Directors of shell companies, role of auditors has also come under the scanner for alleged connivance in facilitating illegal transactions and not raising the red flag when such things came to the fore.
- The MCA is also examining the recommendations of the 3-member expert panel on various issues related to audit firms headed by TERI chairman Ashok Chawla.

2.4. DISINVESTMENT

Recently, a high-powered Committee has been set up to expedite strategic disinvestment of state-owned companies.

Earlier government had approved disinvestment in NHPC, Coal India, and ONGC.

What is Disinvestment?

- Disinvestment or divestiture refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise).
- The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment
- It is done when a PSU start incurring the loss of exchequer.
- Disinvestment proceeds can help the government fund its fiscal deficit.
- The budget 2017-18 has set a goal of ₹ 72,500 crore from disinvestment in various PSUs.

Disinvestment in India

The new economic policy 1991 indicated that PSUs had shown a very negative rate of return on capital employed due to;

- Subsidized price policy of public sector undertakings.
- Under-utilisation of capacity
- Problems related to planning and construction of projects.
- Problems of labour, personnel and management and lack of autonomy

In this direction, the Government adopted the '**Disinvestment Policy**' with **main objectives**;

- To reduce the financial burden on the Government by improve public finances
- To introduce, competition and market discipline by encourage wider share of ownership

Rangrajan Committee 1993, recommended the reduced in government equity up to 49 per cent in case of six the industries i.e. coal and lignite, mineral oils, arms ammunitions and defense equipment, atomic energy, radioactive minerals and railway transport.

Disinvestment Commission (1996) under **GV Ramakrishna** identified 58 CPSUs for purpose of disinvestment and suggested that the long term disinvest policy should stress that on minimizing budgetary support to unprofitable PSUs.

National Investment Fund (NIF)

- It was created in 2005. All the proceeds from the disinvestment of Centre Public Sector Enterprises were to be channelized in this fund.

- 75% of the fund will be used in social sector schemes while 25% is to be utilized in the revival of PSUs.
- This rule was relaxed during global economic slowdown and the govt. approved 100% NIF income utilization for social sector from 2009 to 2013.

More on News

- Cabinet Committee on Economic Affairs proposed an **Alternative Mechanism (AM)** consisting of the Finance Minister, Minister for Road Transport & Highways and Minister of Administrative Department to decide on the sale from the stage of inviting of **Express of Interests (Eols)** till inviting of financial bid.
- The new mechanism will empower the core group of secretaries on disinvestment (CGD) to take policy decisions on procedural issues.

Methods of Disinvestment

- **Stock market:** Initial Public Offering (IPO), Further Public Offering (FPO), and Offer for sale (OFS) offer are such methods through the stock markets.
- **Institutional Placement Program (IPP)** only Institutions can participate in the offering.
- **CPSE Exchange Traded Fund (ETF)** Disinvestment through ETF route allows simultaneous sale of government stake in various CPSEs across diverse sectors through single offering. It provides a mechanism to monetize its shareholding in those CPSEs which form part of the ETF basket.
- **Strategic Disinvestment:**
 - It is the sale of substantial portion of the Government shareholding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage along with transfer of management control.
 - It intended for efficient management of Government investment in CPSEs. Various programmes like addressing issues such as capital restructuring, dividend, bonus shares, made as part of this policy.

Disinvestment: Arguments in Favour and Against

Against	Favour
<ul style="list-style-type: none"> • It is against the socialist ideology of equal distribution of resources amongst the population. • It will lead to monopoly and oligopolistic practices by corporates. • Proceedings of disinvestment had been used to cater the fiscal deficit of the state which would lead unhealthy fiscal consolidation. • Private ownership does not guarantee the efficiency (Rangarajan Committee 1993). • Disinvestment exercise had been done by undervaluation of public assets and favouritism bidding, thereby, leading to loss of public exchequers. • Private ownership might overlook developmental region disparity in order to cut the cost of operation. 	<ul style="list-style-type: none"> • Trade unionism and political interference often lead to halting of PSUs projects thereby hampering the efficiency in long run. • Problem of disguised unemployment and outdated skill in PSUs employee are the major cause of inefficiency. • Private players works out-of Red Tapism bureaucratic mentality and focus on performance-driven culture and effectiveness (Disinvestment Commission 1996). • More robust competitive bidding leads to competition in private sectors to participate in PSUs. • Moreover, it ensures that product service portfolio remains contemporary by developing/ acquiring technology.

3. LABOUR REFORMS

3.1. WAGE CODE BILL 2017

In August 2017, Minister of Labour and employment had introduced the wage code bill 2017 in Lok Sabha on the line of the recommendations of **2nd National Commission on Labour**.

Why Wage Code Bill is needed?

- **International Labour Organisation report 2010**, highlighted that economic prospect of the country will not yield intended outcome in the absence of unified wage law.
- Labour welfare and reforms is contained in Concurrent **list** of The Constitution of India. There was absence of statutory National Minimum Wage for different regions.
- At present, the provisions of the Minimum Wages Act and the Payment of Wages Act are restricted to the Scheduled Employments/Establishments.

Significance of the bill

- It will give further boost to **ease of doing business**.
- The proposed law intends to do away with discrimination among employees on the ground of gender in matters relating to wages by the same employer.
- It will bring clarity in labour legislation, and minimize its multiplicity without compromising on the basic concepts of welfare and benefits to workers.
- The bill will help working class to know their rights and responsibilities, and look forward to larger employment opportunities.
- The proposed legislation would bring the use of technology in its enforcement and thereby bring transparency and accountability for effective enforcement of the law.

Highlights of the Bill

- It seeks to consolidate laws relating to wages by replacing: The Payment of Wages Act, 1936, The Minimum Wages Act, 1948, The Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976.
- The Code will apply to any industry, trade, business, manufacturing or occupation including government establishments.
- Wages include salary, allowance, or any other component expressed in monetary terms. This will not include bonus payable to employees or any travelling allowance, among others.
- It differentiates the central and State Jurisdiction in determining the wage related decision for establishment such as Railways Mines and oil fields.
- The bill specifies penalties for offences committed by an employer, such as paying less than the due wages, or for contravening any provision of the Code.
- A concept of statutory National Minimum Wage for different geographical areas has been introduced. It will ensure that no State Government fixes the minimum wage below the National Minimum Wages for that particular area as notified by the Central Government.
- The proposed payment of wages through cheque or digital/ electronic system.
- Provision for an Appellate Authority has been made between the Claim Authority and the Judicial Forum.

3.2. MINIMUM WAGE UNDER MGNREGA

Why in news?

- **Nagesh Singh** panel gave recommendations regarding wages paid under MGNREGA.

Background

- In 2014, an expert committee, headed by **Professor Mahendra Dev** held that MGNREGA workers should be paid at least the minimum wages paid to agricultural workers in the states, if not more, to meet basic needs.
 - This year's **MGNREGA budget of Rs 48,000 crore** is the highest ever but the wage revision this year was at a mere 2.7 percent (the lowest in the scheme's ten-year legacy) leading to a mere Rs 1-3 per day hike in several states. Due to this, MGNREGA wages are **far lower than minimum wages** paid in 17 states and Union Territories.
- Minimum wage:** It guarantees bare subsistence needs of life like food, shelter and clothing.
 - ✓ They are fixed under the **Minimum Wages Act, 1948**.
 - ✓ These are declared at the national, state, sectoral and skill/occupational levels.
 - ✓ Revision of minimum wage rates is based on a '**cost of living index**'
 - Living Wage:** It is the level of income for a worker which will ensure a basic standard of living including good health, dignity, comfort, education and provide for any contingency.
 - Fair Wage:** It is that level of wage that not just maintains a level of employment, but seeks to increase it keeping in perspective the industry's capacity to pay.

Recommendations

- There is no need to maintain parity in minimum wages paid by various states under MGNREGA.
- Divergence in pay:** Disparity is found between the minimum wages and NREGA wages due to
 - ✓ **Minimum Wages** are fixed by the states **which arbitrarily increased it** without following any scientific principles.
- Panel recommended to switch over to CPI-R from CPI-AL** for wage calculation because
 - ✓ **Comprehensive picture of inflation in rural areas:** CPI-Rural index is a better representative of rural households and will protect workers from inflation as it takes in to account the changes in prices for the entire rural population of the country.
 - ✓ **NREGA wages** are fixed by Central Government **using CPI-AL**, which is based on the consumption pattern of 1983. On the other hand, CPI-R is based on present consumption pattern.

Wage Indices In India

- CPI- Agricultural Labourers (CPI-AL):** Computed by Labour Bureau under Ministry of Labour
- CPI-Rural Labourers (CPI-RL):** Computed by Labour Bureau under Ministry of Labour.
- CPI-Rural (CPI-R):** Computed by CSO under Ministry of Statistics and Programme Implementation.

4. EXTERNAL SECTOR

4.1. EXPORT-IMPORT SCENARIO

Economic Survey 2016-17 stated that India's export growth turned positive, after an interregnum of two years. Import growth remained negative though marginally, resulting into narrowing down of trade deficit by 1.2 percentage point to 5 percent of GDP and current account deficit by 0.4 percentage points to 0.7 percent of GDP.

Moreover, Annual report 2016-17 of Ministry of Commerce asserted that the Indian Economy is expected to grow at 7.6 percent in 2017-18 to 7.8 percent in 2019-20 owing to the various reforms which are expected to ease domestic supply bottleneck and increase productivity.

Challenges of Export-Import sectors

Infrastructure: Domestic problems such as an electricity shortage continue to hamper export manufacturers. Over two-thirds of Indian exporters are small producers and are unable to benefit from alternatives such as having a captive power plant.

Inadequate back-end infrastructure such as roads, railroads, ports, airports, education, power grid, and telecommunications are significant obstacles for exports.

Foreign Trade Policy 2015-20

- **Target: doubling the export to \$900 million** and achieve the **3.5 % of world share in export** billion by **2019-20**.
- Generation of employment and increasing value addition in the country, in keeping with the "Make in India" vision
- Replicate earlier scheme into two consolidated scheme;
 - Merchandise Exports from India Scheme (MEIS)" for export of specified goods to specified markets.
 - "Services Exports from India Scheme (SEIS)" for increasing exports of notified services.
- Establishment of 108 MSME clusters for focused interventions to boost exports.
- Measures have been taken to give a boost to exports of defense and hi-tech items.
- **Approved Exporter System** will help manufacturer exporters in getting fast access to international markets.
- **Simplification of Procedure:**
 - Move towards paperless working in 24x7 environment and simplification of **Aayat Niryat** form.
 - Reduction of specific export obligation for capital goods.
 - Manufacturer will now be enabled to self-certify their manufactured goods in phases.

Merchandise Export from India Scheme (MEIS)

- The six different sector specific schemes have been merged into a single MEIS.
- Notified goods exported to notified markets will be incentivized on realized Freight on Board (FOB) value of exports.
- FOB have been grouped into three categories as follows: Category A: traditional markets, Category B: emerging & focus markets, Category C: other markets

Service Export from India Scheme (SEIS)

- The Served from India Scheme (SFIS) has been replaced with the Service Export from India Scheme (SEIS) and will be applicable to **destination based** service provider.
- The rates of incentivization under the SEIS are based on net foreign exchange earned.
- The incentive issued as duty credit scrip, will be freely transferable and usable for all types of goods and service tax debits on procurement of services/goods.

Other Government Initiatives

- **Niryat Bandhu Scheme** with an objective to reach out to the new and potential exporters including

exporters from Micro, Small & Medium Enterprises (MSMEs) and mentor them through orientation programmes.

- MoU sign between Ministry of Commerce and Good and Service Network for sharing foreign exchange realisation and import data.
- **Interest Equalisation Scheme** for pre and post shipment rupee export credit.
- Trade Infrastructure for Export Service is in pipeline for building logistic infrastructure including land custom stations, testing lab for SPS/TBT compliance.
- In February 2017, Trade Facilitation Agreement had come into force in the wake of rising protectionism trend by US.
- Government firm negotiation on '**Naroibi Package**' at WTO had pushed the issue of public stock holding of food security, special safeguard mechanism, and committed to abolish the export subsidies for farm products are such measures to boost the exports.

Perception of Raw material supplier: India needs to step up exports of high quality manufactured goods instead of exporting raw materials and intermediate inputs that are processed in the destination countries.

Local Content Requirements: The government is pursuing local content requirements in specific areas including information and communications technologies (ICT), electronics, and solar energy to spur an increase in the manufacturing sector's contribution to GDP. These policies negatively effect importers.

Asymmetric business facilitations: The differences at the state level in political leadership, quality of governance, regulations, taxation, labour relations pushes the exporters to have fragmented business strategy. Gujarat is an example of a state with a positive business climate that has succeeded in attracting significant foreign investment.

No Competitive exchange rate: Chief economic advisor asserted the need for a competitive exchange rate for manufactured exports to flourish. Current trend of currency depreciation alone cannot boost exports because through inflation increased imported input costs and higher wages can easily offset the benefits gained from it.

High Tariffs and Protectionist Policies: Due to stringent quality controls norms, non-transparent, unpredictable regulatory tariff regimes and SPS (Sanitary and phytosanitary measures) by US and EU had pegged the export business on declining trend.

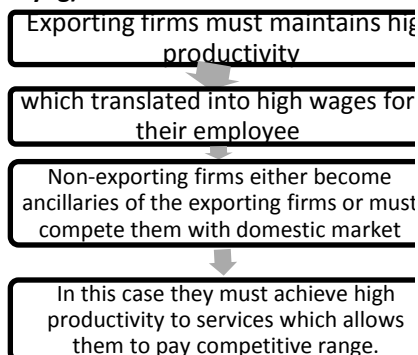
Mega multilateral trade agreements: India is not part of global trade agreements such as Transpacific Partnership and Transatlantic Partnership (intended to capture more than 50 percent of world Trade), which could potentially hurt the country's exports.

Critical Role of Exports

Niti Aayog action agenda highlighted the role of exports in transforming the economy of country in long run. The document sated that;

- Exports promotion of India can be mooted on the line of export led success story of China, South Korea, Taiwan and Singapore. The large ecosystem of big corporates created an enabling environment for small scale business in Taiwan and China, which is lacking in Indian business environment.

Strategy for Export led growth (NITI Aayog)



4.2. EASE OF DOING BUSINESS

Niti Aayog recently released Ease of doing business report after surveying 3500 manufacturing firms across India. The aim of the survey is to assess existing business regulations and the environment from the firm's perspective.

Highlights of the report

Economic Performance and Reforms: Better the economic indicators of a state, lesser are the issues faced by firms such as less obstacles in land/construction related approvals, 25% less power shortage in comparison to low growth states etc.

Improvements over time: Newer and younger firms report a more favorable business environment.

Informational gaps: States need to enhance awareness of the steps being undertaken by them to the improve ease of doing business. The survey data shows that only about 20% of new start-ups report using single window clearance facilities.

Barriers to firm growth: The experience of firms with fewer employees is different from that of larger firms. In some cases, large firms face more regulatory barriers than smaller firms.

Labor regulations are a bigger constraint for labor intensive firms: Labor intensive sectors, that create proportionately more jobs per unit of capital investment, feel more constrained by labor related regulations.

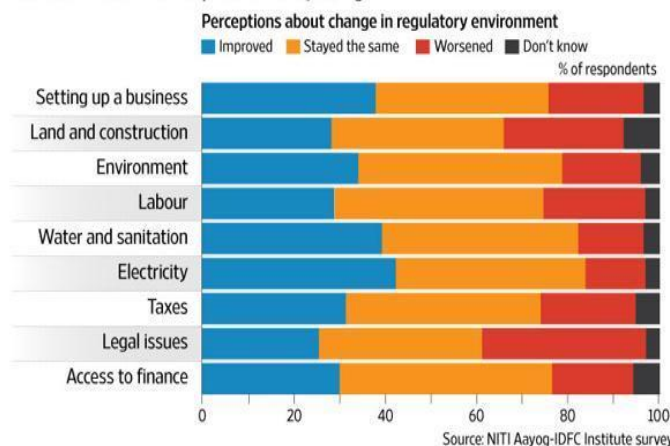
- 19% more likely to report that finding skilled workers is a major or very severe obstacle.
- 33% more likely to report that hiring contract labor is a major or very severe obstacle.

Way forward

- Improving physical infrastructure is essential. This ranges from transport systems to the power sector.

SLOW GOING

For a majority of respondents, parameters such as setting up a business, land and construction, environment, labour, water and sanitation, taxes, and access to finance remained the same compared with a year ago.



How NITI Aayog report differs from the World Bank's Doing Business Survey?

- The World Bank interviews industry leaders while this survey interviews firms along with some experts in large states.
- The World Bank Survey focuses on Delhi and Mumbai while this survey covers almost all states and Union Territories in India.
- While the World Bank survey has a standardized survey across 190 countries, this survey is a non-standardized survey only for India.
- The present survey is meant to be qualitative. It does not rank states in the ease of doing business. Its objective is to provide information for states on their business environment.
- While the World Bank Survey covers 10 parameters handled by the states and the central government, this survey primarily deals with issues handled by the State Governments.

- The report mentions the need to improve access to finance for smaller enterprises and making firm entry and exit easier.
- Enhance the flexibility of labor regulations.
- The government can bring in a law to legitimize lobbying and regulate it in a transparent fashion could reduce corruption and give smaller enterprises that band together for advocacy and lobbying a means to have policy inputs.
- The report makes a case for encouraging the entry of new enterprises and expediting the timely and least costly exit for sick enterprises.
- The report speculates that larger enterprises create an ecosystem where small firms must perforce improve productivity—whether to compete or take advantage of the downstream opportunities created by larger firms

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5. AGRICULTURE AND ALLIED SECTOR

5.1. WOMEN IN AGRICULTURE

What is the Problem?

- Women constitute about 65% of all agricultural workers and about 74% of the rural workforce. Yet, despite their hard labour in the field, women are not officially counted as farmers because they do not have a claim to land under their name in official records.
- Nearly three-quarters of rural women in India depend on land for a livelihood compared to about 60 percent of rural men, as lower farm incomes push many men to the cities for jobs.
- According to NSSO report, women lead almost 18% agricultural households and there is not a single area of agriculture in which they are not involved.
- As many as 87 per cent of women do not own their land primarily because of 2 reasons-
 - Land, a state subject, is not governed by a constitutional uniform law that applies equally to all citizens, which tend to discriminate against women when it comes to land inheritance.
 - The cultural aspect of the deep-rooted biases that hinder women's ownership of land in patriarchal societies cannot be discounted.
- Further, Indian farmers, both men and women, face an uphill battle even in terms of leasing land. Despite restricting tenancy nearly 35 per cent of India's agricultural land is cultivated by tenant farmers, who tend to be landless, poor and marginal.

Reasons behind Feminization of Agriculture

- **Male Migration-** Increasingly there has been a need for men to find better avenues for income for the sustenance of their family. Urban centres have been seen as providing lucrative job opportunities for them. Men from rural areas migrate to cities seeking a means for regular income leaving behind the agricultural chores to women.
- **Low level of Skills-** The women in turn face various handicaps and problems while operating agricultural chores such as low level of agricultural skills, lack knowledge to improve productivity thereby entering into a vicious cycle of poverty.
- **Lack of Property Rights-** Given the social and religious set up in India, women do not generally enjoy equal property rights as their male counter parts. The property related rules and rights are governed by the religious laws which are inherently unequal.
- **Lack of Bargaining power to women-** Due to lack of property rights, women are generally not given the land rights in their name. Because of this, women lack bargaining power in the family as against the property holding male member. Also, due to low level of skills, they work much longer hours than men and are paid lesser than their counterpart.
- Also, their **ignorance about their rights**, opportunities and facilities make their participation in agricultural all the more tough.

Feminization of Agriculture reflects the shift in the gender roles in the agriculture. Where earlier the image of agriculture or an agricultural farmer was associated deeply with men, in today's India, the image has been feminized due to increasing number of female workers in the agriculture sector.

Discriminating Inheritance laws

- Property rights can be a complex web of national and state laws, customs, traditions, and histories that vary from country to country, even town to town.
- Even when the laws offer equal protection, sometimes traditions and customs take over, especially in rural areas.

- For instance, under the Indian Succession Act 1925, the daughter of a person dying intestate would be entitled only to one-fourth of the son's share, or Rs. 5,000/-, whichever is lesser, this amount is also termed as Streedhan and this entitlement excludes the women from any further right in seeking a proper division of the properties of the deceased.

Importance of providing land ownership rights

- Female farmers should be provided with the three critical driving factors — the incentive, the security, as well as the opportunity — to invest in the land they harvest. Raising voice for female farmers, platforms like MAKAAAM have already been established.
- Many studies have shown that women have a greater propensity to use their income for the needs of their households. Land-owning women's offspring thus receive better education and nourishment. Therefore, it can be a win-win situation for farmer, her family and overall society.
- The wiping away of the debilitating feelings of insecurity and vulnerability for rural women can prevent physical and emotional abuse that they face. The chance of propertied women being physically abused is reduced from 49 per cent to 7 per cent due to an increase in the women's bargaining power. This suits the society's overall goal for women empowerment.
- Such a framework is in sync with the goals 2 and 5 of SDGs. The SDGs recognize the importance of property rights for women, especially in rural areas. It has set goals so that
 - All men and women have equal rights to ownership and control over land by 2030; and
 - The agricultural productivity and incomes of small-scale food producers, especially women can be doubled.

MAKAAAM, or Mahila Kisan Adhikaar Manch (Forum For Women Farmers' Rights) is a nationwide informal forum of more than 120 individuals and organisations of farming women, of women farmers' collectives, civil society organisations, researchers and activists, drawn from 24 states of India, to secure due recognition and rights of women farmers in India.

Steps Taken

Earmarking at least 30% of the budget allocation for women beneficiaries in all ongoing schemes/ programmes and development activities.

Focusing on women self-help group (SHG) to connect them to micro-credit through capacity building activities and to provide information and ensuring their representation in different decision-making bodies.

The Ministry of Agriculture and Farmers Welfare decided to **celebrate 15th October of every year as Women Farmer's Day**.

Way Forward

- Given the increasing feminization in agriculture, it becomes imperative to give women their due property rights which will have a widespread impact on improving various social factors.
- Giving agency to women farmers is critical in realising these outcomes as it would provide them security and would further incentivize the whole process of agriculture. It all may begin with creating a new image for the "Indian farmer".

5.2. SUB-MISSION ON AGRICULTURAL MECHANIZATION

Sub-Mission on Agricultural Mechanisation (SMAM) was launched in the year 2014-15 under National Mission on Agricultural Extension and Technology.

- Objective to promote **agricultural mechanisation** among small and marginal farmers and in the areas where the level of mechanisation and availability of power is very low.

- During the current year 2017-18, the allocation for SMAM has been increased more than two times as compared to the previous year (Rs. 577 crore).

Components of SMAM

- **Promotion and Strengthening of Agricultural Mechanization through Training, Testing and Demonstration:** Aims to ensure performance testing of agricultural machinery and equipment, capacity building of farmers and end users and promoting farm mechanization through demonstrations.
- **Demonstration, Training and Distribution of Post-Harvest Technology and Management (PHTM):** Aims at popularizing technology for primary processing, value addition, low cost scientific storage/transport and the crop by-product management.
- **Financial Assistance for Procurement of Agriculture Machinery and Equipment:** Promotes ownership of various agricultural machinery & equipments as per norms of assistance.
- **Establish Farm Machinery Banks for Custom Hiring:** Provides suitable financial assistance to establish Farm Machinery Banks for Custom Hiring for appropriate locations and crops.

Advantages of Farm Mechanization

- **Increases production and yield per unit of land** - Farm mechanization can improve both the speed and quality of work done on a farm thereby positively affecting production and yield per unit of land.
- **Brings in other improvements in agricultural techniques** – use of machinery improves irrigation, land reclamation and prevents soil erosion.
- It results in a shift from subsistence farming to commercial agriculture.
- It also has other advantages such as better use of land, increase in farm income, solves the problem of labour shortage and releases the farmers for other work.
- Apart from SMAM, farm mechanisation is also promoted through various other schemes and programmes of the ministry such as **RKVY, NFSM, NHM, NMOOP** etc.

Disadvantages of Farm Mechanization

- **Not fruitful for small farm** – For proper and efficient utilization of agricultural machinery, large farm holdings are essential.
- **Surplus Workers** – a surplus unemployed workforce may emerge as machines can work more efficiently
- It has also been associated with the problem of stubble burning in areas of Punjab and Haryana.
- **Way forward**
- Farm mechanization in India must cater to areas where manual labour is not much fruitful such as **reclamation of land infested with weeds or levelling of land with the help of tractors.**
- Farmers aren't educated or skilled to use the machinery appropriately. **Awareness campaigns must be held** in order to educate the farmers about the advantages of farm mechanization.

5.3. PULSE PRODUCTION IN INDIA

Pulse production in India is generally short of domestic demand by 3-4 million metric tone (MMT). However, in 2016-17, country witnessed its highest ever domestic production of pulses — a staggering 22.95 MMT. Despite this, the imports also rose to record level. This led to crash in domestic pulse prices.

Constraints in Pulse production

- **Decline in Area of Pulses in Indo-Gangetic plains (IGP):** The Indo-Gangetic plains which used to be the major areas of pulses are now witnessing reduced area under pulse cultivation due to creation of extensive irrigation network, leading to cultivation of cereals and cash crops, better incentive for rice-wheat production.
- **Low Genetic Yield Potential:** The harvest index in pulses is relatively low due to narrow genetic base, inefficient plant types and genetic erosion.
- **Low realized yield:** Pulses are consistently being grown in harsher environments and resource limited conditions on account of comparatively low farmer's preference and less remuneration than the cereals.
- **Instability in Production:** Variation in pulses production and productivity over the years indicated the large instability of the production system and the major reasons are outlined below:
 - Highly sensitive to environmental fluctuations
 - Being rainfed crop, pulses experience drought at critical growth stages
 - Highly sensitive to abiotic stresses (temperature extremities, excessive moisture & salinity)
 - Vulnerable to a large number of diseases
 - Emergence of new races of pathogens
 - Prone to attack by insect-pests.
- **Climate change risk:** The effects of climate change in pulses are more pronounced in northern Indo-Gangetic plains and trend appears to be more vulnerable as compared to peninsular India (southern part of the country).
- **Poor Seed Replacement:** poor seed replacement rate in pulses is one of the major issues related to low yield.
- **Post Harvest Losses:** About 20 to 30% post-harvest losses has been estimated in pulses which remains an issue to be resolved by improving post-harvest machineries.
- **Wide Fluctuation in Prices** due to unorganized market, No policy on assured procurement, Poor holding capacity of produce by farmers.

Price deficiency payment: It is government compensation to the farmers or producers of a commodity for all or part of a difference between the government-guaranteed price and the market price of the commodity. To remove distortion in the MSP system, the NITI Aayog has suggested the introduction of 'Price Deficiency Payment' system.

Mechanism: Under it, a subsidy in the form of DBT to farmers would be provided on targeted produce in case the price falls below an MSP-linked threshold. For this, farmers may be asked to register with relevant details at the nearest *mandi*.

Benefits: This approach will not require procurement and thereby prevent accumulation of unwanted stocks.

It would spread price incentives to producers in all the regions and all the crops considered important for providing price support.

Pulse Vision 2050: To raise the demand of Pulses 50 MMT by 2050.

The Indian Institute of Pulse Research has envisioned To bridge the yield gap in pulses through:

- **bringing additional area under pulses** by promoting crop diversification, identification of specific areas for pulse production
- **Improving Yield Stability** by development of transgenics against drought, efficient water management in rainfed areas etc.
- **Reducing Post Harvest Losses** by development and popularization of harvesters, threshers and graders, modernization of existing mills, development and popularization of low cost safe storage structures etc.
- Assured procurement and creation of procurement centres in production zones and announcement of MSP well in advance
- Development of organized markets for pulses
- Production of value added products and use of by-products.

- **Poor Transfer of Technology:** Pulse growers generally belong to poor or marginal farming community and most of the times they do not have access to technologies that are developed in Agricultural Institutes/state Agricultural Universities. Lack of awareness to latest pulse-production technologies is a critical gap leading to low productivity of pulses.

Way forward

- The landed price of imported pulses should not be below the MSP of domestic pulses, else the MSP is irrelevant.
- For our farmers to have a level-playing field, exports of all pulses must be opened up without any quantity or minimum export price (MEP) restrictions.
- Pulses should be de-listed from the Agricultural Produce Market Committee (APMC) Act so that farmers can sell freely to whosoever they like, enabling a better realisation for the agriculturalists and a compression of the pulses value-chain.
- The relevance of the Essential Commodities Act (ECA), especially the provision that imposes stocking limits, must be critically evaluated and the act should be amended to assure private players that no ad-hoc stocking limits will be imposed.
- It is crucial to give the farmer right incentives — at least some reasonable margin above the cost of production. **Price deficiency payment**, advocated by NITI Aayog, can be used to reduce price risk to farmers.
- Futures trading should also be allowed for all types of pulses so that planting and selling decisions of farmers are based on a futuristic rather than a backward-looking price information.

5.4. YOUTH IN AGRICULTURE

The **National Agricultural Higher Education Project** has been formulated by the ICAR in partnership with the **World Bank** with a focus to improve and sustain quality of higher education.

Need

- The present infrastructure of agricultural education in the country is not competent enough to be at par with global standards.
- Lack of convergence between ICAR and **SAUs (State Agricultural Universities)**
- Non-committal faculty and ill-equipped institutions.
- Paucity of funds
- Agriculture being a state subject tends to be neglected by most states.

ICAR

- The **Indian Council of Agricultural Research (ICAR)** is an autonomous organisation under the **Department of Agricultural Research and Education (DARE), Ministry of Agriculture and Farmers Welfare**, Government of India.
- It was established on 16 July 1929 as a registered society under the Societies Registration Act, 1860.
- The Council is the **apex body for co-ordinating, guiding and managing research and education in agriculture including horticulture, fisheries and animal sciences** in the entire country.

Other Government Initiatives

- **ARYA:** The GOI launched ARYA – “Attaining and Retaining Youth in Agriculture” in 2015 with the objective for entrepreneurial development of Youth in Rural Areas to take up various Agriculture, allied and service sector enterprises for sustainable income and gainful employment.
- **Pandit Deendayal Upadhyay Unnat Krishi Shiksha Scheme:** It was launched in 2016 under which 100 new centres were opened up for agricultural education.
- The GOI has also opened up various research institutions, colleges in order to boost agricultural education such as **Indian Agricultural Institute (IARI) in Assam.**
- **AGRI-UDDAN:** is to bring start-up **revolution for rural youth** in agriculture which has been mostly concentrated in Services sector.

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- Negative attitude towards agricultural education due to low returns and limited career opportunities.

About The Project

- The project has been launched for a period of four years with 50:50 cost sharing basis with the World Bank.
- All statutory agricultural universities, deemed to be Universities and Agricultural faculty of Central Universities are eligible to participate in this project.
- It will focus on raising the standards of teaching and learning through faculty and student development programmes, infrastructure, state of the art laboratories, industry linkage, alumni network, career development etc.
- It project has three major components:
 - ✓ Support to Agricultural Universities
 - ✓ Investments in ICAR for Leadership in Agricultural Higher Education
 - ✓ Project Management and Learning.

5.5. ESSENTIAL COMMODITIES ACT, 1955

Why in news?

NITI Aayog has recommended for completely removing agriculture commodities from the Essential Commodities Act.

Issue Involved

- Currently, the restrictions such as licensing requirement, stock limits and movement restrictions have been removed from almost all agricultural commodities. Wheat, pulses and edible oils, edible oilseeds and rice are the exceptions,
- States have been permitted to impose some temporary restrictions in order to contain price increase of these commodities.

The Essential Commodities Act, 1955

- Ensure the easy availability of essential commodities to consumers and to protect them from exploitation by unscrupulous traders.
- It empowers the State Governments to regulate and control of production, distribution and pricing of commodities which are declared as essential.
- The list of essential commodities is reviewed from time to time with reference to their production and supply and in the light of economic liberalization in consultation with the concerned Ministries/Departments administering these commodities.

Problems in the act

- Stockholding limits do not distinguish between food processing industries and food retail chains, which need to hold large stocks for their operations.
- Identifying the actual hoarders is not easy. The conviction rate under the Act is also abysmally low. So the hoarders go scot free and genuine players in the food economy are harassed.
- The Act is not in tune with present times. Due to robust transport infrastructure shortages in one part of the country can be countered if there is ample supply somewhere else.

Potential Impact after removal

- It will lead to organised trading, improve scale and logistics benefit and bring about more capital into trade with handful of big traders competing with each other. This will reduce handling costs, bring economies of scale, reduce prices and increase returns for farmers.
- **Increased investment in infrastructure:** Frequent changes in rules and stock limits under the act demotivate traders from investing in better storage infrastructure. Also, stock limits curtail the functioning of food processing industries which need to maintain large stocks of

underlying commodity to run their operations smoothly. Removal of these restrictions will attract more investment.

Way forward

- The centre and states can invoke the Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities (PBMSEC) Act, 1980 to check hoarders. However, the list of items that the PBMSEC can be invoked for comes from the Essential Commodities Act. Thus there is need to address this anomaly.
- The Essential Commodities Act is out of tune with current realities and needs to be either scrapped or drastically overhauled to deal with crisis situations like supplies getting disrupted due to war, natural calamities and breakdown of law and order.

5.6. DAIRY SECTOR

The Cabinet Committee on Economic Affairs has approved a “Dairy Processing & Infrastructure Development Fund” (DIDF) with an outlay of Rs 10,881 crore during the period from 2017-18 to 2028-29.

Need of Fund

- The fund will be used to provide loan for building an efficient milk procurement system and other processing infrastructure.
- **Benefit to farmers:** With this investment 95 lakh farmers in about 50,000 villages would be benefitted.
- **Capacity creation in milk processing:** Additional Milk processing capacity, milk drying capacity, milk chilling capacity, electronic milk adulteration testing equipment and value added products manufacturing capacity shall be created.
- **Employment generation:** The implementation of DIDF scheme will generate direct and indirect employment opportunities for skilled, semi-skilled and unskilled manpower. Direct employment opportunities for about 40,000 people will be created under the scheme. About 2 lakh indirect employment opportunities will be created on account of expansion of milk and milk product marketing operations to Tier IV, V & VI cities/towns etc.

Dairy sector in India

The Indian dairy sector provides livelihood to 15 crore farmers. India is the world's largest milk producer with 156 MMT of the item produced annually. However, exports of these items from India are negligible (about 0.5 MMT or 0.3% of the production). While New Zealand controls 25% of the global dairy trade and Australia around 5%.

Importance of dairy sector: It provides the livelihood to millions of farmers whom belong to marginalized sections of society.

Potential: As per a Crisil report the Indian milk economy is worth Rs 5 lakh crore, growing at a CAGR of 15-16 per cent, out of which the organised milk economy is worth Rs 80,000 crore.

Growth factors:

- As global dairy consumption stagnates or even dips, Indian consumption is going up. India's per capita consumption of milk at 97 litres a year is way below that of western countries.
- The Indian consumer - especially the affluent urban consumer - is consuming more value-added products. As the Indian cooperatives had largely stuck to basic milk, this had left a gap in the market that allowed some of the new players to come in with new product offerings.
- The phenomenon of working couples with high disposable income also provided the impetus for immediate requirement of complete food (MILK).
- Finally, global prices of milk are dipping because of overcapacity, while the Indian market is still growing, both for basic milk as well as for value-added products.

Challenges:**International level**

- **Impact of FTAs:** Removal of import duties on milk and milk products under Free Trade Agreement (FTA) including the Regional Comprehensive Economic Partnership (RCEP) will make imports cheaper.
- **Low surplus for exports:** India is the world's largest milk producer with 156 MMT annually. However, since there is a huge domestic demand for milk and milk products, exports of these items from India is negligible (about 0.5 MMT or 0.3% of the production). While New Zealand and Australia export 86% and 25% of their production.
- **Export restriction by other countries:** Most RCEP countries have a highly restrictive regime on dairy products — either high import duties or cumbersome procedures with certification and inspection requirements. For eg China does not allow Indian dairy imports. Similarly, Indonesia, Australia classifies India as an FMD (foot and mouth disease)-hit nation and restricts Indian dairy imports. New Zealand's requirement of several veterinary documentation on dairy products also prevents Indian exports to that nation.

National level

- **Domination of unorganized sector:** this prevents value addition and large scale investment in infrastructure creation.
- **Infrastructure issues:** cold food supply chain, milk processing facilities, vehicles to transport milk products etc, lack of marketing facilities and extension services; Insufficient Veterinary Services
- **Non availability of fodder:** especially green fodder round the year. By 2025, going by the present way of cultivation pattern, there will be 65% deficit of green fodder.
- **Segment wise problem:** For the **backyard farms**, the main challenge is the reluctance in acceptance of balanced nutrition for their animals. Most of them still feed their animals in the traditional way with unbalanced feed, forage and supplements and this leads to less than expected milk output from the animals. For **semi-organized dairy farms**, the key challenge is the improvement in the herd efficiency and maintaining the consistent milk production round the year.

Government steps:

Government of India is making efforts for strengthening the dairy sector through various Central sector Schemes like "National Programme for Bovine Breeding and Dairy Development", National Dairy Plan (Phase-I) and "Dairy Entrepreneurship Development Scheme".

फाउंडेशन कोर्स
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6. INDUSTRIAL POLICY

6.1. NEED FOR A NEW INDUSTRIAL POLICY

Why in news

- The Department of Industrial Policy and Promotion, Ministry of Commerce and Industry initiated the process of formulation of a **New Industrial Policy** to deploy a different set of ideas and strategies to build a globally competitive Indian industry.

Background

- Since the last Industrial Policy announced in 1991, India has transformed into one of the fastest growing economies in the world.
- The share of manufacturing in India's GDP has stagnated at 15-16 per cent since 1980 while the share in comparable economies in Asia is much higher at 25-34 per cent.

Challenges

- Low Spending on Research & development:** Currently, R&D spending amounts to around 0.9% of GDP. The private sector in India accounts for around 35% of the country's total R&D spending, compared to many advanced economies as well as China, where the corresponding number is around 70%.
- Increasing Competition:** MSME sector facing tough competition from cheap imports from China and other countries with which India has free trade agreements.
- Ambitious inflation-targeting framework** may have encouraged strong capital flows resulting in rupee strength that is hurting domestic industry (due to cheaper imports). The higher interest rates have also hurt credit to industry.
- Lack of Credit:** Industrial infrastructure in India suffers from lack of funds and inefficiencies. The sector's financing relies heavily on banks due to the lack of developed debt and bond markets.
- Increasing Automation:** It might lead to loss of jobs in market, whereas India is at the **mid-point of the demographic dividend** which require an estimated 1 million new jobs annually.

National Manufacturing Policy (NMP)

- Objective:** Increasing the share of manufacturing in GDP to 25% and creating 100 million jobs over a decade.
- It is **based on the principle Cooperative Federalism**. The Central Government will create the enabling policy frame work, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy.

National Investment and Manufacturing Zones (NIMZs).

- Zones have been conceived as large integrated industrial townships with state-of-art-infrastructure;
- Other features:** land use on the basis of zoning, clean and energy efficient technology, Necessary Social Infrastructure, Skill Development facilities, etc. to provide a conducive environment for manufacturing industries.

Significance

- The new Industrial Policy **will subsume the National Manufacturing Policy** and strives to formulate an outcome- oriented actionable industrial policy that provides direction and charts a course of action for a globally competitive Indian industry which leverages skill, scale and technology.

- **Its objective** is to promote use of modern smart technologies such as internet of things, artificial intelligence and robotics for advanced manufacturing, which includes zero emission, zero-incident, and zero-defect manufacturing.
- **It aims** at making India a manufacturing hub by promoting 'Make in India', to create jobs for the next two decades, promote foreign technology transfer ,attract \$100 billion FDI annually, push for technological deepening in sectors where Indian companies are globally uncompetitive and also provide a road map to enable industry to diversify across sectors.
- DIPP has **constituted six focus groups** for the policy and an online survey is being conducted to obtain inputs. Six thematic areas include
 - ✓ Manufacturing and MSME
 - ✓ Technology and Innovation
 - ✓ Ease of Doing Business
 - ✓ Infrastructure, Investment, Trade and Fiscal policy
 - ✓ Skills and employability for the future.
 - ✓ A Task Force on Artificial Intelligence for India's Economic Transformation.

Key observations and recommendations of Parliamentary Standing Committee on Commerce (2016) report on 'Industrial Policy in the Changing Global Scenario'

- **Industrial reforms:** An open, competitive mechanism to ensure transparency in the allocation of natural resources. Other suggested reforms include industry-friendly land acquisition frameworks by state governments, anti-corruption reforms, better inter-ministerial coordination, and judicial, financial and efficient public procurement reforms
- **Research and Development:** To create technological capabilities committee recommended that the government needs to provide an enabling environment for private enterprises to invest in technology creation in order to achieve high value addition. It also recommended industry to significantly step up its R&D expenditure to raise share of manufacturing in GDP (gross domestic product) to around 25% from 17% currently.
- **Foreign direct investment in small enterprises:** The Committee noted that the recent measures taken to promote foreign direct investment (FDI) mainly benefit large industries. It recommended that the government may take measures to promote FDI in the small and medium enterprises sector
- **Multiplicity of laws:** Presently, more than 30 laws govern the industrial sector which impedes the setting up of new industries and also affects their survival. The Committee recommended that a single window system should be established to give all statutory clearances including environment, forest and pollution clearances, particularly for small and medium industries. The labour laws and social security laws should also be reviewed.
- **Inclusion of MSME sector:** The Committee recommended that access to finance for the MSME sector should be supplemented by alternative sources such as private equity, venture capital and angel funds. MSMEs may also be provided assistance under MUDRA scheme. In addition, the definition of MSMEs should be revised, and a dynamic definition may be developed which is indexed to inflation and international best practices.
- **Future opportunities:** It recommended **planned skill development** for productive use of India's young population. The low cost of production in India will also help in giving it a competitive global advantage in manufacturing and production.

7. INFRASTRUCTURE

7.1. TIME AND COST OVER-RUNS OF INFRASTRUCTURE PROJECTS

Cost over-runs by central infrastructure projects have come down sharply by the end of FY17 from over 20 percent in 2015.

Background

- Cost and time over-runs has been a major impediment in government scheme and implementation.
- It can be attributed to **increasing land acquisition costs, high cost of environmental safeguards and rehabilitation measures, changes in scope of projects, monopolistic price vendors, of equipment services and time overrun.**

Major Implications of Stalled Projects

- It upsets **future planning and fiscal management.**
- It delays the benefits that the common man is supposed to get from a public good such as railway lines, roads, bridges etc.
- It affects job-creation.
- It **increases the amount of non-performing assets** thereby **contributing to the twin-balance sheet problem.**

Steps Taken By the Government

The government has also taken many measures to revive stalled projects and fight red tape culture such as faster clearances, periodic monitoring and review. Some of which include -

- **Pro-Active Governance And Timely Implementation (PRAGATI):** One of its major roles was to monitor and review important programmes and projects of the Government of India.
- **Roping in PSU to Revive Thermal Power Projects:** The government is roping in state PSUs to revive under-construction stalled thermal power projects.
- **Hydropower Policy:** A policy is underway which aims to provide Rs 16,709 crore support to revive 40 stalled hydel power projects which can add 11,639 megawatt (MW) capacity. The policy will make the incentives currently available to small project to big projects as well.

7.2. NEW METRO RAIL POLICY 2016

Recently, the Union Cabinet approved the New Metro Rail Policy which focuses on compact urban development, cost reduction and multi-modal integration.

Highlights of New Metro Rail Policy

- The policy make PPP (Public Private Partnership) component mandatory for availing central assistance for new metro projects.
- The three broad PPP models detailed in the policy include; Design-Build-Finance-Operate-Transfer mode, Allowing private players to operate the service as well as supply rolling stock and Involving them in the maintenance and upgrade of infrastructure.
- The new policy mandate **Transit Oriented Development (TOD)** to promote compact and dense urban development along metro corridors.
- New metro projects will be approved in line with global best practices, on the basis of **'Economic Internal Rate of Return of 14%'**, a change from the existing **'Financial Internal Rate of Return of 8%'**.

Transit Oriented Development is the creation of compact, walkable, pedestrian-oriented, mixed-use communities centered around high quality train systems. This makes it possible to live a lower-stress life without complete dependence on a car for mobility and survival.

- Under the policy, states will get powers to make rules and regulations and set up permanent fare fixation authorities. Moreover, states would also be required to enable low-cost debt capital through issuance of corporate bonds.
- The policy also makes it mandatory for state governments to set up a **statutory body** called as Unified Metropolitan Transport Authority.
- The new policy entails the States to charge a **“betterment levy”** in areas that will benefit from the metro rail projects.
- The policy envisages private sector participation in operations and managements (O&M) of metro services in different ways. These include; **Cost plus fee contract, Gross Cost Contract, Net Cost Contract:**

National Urban Transportation Policy 2006

Policy envisages safe, affordable, quick, comfortable, reliable and sustainable urban transport systems, establishment of quality focused multi-modal public transport systems.

It recognizes that people occupy centre-stage in our cities and all plans would be for their common benefit and well-being.

Poor mobility can become a major dampener to economic growth and cause the quality of life to deteriorate.

Policy is at the core of **Jawaharlal National Urban Renewable mission.**

Objectives of the Policy

Urban transportation as an important parameter at the urban planning stage rather than being a consequential requirement.

Enabling the establishment of quality focused multi-modal public transport systems that are well integrated, providing seamless travel across modes.

Benefits of Policy

- It will help in meeting the metro rail aspirations of various cities and help in realising the objective of **National Urban Transportation Policy 2006.**
- The policy will boost the **Make in India** Initiative and infrastructure led growth paradigm for India.
- The policy will help in expansion of Public-Private Partnership led growth which would boost the investor confidence in transport infrastructure.

Economic Internal Rate of Return (EIRR)

IRR is defined as the rate at which net present value of an investment project is equal to zero.

If $IRR >$ required rate of return the project should be accepted.

EIRR differs from the financial rate of return in that it takes into account the effects of factors such as price controls, subsidies, and tax breaks to compute the actual cost the project to the economy.

Limitations of the Policy

- Various transport economists are on the opinion that construction of Metro rail would not be a profitable investment because private players will look at least 12-15% return while no Metro project has ever yielded an investment return of over 2-3%.
- Earlier, PPP model for metro rail had not yield the intended returns, for instance, Mumbai, Hyderabad and airport line of Delhi metro had faced the disputes in operations.
- The policy is intended to reduce the role of Centre in financing the state for the projects however, states are already having limited source of revenue generations. The provision of betterment levy will not yield the intended returns.
- In absence of central government guarantee, securing the bilateral loans would be difficult for the private players.
- Moreover, proposal of floating the government bonds would not attract substantial buyer for such huge investment.

7.3. DRAFT NATIONAL ENERGY POLICY

Niti Ayog has come up with a draft national energy policy which builds on the earlier energy policy – the Integrated Energy Policy of mid 2000s.

Why need of a new energy policy?

- To chart way to meet government recent announcements:
 - Electrifying all Census villages by 2018, and achieving universal electrification with 24x7 electricity by 2022. As of now, 304 million Indians live without access to electricity
 - Increasing share of manufacturing in our GDP from 16% currently to 25%
 - Target of Ministry of Petroleum to reduce oil imports by 10% from (2014-15 levels) by 2022.
 - Achieving INDC targets
- To meet energy needs of vast population predicted to go up to 1.6 billion by 2040
 - 500 million people, still dependent on solid bio-mass for cooking
 - According to NITI AYOGE exercise, the energy demand in India is likely to go up by 2.7-3.2 times between 2012 and 2040 and thus import demand could increase from 31% in 2012 to 36-55% in 2040
- To increase coordination to achieve the goal of energy security as energy is handled by different Ministries with their own sectoral agenda
- To reduce cost due to air pollution – It is estimated to be 3% of its GDP and causes 1.2 million deaths every year.
- To set the new agenda consistent with the emerging developments in the energy world such as
 - **Changes in the global energy mix** where share of fossil fuel has reduced from 88% to 86% and share of renewable energy has increased from 12.5% to 14% during 2005-2015
 - **Ascendancy of gas vis-à-vis oil** because of rising production of natural gas, lower prices than oil and 1/3rd lesser carbon emissions
 - **Over supply of oil and gas markets have led to reduction in prices** which has given fiscal space to countries like India to attempt larger energy policy reforms
 - **Reduction in price of renewable energy technologies** – Wind and solar prices have reduced by 60% and 52% respectively between 2010 and 2015
 - **Climate change concerns** – There is enhanced understanding of linkage between energy usage and poor environmental outcomes and awareness about air quality standards

Key objectives of Energy Policy

- Access at affordable prices considering poverty & deprivation.
- Improved independence & security by diversifying source of imports or reducing it or increasing domestic production.
- Greater sustainability due to climate change issue.
- Economic growth as needed for energy-intensive sectors.

Key provisions to achieve objectives

- **To ensure sustainability**
 - Adopting **energy conservation building code** for all new commercial construction to bring down energy use by 50%
 - **Cutting fossil fuel consumption through energy efficiency** –
 - Bureau of Energy Efficiency (BEE) would conduct a study to establish a robust data base so that energy efficiency programmes can be evaluated against set targets.

- Shifting towards rail-based mass transport systems and electric & hybrid vehicles in transport sector to reduce pressure on exchequer as well as reducing pollution
- All key appliances, equipment and vehicles should be covered by mandatory standards and labelling programmes by 2020
- Establishment of an index of states by Niti Aayog to rate them across a range of energy efficiency related parameters. This will motivate them to create & strengthen state nodal agencies (SNA) and perform better.
- Taking up focused financing initiative such as offering line of credit to Energy Efficiency Services Limited or other agencies, making energy efficiency as a priority lending sector, partial risk sharing of Energy Efficiency programs etc.
- Setting specific goals for major energy consuming sectors such as revising AC standards, domestic efficiency lighting program (DELP) for AC, fans, pumps etc., standards for high duty vehicles and revising standards periodically for low duty vehicles
- Expansion of the PAT (Perform Achieve and Trade) program to cover 80% of all industrial consumption, including the unorganised sector, by 2020
- Adoption of BAT (Best Available Techniques) to reduce the industrial energy consumption
- **Promoting renewable energy** – Relying on nuclear energy as according to draft, it is the only green energy which can be used for baseload requirements. It also calls for linking price of coal, other fuels and electricity on market principles to prevent wasteful use of resources and also allow a level playing field for clean energy alternatives. This will incentivize private sector to enter into energy fields.
- **Removing subsidies on electricity** - The eventual goal should be to bring down the cross-subsidy from industry, placing the burden directly on the budget. This would contribute to making electricity-intensive businesses more competitive.
- **Higher tax on big cars**, SUVs and promotion of mass transport system like metro rails to improve air quality
- **Improving air quality** - Geographic concentration of power plants so that they do not damage air quality in human habitations and water supply to these ought to be priced as per its scarcity value.
- **For independence and security**
 - **Fostering Cross Border Trade** of Petroleum Products and Electricity especially with neighbouring countries to enhance our energy security.
 - **Setting up statutory regulatory authority (SRA)** for coal, power and petroleum for issuing swifter regulation and enhance coordination. This will ensure swifter response from industry leading to supply security
 - **Overseas engagement across stakeholders** – Encouraging Indian companies to seize a larger share of overseas energy business considering our increasing import dependence for commercial primary energy supplies.
 - **Expansion of energy infrastructure** and increasing strategic reserves as insurance against imported supplies.
- **For affordability**
 - **Corporatizing CIL** - by converting 7 subsidiaries of coal India Limited into independent companies and be allowed to compete against each other for better production, distribution and pricing. At present monopoly disincentivises attempts to contain costs
 - **Compensation to customers through direct benefit transfer** in event of price rise
 - **Technology development not just deployment** – Technological roadmap should be laid down for different energy sub-sectors through industry-academia alliance,

collaboration of government departments and private sector, tapping Indian diaspora for guidance.

- **For economic growth in general and energy intensive sector**
 - **Privatizing coal production** – to push for higher production from private coal miners. Thus, coal blocks need to be allocated on commercial lines to independent firms specialised in coal mining.
 - **Doubling of coal-fired capacity** by 2040 from current 195GW to anywhere between 330 to 441 GW
 - **Promoting investment in energy sector**
 - encourage adoption of imaginative tools to de-risk energy infrastructure projects such as extended debt tenure, VGF (viability gap funding), tolling, dollar denominated returns to attract private capital
 - Conceiving suitable hedging mechanisms for ECBs
 - Pursuing emerging sectors such as clean coal technology, battery storage etc.
- **Some provisions related to consumers**
 - Innovative billing and metering practices will be offered to them to be able to pay in a staggered manner.
 - Awards and tax rebates for facility and enterprise energy efficiency are an effective way to create awareness and promote competition between consumers

Issues

- **Not in sync with draft National Electricity Plan:** as it estimated that no new coal power plants would be required in India over the next decade till 2027, apart from the ones already under construction. Forecasts of our coal industry emerging as an exporter of coal seem to be out of touch with the shocking drop in demand for coal from most industrialised economies. Reliance on fossil fuels even in 2040 is in direct conflict with twin goals of sustainability and security at a time when solar and wind tariffs appear to be reaching historic new lows.
- **Capital crunch:** \$150 billion capital investment is needed in energy sector on an annual basis until 2040 without impacting availability of capital in other sectors.
- **Rural-Urban inequality:** only 4% of the urban households did not use electricity as the primary source of lighting, while more than 26% of rural households are in this state which shows an inclination towards kerosene-based lighting solutions.
- **Public health concerns:** draft policy again falls short of expectations In terms of public health as it briefly touched upon public health in terms of exposure to indoor air pollutants only. This is relevant only to the semi-urban and rural regions. It ignores millions of inhabitants in cities who have to grapple with pollution caused by dirty thermal power stations.
- **Relying on nuclear power:** as only green energy available for baseload power may not hold true in next few decades given rapid maturing of energy storage technology. Also, it is highly cost-intensive in construction as well as upgradation. It has inherent risk of disaster even if India has an enviable record. Also, countries like Germany & Switzerland have voted emphatically to not build any new nuclear power stations.
- **Impact on international relations:** from expanding on thermal power as various countries including our neighbours Bangladesh and Maldives are at risk of going under from sea level rise.

Way forward

- **Ensuring coverage of households as opposed to only villages:** There is also a need to redefine the concept of 'electrification', as occurs in the DDUGJY to include stages of electrification in a village, with the village being deemed completely electrified if and only if all households of a village have a power connection, which witnesses reliable supply at least for a set number of hours.
- **Improving Governance:** by empowering BEE to enable it to implement the Energy conservation Act more effectively
- **Awareness creation,** an essential component of the renewed energy efficiency programme, to instill reasonable degree of confidence of the long term benefits in lieu of an upfront cost.

7.4. HYDROCARBONS EXPLORATION AND LICENSING POLICY (HELP)

The Government of India recently launched the **Hydrocarbons Exploration and Licensing Policy** which will govern the exploration of oil and gas resources in the country replacing the existing **New Exploration Licensing Policy (NELP)**.

National Data Repository

- Along with HELP, the government has also introduced a database of geological and hydrocarbon information that would be open for all.
- Having an NDR for India will **enhance prospects of petroleum exploration and facilitate the Bidding Rounds by improving the availability of quality data.**

Objectives of the Policy

- To make India **business and investor friendly** by reducing regulatory restrictions.
- **Double India's existing oil production** from current 80 million metric tons to about 150-155 million metric tons by 2022.
- **Identification of areas** where exploration of different hydrocarbons can be made possible.

Need for the Policy

- The country domestic crude oil production of 36.95 million tons in 2015-16 barely met 20 per cent of its oil needs. Natural gas output at 32.249 billion cubic metres meets less than half of its needs
- Separate policies regimes for conventional oil and gas, coal-bed methane, shale oil and gas and gas hydrates have led to **inefficiency in exploration.**
- The previous policy regime had a **profit sharing model** which resulted in delays and disputes.
- NELP does not distinguish between shallow water fields (where costs and risks are lower) and deep/ultra-deep water fields where risks and costs are much higher for fixing royalties.
- Currently, the producer price of gas is fixed administratively by the Government. This has led to loss of revenue, a large number of disputes, arbitrations and court cases.
- Such a policy can help **boost hydrocarbon exploration** thereby paving the way for **energy sufficiency** in the country.
- Domestic production of oil and natural gas can help reduce dependency on imports while attracting the **foreign direct investment (FDI).**

Main Features of the Policy

- **Uniform Licensing** – It provides one single license for different types of hydrocarbons such as oil, gas, coal bed methane etc.
- **Open Acreage Policy** – Explorers can now identify suitable area for exploration throughout the year. The government will then open the area for bidding.

- **Revenue Sharing** - The govt. will receive a share of the gross revenue. Bidders are required to quote the revenue shares in their bids.
- **Marketing and Pricing Freedom** - The policy provides marketing and pricing freedom subject to a ceiling price limit.
- **Exploration Phase** - Exploration phase for the onshore areas have been increased from 7 to 8 years and offshore areas from 8 to 10 years.

HELP vs. NELP

Policy category	HELP	Pre-HELP
Types of hydrocarbon	Covers all conventional and unconventional oil and gas	NELP covered only conventional oil and gas; Coal Bed Methane Policy covered coal bed methane
License	A single license for exploration and extraction of all types of oil and gas	Separate license required for conventional oil and gas, coal bed methane, shale oil and gas, and gas hydrates
Revenue model	Revenue-sharing model under which revenue will be shared with the government in the ratio submitted by bidders	Production/profit-sharing model under which government received a share in the profits
Coverage	Open acreage policy under which exploration companies can apply to explore any block not under exploration	Exploration was restricted to blocks opened for bidding by the government
Oil and gas pricing	Companies have the freedom to sell their production domestically without government intervention	Crude oil price was based on import parity; gas price was fixed by the government
Royalty	Concessional royalty for deep water (5 percent) and ultra-deep water (2 percent) areas, which are difficult to explore, and reduction of royalty in shallow waters (from 10 percent to 7.5 percent)	12.5 percent for the onshore areas and 10 percent for offshore areas; 10 percent for coal bed methane

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8. ELECTRICITY

8.1. NATIONAL ELECTRICITY POLICY

The Standing Committee on Energy submitted its report on the Review of the National Electricity Policy. The central government had released the Policy in February 2005.

Details

Key observations and recommendations of the Committee include:

Objectives of National Electricity Policy:

- access to electricity for all households by 2010
- meeting the power demand of the country by 2012
- supplying reliable and quality power in an efficient manner and at reasonable rates, and
- Financial turnaround and commercial viability of the electricity sector.

- **Achievement of objectives:** The Committee noted that none of the Policy's objectives could be met within the stipulated timeline. It pointed out that:
 - ✓ four crore households still need to be electrified;
 - ✓ while generation capacity is adequate, the demand for power has not been fully met; and
 - ✓ Financial condition of the power distribution companies has worsened.
- **Access to electricity:**
 - ✓ It recommended that the definition of village electrification should be changed to declare a village electrified only when all the households of the village are electrified.
 - ✓ Further, no village should be declared as electrified unless at least 80% of the households have an electricity connection.
 - ✓ The Committee noted that the current village electrification policy only caters to below poverty line (BPL) households. The policy be amended to include both BPL and APL households.
 - ✓ Further, provisions with regard to
 - (i) the quality of supply and
 - (ii) reliability of supply for reasonable time should also be made.
- **Electricity generation:** The Committee observed that in the recent years, the generation capacity in the country has increased. However, the share of hydro power in the total energy mix has decreased from 25% in 2007-08 to 14% currently.
 - ✓ It recommended that states with hydro potential must focus on its maximum development at the earliest. Further, since renewable energy sources are intermittent in nature, hydro power can be used as a balance to support the grid and even out the fluctuations in supply.
 - ✓ The Committee recommended declaring hydro power as a renewable source of energy. Currently, hydro power plants with a capacity of over 25 MW are classified as non-renewable sources.
- **Electricity distribution:**
 - ✓ The Committee noted that that the economic viability of the whole electricity sector depends on the distribution sector, which is currently the most financially distressed in the country. The aggregate technical and commercial losses (AT&C) in the country are still high, and are the major reason behind the distressed condition of the distribution companies.
 - ✓ It also noted that that the concept of AT&C losses is flawed as it disguises commercial losses which unlike technical losses can be eliminated completely. It recommended that these two components must be segregated.

- **Financial health of discoms:** The Committee noted that the total outstanding debt of the discoms was around Rs 4 lakh crore in 2014-15. It recommended that necessary calibrations may be made in Ujjwal Discom Assurance Yojana (UDAY), which seeks to achieve the financial turnaround of these discoms, as and when need arises to address any new issues that crop up during its implementation.
- **New challenges in the sector:** The Committee noted that the fall in solar tariff and its low gestation period is posing a threat to the economic viability of thermal power plants. It recommended that development of the power sector should be done in a balanced manner where various sources of energy complement each other.

8.2. SAUBHAGYA YOJANA

Why in news?

With an aim to provide electricity to over four crore families in rural and urban areas by December 2018, Prime Minister has launched **Pradhan Mantri Sahaj Bijli Har Ghar Yojana 'Saubhagya'**.

Progress of Power to All program till now:

- In 2015, PM had announced to electrify the remaining 18,452 unelectrified villages by May 1, 2018. Now less than 3,000 villages remain unelectrified and all villages will be electrified by the end of this year, much ahead of the schedule.
- The govt had also fixed target to provide 24X7 power to all by March, 2019. India is aiming to achieve the target of power for all by December 2018. At present four crore out of 25 crore families do not have power connection.

Why need for new scheme?

- Despite the government's aggressive village electrification programme, under the Deen Dayal Upadhyay Gram Jyoti Yojana, it was realised that the problem of electricity 'access' wasn't resolved.
- With a large number of household still remaining without access to electricity, the scheme aims at ensuring the coverage of households as opposed to only villages.

Details of scheme

- **Objective:** to provide electricity to all families in India.
- **Total Outlay:** 16,320-crore scheme, the Gross Budgetary Support (GBS) is Rs 12,320 crore. The scheme is being funded to the extent of 60% by central grants, 30% by bank loans and 10% by states.
 - ✓ The scheme primarily benefits rural areas, which have the vast majority of households without power connections. Of the total outlay of Rs 16,320 crore, rural areas will get Rs 14,025 crore. For the urban households the outlay is Rs. 2,295 crore.
- **Identification of beneficiaries:** The government will use Socio Economic and Caste Census (SECC) 2011 data to identify the beneficiaries for free electricity connections. Un-electrified households not covered under the SECC data would also be provided electricity connections under the scheme on payment of Rs 500 which will be recovered by DISCOMS in 10 installments through electricity bill.
- **Implementation:**
 - ✓ The Rural Electrification Corporation Limited will remain the nodal agency for the operationalisation of the scheme throughout the country.

- ✓ To ensure on-the-spot registration, mobile applications will be used. While free connections will be provided to below poverty line (BPL) households, even those not covered under this category can avail it by paying Rs500 in 10 instalments with their monthly bill.
- ✓ For those household where the national electricity grid can't reach, households will be provided with solar power packs along with battery banks.
- ✓ Remote hamlets will be powered with solar panels along with five LED lamps, a DC fan, and a plug point along with repair and maintenance for five years
- ✓ There will be no subsidy component for monthly electricity consumption and the Gram Panchayat and public institutions in the rural areas will be authorised to carry out billing and collection tasks which have been pain points for the discoms.
- ✓ States have also been provided with an incentive of 50% of their loan being converted to grants, if the electrification targets are met by 31 December 2018.

Possible Impact of the scheme

- Earlier the electricity distribution companies (discoms) didn't want to supply to the villages even if the electrification has taken place. By providing electricity access to all households with prepaid and smart meters, demand will be created which in turn will force the discoms to supply to these villages.
- The scheme will boost growth. Access to energy is central to development and this initiative to expedite that access is strongly positive for growth.
- Last-mile connectivity has always been a huge challenge due high cost of connections for households and higher supply costs for states. This will attempt to address both, by funding energy efficient equipment.
- It will improve the environment, public health, education and connectivity with the help of last-mile power connections across India.
- It will help reduce the use of kerosene lamps in non-electrified households. Thus it will help India, the world's third-largest energy consumer after the US and China, to help meet its global climate change commitments.
- The scheme would inject Rs 16,000 crore into the economy, create assets and generate employment. Importantly, electricity would be billed without any subsidy.
- Better quality of life, especially for women, in daily chores

Way forward

New India will require an energy framework that works on the principle of equity, efficiency and sustainability. After connecting each house with electricity, the government's next target should be to end load shedding and provide 24x7 power.

9. INVESTMENT MODELS

9.1. PUBLIC PRIVATE PARTNERSHIP

The PPP is defined as "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance."

Department of Economic Affairs (DEA) is the nodal agency for PPP initiatives in India and to share PPP best practices.

Why is PPP needed?

- The ever increasing growth in population has imposed tremendous pressure on State resources. In this situation, public-private partnership (PPP) can offer a solution to **resource scarcity** by taking **associated risk** of infrastructure.
- It intends to **bring expertise** and **efficiency** in terms of human resources, technology and innovation.
- It can provide the room for government to focus on **essential service delivery** such as education and health.
- PPP as long term investment build the internal competition amongst the private players, thereby promoting the economic growth in long run.



Types of PPP models

- **Management Contract:**
 - It is contract to the private sector for all of the operations and maintenance of a public facility or service ranging from short term (3 to 5 years) to medium term (10 years).
 - The private entity is paid on predetermined rate and ultimate obligation for service provision vested in the public sector. Daily management control and authority is assigned to the private entity.
- **Service Contract/Operations & Maintenance:** The Government bids out the right to deliver a specific service or gives part of the undertaking to the private sector for operations and maintenance of the assets. Such contracts are normally of a shorter duration than concession contracts.

Government Initiatives for PPP:

Viability Gap Funding (VGF) subsidy: VGF is a mechanism to fund **only infrastructure project** which had fall marginally short of the fund. Under this up-to 40% of cost of the project can be accessed in the form of a capital grant.

India Infrastructure Project Development Fund (IIPDF) - Scheme supports the Central and the State Governments and local bodies through financial support for project development activities (, feasibility reports, project structuring etc.) for PPP projects

India Infrastructure Finance Company Limited (IIFCL) – It was set up in 2006, in order to provide long-term debt for financing infrastructure project pertains to long gestation periods because debt finance for such projects should be of a sufficient.

Foreign Direct Investment (FDI) – up-to 100% FDI in equity of SPVs in the PPP sector is allowed on the automatic route for most sectors.

- **Lease Contract:** Under this system assets are released to private entity for maintenance and management for a particular period of time (5 to 10 years).
- **Build-Operate-Transfer (BOT) and its various sub-types**
 - **In BOT** the responsibility for operation and construction rest with the private partner (typically Greenfield), while ownership is retained by the public sector .Private partner does not collect any charges from the users. The return on total investment is paid to him by public authority through annual payments (annuity).
 - **Design-Build-Finance-Operate-Transfer (DBFOT):** the operation is generally span for 20 years, fetches the high revenue tariff.
 - **Design-Build:** when private entity design and build the infrastructure and transfer it to public authority.
 - **Reverse BOT model:** The offshore provider provides implementation support initially and is allowed to buy into the entity at a later date.
- **Joint Venture (PPP):** Under this model the infrastructure is co-owned and operated by the public sector and private operators instead of fully privatise the project. The public and private sector partners can either form a new company (SPV) or assume joint ownership of an existing company through a sale of shares to one or several private investors.
- **Engineering Procurement and Construction (EPC)**
 - Under EPC, government will fund the project and private entity focus on building and designing the project.
 - All the operation management (such as land acquisition environment clearance), risk management, and revenue collection rest in the government authority.
 - Moreover, private entities are legally responsible for completing the project on deadline which is known as **lump sum turn key**.
- **Hybrid Annuity Model (HAM)**
 - The HAM is a mix of engineering, procurement and construction (EPC) and build-operate-transfer (BOT) formats, in which the government and the private companies sharing the total project cost in the ratio of 40:60 respectively.
 - The government will contribute to 40% of the project cost in the first five years through annual payments (annuity).

Key Recommendation of Kelkar committee on PPP

- Ministry of Finance should develop and publish a **national PPP Policy document** and **3PI institution** which can function as a centre of excellence, enable research, and review and roll out activities to build capacity.
- Infrastructure PPP Project Review Committee ("IPRC") and Infrastructure PPP Adjudication Tribunal ("IPAT") should be established to ease the bottlenecks in PPP projects.
- Amend the **Prevention of Corruption Act, 1988** to distinguish between genuine errors in decision-making and acts of corruption.
- Encouraging the banks and financial institution to issue **Deep Discount Bonds** or Zero Coupon Bonds (ZCB) for PPP.
- Monetisation of viable projects that have stable revenue flows after **EPC** delivery should be considered.
- Concession agreement should stipulate important commercial parameters like return on equity, treatment of land for non-commercial purposes.
- **Open the avenues for long-term investors**, including overseas institutional investors as long-term liabilities are best suited for PPP.
- Protection against '**Obsolescing Bargain**' - loss of bargaining power by private players in PPP over the long time-frame of the project due to abrupt changes in policy or economic environment.

- This model intended to reduce financial burden on the concessionaire during project implementation phase. Moreover, it requires private partner to partly bear financing risk.
- In comparison to aforesaid models, HAM would also ease cash flow through the provisions for inflation adjusted project cost over time.
- **Swiss Challenge**
 - Under this method the government keeps an unsolicited bid in public domain and invites others to come up with better or improved ones within a given time-frame. The unsolicited bidder is a private player who approaches the government for development of a new infrastructure project.

New PPP Policy for Affordable Housing

The central government has announced a new public-private partnership (PPP) policy for affordable housing.

Highlights

- Out of the proposed eight proposed PPP models two models are monetary incentive based.
- Central assistance of about Rs 2.50 lakh per each house as interest subsidy on bank loans as upfront payment under the Credit Linked Subsidy Component (CLSS).
- Central assistance of Rs 1.50 lakh per each house to be built on private lands would be provided, in case the beneficiaries do not intend to take bank loans.
- Six models of PPP based on DBT Model, Mixed- Development Cross –subsidized Housing, Annuity-Based Subsidized Housing, Annuity-cum-Capital Grant Based Affordable Housing, Direct Relationship Ownership Housing, and Direct Relationship Rental Housing.
- Intended beneficiary under PMAY (Urban) beneficiaries can avail central assistance of Rs.1.00 to Rs.2.50 lakh per house.
- The policy will be augmented by time bound review of floor Space Index norms in 53 cities with a population of million and above each and State capitals to enable better utilization of scarce urban land parcels.

Objective of Policy

- To achieve 'Housing for All by 2022'.
- Leveraging under-utilized and un-utilized private and public lands.
- It seeks to assign risks among the government, developers and financial institutions.

Problems and Solutions

Sector specific problem of PPP, highlighted by **CAG and its solution recommended by Kelkar Committee.**

Sectors	CAG	Kelkar Committee solutions
Port	<ul style="list-style-type: none"> ● Delays in majority of projects due to time taken in finalization of tenders, security clearances, concession agreement and tender process ● Delays in obtaining environmental clearance ● Delays in handing over of project sites and back up area. 	<ul style="list-style-type: none"> ● Urgent need to focus on strengthening the systems to speed up the overall environmental clearance process. ● More institutions are required to be given authorization for conducting Coastal Regulation Zone demarcation. ● Need to provide support infrastructure such as land, utilities, dredging, rail and road evacuation infrastructure through enforceable obligations

Road	<ul style="list-style-type: none"> • Inconsistency in adopting carrying capacity/tollable traffic as yardstick for determining the Concession Period by NHAI resulted in fixing higher concession period and higher toll burden on road users. • Projects were approved despite the known late realization of minimum threshold traffic. • The Total Project Cost (TPC) worked out by the concessionaires was higher as compared to TPC worked out by the NHAI. In 25 projects, TPC worked out by concessionaire was higher by 50 % 	<ul style="list-style-type: none"> • In the case of BOT toll projects, focus on projects with longer concession period. NHAI, concessionaire can opt for revenue share on a case to case basis • In case of projects that are not viable on BOT toll basis, options to fund through hybrid models, grant of VGF, part annuity, O&M grants, and debt instruments, maybe explored. • The concessioning authority may undertake detailed project development activities including demand assessment, soliciting stakeholder views on project structure and financial viability analysis to estimate a shadow bid, which could be used to compare actual bids received.
Railways	<ul style="list-style-type: none"> • Lack of promotion aspect in attracting the PPP for railways projects. • Majority of approved project had been halted due to technical glitch. 	<ul style="list-style-type: none"> • Take up simpler projects first to build credibility. • Such projects can be brownfield monetisation of existing stations or, greenfield development of new stations. • Set up regulatory authority to settle technical issues such as track-access charges.
Airports	<ul style="list-style-type: none"> • The success of PPP in airport are comparatively good however there is lack of comprehensive policy to deal with negative returns. • Fluctuation cost of aviation turbine fuel had generate the negative trade-off for private entities. 	<ul style="list-style-type: none"> • Prepare a policy that addresses the expected growth parameters of the sector and promotes PPPs • Concession agreement should stipulate important commercial parameters like return on equity, treatment of land for non-commercial purposes • Develop brownfield and greenfield airports with defined structure, revenue sharing mechanisms.

Conclusion

India is currently in a global win-win situation with a large young population that will need good jobs and a huge pool of global savings that can be tapped for building out our infrastructure. PPPs are an important policy instrument that will enable India to compress time in this journey towards economic growth and development. A successful and growing stream of PPPs in infrastructure will go a long way in accelerating the country's development.

10. SECTORS OF INDIA ECONOMY

10.1. MICRO, SMALL AND MEDIUM ENTERPRISES (MSME)

Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, defines the MSMEs on the bases of:

- the investment in plant and machinery for those engaged in manufacturing or production, processing or preservation of **goods** and
- the investment in equipment for enterprises engaged in providing or rendering of **services**.

	Manufacturing	Services
Micro	Not exceeding Rs.25.00 Lakhs	Not exceeding Rs.10.00 Lakhs
Small	More than Rs.25.00 lakhs but does not exceed Rs.500.00 lakhs	More than Rs.10.00 lakhs but does not exceed Rs.200.00 lakhs
Medium	More than Rs.500.00 lakhs but does not exceed Rs.1000.00 lakhs	More than Rs.200.00 lakhs but does not exceed Rs.500.00 lakhs

Significance of MSME

- It has 31% contribution to the nation's GDP and 45% and 34% share of the overall exports and manufacturing output (2017 report).
- Provide large number of employment opportunity with low capital and technology requirement. According to the Ministry of MSME, the sector generates around 100 million jobs through over 46 million units situated throughout the geographical expanse of the country.
- They are important for promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products.

Draft MSMEs Policy

- Policy mooted on the line of **Prabhat Kumar committee** recommendation
- Intended to increase the threshold of rupee investment in Small, Micro and Medium Enterprises along with the change the classification of MSMEs.
- Called for setting up an overarching policy-making authority headed by the Prime Minister.
- Raising the limit of MUDRA loans for micro units from ₹50,000 to ₹1 lakh, for small units from ₹50,000-5 lakh to ₹1-10 lakh and for medium enterprises from ₹5-10 lakh to ₹10-25 lakh.
- A single law for micro and small enterprises employing less than 40 persons, social security cover for micro entrepreneurs,
- The policy suggest reassessment of the impact of bankruptcy code on MSMEs, replication of the Telangana model for statutory clearances of start-ups, creation of land banks by State governments.

- Besides the wide range of services provided by the sector, the sector is engaged in the manufacturing of over 6,000 products ranging from traditional to hi-tech items.
- Resilient to global and domestic economic circumstances. The sector has sustained an annual growth rate of over 10% for the past few years.
- Promotes both self-employment and wage-employment outside the agricultural sector.

- Creates inclusive and sustainable society through creation of non-farm livelihood at low cost, balanced regional development, gender and social balance, environmentally sustainable development, etc.

Challenges faced by MSMEs

- **Lack of scaling up:** Most of the unregistered MSMEs would predominantly comprise micro enterprises, particularly confined to rural India
- **Financing:** The sector is always fund starved. Banks are often unwilling to lend. Besides, whatever bank finance these sector gets, comes at far higher interest costs than what large enterprises can negotiate.
- **Working capital management:** Long receivables cycles make a mess of working capital management.
- **Access to skilled manpower and technology:** Little access to trained labour, technical progress and management support limit their growth.
- **Quality issues:** Quality assurance/certification, Standardization of products and proper marketing channels to penetrate new markets.
- **Infrastructural challenges** viz availability of assured electricity, transportation facility, access to ports
- **Regulatory issues:** limitations posed by labour laws, taxation policy, environmental laws.

Policy suggestions

- The problems faced by MSMEs need to be considered in disaggregated manner for successful policy implementation, as they produce very diverse products, use different inputs and operate in distinct environments.
- Tax provisions and laws that are not only labour-friendly but also entrepreneur-friendly.
- Skill formation and continuous upgrade both for labour and entrepreneurs.
- Managerial skill development for entrepreneurs running MSMEs. Further, the government could consider dedicated television and radio programmes, similar to agriculture, to help educate entrepreneurs running small businesses.
- **Ancillarisation:** Any growth of ancillarisation and sub-contracting would be advantageous to the MSME sector by way of assured marketing, covered technical assistance, finance, and supply of raw materials and training.

Government's Initiatives MSME:

The government adopted following policy to promote MSMEs after independence:

- Reservation of products for exclusive production
- Technical and marketing support
- Subsidized and directed bank credit
- Fiscal concessions

Recent initiatives:

- The Micro and Small Enterprises-Cluster Development Programme is being implemented by the government for the holistic and integrated development of these enterprises in clusters through soft interventions, hard interventions and infrastructure upgradation for enhancing their productivity and competitiveness.
- The Credit Linked Capital Subsidy Scheme also assists in the technological upgradation on MSMEs.
- The National Manufacturing Competitiveness Programme endeavours to equip these enterprises with technology-based tools in the areas of quality upgradation, productivity, design development, energy efficiency and marketing.
- Credit Guarantee Fund trust for Micro and Small Enterprises (CGTMSE) scheme and Pradhanmantri Mudra Yojana to provide assured finance to MSMEs.
- Lean Manufacturing Competitiveness Scheme (LMCS), **Zero Defect and Zero Effect (ZED) manufacturing to promote export and limit environmental impact**
- Framework for Revival and Rehabilitation of MSMEs to revive sick units.

- **Established Skill development of bankers** for assessing MSMEs that can be bank financed
- Promoting industry-academia-research linkage

10.2. TOURISM INDUSTRY

World Travel and Tourism Council (WTTC) in their report stated that India's travel and tourism sector ranks 7th in the world in terms of its total contribution to the country's GDP. On the similar line World Tourism Organisation asserted that, foreign tourist arrivals in India are expected to reach 15.3 million by 2025.

Analysis of Tourism Sector

Strength

- The country landscape possess a gracious natural beauty, and can cater to almost every type of traveller whether they are seeking adventure, wellness, culture and heritage or cuisines.
- Availability of huge labour force both skilled and un-skilled can act as catalyst due to service based nature of tourism industry.
- India's gems and jewellery, handicrafts are quite popular among tourist. A tourist on an average spends 40% of his budget on shopping if souvenirs' and other merchandise.
- **Medical Tourism:** India is emerging as most preferred destination for Medical Tourism. The availability of world-class medical facilities with top class doctors, personalized nursing care, offering specialized treatments at a cost 1/4th that of developed countries.

Weaknesses

- Sub-Optimal utilisation of tourism industry (Only 43 percent of total potential) due to lack of tourism centric infrastructure.(See box for cross country comparison)
- As the tourism industry is closely integrated with several other industries like hotel and

Draft National Tourism Policy 2015

- The draft is the revision of earlier National Tourism Policy 2002.
- It aims to increase the tourist arrival from 0.68 % to 1% of total world tourist by 2020 and increase it to two fold (2%) in a span of 5 years.
- Vision of making India as MUST EXPERIENCE and MUST VISITED in the global tourism scenario.
- Policy is based on the paradigm of "responsible and sustainable" tourism.
- Evolve a framework of government-led, private driven and community centred tourism approach.
- The policy envision a National Tourism Advisory Board and National Tourism Authority to execute the policy matters.
- Focus on developing the core infrastructure with integration approach such as Buddha Circuit, Ramayana Circuit, Himalaya Circuit, Heritage Circuit etc, will be prioritized.
- It is based on value addition and strict compliance on ; Swagat (welcome), Soochna (Information), Suvidha (Facilitation), Suraksha (Security), Sahyog (Cooperation), Samrachana (Infrastructure Development) and Safai (Cleanliness).
- Streamline and rationalise service tax for tourism service providers because of multiplicity of tax there is multiplicity of taxes on the same tourism

Indicators	China	India	USA
Foreign Visitors to Heritage sites (Numbers)	Great Wall* (Total 10 million, 3 million Foreign)	Taj Mahal (Total 4.6 million, 0.5 million foreign)	Statue of Liberty (Total 5 million foreign)
Domestic Tourism (Numbers)	3.6 billion	1.7 billion	2.2 billion
Ratio of Domestic Tourism to Population	2.6	1.3	6.6
Foreign Tourist arrivals in major cities	Beijing* (4.5 million foreign, 250 million domestic)	New Delhi* (2.4 million foreign and 25 million domestic)	New York* (10.1 million foreign and 50 million domestic)
International Conventions Rating	Rank 9 with 333 meetings	Rank 31 with 132 meetings	Rank 1 with 9 meetings

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accommodation, aviation, railway, roadways, healthcare, entertainment etc., the combined weaknesses of all the sectors make it more vulnerable.

- Additionally, the cost of travel and accommodation in India is often higher than flying to a neighbouring country. A limited supply of hotels and excessive taxation in aviation means that an increasing number of Indians prefer to go abroad for their holidays.
- Approaches have lagged behind in marketing India as a tourist destination, actions are still focusing on mystical charm, ancient civilization, but country has a lot more to offer better than any south-east Asian nation.
- Lack of information dissemination and language creates a barrier especially for non-English speakers.

Opportunities

- Tourism in India accounts for 9.6 per cent of the GDP and is the 3rd largest foreign exchange earner for the country. As on March 2017, Foreign Exchange earning from this sector account \$23.1 billion with a growth rate of 8.9 percent over 2016.
- The direct contribution of travel and tourism to GDP is expected to reach US\$ 147.96 billion by 2027.
- The sector accounts for 9.3% of the country's total jobs. In 2016 tourism had created 40.3 million jobs, which ranks India 2nd in the world in terms of total employment generated in this sector.
- In comparison with other country India share in international tourist arrival

Other Government initiatives

- Government set-up five special tourism zones, special pilgrimage or tourism trains and worldwide launch of Incredible India campaign (Union Budget 2017-18).
- MoT in collaboration with other ministries has launched schemes such as Swadesh Darshan, National Mission for Pilgrimage Rejuvenation and Spiritual Augmentation (PRASAD) and e-Tourist Visa (e-TV) and extension of e-Tourist Visa facility to 161 countries.
- A special visa category called '**Medical Visa and Medical Attendant Visa**' has been created to ease the entry of medical tourists in India.
- In July 2017 MoT extended the Ayush facilities to boost medical tourism with revised guidelines.
- Government is planning to revise India's coastal regulation norms aimed at opening up the 7,500 km long coastline for developmental activities like tourism and real estate.
- Maharashtra Tourism Development Corporation (MTDC) has come up with a unique tourism experience of visiting the open cast coal mine of Gondgaon and underground coal mine of Saoner, which are near Nagpur and part of Western Coalfields Limited.
- The government has permitted 100 percent FDI in the automatic route—allowing full FDI and five year tax holiday for all construction development projects including construction of hotels and resorts, recreational facilities, and city and regional level infrastructure.

Comparative Tourism Performance Indicators

- This Sector has vast potential of utilising the 18 percent of demographic dividends and skill formation under **skill India mission**.
- Cinema and theatre provide a platform to foreigners' eyes for potential of Indian tourism destination. Promotion of Indian movies across the borders also can contribute significantly in terms of tourist arrivals.
- Taking the '**Clean India**' movement forward, Government is also looking for corporate partners to manage the historical monuments.

Threats

- India faces many security risks in terms both home grown and cross border terrorism. E.g. Mumbai terrorism attack on foreigner tourists.

- World Economic Forum's Travel and Tourism Competitiveness Report 2017 placed India ranked 40 (improved its ranking by 12 place over 2016) among 139 global economy on safety and security parameters. However an increase in crime, including recent high-profile attacks against women. Switzerland and Japan have issued guidelines for the women travellers visiting India.
- Widespread poverty, presence of beggars, theft and harassment generates negative perception of Indian Society amongst the foreigners, thereby creates (disincentives for tourism potentials).
- Large-scale political demonstrations increase security risk, extreme weather conditions and unregulated infrastructure development for tourism can lead to ecological and environmental imbalances. E.g. Uttarakhand Flood in 2013.

10.3. DRAFT PHARMACEUTICAL POLICY 2017

Why in news?

The draft policy has been released by the Department of Pharmaceuticals.

Key provisions

- **Emphasis on domestic Active Pharmaceutical Ingredient (API) manufacturing:** by giving incentives for sourcing of locally made API/ingredients such as higher tariffs on imported APIs especially which can be indigenously manufactured, exemptions from price control, preference in government procurement, setting up mega bulk drug parks, providing adequate logistics and timely clearances to set up plants etc.
- **Quality control in manufacturing units** – through adoption of World Health Organisation (WHO) quality standards, annual audit by 3rd party inspectors and mandatory self-certification for Bio-Availability and Bio Equivalence Tests (BA/BE tests) for all drug manufacturing permissions.
- **Pricing control** – through rationalized trade margins, besides allowing new distribution channels like e-pharmacies which will cut channel costs etc.
- **Encourage generic medicines** - All public procurement to be done on the basis of the generic/salt name. Brand names will be allowed only in case of patented drugs & FDCs (Fixed Dosage Combinations).
- **Conditions for inbound Brownfield M&A** - transfer of technology, expenditure on R&D, continuing of manufacturing of NLEM (National List of Essential Medicines) drug as key considerations of M&As.
- **Phase out 'loan licensing' practice** – as it raises many quality maintenance and assurance issues. Exception is given biopharmaceuticals where India is at a relatively nascent stage. All others allowed up to only 10% of total production of the company and from a WHO-approved manufacturing unit.

Key facts related to Indian Pharma Sector

- It is the world's third-largest pharmaceutical market globally in terms of volume
- The export growth in 2016-17 witnessed a marginal fall of 0.6%
- India is the largest supplier of generic medicines to the world accounting for 20% of global exports in terms of volume
- 100% FDI is allowed under the automatic route for greenfield pharma
- 100% FDI is allowed for brownfield pharma but beyond 74% government approval is required.

Loan licensing Pharmaceutical manufacturing means manufacturing your own products at other's premises using loan license contract.

- **Timely approvals** - all new drug applications will be decided within 3 months, by either the State/Central regulators. For delays (extendable by 3 months) reasons must be detailed in writing to the applicant.
- **Ending unethical marketing practices** - by making the voluntary code for marketing a mandatory requirement, prescribing rules for branding drugs, assigning agency for its implementation, penalising for violations such as ban or confiscation of all packets of the highest selling brand of drugs by that company etc.
- **Amending powers of National Pharmaceutical Pricing Authority (NPPA)** – by following measures
 - Allowing it to regulate only Essential Medicines. Thus, It would lose the powers to fix prices of patented medicines and to invoke extraordinary circumstances to regulate other medicines and medical devices
 - It is to be strengthened by an Advisory Board, which will have experts from relevant disciplines to help NPPA to carry out its price-related functions. NPPA is required to assign reasons in writing for modifying or rejecting its recommendations.
 - Appeal against NPPA decision will lie with the government while appeal against government’s decision will lie with judiciary
 - Greater oversight on NPPA by review of all its decisions. At present, orders passed under paragraph 19 gives NPPA “extraordinary powers” and these cannot be reviewed.
 - Schedule 1 of the DPCO (Drug Price Control Order) to contain only the medicine name without reference to its dosage form or strength thus bringing all strengths under price cap and going towards **one-drug-one-brandname-one-price**
- **Compulsory provision of static bar code** containing price information on drugs will be enforced to enable computerised billing.
- **Proposal for e-prescriptions** to enable doctors to prescribe generic names without any hassle.

Issues

- Discontinuing loan licensing or third-party manufacturing would be negative for the industry as almost 40-50% of local drugs are sourced through it. It would also create excess un-utilised capacity.
- It doesn’t explicitly say that doctors will have to compulsorily prescribe medicines by their generic names. Also there are concerns over the efficacy, safety and effectiveness of some generic drugs because they do not undergo BA/BE studies.
- It may hurt patients by compromising availability of good quality medicines due to reduced competition and increased challenges in the manufacturing of such medicines at prevailing prices
- It favors large pharma companies over smaller firms due to requirement of adherence to relatively high standards of manufacturing and marketing practices
- Capping trade margins would leave same margins for all types of drugs quality. Thus favoring low quality
- It is alleged that the department of pharmaceuticals (DoP) did not follow a “transparent” procedure in drafting the policy as it had not interacted with public health groups and limited its discussions with stakeholders to the pharma industry.
- While India has about 2,500 pharmacopeial salts, it has “60,000 brand names with varying prices”. Thus, rather than enforcing “one-drug-one-brandname-one-price” it would be better to ensure all medicine conform to certain standards.

Positive impact

- Patient friendly as it aims to provide quality medicines to patients at affordable prices. It will reduce out-of-pocket expenses which is 65% of medical costs.
- It would eventually reduce the footprint of the unorganized sector or the smaller companies and would lead to consolidation.
- Ending unethical marketing practices would also lead to reduction in the overhead cost of the drugs.
- Opportunities in the e-pharmacy sector hold potential for attracting Foreign Direct Investment.

10.4. JUTE INDUSTRY

Central Research Institute for Jute and Allied Fibres (CRIJAF) developed a microbial called **SONA** under **Jute-ICARE** project which will enhance fibre yield by 20%

Jute Cultivation in India

- Natural Fibre crop known as golden fibre. 95% of world jute is grown in India and Bangladesh.
- Cultivated extensively in Eastern and North East India
- Under National Food Security Mission- Commercial Crops (NFSM-CC).

Condition: Grow in March-May season with hot and humid Climate, **Temperature:** 24°C to 35°C, **Rainfall:** 120 to 150 cm, **Soil:** loamy and sandy loam.

Processing: Both biological and chemical retting processes. Biological method is more prevalent.

Applicability:

- Raw material for textile, paper, building and automotive industries,
- Use as decorative and furnishing materials.
- low thermal conductivity,
- Good insulating and antistatic properties,
- separation, filtration and drainage in civil engineering work,
- Rural road pavement construction and agro plant mulching.

Environment benefits:

- bio-degradable and recyclable,
- use as soil saver,
- not generate toxic gases when burnt
- Fitted in different crop rotations (less environment cost of cultivation)

Socio-economic factors

- Traditional practice of north-east people
- More than 60% of total farmers are small and marginal farmers.
- Labour is readily available (cultivated in areas of high population density).
- Less mechanical, low need of fertilizers and pesticides.

Challenges

- Growing demand of synthetic **nylon fibre**.
- Obsolete mills and machinery
- Irregular supply of raw material and production.
- Lesser knowledge about the jute benefits.

Institution: National Jute Board

- Ministry of Textiles, governed by National Jute Board Act-2008,
- Engages in research and human resource development programmes.
- Dissemination of newer technologies.

Jute-ICARE project

- Launched in 2015, by National Jute Board for better agronomic practices through;
 - Distribution of quality certified seeds at 50% subsidy.
 - line sowing of jute using seed drill to increase yield by 10-15%;
 - Reducing the cost of weeding by wheel hoeing/nail weeder instead of hand weeding.
- In 2017, project was extended through State Agriculture extension machinery in which following actions were taken:
 - Jute ICARE programme under Rashtriya Krishi Vikas Yojana (RKVY).
 - Supply farm implements under the Sub-mission in Agricultural Mission (SMAM)
 - Construct retting tanks under **MGNREGS**.
 - Krishi Melas are being held to support farmer.
- There has been increased in farmer engagement and jute production to 147 % and 169% since last 2 years.

Other Initiatives

- The **Jute Packaging Material (Compulsory Use in Packaging Commodities) Act, 1987** (JPM Act) has been extended up-to a minimum percentages of total production of commodity.
- **Jute Raw Material Bank (JRMB) scheme:** to make jute raw material available to the small and tiny artisans, entrepreneurs locally at mill gate price, suiting to the present requirement.
- **Jute Design Cell:** under Innovative Centre for Natural Fibres (ICNF) of National Institute of Design (NID), Ahmedabad.
- **Common Facility Centres (CFCs):** providing support to Women Self Help Groups (WSHG) on training, infrastructure, machinery and marketing to artisans in development of Jute Diversified Products.
- **Incentive Scheme for Acquisition of Plant and Machinery' (ISAPM), Scholarship scheme for educational support** by National Jute Board (NJB) for modernisation and up-gradation of technologies.
- **Retail Outlet scheme** implemented by NJB which supports supply chain and bulk supply of JDPs for selective and mass consumption.

National Jute Policy 2005

- Under, National Common Minimum Programme (NCMP) of the Government.
- Establishment of Jute technology Mission with market based intervention.
- Promotion of Diversified and Composite Jute Products and Jute Handicrafts.
- Sectorial initiative through agricultural extension, marketing, research and development.

Conclusion

- Jute is termed as future fibre of the world by Food and Agriculture Organisation (FAO). Being a tropical crop and its labour intensive nature India have the high potential of becoming the Jute production house of the world.

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