VISION IAS
INSPIRING INNOVATION

PT 365

ECONOMY

Classroom Study Material

(May 2020 to January 2021)

ECONOMY

Table of Contents

Note:

PT 365 documents comprehensively covers the important current affairs of last 1 year (365days) in a consolidated manner to aid Prelims preparation.

In our endeavour to further enhance the document in the interest of the aspirants, following additions have been incorporated:

1. Different colours have been used in the document for easy classification and recollection of a variety of information.
2. QR based Smart quiz has been added to test the aspirant's learnings and understanding.
3. Infographics have been added to ease understanding, provide for smoother learning experience and ensure enhanced retention of the content.

QUIZ SMART QUIZ	You can scan this QR code to practice the smart quiz at our open test online platform for testing your understanding and recalling of the concepts.	

1. FISCAL POLICY

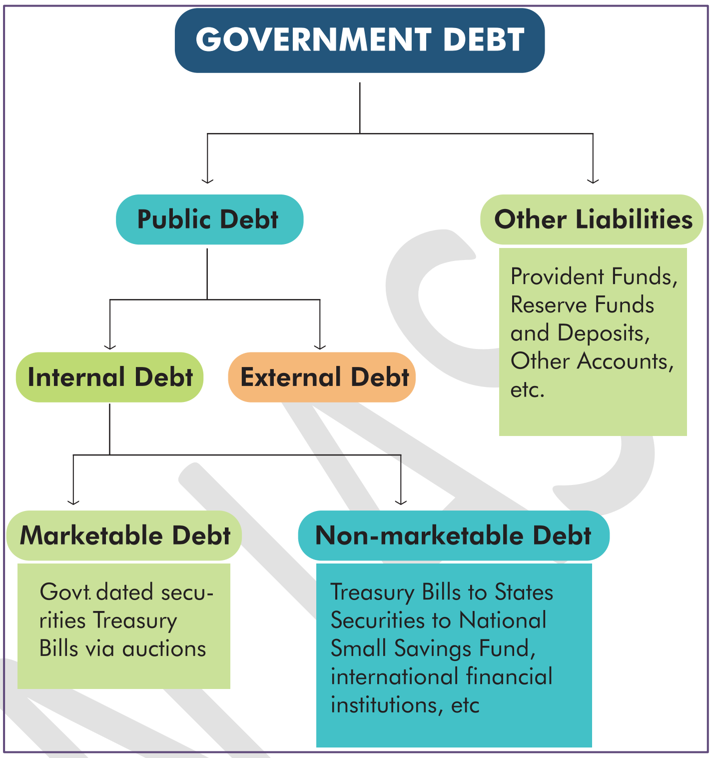
1.1. STATUS PAPER ON GOVERNMENT DEBT

Why in news?

Recently, the Central Government released the **Ninth Edition of the Status Paper on the Government Debt.**

More on the news

- It contains **Debt Management Strategy (DMS) of the Central Government** for the financial years from 2019-20 to 2021-22 which guides the borrowing plan of the Government.
- The objective of the DMS is to **ensure that the government's financing requirements and payment obligations are met at the lowest possible cost.**



Significance of managing Government debt

The level of Government debt **affects investor confidence, impacts fiscal capabilities of the government, leads to crowding out effect on private sector, fiscal repression of commercial banks** alongside other impacts like **inflationary pressure, exchange rate risk** and **higher taxes in the future.**

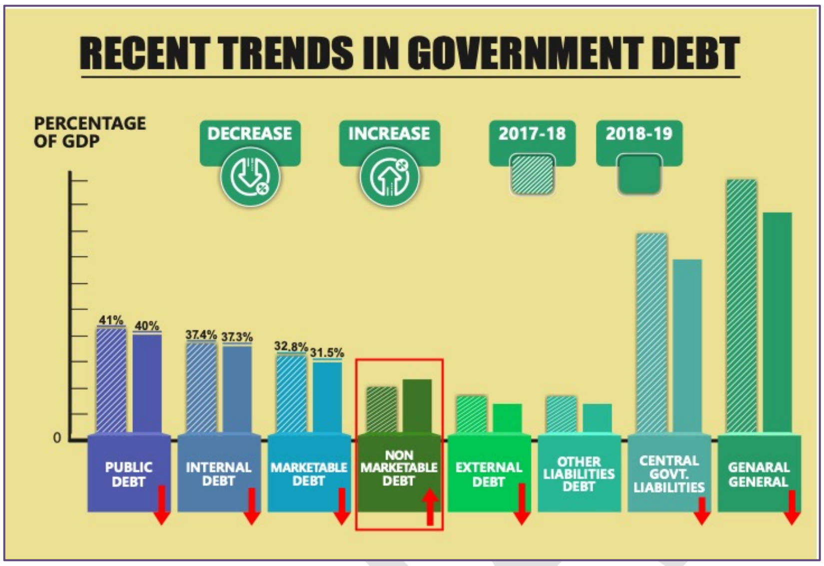
Important Terms	
Debt to GDP ratio	The debt-to-GDP ratio is the **ratio of a country's debt to its gross domestic product (GDP).** It indicates a particular country's ability to pay back its debts.
Roll over risk	It is a **risk associated with the refinancing of debt**—specifically, that the interest charged for a new loan will be higher than that on the old. Generally, greater the shorter-term maturing debt, greater the borrower's rollover risk.
Currency or foreign exchange risk	It relates to vulnerability of the debt portfolio to depreciation in the value of the domestic currency vis-à-vis the currency of denomination of external loans and the associated increase in the Government's debt servicing cost.
Interest payment to revenue receipts (IP-RR)	It is the **ratio of total interest payments made towards the debt to the revenue receipts** of the government.
Floating Rate Bonds (FRBs)	These are **securities issued at variable coupon rates.**
Gross fiscal deficit (GFD)	It is the **excess of total expenditure (including loans net of recovery) over revenue receipts (including external grants)** and non-debt capital receipts.
Short-term debt	Short-term debt of the Central Government refers to the **total amount of debt maturing within the next 12 months.** • It includes 14-day intermediate treasury bills, regular treasury bills, dated securities maturing in the ensuing one year and external debt with remaining maturity of less than one year.
Treasury bills	These are **discounted instruments** which help the Government in managing its short-term cash flow mismatches. • Central Government currently issues treasury bills of tenor of **91, 182, and 364 days.**
14-day Intermediate Treasury Bills (ITBs)	These are **non-marketable instruments issued to the State Governments (and select Central Banks)** to enable them to deploy their short-term surplus cash at a fixed interest rate.

Approach of the Central Government towards sustainable debt management

- **Dedicated agency to manage debt:** Government has decided to set up a statutory **Public Debt Management Agency (PDMA)** to bring both, India's external and domestic debt under one roof.

- The first step towards this direction was the establishment of a **Public Debt Management Cell (PDMC)** as an advisory body within Budget Division, Ministry of Finance in 2016.

- **Government's Medium-Term Debt Management Strategy (2019-2022):** Several steps will be taken by the government under it based on three broad pillars viz.,
    - **Low cost of borrowing-**
        - ✓ **Elongating maturity profile** of the debt portfolio.
        - ✓ **Rationalization of interest rates on small savings schemes** and other instruments like PF, special securities, etc.
        - ✓ **Advising other Divisions of Department of Economic Affairs** with a view to help them arrive at the best terms for external loans.



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    - **Risk mitigation-**
        - ✓ **Setting benchmarks for certain indicators** such as external debt, to ensure minimal risk in terms of Roll-over Risk.
    - **Market development-**
        - ✓ **Maintaining transparency** in the market borrowing programme, **conducting regular investor interaction** with stakeholders and **issuing a variety of instruments** to help investors manage their portfolio more efficiently.
        - ✓ **Creating benchmarks of desired tenors** to enhance investor participation and liquidity.
        - ✓ **Supporting development of domestic investor base** and calibrated **opening of the Government securities market to foreign investors**.

India's performance on indicators of debt sustainability

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

- **Gross Fiscal Deficit (GFD)** as a percentage of GDP has been on a **declining trend since 2012-13.**
- **The share of short-term debt** is **within safe limits** and has stabilized after some rise during 2005 to 2012.
- **The Government has adopted a conscious strategy of elongating maturity to reduce roll-over risk.**
- **Most of the Government debt is at fixed interest rates,** with floating internal debt constituting only 0.9 per cent of GDP in 2019, which minimizes the impact of interest rate volatility on the budget.
- **Low share of external debt** implies that currency risk and the susceptibility of debt portfolio to volatile international capital markets is not substantial.

State Government Debt

- **The debt-GDP ratio of States has marginally decreased** in 2018-19 from 2017-18.
- **The share of public debt increased within the overall debt portfolio** of the State Governments and constituted 19.1 per cent of their GDP.
- Within the public debt, the **share of market borrowings increased** while that of **borrowings from the National Small Savings Fund (NSSF) exhibited a steady decline.**
- **Loans from the Centre** have been decreasing over the years and accounted for 3.7 per cent of total liabilities in 2019.

1.2. OTHER DEVELOPMENTS WITH REGARD TO GOVERNMENT FINANCE

1.2.1. CESSES AND SURCHARGES

Why in news?

Share of states from divisible pool of central taxes **fell sharply from 36% in FY19 to 32% in FY20**.

More on news

- This is well below 14th Finance Commission recommendation of 42%.

- Article 270 allows the **Centre to levy cess and surcharge** which the Centre **need not share with state governments.**
- While **cesses are imposed for specific purposes**, **surcharges are a tax on taxes,** both meant to be temporary in nature. Example:
  - Swachh Bharat cess to finance Swachh Bharat initiatives.
  - Surcharge of 10% is levied if income is more than Rs. 50 Lakhs.
- **In surcharge, there is no need to stipulate the purpose** at the time of levy and it is the discretion of the Union to utilise the proceeds of the surcharges for whichever purpose it deems fit.
- **State's Concern**
  - **States oppose their permanent nature** and wants them either to be eliminated or, if continued beyond a specified period, should form part of the divisible pool.
  - **Centre using cesses as a tool to enter administrative domain of the states** such as cesses on agriculture (Krishi Kalyan cess) and sanitation (Swachh Bharat cess).

1.2.2. GOVERNMENT BORROWING

Why in News?

Finance Ministry, in consultation with RBI, raised **its gross market borrowing target** for FY 2020-21 to Rs 12 lakh crore.

About the News

- Government borrows through issue of government securities called **G-secs and Treasury Bills** to make up for **mismatch between its revenue and expenditure.**
- Borrowing is a **loan taken by government** and falls under **capital receipts** in Budget document.
- **Reasons for increased borrowings**
  - Expected **shortfall in net targeted tax revenues**.
  - Record **slump in stock markets** making it difficult to raise funds through disinvestment.
  - **Spike in expenditure**. e.g. recent **Rs 1.7 lakh crore of relief**, income transfer & support measures etc.
- Rising borrowings may put **pressure on bond market** and **crowding out** resources for private sector.
- The **fiscal deficit is set to shoot up sharply**, indicating that the government has limited space to push through a massive fiscal stimulus to protect the economy from adverse effects of COVID-19.

1.2.3. BORROWING LIMIT FOR STATES

Why in News?

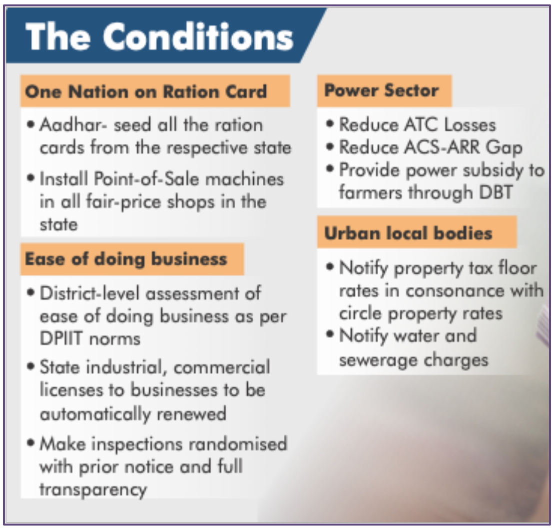
Recently, Centre has raised **borrowing limits for states from 3% to 5% of gross state domestic product (GSDP)** for current fiscal year, subject to their carrying out specific reforms.

Fiscal Responsibility and Budget Management (FRBM) Act.

- It establishes financial discipline to reduce FD and requires government to limit FD to 3% of the GDP by 31 March 2021.
- A deficit is usually **financed through borrowing from either RBI or raising money from capital markets** by issuing different instruments like treasury bills and bonds.
- **States have their own FRBM Acts,** which sets 3% of Gross State Domestic Product cap on their annual budget deficits.

About the News

- **States have been urging for a hike in the cap** on borrowings (currently 3%) **prescribed under Fiscal Responsibility and Budget Management (FRBM) Act.**
- Of 200 basis points raise, 50 basis points will be unconditional while 150 points are conditional:
  - 100 basis points for reforms in **universalization of one nation one ration card, ease of doing business, power distribution and urban local body revenues.**
    - ✓ Weightage of each reform is 25 basis point
  - **50 basis points of extra borrowing** will be allowed if **milestones were achieved** in **at least three** out of the four reform areas.
- Respective Central ministries, power, housing & urban development, commerce & industry and food will monitor and assess states' performance against reforms.



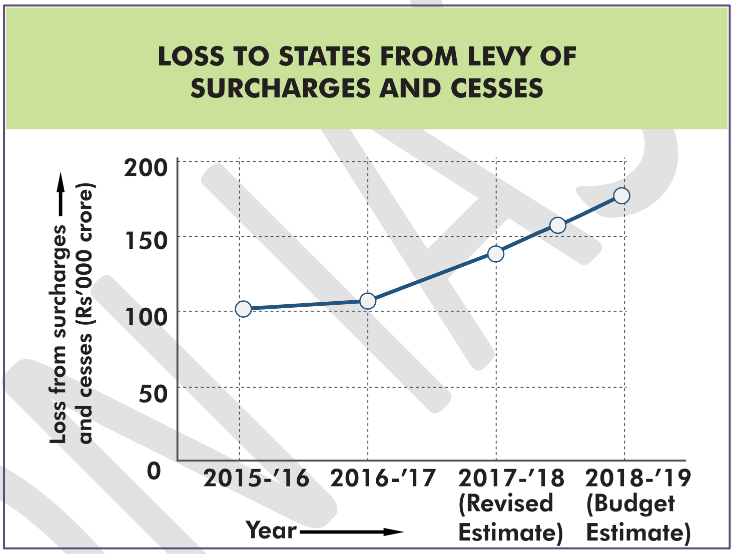
1.2.4. EMPOWERED GROUP OF SECRETARIES (EGOS) AND PROJECT DEVELOPMENT CELLS (PDC)

Why in News?

Government approved setting up of an EGoS and PDCs in Ministries/Departments for attracting investments in India.

Empowered Group of Secretaries (EGoS)

- **Composition:** Cabinet Secretary is Chairperson, CEO of NITI Aayog is member.
  - **Other members:** Secretaries of various departments including Department for Promotion of Industry and Internal Trade, Department of Commerce, Revenue, Economic Affairs etc.
- **Objectives of EGoS**
  - To **bring synergies between Ministries/Departments** and among the Central and State Governments in investment related policies.
  - **Attract investment and facilitation to global investors** through fast-track Investment Clearance.
  - **Facilitate investment in targeted manner** and maintain **policy stability** in investment environment.
  - **Evaluate investments** put forward by departments and further provide completion targets to respective departments.



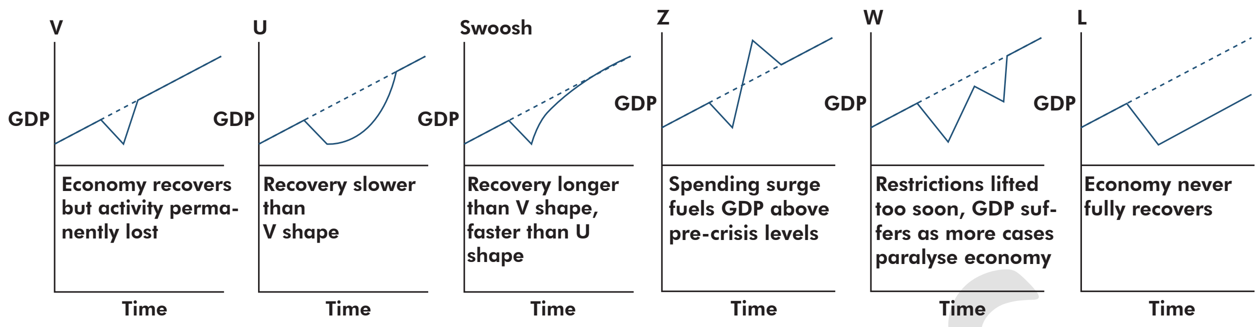
Project Development Cell (PDC)

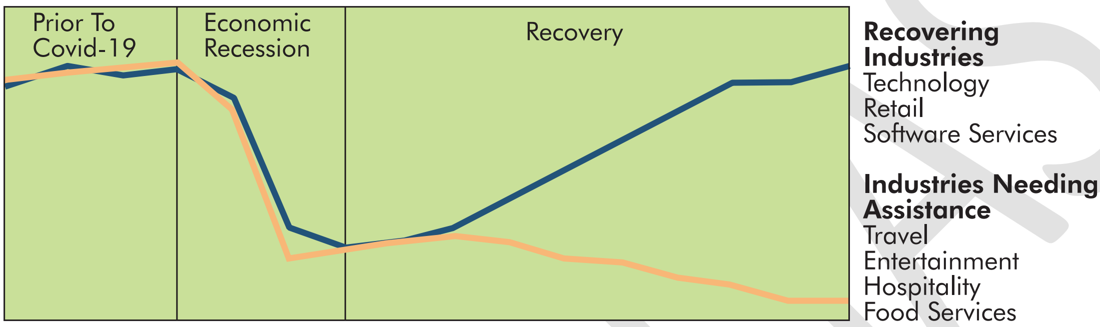
- PDC is approved for **development of investible projects in India** in coordination with central and state governments.
- It will **create projects with all approvals**, land available for allocation and with the complete Detailed Project Reports for adoption/investment by investors.
- It will **identify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

1.3. ECONOMIC RECOVERY

World Economy: to contract by around 6% in 2020 (**Economic Outlook given by Organization for Economic Cooperation and Development)**	
Indian Economy: According to GDP data released by National Statistical Office (NSO), **GDP growth in 2019-20 was 4.2%**, which is **11-year low** (6.1% expansion in 2018-19)	
Growth in per capita income in real terms	3.1% in 2019-20, (4.8% in 2018-19)
Fiscal deficit	**widened to 4.59% of GDP** in 2019-20
Public debt to GDP	**likely to increase to a record high of 89.3% in 2020 due to reasons like:** • increase in public spending, in response to COVID-19, and • the fall in tax revenue and economic activity.

SHAPE OF RECOVERY





K-Shaped Recovery

1.3.1. PM CARES FUND

Why in News?

Recently, Supreme Court (SC) dismissed plea to transfer PM CARES money to National Disaster Relief Fund (NDRF).

More on News

- **SC made certain key observations** regarding Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM CARES) Fund:
    - **It refused to direct the transfer of funds** from PM CARES Fund to NDRF, saying they were two separate entities.
    - NDRF is a statutory fund created under the Disaster Management Act (DM Act).
    - Since PM CARES does not receive any government support, **no CAG audit is required.**
    - **No institutions and individual can be prohibited to make contributions** to PM CARES Fund, as it is voluntary.
    - **Rejected the need for a fresh national disaster management plan** to take on COVID-19 challenges.

PM-CARES Fund vs. NDRF

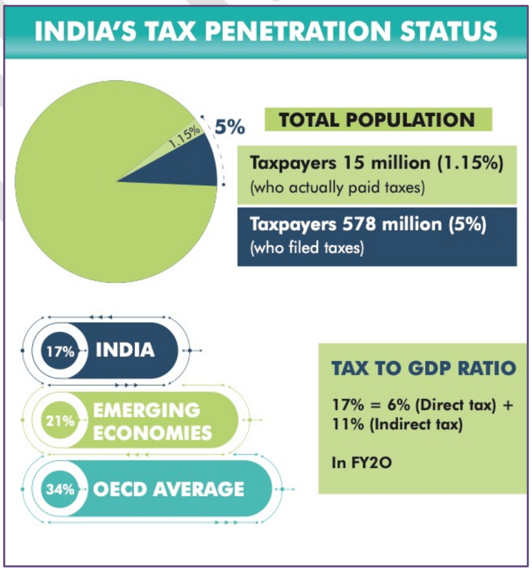
	PM-CARES	NDRF
Formation	Formed in 2020 **amidst CoVID-19 outbreak.**	**National Calamity Contingency Fund (NCCF) was renamed as NDRF** after enactment of NDMA, 2005.
Objective	• Undertaking and **supporting relief or assistance of any kind.** • Creation or **upgradation of healthcare or pharmaceutical facilities.** • Will also render **financial assistance, provide grants of payments.**	• **Meeting the expenses for emergency response,** relief and rehabilitation due to any threatening disaster situation or disaster. • **Supplements the SDRF** in case of a disaster of severe nature.
Administrative mechanism	• **Prime Minister is the ex-officio Chairman of the PM CARES Fund** and **Minister of Defence, Minister of Home Affairs and Minister of Finance,**	• The fund is **managed by the Central Government.** • **Department of Agriculture and Cooperation under the Ministry of**

	Government of India are ex-officio Trustees of the Fund. • The Chairperson of the Board of Trustees (Prime Minister) shall have the power to nominate **three trustees to the Board of Trustees who shall be eminent persons in the field of research, health, science, social work, law, public administration and philanthropy.** • Any person appointed a **Trustee shall act in a pro bono capacity.**	**Agriculture and Farmer Welfare** monitors **relief activities for calamities associated with drought, hailstorms, pest attacks and cold wave/frost** while **rest of the natural calamities are monitored by the Ministry of Home Affairs (MHA).**
Contributions to the Fund	• Consists entirely of **voluntary contributions.** • **Exempt under the FCRA** so it can accept donations and contributions from individuals and organizations based in foreign countries.	• It is financed through the **levy of a cess on certain items, chargeable to excise and customs duty,** and **approved annually through the Finance Bill.**
Audit	The Fund will be **audited by independent auditors** who will be appointed by the trustees.	Comptroller and Auditor General **(CAG) audits the accounts of NDRF.**

1.4. DIRECT TAXES

Introduction

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



Need for Direct Tax reforms

- **Rationalization and simplification of Income Tax Structure** by revisiting tax slabs.
- **Simplify corporate tax rate structure and phase out exemptions** as there is loss of revenue due to large number of exemptions.
- **Widen tax base** by revising tax rates and decreasing the complexity in Direct Tax systems.
- **Reducing tax litigations** by addressing the tendency of tax officials to initiate an action without the necessary justification or assessment.
- **Need of Technology infusion** in the tax administration to improve efficiency of tax collection as well as to aid the taxpayer.
- **Creating better sync with global economy** by gradually phasing out the differential treatment of foreign and domestic companies in the country.

Steps taken to improve direct tax ecosystem previously

- **Personal Income Tax:** Finance Act, 2020 has provided an option to individuals and co-operatives for paying income-tax at concessional rates if they do not avail specified exemption and incentive.
- **Abolition of Dividend Distribution Tax (DDT):** In order to increase the attractiveness of the Indian Equity Market and to provide relief to a large class of investors companies who are not required to pay DDT.
- **Vivad se Vishwas:** To provide for resolution of pending tax disputes which will not only benefit the Government by generating timely revenue but also the taxpayers as it will bring down mounting litigation costs.
- **Simplification of compliance norms for Start-ups:** Start-ups have been provided hassle-free tax environment which includes simplification of assessment procedure, **exemptions from Angel-tax**, constitution of dedicated start-up cell etc.
- **Raising of monetary limit for filing of appeal:** To effectively reduce taxpayer grievances/ litigation monetary thresholds for filing appeals have been raised from-
  - **Rs. 20 lakh to Rs. 50 lakh** for appeal before **Income Tax Appellate Tribunal**
  - **Rs. 50 lakh to Rs. 1 crore** for appeal before the **High Court**
  - **Rs. 1 crore to Rs. 2 crore** for appeal before the **Supreme Court.**

1.4.1. RECENT EFFORTS TO REFORM THE DIRECT TAXES ARRANGEMENTS

1.4.1.1. TRANSPARENT TAXATION – 'HONOURING THE HONEST' PLATFORM

- It is aimed at **easing the tax compliance and also rewarding honest taxpayers.**
- Main features of Platform are Faceless Assessment, Faceless Appeal and Taxpayer Charter.
  - **Faceless assessment:** To eliminate direct contact between Taxpayer and Income Tax officer.
    - ✓ Selection of a taxpayer will be done only through **systems using data analytics and AI.**
    - ✓ Also, on similar lines, **Central Board of Indirect Taxes and Customs** has rolled out faceless assessment of consignments under the **initiative 'Turant Customs'.**
  - **Faceless appeals**: Appeals will be randomly allotted to any officer in the country and identity of the officer deciding the appeal will remain unknown.
  - **Taxpayer charter:** It outlines the rights and responsibilities of both tax officers and taxpayers. It is likely to empower citizens by ensuring timely services by the IT Department.
- It helps to **maintain the privacy and confidentiality of income taxpayers.**
- It seeks to eliminate corrupt practices by **doing away with the territorial jurisdiction** of income-tax offices.

1.4.1.2. EQUALIZATION LEVY (DIGITAL SERVICE TAX) ON FIRMS LIKE GOOGLE, FACEBOOK

- **India adopted a 2% DST (digital services tax) in 2020.**
  - It applies **only to non-resident companies, and covers online sales of goods and services** to, or aimed at, persons in India.
  - Earlier in 2016, **Equalization Levy was introduced to tax payments for digital advertisement services** received by non-resident companies without a permanent establishment here, if it exceeded ₹1 lakh a year. **(This tax rate is 6 %).**
  - Later in 2020-21 Budget, it was widened by **including e-commerce companies**. For this purpose, tax rate is 2 % (plus a surcharge).
- Growth of the digital economy has been paired with **policy debates about the taxes that digital companies pay and where they pay them.**
  - Many digital business models do not require physical presence in countries where they have sales, reaching customers through remote sales and service platforms.
- Under OECD **Base Erosion and Profit Shifting (BEPS) framework countries are in talks to make digital firms pay taxes regardless of their physical presence or measured profits in a country.**
- OECD also **released a blueprint for the two pillars on the issue.**
  - **Pillar-1** deals with profit allocation by digital companies and which country has right to tax them first.
  - **Pillar-2** proposes a mechanism to calculate tax per jurisdiction to be charged from the total profit pool.

Related News

United States Trade Representative (USTR) launches probe into India's digital tax

- USTR office has announced that it will start **Section 301 investigations against India and nine other countries for imposing or considering digital service taxes** that may affect American companies.
  - Section 301 of Trade Act, 1974 allows the US **to unilaterally impose tariffs or other trade restrictions on foreign countries.**

1.5. GOODS AND SERVICES TAX DEVELOPMENTS

Why in news?

Goods and Service Tax (GST) regime completed 3 years.

About GST

- GST was introduced **on July 1, 2017** (by 101st Constitutional amendment) as **biggest indirect tax reform** by subsuming around 17 indirect taxes like excise duty, VAT, service tax, luxury tax etc.
  - **Indirect taxes not subsumed include** Basic Custom Duty, Anti-Dumping Duty, Central Excise on Petroleum Products, VAT on alcohol for human consumption etc.
  - GST is **currently levied on all products** (except petroleum products, alcohol, real estate & electricity) in four slabs of **5, 12, 18 and 28%.**

- GST Council is a **Constitutional body** under **Article 279A,** providing recommendations to Union and State Government on GST related issues.
  - Council is **chaired by Union Finance Minister** and other members are Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all States.
  - Its **recommendations are binding,** and all decisions are taken by 75% majority of members.

Important associated terms and concept	
Terms	**Explanation**
Anti-profiteering	Any benefit by way of **reduction in rate of tax or increase in input tax credit** arising due to introduction of GST **shall be passed on to the customers** by way of commensurate reduction in prices. This measure is known as Anti Profiteering
Input Tax Credit	It means at the time of paying tax on output, **reduce the tax already paid on inputs.**
E-way Bill	It is a document required to be carried by a person in charge of the conveyance **carrying any consignment of goods of value exceeding Rs. 50,000 for sales beyond 10 km in GST regime.** (Currently, **gold is exempt from this requirement.**)

Key developments with regard to GST in recent times

- **Taxpayers with turnover more than Rs 5 crores** will have to provide **Harmonised System Nomenclature (HSN)** Code from April 2021.
  - HSN code, developed by World Customs Organization, is an **international nomenclature for the classification** of traded goods for customs purposes.
- Ministry of Finance indicated that **issuers and beneficiaries of fake GST invoices can be detained under the COFEPOSA** (Conservation of Foreign Exchange and Prevention of Smuggling Activities Act), 1974.
  - At present, **actions are being initiated under the GST law, income tax law and the Prevention of Money Laundering Act.**
  - COFEPOSA Act, 1974 provides for preventive detention in certain cases for the purposes of **conservation and augmentation of foreign exchange and prevention of smuggling activities** and for matters connected.
- **Supreme Court Upheld Levy of GST on Lottery, Betting and Gambling**
  - SC observed that **definition of goods under Article 366(12) of the Constitution was inclusive** and there was no intention to give any restrictive meaning to goods.

1.5.1. GST COMPENSATION CESS ISSUE

Why in news?

Recently, a tussle had ensued between the Centre and States as there was an estimated shortfall of Rs. 30,000 crores in the GST Compensation Cess.

What is GST Compensation Cess and the tussle over it?

- GST (Compensation to States) Act, 2017 was enacted:
  - Under the Act, the percentage of **annual revenue growth of a State has been projected to be 14%**. If the annual revenue growth of a State is less than 14%, the State is entitled to receive compensation under the statute.
  - The **compensation payable to a State** shall be provisionally calculated and **released at the end of every two months period.**
- The generation of revenue under the Act would happen through a GST Compensation Cess:
  - The cess comprises the **cess levied on sin and luxury goods for five years.**
  - The entire cess collected during the year is required to be **credited to a non-lapsable Fund (the GST Compensation Cess Fund).**
  - The collected compensation cess flows into the CFI and is then **transferred to the Public Account of India,** where the GST compensation cess fund has been created.

The issue arose when payments due for August-September 2019 were delayed. Since then, all subsequent payouts have seen cascading delays.

What is State's stance on the issue?

- **Centre not honouring its moral and legal obligation** of compensating the States.
- **Ineffectiveness of the GST Council:** With a **1/3rd voting power**, the Centre has a virtual veto over the decision making in the council (**since 3/4th majority is needed to pass a decision**).

What is Centre's stance on the issue?

- The Centre has refused to compensate the States immediately but has **provided the States with two options.**
- It has also argued that the inflows to the **GST Compensation Fund are to be made from the GST Compensation Cess** and if that is inadequate, the Centre is not obligated to supplement it by flows from other sources.

OPTION 1	₹2.35 LAKH CRORE
Full GST compensation shortfall for FY21	**Borrowing** from mkt; Center, RBI to facilitate
Shortfall due to pandemic as well as GST implementation	Relaxation of 0.5% in states' borrowing limit under FRBM Act
OPTION 2	**₹97,000 CRORE**
Shortfal amount owing to GST implementation	**Borrowing** via RBI special window

The Resolution: The stalemate was finally broken with **all 28 States and 3 UTs with legislatures going with the Option 1** provided by the Centre.

1.6. KEY CONCEPTS AND ENTITIES IN NEWS

Discretionary fiscal stimulus	• It refers to an **increase in the fiscal deficit caused by government policy**. It is distinct from an increase in fiscal deficit caused by slowing growth, which is called an automatic stabilizer.
Post Devolution Revenue Deficit (PDRD) Grants	• PDRD Grants is a **mechanism provided by the Finance Commission for compensation of any loss incurred by states from the Centre.** • It forms **2nd largest chunk of Finance Commission transfers** after the assistance to local rural bodies. Other FC grants are: Grants for rural local bodies, Grants for urban local bodies, Assistance to State Disaster Relief Funds (SDRF)
Treasury Single Account (TSA)	• **TSA is a unified structure of government bank accounts** that **gives a consolidated view** of government cash resources. • TSA is a bank account or set of linked accounts through which government transacts all its receipts and payments. • This ensures **effective aggregate control** over government cash balances and minimizing borrowing costs.
Credit to GDP ratio	• India's **Credit-to-GDP ratio is 56%** when compared to advanced economies where it is in the range of 150-200%. • Credit-to-GDP ratio **tends to rise during period of economic boom and fall during economic downturn.** o **Credit-to-GDP gap** (difference between credit-to-GDP ratio and its long-term trend) **indicates build-up of excessive credit growth in an economy** and system-wide risk as a precursor to crisis. • Basel III uses gap between credit-to-GDP ratio and its long-term trend as a guide **for setting Counter Cyclical Capital Buffers (CCCB).** o CCCB is aimed at strengthening banks' **defenses against build-up of systemic vulnerabilities.**
Inverted duty structure	• It refers to **taxation of inputs at higher rates than finished products** that results in build-up of credits and cascading costs.
Household Financial Savings (HFS)	• According to RBI, Net HFS rose from 7.2% of GDP in 2018-19 to 7.7% in 2019-20. o **Net HFS** = Gross HFS - financial liabilities o **Gross HFS refer to** currency, bank deposits, debt securities, mutual funds, pension funds, insurance, and investments in small savings schemes. o **Financial liabilities include** loans from banks, non-banking financial companies (NBFCs), and housing finance companies. • **Reason:** Slowdown in economy in 2019 leading to a **slowdown in lending growth of banks.** It is also due to **slowdown in consumption.** • Indian households **contribute to about 60% of the country's savings.**
Mutual Agreement Procedure (MAP)	• MAP is an **alternative dispute resolution process under tax treaties**, under which competent authorities of two countries enter into discussions to resolve tax-related disputes. • Central Board of Direct Taxes has amended Income Tax rules as per which **disputes under MAP would be resolved within a timeframe of 24 months.**
National Institute of Public Finance and Policy (NIPFP)	• It is **autonomous research institute under Ministry of Finance**, registered under Societies Registration Act, 1860, founded in 1976. • Its mandate includes **assisting Central, State and Local governments in formulating and reforming public policies** by providing an analytical base.

2. BANKING AND MONETARY POLICY

2.1. REPORT ON TREND AND PROGRESS OF BANKING 2018-19

Why in News?

Recently, the Reserve Bank of India released the Report on Trend and Progress of Banking in India 2018-19, a statutory publication in compliance with Section 36 (2) of the Banking Regulation Act, 1949.

Key highlights

- RBI undertook an array of **policy measures to mitigate the effects of COVID-19;**
  - its regulatory ambit was reinforced by **legislative amendments, giving it greater powers** over co-operative banks, NBFCs, and HFCs;
  - series of initiatives to **bolster its supervisory framework.**
- Scheduled commercial banks gross non-performing assets **(GNPA) ratio declined from 9.1% at end-March 2019 to 7.5% at end-September 2020.**
- **Performance of state co-operative banks improved,** both in terms of profitability and asset quality.
- **Recovery process gained traction with resolution of large accounts** through IBC and SARFAESI Act.
- **Most payments banks are yet to turn profitable** and their sources of income may come under strain with the increased unemployment and reverse migration.
- **NBFCs remained resilient with strong capital buffers.**
- **Housing financiers could see a substantial impairment in their loan assets** because of delays in completion of housing projects, cost overruns and delayed investments by home buyers.

2.2. CHANGES IN BANK LICENSING FRAMEWORK

Why in news?

Recently, the Reserve Bank of India's (RBI's) Internal Working Group (IWG) suggested revised licensing norms for the banking industry.

What is a Banking License?

According to the **Banking Regulation Act, 1949,** no company in India shall **carry on banking business, unless it holds a license issued in that behalf by the Reserve Bank of India.**

What are the suggested changes by the IWG?

- **Large corporate and industrial houses** may be allowed as promoters of banks.
- **Well-run large non-banking finance companies (NBFCs),** with an asset size of Rs 50,000 crore and above may be considered for conversion into banks.
- Other changes suggested by the report:
  - **Small Finance Banks and Payment Banks:** Payments banks can convert into small finance banks.
  - **Capping of banks' investment in any new or existing entity to 20%.**

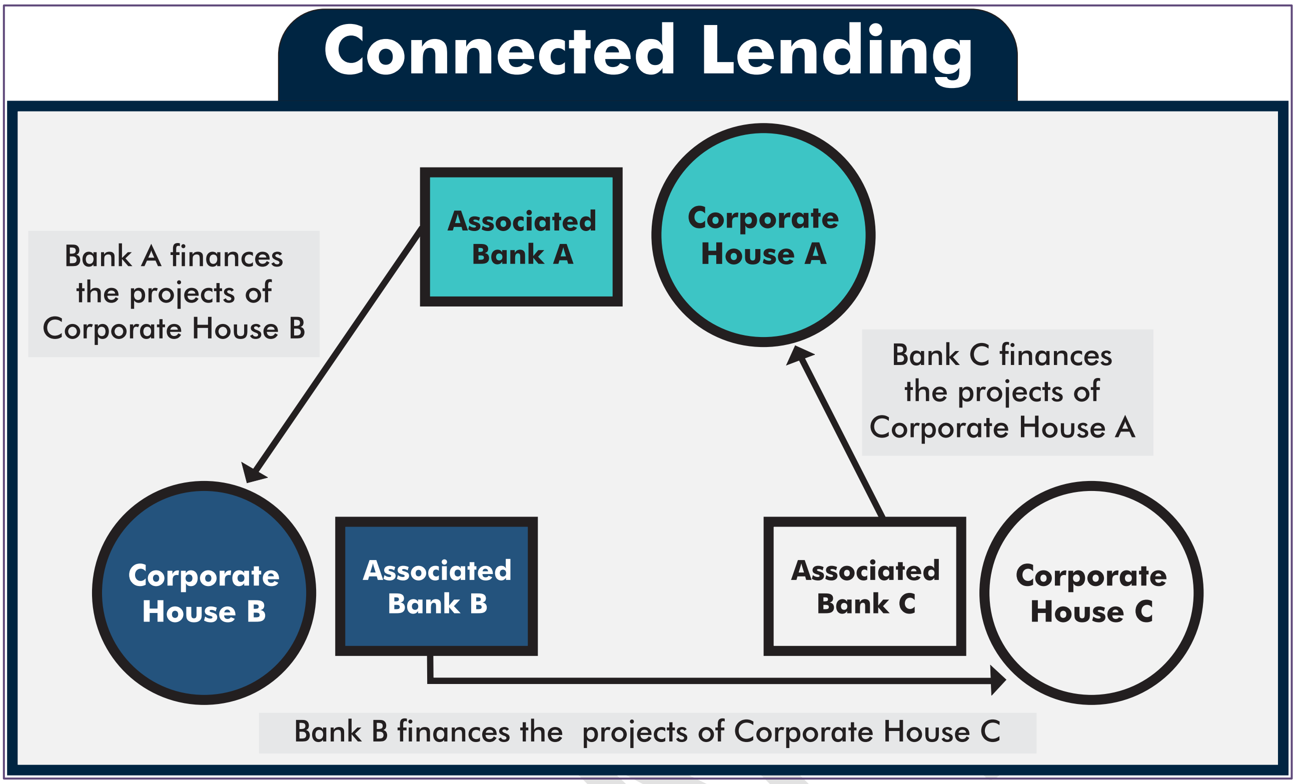
2.2.1 BANKING LICENSE TO LARGE CORPORATE HOUSES

Potential benefits	Potential challenges
• Aid in **recapitalization** • **Re-entry of India Inc** in the Banking Sector • Greater **Competition** • **Diversifying banking** option for depositors	• The problem of **connected lending and circular banking (refer infographic below)** • **Corporate Governance** and **financial stability** concerns

2.2.2. BANKING LICENSE FOR NBFCS

Potential benefits	Potential challenges
• Help **address the asset liability mismatch issue highlighted by the IL&FS crises.**	• **Associated costs** in becoming a bank. • Possible **reluctance of NBFCs.**

• **Increase access to deposits** for NBFCs. • Create **opportunity for better oversight.**	• **Poor performance** of NBFCs in recent past.



Related News

Doorstep Banking Services

- **Doorstep Banking Services** is envisaged as part of EASE (**Enhanced Access and Service Excellence)** Reforms to provide convenience of banking services to customers at their doorstep.
  - This is provided through universal touch points of **Call Centre, Web Portal or Mobile App.**
- **EASE** reform agenda for public sector banks (PSB) was launched in 2018. It aims at **institutionalizing clean and smart banking.**
  - **Capital infusion in PSBs** was dependent on PSB performance on these reform themes.
- EASE reforms index **measures the performance of each PSB** on 120+ objective metrics across six themes. It provides all PSBs a comparative evaluation vis-à-vis benchmarks and peers on the Reforms Agenda.

2.3. BANKING REGULATION (AMENDMENT) ACT, 2020

Why in News?

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

About Cooperative Banks

- Co-operative banks are **financial entities established on a co-operative basis** and belonging to their members. This means that the customers of a co-operative bank are also its owners.
- Broadly, co-operative banks in India are **divided into two categories - urban and rural.**

- Urban Cooperative Banks (UCBs) are **registered as cooperative societies** under the provisions of, either the **State Cooperative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002**.
- **Regulation of UCBs is split between RBI and centre/state-governments,** while that of smaller co-operative banks is divided between National Bank for Agriculture and Rural Development (NABARD) and state governments.
- **Registration and management related activities are governed by the Registrar of Cooperative Societies (RCS)** in case of UCBs operating in single State and Central RCS (CRCS) in case of multi-State UCBs.

Key Feature of the Act

- Act **will replace the Banking Regulation (Amendment) Ordinance, 2020**.
- **Issuance of shares and securities by cooperative banks:** to its members or to any other person residing within its area of operation will be subject to the prior approval of the Reserve Bank of India (RBI).
- **Power to exempt cooperative banks:** RBI may exempt a cooperative bank or a class of cooperative banks from certain provisions of the Act through notification.
- **Supersession of Board of Directors:** RBI may supersede the Board of Directors of a multi-state cooperative bank for up to five years under certain conditions.
  - In case of a co-operative bank registered with the Registrar of Co-operative Societies of a state, the RBI will supersede the Board of Directors after consultation with the concerned state government.
- **Act allows the central bank to initiate a scheme for reconstruction or amalgamation:** of a bank without placing it under moratorium.
  - If the central bank imposes moratorium on a bank, the lender cannot grant any loans or make investments in any credit instruments during the moratorium tenure.
- **Exclusions:** The **Act does not apply to certain cooperative societies**. These are:
  - primary agricultural credit societies (PACS),
  - cooperative land mortgage banks, and
  - any other cooperative societies (except those specified in the Act).

Related News

RBI recently released cybersecurity vision framework for urban cooperative banks (UCBs)

- It aims at **enhancing the cyber security posture of UCB sector** against evolving IT and cyber threat environment.
- It proposed a **five-pillared strategic approach GUARD**, viz.,
  - Governance Oversight,
  - Utile Technology Investment,
  - Appropriate Regulation and Supervision,
  - Robust Collaboration and
  - Developing necessary IT, cyber security skills set.

RBI asks urban co-operative banks (UCBs) to implement system-based asset classification (SBAC)

- **SBAC means asset classification (downgrading as well as upgrading)** carried out by the computerized systems of the bank in an automated manner on an ongoing basis.
  - It is aimed at **improving efficiency, transparency and integrity** of the asset classification process.
- UCBs having total assets of ₹1,000 crore or above and meeting specified criteria have to **implement SBAC.**

2.4. REGIONAL RURAL BANKS (RRBS)

Why in news?

RBI allowed RRBs to access the **liquidity adjustment facility (LAF), marginal standing facility (MSF) and call or notice money market.** At present, **RRBs are not permitted to access the liquidity windows of the RBI** as well as the call or notice market.

About Regional Rural Banks

- RRBs were set up as **state-sponsored, regionally based and rural oriented institutions** under the Regional Rural Banks Act, 1976. RRBs are **regulated by Reserve Bank of India and are supervised by NABARD.**
  - RRBs are **jointly owned by the Centre, the state government concerned and sponsor banks** with the issued capital shared in the **proportion of 50%, 15% and 35%, respectively.**
- **The mandate of RRBs is to:**
  - **Serve the credit needs** of the small and marginal farmers, agricultural labourers, socio-economically weaker section of population **for development** of agriculture, trade, commerce, industry and other productive activities.
  - **Reduce regional imbalances** and increase rural employment generation activities.
  - Develop such measures which could **restrict the outflow of rural deposits to urban areas.**

  - It was set up on the basis of the **recommendations of the Narasimham Working Group (1975),** and after the legislations of the RRB Act, 1976.
- **Issues faced by RRBs:** inadequate finance, High overdues and poor loan recovery, lack of technology, procedural rigidities etc.

Liquidity Adjustment Facility	Marginal Standing Facility	Call/notice money market
LAF is used in **monetary policy which enables banks to borrow money through repurchase agreements (repo)** against the collateral of Government securities including State Government securities **or banks to lend to the RBI using reverse repo contracts.**	MSF is a **very short-term borrowing scheme for scheduled commercial banks.** • **MSF had been introduced by RBI to reduce volatility in the overnight lending rates** in the inter-bank market and to enable smooth monetary transmission in the financial system. • **MSF rate is generally higher than Repo rate.**	**Call/notice money market** forms an important segment of the Indian money market. • **Under call money market, funds are transacted on overnight basis** and under notice money market, funds are transacted for the period between 2 days and 14 days.

2.5. REVISED PRIORITY SECTOR LENDING (PSL) GUIDELINES

Why in news?

Recently, RBI revised PSL guidelines to **include entrepreneurship and renewable resources,** in line with emerging national priorities.

What is Priority Sector Lending and how it works?

The concept of 'Priority sector lending' focuses on the **idea of increasing the lending of the banks towards few specified sectors** and activities in the economy.

Following are the key features of PSL methodology

- **The rate of interest on bank loans** is as per directives **issued by the Department of Banking Regulation of RBI,** from time to time.
  - **Priority sector guidelines do not lay down any preferential rate** of interest for priority sector loans.
- The provisions of PSL apply to every **Commercial Bank** [including **Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank**] and **Primary (Urban) Co-operative Bank (UCB)** other than Salary Earners' Bank licensed to operate in India by the Reserve Bank of India.
  - **All scheduled commercial banks and foreign banks** (with a sizable presence in India) are mandated to set aside **40% of their Adjusted Net Bank Credit (ANDC)** for lending to these sectors.
  - **Regional rural banks, co-operative banks and small finance banks** have to **allocate 75% of ANDC to PSL.**
    - ✓ Total PSL target for urban cooperative banks will also be increased from present 40% of their adjusted net bank credit (ANBC) to 75% by 31 March 2024.
- **Compliance of banks is monitored on 'quarterly' basis.**
- **Shortfall on PSL targets:**
  - Banks having any shortfall in lending to priority sector are allocated amounts for **contribution to the Rural Infrastructure Development Fund (RIDF)** established with NABARD and other funds with NABARD/NHB/SIDBI/ MUDRA Ltd., as decided by the Reserve Bank from time to time.
  - Non-achievement of priority sector targets and sub-targets is also taken into account while granting **regulatory clearances/approvals** for various purposes.

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

What has been changed in the revised PSL guidelines?

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

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

2.6. SMALL FINANCE BANKS (SFBS)

Why in News?

Several SFBs are preparing to launch their initial public offerings (IPOs),

More on News

- The SFBs are **hoping to get an extension in their listing deadline.**
- RBI guidelines require SFBs **to list within three years of their net worth reaching ₹500 crore.**

About Small Finance Banks (SFBs)

- These are **private financial institution** for the objective of financial inclusion without any restriction in the area of operations, unlike the Regional Rural Banks or Local Area Banks.
- They can provide basic banking services like **accepting deposits** and **lending** to the unbanked sections such as **small farmers, micro business enterprises, micro and small industries** and **unorganised sector entities.**
- Some of the **operational Small Finance Banks** in India include Ujjivan SFB, Janalakshmi SFB etc.
- They were proposed by the **Nachiket Mor Committee of RBI**, as one of the **differentiated banking system** for credit outreach and announced in the **annual Budget of 2014.**

	Payment Banks	**Small Finance Banks**
Who can promote	Prepaid card issuers, telecom companies, NBFCs, Business correspondents, Supermarket chains, Corporates, Realty sector Co-ops and PSUs	Individuals/ professionals with 10 years' experience in finance, NBFCs, microfinance cos, local area banks
What they must do	○ Have a **minimum capital of Rs. 100 cr** ○ Maintain **75% of deposits in govt. bonds** ○ Maintain **25% of deposits in other banks** ○ Have at least 26% investment by Indians ○ Get listed if net worth crosses Rs 500 cr ○ Have 25% of branches in unbanked areas ○ Be fully networked and technology driven ○ Have Rs 1 lakh cap for deposits in one a/c	○ Have a **minimum capital of Rs.100 cr** ○ Extend **75% of loans to priority sector** ○ Have **25% of branches in unbanked areas** ○ Maintain reserve requirements ○ Cap loans to individuals and groups at 10% and 15% of net worth ○ Have a business correspondent network
What they can do	○ Offer internet banking ○ Sell mutual funds, insurance, pensions ○ Offer bill payment service for customers ○ Have ATMs and business correspondents ○ Can function as BC of another bank	○ Sell FOREX to customers ○ Sell mutual funds, insurance, pensions ○ Can convert into a full-fledged bank ○ Expand across the country ○ Transform into a full-fledged bank, but only after RBI's approval.
What they can't do	○ Offer credit cards ○ Extend loans ○ Handle cross-border remittances ○ Accept NRI deposits	○ Extend large loans ○ Float subsidiaries ○ Cannot deal in sophisticated financial products

2.7. RESTRUCTURING, RECOVERY AND MANAGEMENT OF STRESSED ASSETS

Introduction

The scale of stressed assets and the associated crises has resulted in creation of various frameworks-

- **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI 2002).**
- **Insolvency and Bankruptcy Code (IBC)**
- **Asset Reconstruction Companies**
- **Corporate restructuring scheme under Section 230-232 of the Companies Act:** The scheme's process is premised on 'debtor-in-possession' and scheme is binding on the company and all its creditors and shareholders.

In addition to these, several ideas like Bad Banks, efforts in provisioning of loans and special resolution plans in the wake of COVID-19 have also been undertaken.

2.7.1. SARFAESI ACT

Why in News?

A five-judge Constitution Bench of the Supreme Court (SC) recently held that **cooperative banks can use the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act)** for recovery of debts from its defaulters and can seize and sell their assets to recover dues.

More on the news

- **The Constitution bench held that:**
  - **Parliament has legislative competence** to provide for procedure for recovery of loan for all CBs under the SARFAESI Act.
    - ✓ Recovery of dues was held as an essential function of any banking institution.
  - CBs registered under state laws (including MSCBs) are **covered within the ambit of Entry 45 of Union list.**
  - CBs involved in the activities related to banking are **covered under 'banking company'** for the purposes of the **BR Act, 1949** and any other legislation applicable to banks under RBI Act.
- The judgment holds significance for co-operative banks as it will help them **expedite recovery of their bad loans** using provisions of **SARFAESI Act.**

> **Key terms**
>
> **Security Interest**
>
> - A security interest on a loan is a legal claim on collateral that the borrower provides that allows the lender to repossess the collateral and sell it if the loan goes bad.
> - A security interest lowers the risk for a lender, allowing it to charge lower interest on the loan.
>
> **Security receipt**
>
> - It means a receipt or other security, issued by an ARC to any qualified institutional buyer as an evidence of purchase or acquisition of the financial asset involved in securitization.

About SARFAESI Act, 2002

- The act was framed in order to address the problem of **Non-Performing Assets (NPAs) or bad assets** of banks/financial institutions through different mechanisms.
- It allows **only secured creditors** (lenders whose loans are backed by a security such as mortgage) to take possession over a collateral security if the debtor defaults in repayment.
- The act provides procedure for registration and regulation of **asset reconstruction company (ARC)** and allows them to carry out the business of-
  - **Asset reconstruction:** It is the activity of converting a NPAs or bad assets into performing assets. The ARCs can acquire financial assets (NPAs) from banks and try to recover dues through measures like:

> **Related information**
>
> - **Narsimham Committee – I (1991)** envisaged setting up of a central Asset Reconstruction Fund to facilitate Banks to improve their balance sheets.
> - **Narsimham Committee – II (1998)** proposed ARCs.
> - RBI regulates ARCs as Non-Banking Financial Companies.
>   - ARC is **incorporated under the Companies Act** and registered with Reserve Bank of India under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.**
> - **ARCIL was the first ARC** set up by ICICI Bank, State Bank of India and IDBI.

- ✓ the proper management of the business of the borrower, by changing or taking over the management
- ✓ the sale or lease of a part or whole of the business
- ✓ rescheduling of payment of debts payable etc.

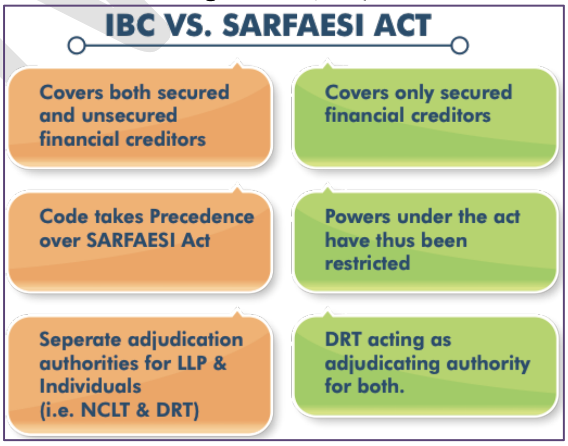
  - **Securitization:** It is the process of conversion of existing loans into marketable securities by ARCs through issue of security receipts.

- **Enforcement of Security interests by lenders without the intervention of the Court**: After giving a notice period of 60 days to the defaulting borrower, banks/financial institutions can-
  - take possession of the pledged assets of the borrower,
  - take over the management of such assets,
  - appoint any person to manage them or
  - ask debtors of the borrower to pay their dues too, with respect to the asset.
- **Creation of a Central Registry**: by the Central Government for the purposes of registration of transaction of securitization and reconstruction of financial assets and creation of security interest.
- **Application against measures to recover secured debts**: can be filed by borrowers/lenders with **Debt Recovery Tribunal** (with appeal to **Debts Recovery Appellate Tribunal)** established under Recovery of Debts due to Banks and Financial Institutions Act, 1993.
- **Provisions of this Act not applicable to:**
  - any security interest created in **agricultural land**
  - any case in which the **amount due is less than twenty per cent** of the principal amount and interest
  - any security interest for securing repayment of any **financial asset less than one lakh rupees**.

2.7.2. SUSPENSION OF INSOLVENCY AND BANKRUPTCY CODE (IBC)

Why in News?

Recently, Parliament passed the Insolvency and Bankruptcy Code (Second Amendment) Bill, 2020 so as to provide relief for corporates as the pandemic and subsequent lockdown had significantly impacted economic activities.



Some important features of IBC

- **Covers**: all individuals, companies, Limited Liability Partnerships (LLPs) and partnership firms.
- **Adjudicating authority:** National Company Law Tribunal (NCLT) for companies and LLPs and Debt Recovery Tribunal (DRT) for individuals and partnership firms.
- The insolvency resolution **process can be initiated by** any of the stakeholders of the firm: firm/ debtors/ creditors/ employees.
- If the adjudicating authority accepts, an Insolvency resolution professional or IP is appointed.
  - **Insolvency and Bankruptcy Board of India (IBBI) has proposed setting minimum qualifications** for members of governing boards of insolvency professional agencies (IPA).
  - **IBBI is a Statutory Body with regulatory oversight** over Insolvency Professionals, Insolvency Professional Agencies, Information Utilities, etc.
- The **power of the management and the board of the firm is transferred to the committee of creditors (CoC)** which comprises of all financial creditors of the corporate debtor.
- The IP has to decide **whether to revive the company (insolvency resolution) or liquidate** it. If they decide to revive, they have to find someone willing to buy the firm.
- They choose the party with the best resolution plan, that is acceptable to the majority of the creditors (66% for critical decision and 51 % for routine decisions), to take over the management of the firm.
- The law prescribes that this insolvency resolution process has to be completed within **180 days**. It can be **extended by 90 days** if the case is complex. If a decision is not reached within the time frame, the firm will be liquidated.
- **Waterfall mechanism under Insolvency and Bankruptcy Code (IBC)**
  - This mechanism under IBC gives **priority to secured financial creditors over unsecured financial creditors.**

- It says that if a **company is being liquidated, these secured financial creditors must be first paid** the full extent of their admitted claim, before any sale proceedings are distributed to any other unsecured creditor.

Related News

Pre-packs under Insolvency and Bankruptcy Code (IBC)

- As per reports, government is likely to amend IBC to introduce pre-packs as a resolution mechanism.
- A pre-pack is an **agreement for resolution of the debt** of a distressed company t**hrough an agreement between secured creditors and investors** instead of a public bidding process.
- In pre-packs, **incumbent management retains control of the company** until a final agreement is reached.
- Under IBC, control is **transferred from incumbent management to an insolvency professional** which leads to disruptions in the business.

2.7.3. PROVISIONING OF LOANS

Why in News?

RBI has recently provided clarification on **'special provisioning' of loans** which are under moratorium.

About the News

- RBI had stipulated in April that lending institutions shall make **10% provisioning** (5 percent phased over two quarters) on loans that are overdue but not yet NPAs and where moratorium has been approved.
- **Under loan provisioning**, banks have to set aside earning or provide funds to a prescribed percentage of their bad assets.
  - Provisioning norms are prescribed by the RBI as per asset classification. For example- The normal provisioning of NPA is 15% for secured loans and 25% of unsecured loans.
    - ✓ This means if a ₹100-crore loan becomes an NPA or sub-standard, at least ₹15 crore has to set aside by the bank from its earnings as provision.
- RBI has now clarified that **provisioning should be considered only for loans categorised as Special Mention Accounts-2 (SMA-2)** at the start of moratorium period.
  - Special Mention Account (SMA) is an account which is **exhibiting signs of incipient stress** resulting in the borrower defaulting in timely servicing of her debt obligations, though the account has not yet been classified as NPA.

Asset Classification as per RBI

- **Special Mention Account (SMA)** classification is based on length of time for which Principal or interest payment is overdue.

SPECIAL MENTION ACCOUNT	PRINCIPAL/INTEREST PAYMENT & PARTLY/WHOLLY DUE
SMA-0	1-30 Days
SMA-1	31-60Days
SMA-2	61-90 Days

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

2.8. REGULATION OF NBFCS

Why in news?

Recently, RBI has proposed shift in its regulatory approach towards non-banking financial companies (NBFCs).

About NBFCs

A NBFC is a company **registered under the Companies Act, 1956** engaged in the business of loans and advances, acquisition of shares/ stocks/ bonds/ debentures/securities issued by

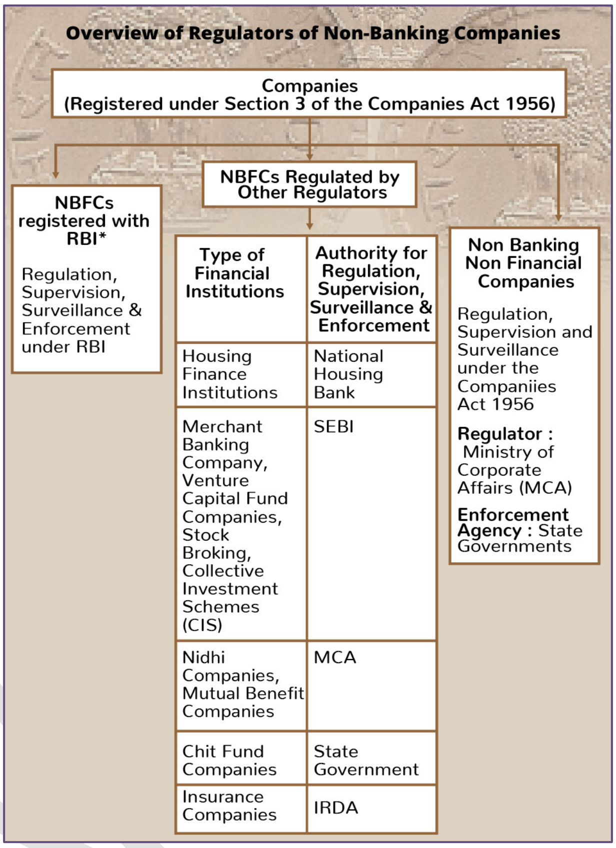
DIFFERENCE BETWEEN BANKS & NBFCs??

Point of difference	NBFCs	Banks
Demand Deposits	Cannot accept.	Can accept.
Drawing a Cheque	Cannot issue or draw a cheque on its own.	Can issue cheque freely.
Deposit Insurance facility	Not available for NBFC depositors	Is available for bankers.
Act for regulation	They are covered under Indian Companies Act, 1956.	They are covered under The Banking Regulation Act, 1949

Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business etc.

Following can be cited as key **characteristics of NBFCs:**

- NBFCs **do not include** any institution whose principal business is that of **agriculture activity, industrial activity, purchase or sale of any goods (other than securities)** or providing any services and sale/purchase/ construction of immovable property.
- NBFCs are categorized:
    - in terms of the type of liabilities into **Deposit and Non-Deposit accepting NBFCs,**
    - non deposit taking NBFCs by their size into **systemically important and other non-deposit holding companies** (NBFC-NDSI and NBFC-ND) and
    - by the **kind of activity, they conduct.**
- **Major categories** of NBFC include Asset Finance Companies, Investment companies, Loan companies, Infrastructure Financing companies (IFCs), Systemically Important Core Investment Company (CIC-ND-SI), Infrastructure Debt Funds (IDFs), NBFC-Micro Finance Institution (MFI), NBFC-Factors, Mortgage Guarantee Companies (MGC) and NBFC- Non-Operative Financial Holding Company (NOFHC) among others.



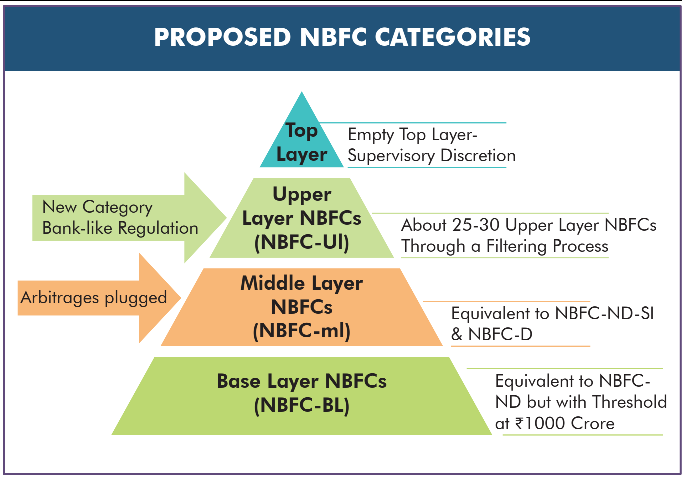
- These companies **get NBFC License with the Reserve Bank of India (RBI).** But they are regulated by different agencies based on the role they play. ***(See infographic).***

Why is there a need for change in regulation of NBFCs?

Threat of Systematic Risk	Allowing large NBFCs to seamlessly become Banks	Emergence of FinTech Sector
Highlighted by the IL&FS and DHFL Crises.	In line with IWG's revised licensing norms.	For making operation between Banks, NBFCs and FinTech startups seamless.

What are the changes that RBI has proposed?

Broadly, RBI has proposed to move from a general approach of light touch regulation to one that monitors larger players almost as closely as it does banks. To enable this idea, it has proposed following changes:



- **Creation of four-layer regulatory framework** which includes a Base layer, a Middle layer, Upper layer and a Top layer. The degree of regulation in each sector is proportional to the perception of risk in that sector.
- **Classification change for NPAs:** It has also proposed classification of non-performing assets (NPAs) of base layer NBFCs from 180 days to 90 days overdue.

2.9. SPECIAL LIQUIDITY SCHEME FOR NBFCS AND HFCS

Why in News?

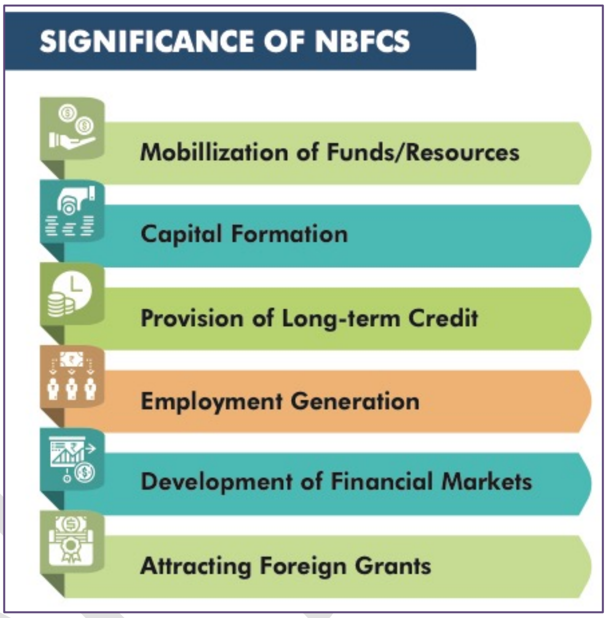
As a part of Aatma Nirbhar Bharat Abhiyaan, **Special Liquidity Scheme for NBFCs/HFCs** was approved last month and RBI has now laid down the eligibility criteria for these lenders to avail the facility.

Housing Finance Company (HFC)

- A HFC is a company registered under Companies Act, 1956 which primarily transacts or has as one of its principal objects, **transacting of the business of providing finance for housing, whether directly or indirectly**.
- **HFC is considered a NBFC** under the RBI's regulations.
- In 2019, **regulation of HFCs was handed over to RBI from National Housing Bank.**
- Recently, **RBI has proposed new rules for HFCs** with regard to change in definition, regulation of financial levels like Net owned assets etc.

About the Scheme

- RBI has announced a **special liquidity scheme for non-banking finance companies (NBFCs)/HFCs** through a Special Purpose Vehicle (SPV).
- Scheme aims to help NBFCs and HFCs to **improve their liquidity position and avoid any potential systemic risks to the financial sector.**
- SPV will **purchase short-term papers from eligible NBFCs/ HFCs of debt up to ₹30,000 crore**, who will utilise the proceeds solely for extinguishing existing liabilities.
- **Eligibility**: NBFCs and HFCs should have- net non-performing assets (**NPAs) less than 6%;** net profit in at least one of the last two preceding financial years; not reported under SMA-1 or SMA-2 category during last one year prior to 1 August 2018.



Other measures to aid the NBFC Sector

- **Emergency Credit Line Guarantee Scheme (ECLGS)**
  - ECLGS will enable **additional funding of up to Rs. 3 lakh crores** to eligible MSMEs and MUDRA borrowers in form of a Guaranteed Emergency Credit Line (GECL) facility.
  - Under this Scheme, 100% guarantee coverage is provided by **National Credit Guarantee Trustee Company Limited** (NCGTC) to Banks, Financial Institutions and NBFCs for any losses suffered by them due to **non-repayment of GECL funding by borrowers**.
- **Modifications approved to "Partial Credit Guarantee Scheme (PCGS)**
  - **PCGS** was launched in 2019 offering **sovereign guarantee** (promise by **Government** to discharge liability in case of default) of up to 10% of first loss to PSBs for purchasing assets rated BBB+ or above worth up to Rs. 1,00,000 crores, from financially sound NBFCs/ MFCs.
  - Now, it is **extended to NBFCs/HFCs under SMA-1 category** on technical reasons. (Earlier applicable to only SMA-0 category).

2.10. INFLATION TARGETING

Why in news?

In March 2021, the Inflation Targeting regime in India will complete 5 years.

How the inflation targeting framework operates in India?

The IT framework in India was initiated through the Inflation targeting agreement of 2015 which further culminated into the **amendment of the RBI Act in 2016.** The Act provided for the following framework:

Why CPI was chosen as measure of Inflation?

CPI measures the inflation levels at the level of the consumer expenditure. By virtue of its construction, it has following advantages:

- CPI **represents consumer baskets better** than the other measures like WPI.
- CPI provides **information on price movements in services sector** also.
- CPI **includes Food Inflation** which is a critical part of price stability objective in emerging markets like India.

- It tasked the monetary policy with the goal of **achieving price stability** while **keeping in mind the objective of growth.**
- **Monetary Policy Committee (MPC)** was created by amendment of the Reserve Bank of India Act, 1934.
  - **MPC consists of six members- three internal and three external:**
    - ✓ **Internal: Governor of the RBI as the Chairperson**, the Deputy Governor in charge of monetary policy and one officer of the RBI to be nominated by the Central Board of the RBI.

- ✓ **External**: to be **appointed by the Central Government**. The external members should have knowledge and experience in the field of economics, or banking or finance or monetary policy.
  - **MPC** has been entrusted with the **task of fixing the policy rate** required to achieve the inflation target.
- The Act adopted year-on-year changes in the headline **Consumer price Index (CPI)** as the measure of inflation target. The **target was fixed at 4% with an upper and lower tolerance band of 2%.**
  - This target is to be **reviewed every five years.** (Note that the law requires a review of the inflation target and not the framework as a whole).
- The Act has mandated following working methodology for the MPC:
  - The policy rate (different from the Inflation Target) is determined by **majority voting among the members of the MPC**. In case of equality of votes, the Governor will have a casting vote.
  - It requires that **MPC must meet at least four times in a year.**
  - RBI **must publish minutes of the MPC meeting** and **resolutions** adopted.
  - **RBI must publish a report on monetary policy twice a year.** The report should outline the sources of inflation and short-medium term forecasts of inflation.
  - In the **event of failure to achieve the inflation target**, the Act lays down that the RBI will inform the Central Government-
    - ✓ The **reasons for failure** to achieve the inflation target.
    - ✓ The **remedial actions it proposed** to take.
    - ✓ **An estimate of the time within which the inflation target shall be achieved** after the implementation of the remedial actions.

Related News

Ministry of Labour revises base year of the Consumer Price Index (CPI)-Industrial Workers (IW)

- Base year will be **revised to 2016 from 2001, giving more weight to non-food items** (spending on housing, education and health) in inflation index calculation.
- **CPI(IW)** covers industrial workers employed in any one of the seven sectors namely factories, mines, plantation, railways, public motor transport undertakings, electricity generation and distribution establishments as well as ports and docks.
- Revision in base year **will reflect changing consumption pattern of the working-class population** over the years and it **will now be revised every five years.**
  - CPI (IW) is **used for tracking inflation and as a benchmark for calculating dearness allowance** for government employees, dearness relief for pensioners and wages for industrial workers.
- **At the national level, there are four CPI numbers:** CPI (IW), CPI for Agricultural Labourers (AL), CPI for Rural Labourers (RL) and CPI for Urban Non-Manual Employees (UNME).
  - While the **first three are managed by Labour Bureau** (Ministry of Labour), the **fourth one is released by Central Statistical Organisation** (Ministry of Statistics and Programme Implementation).

Other key decisions taken by the MPC

One-time restructuring of loans without classifying them as NPA	• Restructuring is a practice that **allows banks to modify the terms of the loan** when the borrower is facing financial stress.
	• **Banks do that to avoid the borrower being declared a defaulter** and the loan having to be classified as a non-performing asset.
	• **Eligibility:** only those borrowers that were classified as 'standard', and not in default for more than 30 days with any bank as on March 1, 2020.
	  ○ It includes Personal loans (auto, credit card, housing, personal loans, education etc) and corporate borrowers
	• **Details of the scheme will be worked out** by a committee headed by **KV Kamath.**
	• In the past RBI has utilized **several debt restructuring schemes** to tackle the stressed assets.
	  ○ This include the 2008-09 restructuring window, Corporate Debt Restructuring Scheme (CDR), Flexible Structuring under 5:25 scheme, Strategic Debt Restructuring Scheme (SDR), and Scheme for Sustainable Structuring of Stressed Assets (S4A).

To boost digital payments	• **Scheme of Offline Retail Payments Using Cards and Mobile Devices** ○ RBI proposed a pilot scheme for offline payments using mobile devices and cards to address challenge of internet connectivity and low speed of internet. • **Positive Pay mechanism** to prevent frauds with high value cheques. The mechanism will be for all cheques of values of ₹50,000 and above.

2.11. MONETIZATION OF DEFICIT

Why in News?

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

What is meant by Monetization of Deficit?

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

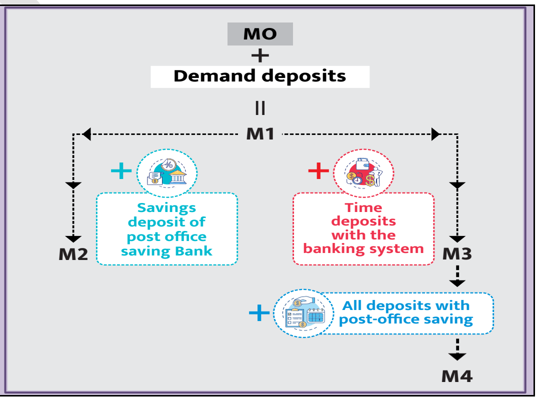
- In simple words, **monetization of fiscal deficits** involves the financing of such extra expenses **with money, instead of debt** to be repaid at some future dates. So, it is a form of "**non-debt financing**". As a result, under monetization, there is no increase in net (not gross) public debt.
-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

Historical context on Monetization of deficit

- Monetization of deficit **was in practice in India till 1997**, whereby the central bank automatically monetized government deficit through the **issuance of ad-hoc treasury bills.**
- In 1994 and 1997, two agreements were signed between the government and RBI to **completely phase out funding through ad-hoc treasury bills.** Later on, with the enactment of Fiscal Responsibility and Budget Management (FRBM) Act, 2003, RBI was completely barred from subscribing to the primary issuances of the government.
- The **FRBM Act as amended in 2017** contained an **escape clause which permits monetization** of the deficit under special circumstances.

Measures of Money Supply

- **Reserve Money (M0):** also called High Powered money, monetary base, base money etc. M0= Currency in Circulation+ Bankers' Deposits with RBI + Other Deposits with RBI.
- **Narrow Money (M1)** = Currency with public + Demand deposits with the Banking system (current account, saving account) + other deposits with RBI.
- **M2** = M1 + Savings deposits of post office savings banks.
- **Broad Money (M3)** = M1 + Time deposits with the banking system.
- **M4** = M3 + All deposits with post office savings banks.



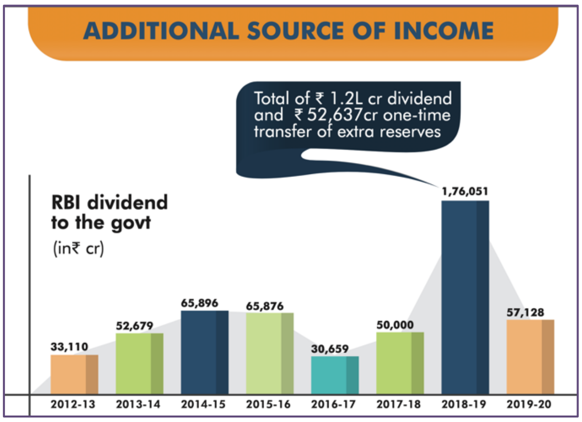
2.12. RISK PROVISIONING ACCOUNTS OF RBI

Why in news?

Recently, RBI transfers Rs 73,000 crore to its Contingency Fund.

Main risk provision accounts of RBI

- **Contingency Fund (CF):** A specific **provision meant for meeting unexpected and unforeseen contingencies,** including depreciation in value of securities, risks arising out of exchange rate policy operations, systemic risks and any risk arising on account of special responsibilities enjoined upon RBI.



- **Currency and Gold Revaluation Account (CGRA):** Maintained to take care of currency risk, interest rate risk and movement in gold prices.
- **Investment Revaluation Account Foreign Securities (IRA-FS):** Unrealized gains or losses on revaluation in foreign dated securities.
- **Investment Revaluation Account-Rupee Securities (IRA-RS):** Unrealised gains or losses on revaluation in Rupee Securities.

Implication for Government

- This transfer has **led to 67.5 % fall in RBI's surplus (dividend)** to Central government in 2019-20, as compared to last year.
- **As per Section 47 of the RBI Act**, profits or surplus of the RBI are to be transferred to government, after making various contingency provisions, public policy mandate of the RBI, including financial stability considerations.
    - This is done in early August every year, after **July-June accounting year of RBI** is over.
- RBI also decided to maintain the **Contingency Risk Buffer (CRB)** at 5.5%.
    - CRB is component of RBI's economic capital required to cover its monetary and financial stability, credit, and operational risks.

Related News

Recently, RBI decided to relax rules governing withdrawal from Consolidated Sinking Funds (CSF).

- Currently, State Governments can avail of Special Drawing Facility from RBI against collateral of funds in CSF.
- **About CSF**
    - It was **set up in 1999-2000 by RBI** to meet redemption of market loans of the States.
    - Fund are **maintained outside consolidated fund of the States and public account** and should not be used for any other purpose, except for redemption of loans.
        - State governments contribute 1-3 % of their outstanding market loans to CSF each year.

2.13. KEY STEPS AND DECISIONS OF RBI IN NEWS

2.13.1. RESERVE BANK OF INDIA (RBI) RELEASES THE FINANCIAL STABILITY REPORT (FSR), 2021

- FSR reflects the **risks to financial stability, and the resilience of the financial system** in the context of contemporaneous issues relating to development and regulation of the financial sector.

PERFORMANCE PARAMETERS	Findings (for SCBs)	Trend
Capital to risk-weighted assets ratio (CRAR): Also known as Capital Adequacy Ratio (CAR), it is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. **Basel III norms stipulated CRAR 8%.**	• March 2020: 14.7% • September 2020: 15.8%.	↑ IMPROVED
The gross non-performing asset (GNPA) ratio: A non performing asset (NPA) is a loan or advance for which the principal **or interest payment remained overdue for a period of 90 days.**	• March 2020: 8.4% • September 2020: 7.5%	IMPROVED ↓
Provision coverage ratio (PCR): Banks are required to set aside a portion of their profits as a provision against bad loans. This is called PCR. **A high PCR** ratio (ideally above 70%) means most asset quality issues have been taken care of and **the bank is not**	• March 2020: 66.2% • September 2020: 72.4%.	↑ IMPROVED

2.13.2. RBI CONDUCTED THE FIRST-EVER OPEN MARKET OPERATION (OMO) IN STATE DEVELOPMENT LOANS (SDL)

- In India, Central Government issues both, treasury bills and bonds or dated securities while **State Governments issue only bonds or dated securities, which are called SDLs.**
    - **SDLs are bonds issued by state governments** and interest rates are usually higher than central government securities (G-secs).

- SDLs are as **safe as G-secs because states are considered sub-sovereign**.
- SDLs **qualify for Statutory Liquidity Ratio** and are also eligible as collaterals for borrowing through market repo as well as borrowing by eligible entities from RBI under Liquidity Adjustment Facility.

- **OMOs are conducted by RBI by way of sale/ purchase of Government Security (G-Sec)** to/ from the market with an objective to adjust the rupee liquidity conditions in the market.

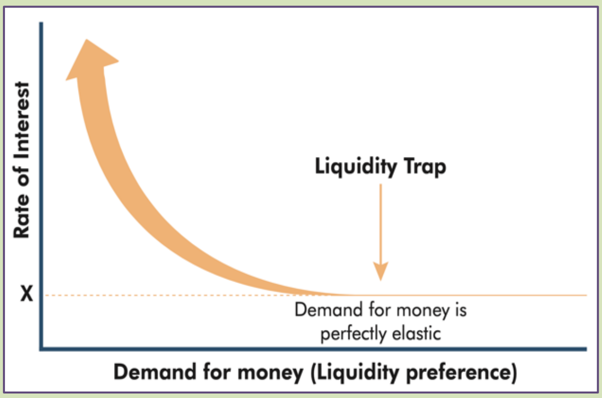
2.13.3. RBI RELAXES NORMS FOR DEPLOYMENT OF ATMS BY WHITE-LABEL PLAYERS

- Now, White Label ATMs (WLATM) players will have **manageable annual targets** rather than stiff run-rates set under licence terms in 2012.
  - Earlier under various schemes placed ratio requirements (number of ATMs setup in tier-III to VI centre and number of ATMs installed in tier-I to II centres.) on the operators
- **WLATM** are set up, **owned and operated by non-banks entities.**
  - **Cash in ATMs is provided by sponsored bank** while ATM machine does not have any branding of Bank.
  - It will help in **increasing geographical spread of ATMs** especially in semi-urban and rural areas.
  - Companies need **license from RBI** to run business under **Payment & Settlement Systems Act, 2007.**
  - Tata Communications Payment Solutions Limited (**Indicash**) is **first company** authorized by RBI to open WLAs in country.
  - National Payments Corporation of India (NPCI) links all the ATMs in India.
- These **differ from brown-label ATMs**, which are owned and branded by banks, but operated and maintained by third party operators.

2.13.4. RBI INTRODUCES DIGITAL PAYMENTS INDEX (DPI)

- RBI-DPI **comprises of 5 broad parameters** that enable measurement of deepening and penetration of digital payments in the country over different time periods. These include:
  - Payment Enablers (weight 25%), Payment Infrastructure – Demand-side factors (10%), Payment Infrastructure – Supply-side factors (15%), Payment Performance (45%) and Consumer Centricity (5%).
- RBI-DPI has been **constructed with March 2018 as base period**, i.e. DPI score for March 2018 is set at 100.
  - DPI for March 2019 and March 2020 work out to 153.47 and 207.84 respectively, **indicating appreciable growth in the expansion of digital payment in 2018-20.**
  - DPI score shall be **published on RBI's website on a semi-annual basis from March 2021** onwards with a lag of 4 months.

2.14. KEY CONCEPTS AND ENTITIES IN NEWS

Micro-Finance Institutions (MFIs)	• MFIs is an organization that offers financial services like providing **micro credit; collection of thrift; remittance of funds; providing pension or insurance etc. to low-income populations.** • MFIs groups are registered as NBFCs, societies, trusts and co-operatives. ○ First registered MFI in India was Self Employed Women 's Association (SEWA) at Ahmadabad in 1974.
Voluntary Retention Route (VRR)	• VRR is an investment window **provided by RBI to Foreign Portfolio Investors**, which provides easier rules in return for a commitment to make higher investments.
Liquidity trap	• A liquidity trap is a **contradictory economic situation** in which **interest rates are very low** and **savings rates are high,** rendering monetary policy ineffective. It leads to a scenario where any additional money supply that is generated in the economy get channeled towards savings rather than investment thus rendering the economy to remain at same liquidity level. 

Core Investment Companies (CIC)	• CIC is a non-banking finance company (NBFC) which **carries on the business of the acquisition of shares and securities.** ○ It holds **not less than 90% of its net assets in the form of investment in equity shares**, preference shares, bonds, debentures, debt or loans in group companies. • Recently, **RBI released revised norms for CICs.**
Bank Investment Company (BIC)	• Government is planning to set up **a holding company (BIC) for all public sector banks.** ○ BIC was **mooted in 2014 by PJ Nayak Committee** to review governance of boards of banks. • BIC will **independently control all banks** without government's intervention. It will also help **ensure that government's stake in these banks is strategically reduced** to upto 51%.
Reserve Bank Innovation Hub	• **Mandate of RBIH** includes **promoting innovation** across the financial sector, **develop internal infrastructure** to promote fintech research and **collaborate with financial sector institutions**, technology industry and academic institutions for financial innovation. • RBIH will be **guided and managed by a governing council of 9 members and a chairman.** • Also, last November, RBI had launched the **Regulatory sandbox structure** with the same aim.

3. FINANCIAL SYSTEMS AND FINANCIAL MARKETS

3.1. FINANCIAL STABILITY REPORT (FSR) 2020

Why in News?

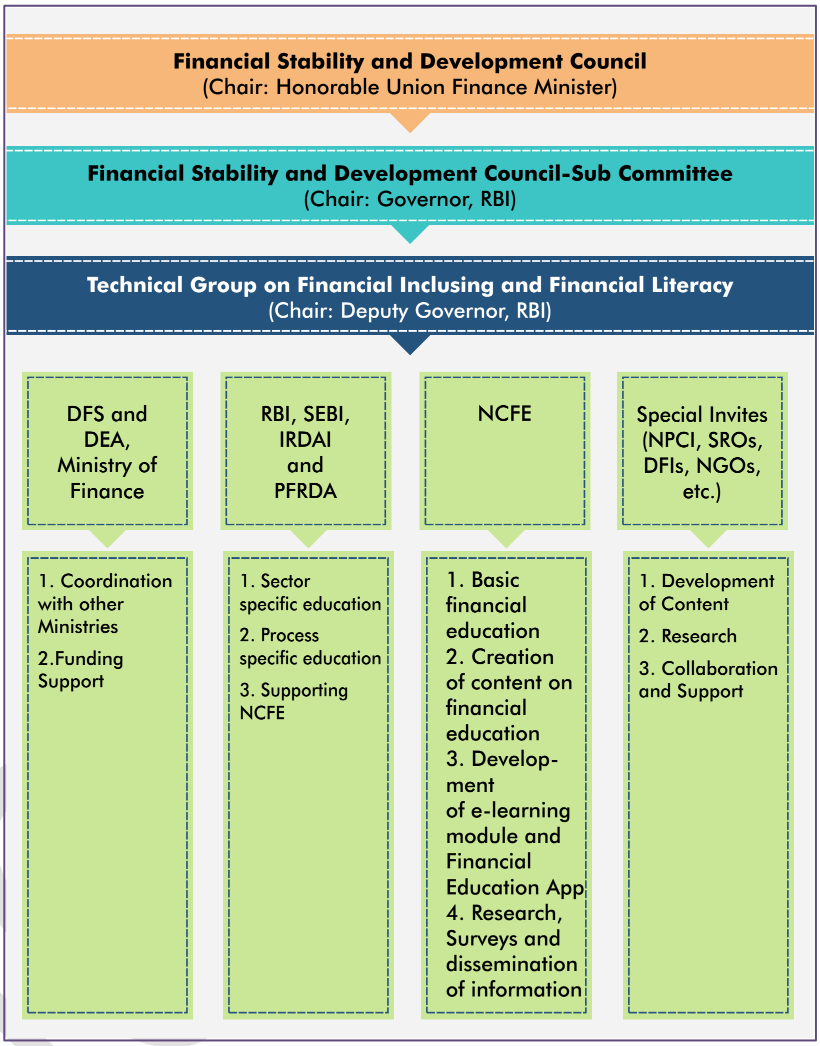
Recently, the RBI released the Financial Stability Report (FSR) July 2020.

About the News

- FSR is a bi-annual report that **reflects risks to financial stability and the resilience of the financial system.**
- The report gives various scenarios **for impact of COVID-19 pandemic** on different indicators.

Other key findings

- **Gross Non-Performing Assets (GNPA) ratio of** all Scheduled Commercial Banks may increase from 8.5% in March 2020 to 12.5% by March 2021.
- **NBFCs:** Declining **share of market funding for NBFCs is a concern** as it has the potential to accentuate liquidity risk for NBFCs as well as for the financial system.
- **Risks to global economic prospects:** Overleveraged non-financial sector, simmering global geopolitical tensions, and economic losses on account of the pandemic.



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

Why in News?

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

About NFSE

- **First NSFE was released in 2013** for the period 2013-2018.
- NSFE intends to empower various sections of the population to develop knowledge, skills, attitude and behavior which are needed to manage their money better and to plan for their future.
- **NSFE recommends multi-stakeholder-led approach** for creating a financially aware and empowered India.
- NSFE, has been prepared by the **National Centre for Financial Education (NCFE)** in consultation with all the Financial Sector Regulators (RBI, SEBI, IRDAI and PFRDA), DFS and other Ministries and other stakeholders (DFIs, SROs, IBA, NPCI).
  - National Centre for Financial Education (NCFE) is a **Section 8 (Not for Profit) Company promoted by RBI, SEBI, IRDAI and PFRDA.**
- **Technical Group on Financial Inclusion and Financial Literacy** would be responsible for **periodic monitoring and implementation of NSFE.**

Status of Financial Literacy in India

- NCFE has carried out an **All-India Financial Inclusion and Financial Literacy Survey in 2019** to find out the status of financial literacy in India.
- Key Findings:
  - **27% of the respondents have achieved minimum target score/minimum threshold** score in each of the components of financial literacy (Financial Knowledge, Financial attitude, Financial Behavior) prescribed by OECD.
  - **East, Central and North Zone** need more attention.
  - **Rural India, groups with lower education and group of age 50** and above need focused attention.

3.3. PAYMENT SYSTEMS

Why in news?

RBI unveils framework for umbrella entity to manage payment systems.

About Umbrella Entity

- The umbrella entity (UE) will **set-up, manage and operate new payment system(s)** in the retail space comprising, but not limited to ATMs, white label PoS, Aadhaar-based payments and remittance services, among others.
- Last year, RBI had proposed to create an **alternative umbrella organisation for retail payments** to prevent monopoly and concentration risk.
  - It had noted that the **National Payments Corporation of India (NPCI),** which controls over 60% of retail payments, has become 'too big to fail'.
  - Currently, NPCI is the **sole umbrella organisation** for operating retail payments and settlement systems in India.

Key guidelines

- Entity will be **authorised under the Payment and Settlement Systems Act, 2007** and shall be a company incorporated in India under the **Companies Act, 2013.**
- Entities eligible to apply shall be **owned and controlled by resident Indian citizens.** UE shall have a minimum paid-up capital of ₹500 crore.
- It will **operate clearing and settlement systems** for participating banks and non-banks, **identify and manage relevant risks,** monitor retail payments system developments and related issues in the country and internationally.

About NPCI

- National Payments Corporation of India (NPCI), **an initiative of the RBI and Indian Banks' Association (IBA),** is an umbrella organization for operating retail payments and settlement systems in India.
- **NPCI has ten core promoter banks**—State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, Bank of India, HDFC Bank, Citibank, HSBC, and ICICI Bank.
- The organisation **functions under the provisions of the Payment and Settlement Systems Act, 2007** in order to create robust payments and settlement infrastructure for India.
- It is a **non-profit organisation** set up under the provisions of Section 25 of Companies Act, 1956 (now, **Section 8 of Companies Act, 2013**).
- NPCI aims to provide **infrastructure to the whole banking industry,** both physical and electronic payment and settlements system.
- It offers various products like National Financial Switch, IMPS, Aadhaar enabled payment system (AePS), Cheque Truncation System, RuPay, National Automated Clearing House (NACH) among others.

Recent developments with regard to Payment Systems

- **National Payment Corporation of India (NPCI) Launches Pai**
  - Pai is an **artificial intelligence (AI) based chatbot,** to create awareness around NPCI's products like FASTag, RuPay, UPI, AePS on a real time basis.
    - ✓ It was developed by Bengaluru based startup CoRover Private Limited
  - NPCI is umbrella organisation for **operating retail payments and settlement systems** in India.
    - ✓ It is an initiative of RBI and Indian Banks' Association under Payment and Settlement Systems Act, 2007.
- **DakPay**
  - It is **a digital payment app** launched by India Post Payments Bank (IPPB).
    - ✓ The app can **be used for digital financial and assisted banking services** like domestic Money Transfer, Scan QR code etc.

- IPPB is a public sector company under the department of posts, ministry of communication where the Indian government holds 100% equity.
- It **is governed by the Reserve Bank of India.** It provides **payment services by postal network of India Post** spread across the nation

- **RuPay Card phase-2 launched in Bhutan**
  - The RuPay card Phase-II that **will allow Bhutanese card holders to access the RuPay network in India.**
  - **About RuPay Card**
    - ✓ Launched in 2012, RuPay is **indigenous debit, credit, international, prepaid & contactless cards,** with acceptance at ATMs, POS devices and e-commerce websites.
    - ✓ It was launched by **National Payment Corporation of India (NPCI).**
    - ✓ **Presently, RuPay cards are issued by more than 1,100 banks** which includes Public Sector Banks, Private Sector Banks, Regional Rural and Co-Operative Banks.
    - ✓ India has **launched RuPay card in UAE, Bahrain, Singapore, Saudi Arabia and Bhutan.**
    - ✓ It was an initiative to build the necessary banking infrastructure required **to propel India towards the less cash economy.**

Related News

Recently, Round-the-Clock Availability of Real Time Gross Settlement (RTGS) System has been introduced.

Difference Between NEFT, RTGS and IMPS

BASIS OF COMPARISON	NEFT	RTGS	IMPS
Minimum transfer value	Re.1	Rs.2 lakh	Re.1
Payment options	Online and offline	Online and offline	Online
Minimum transfer value	No limit	No limit	Rs. 2lakh
Settlement type	Half hourly basis	Real time	Real time
Service timings	8AM-7PM working day	Available 365 day 24*7	Available 365 day 24*7
Inward transaction charges	No charges	No charges	Decided By Banks

3.3.1. PAYMENTS INFRASTRUCTURE DEVELOPMENT FUND

Why in news?

Reserve Bank of India (RBI) operationalized Payments Infrastructure Development Fund (PIDF).

About PIDF

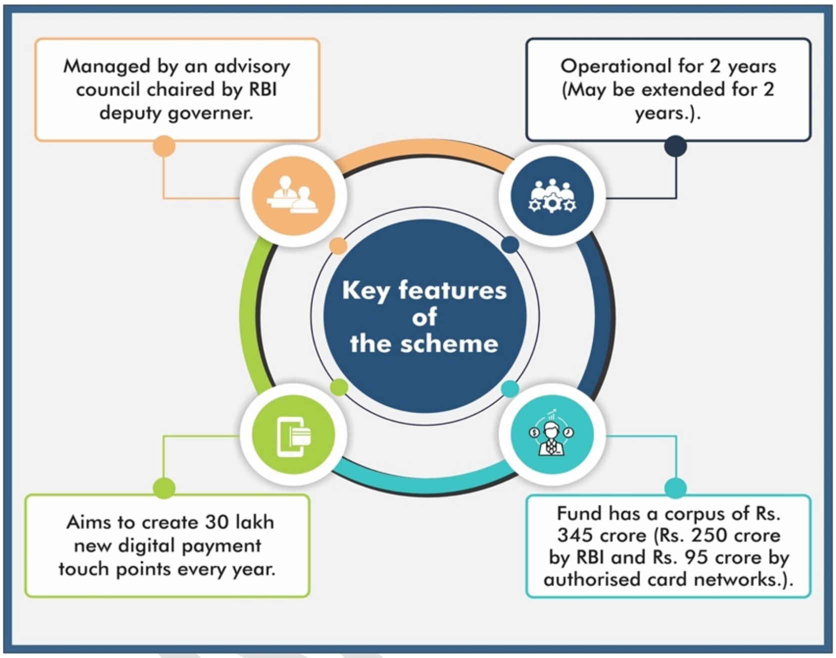
- The **500 crores** PIDF seeks to **encourage acquirers to deploy Points of Sale (PoS) infrastructure** for both physical and digital modes.
- RBI will make an **initial contribution of ₹250 crore to the PIDF,** covering half of the fund.
- The remaining contribution will be from card-issuing banks and card networks operating in the country.
- It will also receive **recurring contributions** to cover operational expenses from card-issuing banks and card networks. **RBI will also contribute** to yearly shortfalls, if necessary.

Points of Sale (PoS) machines

- Under the facility of cash withdrawal at PoS terminals, cardholders can withdraw cash using their **debit cards and open system prepaid cards issued by banks in India.**
- However, **credit cards cannot be used under this facility.**
- Cash can also be withdrawn at PoS terminals through **Unified Payments Interface (UPI) as well as through use of electronic cards** that are linked with overdraft facility provided along with Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts.

- The PIDF will be **governed through an Advisory Council** and managed and administered by RBI.
- The setting up of this fund is in line with the **recommendations of the report of the committee on deepening of digital payments, chaired by Nandan Nilekani.**
- Last year, RBI announced setting up of **Acceptance Development Fund** to improve the last- mile payments network in rural India to transact digitally.

Payments Infrastructure Development Fund (PIDF) Scheme



- PIDF is aimed at encouraging **deployment of more digital payments infrastructure across tier-3 to tier-6 centres** with special focus on North Eastern States.
  - **Scheme will target merchants providing essential services,** such as transport and hospitality, government payments, healthcare facilities, kiranas etc.
- PIDF will **subsidize banks and non-banks for deploying payment infrastructure** based upon specific targets being achieved.
  - Payments acceptance **devices and infrastructure supporting card payments covered** under scheme include **physical PoS** (point of sale terminals), general packet radio service (GPRS), **quick response (QR) code-based payments** etc.

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

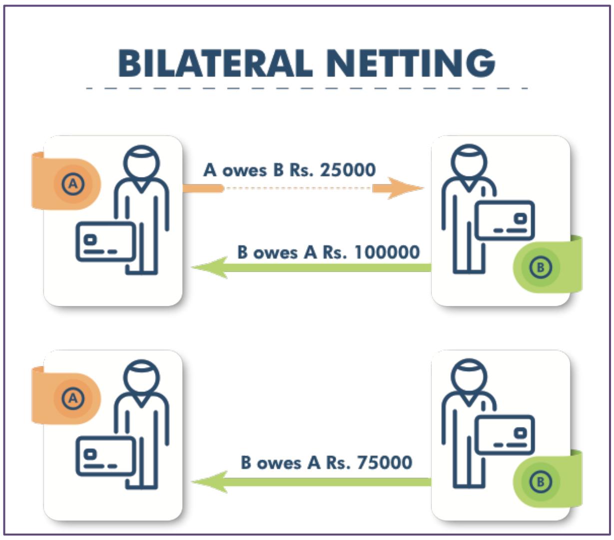
3.4. BILATERAL NETTING

Why in news?

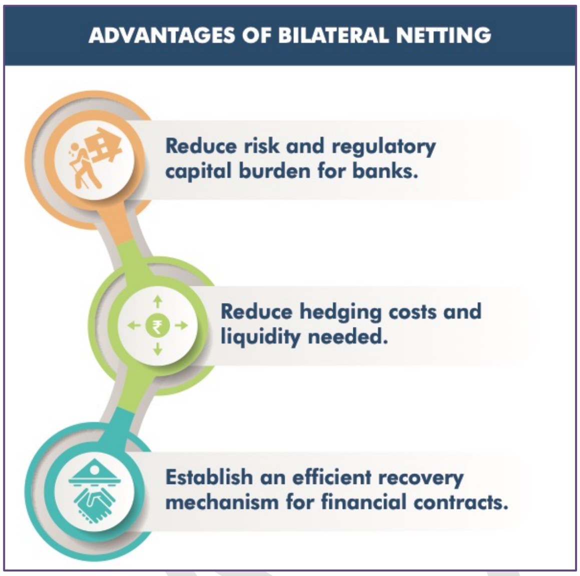
Recently **Bilateral Netting of Qualified Financial Contracts Act, 2020** was enacted with an aim to ensure financial stability and promote competitiveness in Indian financial markets.

About Bilateral Netting

- A bilateral netting agreement enables **two counterparties in a financial contract to offset claims against each other** to determine a single net payment obligation due from one counterparty to the other.



- Netting refers to offsetting of all claims arising from dealings between two parties, to determine a net amount payable or receivable from one party to other. (see infographic)



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

About Bilateral Netting of Qualified Financial Contracts Act, 2020

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

Important terms
- **Derivatives**: They are defined as the type of security in which the price of the security depends/is derived from the price of the underlying asset. The common types of derivatives include Options, Futures, Forwards, Warrants and Swaps.
- **Over the Counter (OTC) derivatives:** They are contracts traded between two parties (bilateral negotiation) without going through an exchange or any other intermediaries.
- **Qualified financial contracts (QFC):** QFC means any bilateral contract notified as a QFC between two qualified financial market participants where at least one party is an entity regulated by the relevant authority.

3.5. INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY (IFSCA)

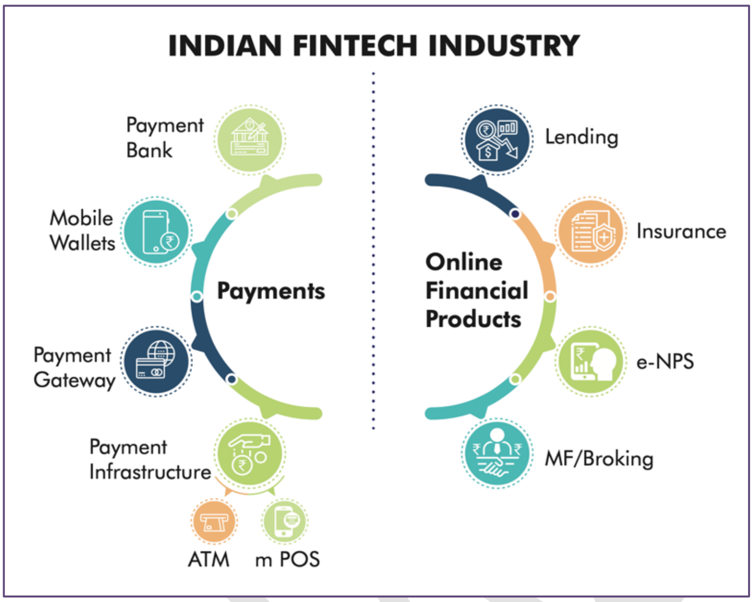
Why in News?

Recently, the IFSCA has released framework for Regulatory Sandbox to tap into innovative financial technologies (FinTech) solutions

About the News

- International Financial Services Centres Authority (IFSCA) was set up with an objective to **develop a world class FinTech hub** at IFSC located at GIFT City in Gandhinagar.

- It endeavours to encourage **promotion of FinTech initiatives in financial products and financial services** across spectrum of banking, insurance, securities and fund management.



- In this direction, IFSCA has introduced a **framework for "Regulatory Sandbox".**
  - Under sandbox framework, entities operating in the capital market, banking, insurance and financial services space shall be **granted certain facilities and flexibilities to experiment with innovative fintech solutions.**
  - **Regulatory Sandbox** refers to live testing of new products or services in a controlled regulatory environment for which regulators may permit certain regulatory relaxations for limited purpose of the testing.

Related News

IFSCA prescribes regulatory framework for REITs and InvITs in IFSC

- REITs and InvITs registered in IFSC **have been permitted to invest in real estate assets and infrastructure projects** respectively in IFSC, India and other foreign jurisdictions.
- **Permission to global participants** i.e. REITs and InvITs incorporated in Financial Action Task Force (FATF) compliant jurisdictions **to list on the stock exchanges in GIFT IFSC.**
- InvITs are investment **scheme similar to mutual funds that allow investment from individuals and institutional investors** in infrastructure projects to earn a portion of the income as return.
- REITs are **listed entities which own, operate and manage buildings/properties** for generating income.
- REITs/InvITs are **regulated by Securities and Exchange Board of India.**

3.6. MUNICIPAL BONDS

Why in News?

Recently, **Municipal bonds issued by Lucknow Municipal Corporation** were listed on Bombay Stock Exchange (BSE).

What are municipal bonds?

- They are **debt securities** issued by **government or semi-government institutions** who need funding for civic projects.
- Normally, they are **issued and redeemed at par** and carry a fixed interest rate**.**
- There are two types of municipal bonds
  - **General obligation bonds** are issued for enhancing civic amenities such as water, sanitation, garbage disposal, etc. They generally are not backed by revenue from a specific project.
  - **Revenue bonds** are issued for a specific purpose such as construction of a toll road or a toll bridge.
- **Bangalore Municipal Corporation was the first urban local body (ULB)** to issue Municipal Bond in India in 1997.

SEBI Guidelines on municipal bonds

As per the SEBI Regulations, 2015, a municipality or a Corporate Municipal Entity (CME) to issue Municipal Bonds should meet certain conditions:

- The ULB should **not have negative net worth** in any of three immediately preceding financial years.
- **Non-default:** The municipality should not have defaulted in repayment of debt securities or loans obtained from banks or financial institutions during the last 365 days.
- Municipalities need to contribute **at least 20% of the project cost.**

- **No wilful defaulter:** The corporate municipal entity, its promoter, group company or director(s), should not have been named in the list of the wilful defaulters published by the RBI or should not have defaulted on payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any.
- Municipal bonds should have **mandatory ratings above investment grade** for public issue.

3.7. VARIOUS BOND INSTRUMENTS IN NEWS

Surety Bonds	• Surety Bond is a three-party agreement that **legally binds together** ○ **principal** who purchases bond to guarantee quality of work to be done in future. ○ **obligee** who requires principal to purchase a bond to avoid potential financial loss. ○ **surety company** that issues the bond and financially guarantees the principal's capacity to perform a specific task. • Surety bonds provide financial guarantee that contracts will be completed according to pre-defined and mutual terms.
Consol Bonds	• A consol bond, also known as a **"perpetual bond" or "prep,"** is a **fixed income security with no maturity date.** • This type of bond is often considered a type of equity, rather than debt. • One major drawback to these types of bonds is that **they are not redeemable**. However, the major benefit of them is that **they pay a steady stream of interest payments forever.**
Negative Yield Bond	• Recently, China sold negative-yield debt for the first time, and this saw a high demand from investors across Europe. • **Negative Yield Bond** are **debt instruments that offer to pay the investor a maturity amounts lower than the purchase price of the bond.** • These **are generally issued by central banks or governments**, and investors pay interest to the borrower to keep their money with them. • Negative-yield bonds **attract investments during times of stress and uncertainty as** investors look to protect their capital from significant erosion.
Zero Coupon Bonds	• A **coupon is a periodic interest received** by a bondholder **from time of issuance of bond till maturity.** • **Zero Coupon Bonds are issued at a discount** and redeemed at par value or face value. **No interest payment is made on such bonds** at periodic intervals before maturity. • Centre has issued ₹5,500 crore in **ZCB for recapitalising the Punjab & Sind Bank.**
Social Impact Bond	• Pimpri Chinchwad Municipal Corporation recently signed an MoU with UNDP India to **co-create India's first SIB.** • SIB is a **contract with the public sector or governing authority, whereby it pays for better social outcomes** in certain areas and passes on the part of the savings achieved to investors. ○ **SIB lays down outcome-based targets** to be achieved at the start of the contract.
Bharat Bond Exchange Traded Fund (ETF)	• Bharat Bond ETF is **the ETF that invests in AAA rated bonds of public sector companies** and has fixed maturity period. • An ETF is a **security that tracks an index, a commodity or a basket of assets** like an index fund, but trades like a stock on an exchange. ○ Funds raised through debt ETF help in **smoothening borrowing plans of the participating CPSEs or public sector banks.** **Bharat 22 ETF** • Bharat 22 ETF invests in the **22 companies that comprise the S&P BSE Bharat 22 index**—19 companies are in the public sector and three in the private sector. • The five largest companies are L&T (16.7%), ITC (14.3%), SBI (9.4%), Axis Bank (8.4%) and NTPC (7.70%). • The index has a **sectoral cap of 20% and a single stock cap of 15%.**

3.8. KEY CONCEPTS AND ENTITIES IN NEWS

Qualified institutional placements (QIPs)	• QIP is a **capital raising tool wherein a listed company can issue equity shares**, fully and partly convertible debentures, or any security other than warrants that are convertible into equity shares. • Unlike in an Initial public offering (IPO) or a Follow-on Public Offer (FPO), **only institutions or qualified institutional buyers (QIBs) can participate** in a QIP.

Participatory notes (P-notes)	• P-Notes are **overseas derivative instrument required by investors to invest in Indian securities** without having to register with the Securities and Exchange Board of India (SEBI). • They are **issued by registered foreign portfolio investors (FPIs).** • The instrument gained popularity as it **avoids formalities of registering and provides anonymity.**

Domestic Systemically Important Insurers (DSIIS)	• **Insurance Regulatory and Development Authority of India (IRDAI)** has identified Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and The New India Assurance Co. as **D-SIIs for 2020-21.**
	• **D-SIIs** refer to insurers of such size, market importance and domestic and global interconnectedness **whose distress or failure would cause a significant dislocation in the domestic financial system.** Thus, they are perceived as insurers that are **too big or too important to fail.**
	  o Size in terms of total revenue, including premium underwritten and the value of assets under management are among the parameters on which the insurers are identified.
	• IRDAI will list D-SIIs on annual basis.
	• **Conditionality's imposed on D-SII's:** Raising their level of corporate governance, identifying all relevant risks and promoting a sound risk management culture.
	  o They will also be subjected to **enhanced regulatory supervision by IRDAI**.
	• Similar to DSII, **RBI announce domestic systemically important bank (D-SIB**s).
	  o SBI, ICICI Bank, and HDFC Bank identified as D-SIBs.

London Interbank Offered Rate (LIBOR)	• It is the **global reference rate for unsecured short term borrowing** in the interbank market. • It acts as a **benchmark for short-term interest rates** used for pricing of interest rate swaps, currency rate swaps as well as mortgages. • It is an **indicator of the health of the financial system** and provides an idea of the trajectory of impending policy rates of central banks. • The Indian equivalent is known as **The Mumbai Inter-Bank Offer Rate (MIBOR).**
Social Stock Exchanges (SSE)	• **Social Stock Exchange (SSE)** is an **electronic fundraising platform** that allows investors to buy shares in a **social enterprise** that has been vetted by the exchange. • Social **enterprises include is a revenue-generating business** whose primary objective is to achieve a social objective, for example, providing healthcare or clean energy. • Idea of a SSE for **listing of social enterprise and voluntary organisations** for raising capital as equity, debt or like a mutual fund was **mooted in the Union Budget 2019-20.** • **Later, SEBI constituted panel** to suggest norms for SSEs. • The most prominent SSEs in the world are in **UK, Canada, USA, South Africa, Singapore and Mauritius.**
Shell Company	• Refers to a company **without active business operation or significant assets,** which in some cases are used **for illegal purposes such as tax evasion, money laundering, obscuring ownership, benami properties etc.** o However, **in India** Shell companies are not defined in any law or act. • Recently, Government has undertaken a Special Drive for **identification and strike off Shell Companies based on non-filing of Financial Statements** (FS) consecutively for two years or more • Companies **removed as per Section 248 of Companies Act, 2013.**
Merchant Discount Rate	• **Recently, Digital payment firms are demanding reimbursement of MDR** on transactions on Unified Payment Interface (UPI) and RuPay network. • MDR is the **cost paid by merchants to banks and payment service providers**, during a transaction, and is applicable on peer-to-merchant payments. • From January 1, 2020, businesses with annual turnover of **more than ₹50 crorewere to offer low cost digital payment options to customers, without levying any MDR** on either customers or merchants.
Aadhaar-enabled payment service (AePS)	• AePS , developed by National Payments Corporation of India (NPCI), **is a bank led model which allows online interoperable financial inclusion transaction** at PoS (MicroATM) **through Business correspondent of any bank** using Aadhaar authentication. • It allows six types of transactions- Cash Withdrawal, Cash Deposit, Balance Enquiry, Aadhaar to Aadhaar Fund Transfer, Mini Statement, Best Finger Detection.
MCA21	• MCA21 project **enables easy and secure access to MCA services** in an assisted manner **for corporate entities, professionals, and general public.** • MCA21 application is designed to **fully automate all processes** related to proactive **enforcement and compliance of legal requirements** under Companies Act, 1956, New Companies Act, 2013 and Limited Liability Partnership Act, 2008. This will help business community to meet their statutory obligations.

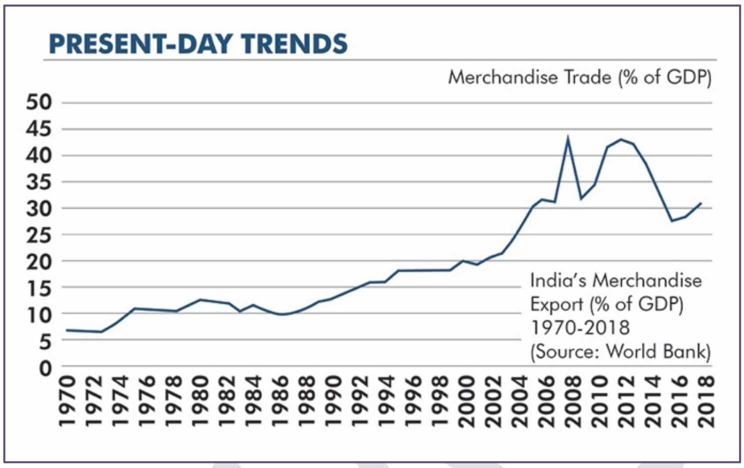
Liberalised Remittance Scheme (LRS)	• Under the LRS, **all resident individuals,** including minors, are allowed to freely remit up to USD 2,50,000 per financial year (April – March) for **any permissible current or capital account transaction** or a combination of both. • LRS is **not available to** corporates, partnership firms, **Hindu Undivided Family** (HUF), Trusts etc. • Scheme was **introduced in 2004 by RBI**, with a limit of USD 25,000.
Invest India	• Invest India is the **National Investment Promotion and Facilitation Agency** that helps investors looking for investment opportunities and options in India. • It was set up in 2009, as a non-profit venture **under Department for Promotion of Industry and Internal Trade.** • Recently, **UNCTAD has declared Invest India**- National Investment Promotion Agency of India as a **winner of the 2020 United Nations Investment Promotion Award.**
Weather Sensitive Indices	• In a first for India, the **National Commodity & Derivatives Exchange (NCDEX)** is set to launch two weather-sensitive indices. • Two indices are — **the Indian Monsoon Index (Cumulative Monsoon Index) and Indian Rain Index (Monthly Cumulative Rainfall Index).** • Two indices would **track systematic rainfall movement** in the country using rainfall data collection centres. • **NCDEX will use India Meteorological Department definitions** on various predictions such as normal, above normal and deficit, and compare them with actual rain on a daily basis to arrive at the value of the index.
Serious Fraud Investigation Office (SFIO)	• SFIO is a **multi- disciplinary organisation** under the **corporate affairs ministry** for detecting and prosecuting or recommending for prosecution white collar crimes/frauds. o White-collar crime is a **nonviolent crime committed for financial gain.** • It was set up on the recommendations of **Naresh Chandra Committee** on Corporate Governance. • It is a **statutory body under Companies Act, 2013.**
Open Credit Enablement Network (OCEN)	• It is the **new credit protocol infrastructure** which would democratise lending and enable small borrowers to avail funds easily. • It will act as a common language, **connecting lenders and marketplaces** to utilise and create innovative, financial credit products at scale. • It has been developed by **technology think tank iSPIRT**.

4. EXTERNAL SECTOR

4.1. INDIA'S TRADING REGIME

Why in news?

Recently, a report highlighted that India has trade deficit with 9 of top 10 commerce partners.

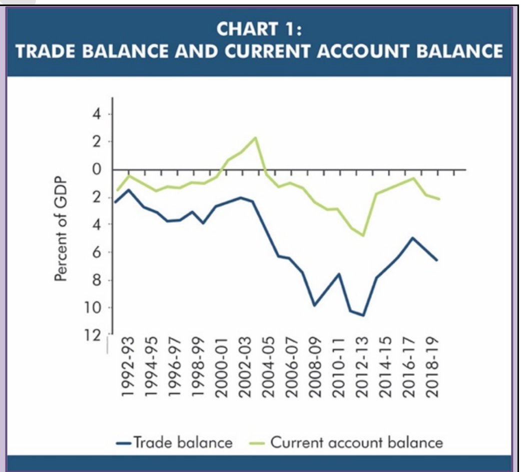


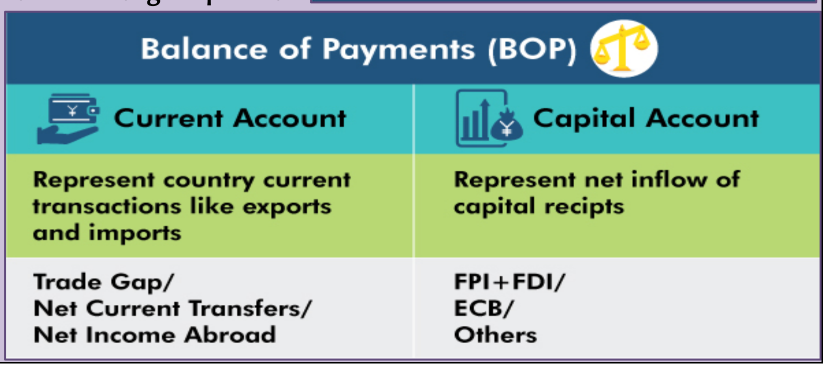
India's trends in Global Market

- India's merchandise exports have witnessed **growth to USD 331.0 billion in 2018–19.**
- India's **share in global trade is less than 2% (1.7% in 2018).**
- As of present, **70% of India's export has been dominated by five states** – Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana.
- India continues to **import more from almost all major trade partners** than it exports.
- However, India has maintained a **surplus with US,** its largest trading partner.
  - US remains India's top trading partner for 2nd consecutive year in 2019-20
  - In 2018-19, **US surpassed China** to become India's top trading partner. China was India's top trading partner since 2013-14 till 2017-18.
- **Key measures adopted by the government post-2016** for promotion of external trade:
  - A **mid-term review of the Foreign Trade Policy 2015-20** was conducted in 2017.
  - **A new Logistics Division was established** in the Department of Commerce.
  - **Trade Infrastructure for Export Scheme (TIES) was launched** in 2017.
  - **Transport and Marketing Assistance scheme** was also introduced for the export of specified agriculture products to mitigate the disadvantage of the higher cost of transportation.

India's recent CAD Surplus

- India reported current account surplus for second straight quarter at 3.9% of GDP in April-June 2020.
  - Last time India's current account turned positive was in **March quarter of 2006-07.**
  - For the full year, current account was positive for **three consecutive years from 2001-02 to 2003-04.**
- Surplus is on account of contraction in trade deficit to USD 10.0 billion **as merchandise imports declined amid the COVID-19 pandemic.**
- Decline in import is due to **lower crude oil prices, lag in domestic demand, and effect of global supply chain disruptions.**
- **It will allow RBI to build its stockpile of forex reserves** which is critical for maintaining financial and external sector stability and boost economic growth as country **provides enough capital to pay for domestic production.**
  - Country's foreign exchange (Forex) reserves **crossed the $500 billion mark for the first time.**
  - Forex reserve comprised of **foreign currency assets, gold, Special Drawing Rights** of International Monetary Fund (IMF), and **reserve position in the IMF.**





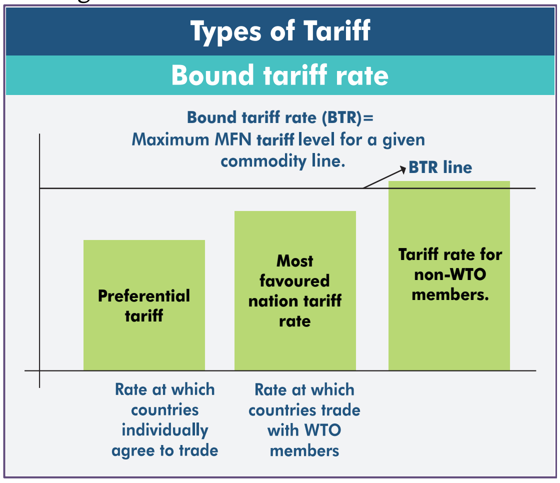
India's Tariff Profile (released as part of the World Tariff Profiles by WTO, UNCTAD and International Trade Centre)

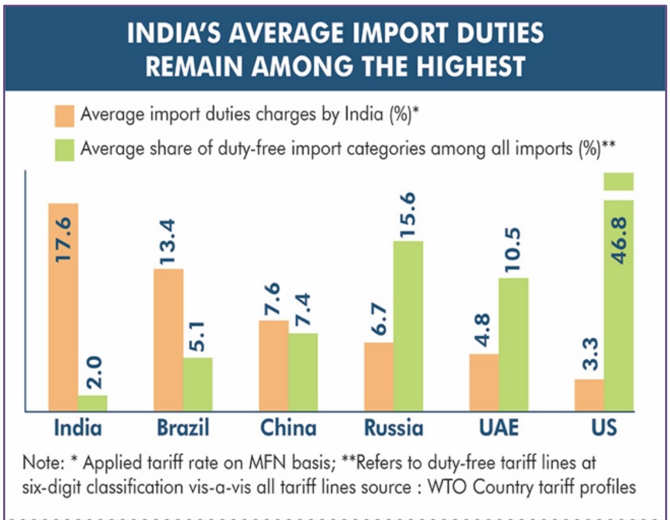
- Nearly **18% of various types of manufactured goods** came to India as of 2018 through **the duty-free route.** This is despite **much higher Average tariffs in India** compared to other major countries.
- **India's share of binding coverage is 74%,** lagging China's 100%.
  - **Binding coverage** is a broad indicator of a **country's commitment to establish bound rates** for imports and slowly reduce tariffs.

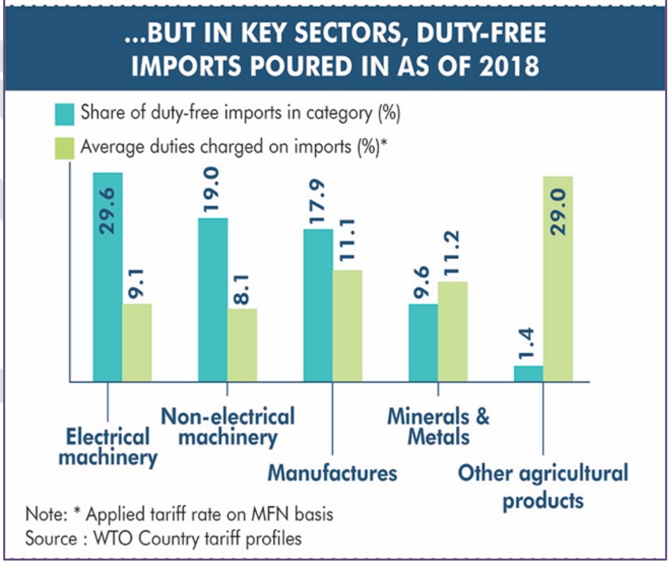
Related News

India seeks tariff renegotiations at World Trade Organisation (WTO)

- India has proposed to **renegotiate bound rates, or upper tariff limits** on certain items, reportedly information technology products, at WTO.
  - Move comes at a time when the **Centre has been encouraging domestic manufacturing in select sectors through a production-linked incentive scheme** under Atmanirbhar Bharat Abhiyan.
- **WTO rules allow countries to renegotiate bound rates** for products with substantial interest in exports if the country's applied or current tariff is about to breach the bound rate.
- The **country has to compensate to raise its bound rate to the exporting country** through negotiations.







4.2. EXPORT PREPAREDNESS INDEX (EPI) 2020

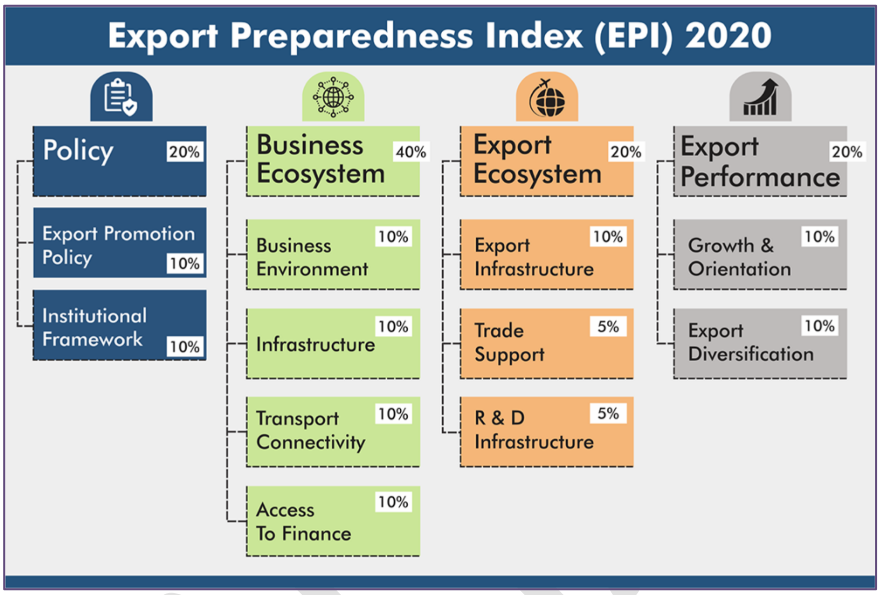
Why in News?

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

About the Index

- It is a data-driven effort to **identify the core areas crucial for export promotion** at the sub-national level.
- **Primary goals of the Index are** to inculcate competition among all states in India in order to:
  - Bring favourable **export promotion policies.**
  - **Ease regulatory framework** to prompt subnational promotion of exports.
  - Create **necessary infrastructure** for exports.
  - **Help in identifying strategic recommendations** for improving export competitiveness.

- It attempts to provide with an extensive **framework for the continual assessment of export readiness of Indian States and UTs** and intends to serve the following purposes:
  - **Ranking of states and UTs** based on their index score.
  - Examining **export preparedness and performance** of States.
  - Identification of challenges and opportunities
  - Enhancing effectiveness of government policies.
- Structure of the **EPI includes 4 pillars and 11 sub-pillars.**



Key Findings of the report

- On the whole, India has scored an average of 39 on the index. **Both Policy and Business Ecosystem are the two highest scoring pillars,** with Export Ecosystem being the least scoring pillar.
- States are classified geographically: **coastal, landlocked, Himalayan, & UTs/city states.** Most **Coastal States are best performers.**
  - **Top 3 states in overall ranking:** Gujarat, Maharashtra, Tamil Nadu.
  - **Top 3 landlocked states:** Rajasthan, Telangana and Haryana.
  - **Top 3 Himalayan states:** Uttarakhand, Tripura and Himachal Pradesh.
  - **Top 3 UTs/City states:** Delhi, Goa and Chandigarh.

The Index highlighted that **India faces three fundamental challenges in export promotion:**
- **Intra- and inter-regional disparities** in export infrastructure.
- **Poor trade support and growth orientation** among states.
- **Poor R&D infrastructure** to promote complex and unique exports.

WEIGHTAGE STRUCTURES OF THE PILLARS AND SUB-PILLARS

Index	Logistics perfotmance Index (LPI)	Trading Across Borders Doing Business	Trade Facilitation Index	Enabling Trade Index
Publishing Agency	World Bank	World Bank	OECD	World Economic Forum
What it measures?	Logistics Frendliness of countries	Time and cost of the logistical process of countries	Assessment of trade facilitation policies, areas for action impact of reforms	Factors, policies and services that facilitate trade across borders and to destination
India's Rank	44/160 (2018)	68/190 (2019)	1.52/2 (2018)	102/136 (As per 2016)
Best Performing States/ Countries	Top5 : Germany, Sweden, Belgium, Austria, Japan	Austria, Belgium, Denmark, Fronce, Hungary, Italy, Netherlands, Spain all tied for Rank 1	1.86/2- Netherlands	Top 5 : Singapore, Netherlands, Hong Kong, Luxembourg, Sweden

4.3. WTO RELATED DEVELOPMENTS

4.3.1. TRIPS FLEXIBILITIES

Why in news?

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

More about news

- India called for an agreement to enable the use of TRIPS (Trade Related Intellectual Property Rights) flexibilities to ensure access to **essential medicines, treatments and vaccines at affordable prices.**
  - India uses these flexibilities under Patent Act, 1970 for the public health and emergency purposes.
- Such an agreement will make possible for nations to issue **compulsory licenses to make generic copies** of essential patented medicines.

About TRIPS Agreement

- The TRIPS Agreement, which came into effect in 1995, is the most comprehensive **multilateral agreement on intellectual property.**
- It was negotiated between 1986 and 1994 **during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT),** which led to the establishment of the World Trade Organization (WTO).
- It sets out the **minimum standards of protection to be provided by each Member.**
  - Agreement is in line with the main conventions of the WIPO, the Paris Convention for the Protection of Industrial Property (**Paris Convention**) and the Berne Convention for the Protection of Literary and Artistic Works (**Berne Convention**).
- It contains pro**visions on civil and administrative procedures and remedies, provisional measures**, special requirements related to border measures and criminal procedures.
- The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.
- The areas of intellectual property that it covers are:
  - copyright and related rights,
  - trademarks,
  - geographical indications,
  - industrial designs,
  - new varieties of plants;
  - layout-designs of integrated circuit,
  - trade secrets and test data.
- Membership in the WTO includes an **obligation to comply with the TRIPS Agreement.**

About TRIPS Flexibilities

- TRIPS flexibilities are **'policy spaces' for countries to mitigate the impact of patents** (i.e., the excessively high price of patented medicines due to lack of competition).
- TRIPs agreement and subsequent **Doha Declaration on TRIPS and Public Health of 2001** provide some flexibilities.
- Flexibilities aim to **permit developing and least-developed countries to use TRIPS-compatible norms** in a manner that enables them to pursue
  - their public policies, in fields like access to pharmaceutical products or protection of biodiversity,
  - in establishing macroeconomic, institutional conditions that support economic development.
- **Some major flexibilities under TRIPs are**:
  - **Compulsory Licensing:** enables a government authority to license use of a patented invention to a third party or government agency without consent of the patent-holder.
  - **Parallel importation:** It is importation without the consent of the patent-holder of a patented product marketed in another country either by the patent holder or with the patent-holder's consent.
  - **Exemptions from patentability:** The agreement does not require the patenting of new uses of known products including pharmaceuticals and permits countries to deny protection for such uses of lack of novelty, inventive step or industrial applicability.
  - **Limits on Data Protection:** As a condition for permitting the sale or marketing of a pharmaceutical product, drug regulatory authorities require pharmaceutical companies to submit data demonstrating the safety, quality and efficacy of the product.
  - **Extension of transition period for Least-Developed Countries (LDCs):** Amendment to Doha Declaration extended transition period for LDCs for implementation of the TRIPS obligations to 2021.

Patent Pooling

- PP is **an agreement between two or more patent owners** to license their patents to one another or to third parties.
  - It **supports greater innovation, removes bottlenecks** in patent regimes and **hastens product development.**
- With the outbreak of COVID-19, Public health PP represent an innovative type of partnership that **can be used to manage privately held Intellectual Property rights in public interest.**
  - It can **speed up the effort to find medicines and vaccines** by creation of a pool and immediate licensing.

4.3.2. RULES OF ORIGIN

Why in news?

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

What are Rules of Origin?

- These are the **criteria prescribed to determine the national origin** of an imported product in a country.
- These are mainly used:
  - to **implement measures and instruments of commercial** policy such as anti-dumping duties and safeguard measures;
  - to determine **whether imported products shall receive most-favoured-nation (MFN)** treatment or preferential treatment;
  - for the **purpose of trade statistics;**
  - for the **application of labelling and marking requirements**; and
  - for **government procurement.**
- Rules of Origin are primarily of two types:
  - **Non-preferential rules of origin**: These apply in absence of any trade preference, where trade policy measures such as **quotas, anti-dumping or "made in" labels** may require a determination of origin.
  - **Preferential rules or origin**: These apply in reciprocal trade preferences (i.e. regional trade agreements or customs unions) or in non-reciprocal trade preferences (i.e. preferences in favour of developing countries or least-developed countries (LDCs)).
    - ✓ **Each trade agreement has its own set of Rules of Origin** that is agreed upon by involved nations, which includes guidelines for issuing a legitimate **Certificate of Origin (CO)**.
    - ✓ Preferential rules of origin are more restrictive than non-preferential ones.
- **Criteria commonly used to determine the country of origin of goods**:
  - **Wholly obtained criterion**: These include goods produced or obtained in a given country without incorporation of any input material from other country.
  - **Substantial/sufficient transformation criterion**: Under it goods are required to undergo substantial transformation in a country for the good to be qualified as originating. Some methods used, in combination or standalone, to meet this criteria are-
    - ✓ **Value Content Method**: A good is considered substantially transformed when the value added of a good in a country increases up to a specified level.
    - ✓ **Change in Tariff Classification (CTC) Method**: A good is considered substantially transformed when it is classified in a heading or subheading different from all non originating materials used.
    - ✓ **Process Rule Method**: A good is considered substantially transformed when the good has undergone specified manufacturing or processing operations.
  - **De minimis or tolerance rule**: It permits a specific share of the value or volume of the final product to be non-originating without the final product loosing its originating status.

About Certificate of Origin (CO)

- A CO is an important **international trade document** that certifies that goods in a particular export shipment are wholly obtained, produced, manufactured or processed in a particular country.
  - They declare **the 'nationality' and 'content' of the product** and also serve as a **declaration by the exporter to satisfy customs or trade requirements.**
- An exporter has to submit a CO at the landing port of the importing country.

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

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

Preferential Trade Agreement (PTA), Comprehensive Economic Cooperation Agreement (CECA), Comprehensive Economic Partnership Agreement (CEPA) etc.

- **Key Provisions:**
  - **To claim preferential rate of duty under a TA,** the importer, at the time of filing bill of entry, has to-
    - ✓ Make a declaration in the bill that the **imported products qualify as originating goods for preferential rate of duty** under that agreement.
    - ✓ Produce **certificate of origin (CO)**.
  - **The claim of preferential rate of duty may be denied** by the proper officer without verification if the CO is incomplete or has any alteration not authenticated by the issuing authority or has expired.
  - The importer also has to submit all relevant information related to **country of origin** criteria, including the **regional value content**.
  - An officer may, during the course of customs clearance or thereafter, **request for verification of CO** from verification authority where there is a doubt regarding genuineness or authenticity of the certificate.

World Trade Organization's Agreement on Rules of Origin

- The agreement aims at **long-term harmonization of non preferential rules of origin** and to ensure that such rules do not themselves create unnecessary obstacles to trade.
- It sets out a **work programme for the harmonization** of rules of origin, negotiations for which are still ongoing. For this process two institutions were established:
  - A **Committee on Rules of Origin** within the framework of the WTO, open to all WTO Members.
  - A **Technical Committee on Rules of Origin** created under the auspices of the World Customs Organization.
- The agreement also provides **general principles for prescribing rules of origins**, such as transparency, positive standards, administrative assessments, judicial review etc., which **shall also apply to preferential rules of origin**.

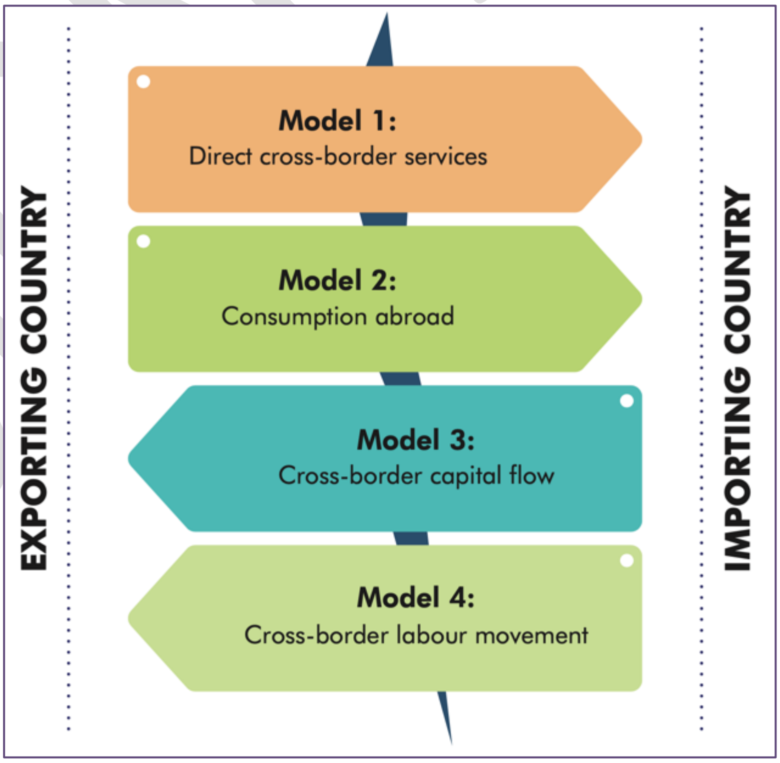
4.3.3. SERVICES TRADE AT WTO

Why in News?

India has opposed Binding Pact on Open Services Trade at WTO.

More on News

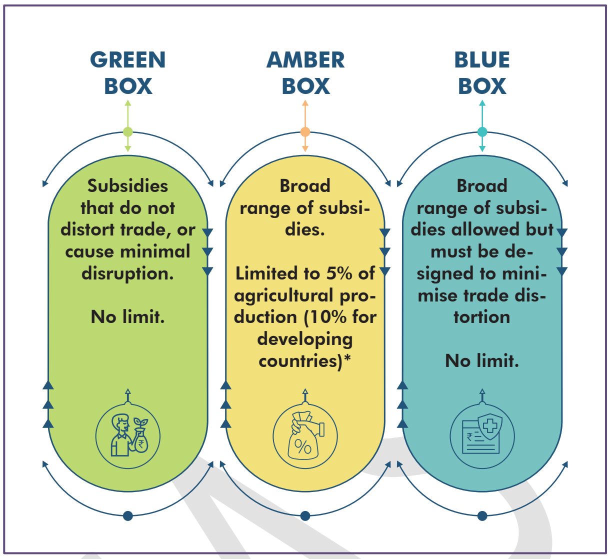
- Countries like Australia, Canada etc are asking **for making environmental-related services trade more affordable through increased market opening by WTO members.**
- However, India opposed the move stating importance of built-in flexibilities for developing countries provided by the **General Agreement for Trade in Service (GATS).**
  - Developing countries are given **flexibility for opening fewer sectors, liberalizing fewer types of transactions, and progressively extending market access.**



- India also added that there was a **need to start serious discussions on Mode 4 of the services negotiations** related to easier movement of professionals.
- GATS is the first multilateral **agreement covering trade in services** similar to objectives of General Agreement on Tariffs and Trade (GATT).
  - It provides a **framework of rules governing services trade,** establishes a mechanism for countries to make commitments to liberalize trade in services and provides a mechanism for resolving disputes between countries.
  - It was **negotiated during Uruguay Round**, and came into force in 1995.

4.3.4. FARM SUBSIDIES ISSUE

- Developed countries, including the US, Canada, Australia, New Zealand and EU, have been asking **India to cut support it offers to its farmers saying it is more than the de minimis entitlement** under the WTO's Agreement on Agriculture (AoA).
    - De minimis is **minimal amounts of domestic support that are allowed even though they distort trade**- up to 5% of the value of production for developed countries, 10% for developing.
- However, according to Report by Centre for WTO Studies **per-farmer Amber box entitlement for India is a small fraction** of that of developed nations.
    - It is also indicated that **number of people engaged in agriculture is significantly higher** in most developing countries and majority of farmers are low-income or resource-poor.
- Under **AoA,** subsidies are classified into three boxes **(see infographic).**



4.4. INDIA'S INVESTMENT REGIME

Introduction

Department for Promotion of Industry and Internal Trade (DPIIT) released data on FDI inflow for 2019-20, which has highlighted the following-

- **FDI into India jumped 18** % to in 2019-20.
- India ranked among the **top 10 for FDI** in 2019 and has rank **63 in World Bank's 'Ease of Doing Business** 2020, **still the foreign investment has remained at 2 per cent of GDP.**
- **FDI-equity inflows** to India during 2019-20 were $49.9 billion, substantially **lower than the annual flow of remittances** of $83 billion in the same period.

India's FDI into profile

Top five Sectors	Top five Sources	Top three destinations	
Services	Singapore	Maharashtra	30%
Computer Software Hardware	Mauritius		
Telecommunications	The Netherlands	Karnataka	18%
Trading	Cayman Islands		
Automobile	USA	Delhi	17%

Recent developments with regard to FDI

Defence	• Under existing policy, **defence industry can bring FDI up to 49% under automatic route, and up to 75% under government route,** wherever it may result in access to modern technology or for other reasons. • New policy, raising FDI cap through **automatic approval in the defence sector from 49% to 74%, has a National Security clause as a condition.** • **Government now reserves the right to review any foreign investment** in the Defence Sector that may affect national security.
DTH services	• **100% FDI and licenses would be issued for 20 years**
Digital News	• **Capped at 26%** to **check foreign influence and interference in India's domestic affairs.**
Air India	• **100% foreign direct investment (FDI) in Air India for NRIs** through automatic route. • Government amended **Foreign Exchange Management rules for this.**

4.4.1. BILATERAL INVESTMENT TREATY (BIT)

Why in news?

There have been calls to review India's model Bilateral Investment Treaty (BIT) 2016.

About Bilateral Investment Treaty (BIT)

- Bilateral investment treaties (BITs) are **treaties between two countries aimed at protecting investments** made by investors of both countries.
- These treaties **impose conditions on the regulatory behaviour of the host state** and limit interference with the rights of the foreign investor.
- Some of these conditions include,
    - **Restricting host state from expropriating** (take property from owner) **investments,** barring for public interest with adequate compensation;
    - Imposing obligations on host states to accord **Fair and Equitable Treatment to foreign investment.**
    - Allowing for **transfer of funds** subject to conditions given in the treaty.
    - Allowing individual investors to **bring cases against host states** if the latter's sovereign regulatory measures are not consistent with the BIT.
- There is **International Centre for Settlement of Disputes (ICSID)** under investor-state dispute settlement (ISDS) mechanism for dispute redressal between international investors.

Key features of India model BIT 2016

- **Definition of Investment** in the Model BIT has moved **away from a broad asset-based definition of investment to an enterprise-based definition** where an enterprise is taken together with its assets.
- **Most Favoured Nation (MFN):** MFN provision in BITs aims to create a level-playing field for all foreign investors by prohibiting the host state from discriminating against investors from different countries.
    - **India's model BIT completely excludes the MFN clause** to prevent foreign investors from taking advantage of provisions in other BITs by 'borrowing' them through the MFN clause.
- **Fair and Equitable Treatment (FET):** It means that the **foreign investor is protected against unacceptable measures of the host state by rules of international law** which are independent of those of the host state.
    - The **2016 Model BIT does not contain an FET provision** because ISDS tribunals often interpret this provision too broadly. Instead, it contains a provision entitled **'Treatment of Investments'** that **prohibits country from subjecting foreign investments to measures that constitute a violation of customary international law.**
- **ISDS Mechanism:** India has qualified its consent to ISDS by requiring that a foreign investor should **first exhaust local remedies at least for a period of five years** before commencing international arbitration.

International Centre for Settlement of Disputes (ICSID)

- ICSID is the world's leading institution devoted to international investment dispute settlement.
- ICSID was established in 1966 by the **Convention on the Settlement of Investment Disputes** for legal dispute resolution and conciliation between international investors.
- ICSID convention is **ratified by 155 countries. India is not a party to the ICSID convention.**

4.5. KEY CONCEPTS AND ENTITIES IN NEWS

Antidumping duty	• India imposed **anti-dumping duty** on **anti-bacterial drug Ciprofloxacin** imported from China. • Antidumping duty is imposed when a country or a firm **exports an item into the country at a price lower than the price of the product in its domestic market.** ○ It **impacts the price of the product** in the importing country, hitting margins and profits of manufacturing firms. • The **Department of Commerce recommends the Anti-dumping duty** whereas the **Ministry of Finance levies this duty.**
Cairns Group	• It is a **coalition of 19 agricultural exporting nations** lobbying for agricultural trade liberalization. ○ It accounts for **more than 25% of the world's agricultural exports.** • It was formed in 1986 in Cairns, Australia. • **India is not a member.**
Debt Service Suspension Initiative (DSSI)	• This initiative aims **to grant debt-service suspension to poorest countries.** • It allows poor countries to **concentrate their resources on fighting pandemic.** • It was endorsed by **World Bank, IMF and G20 Finance Minister**s in April 2020.

Asia/ Pacific group (APG) on money laundering	• **It is an inter-governmental organization** focused on ensuring that its members effectively **implement the international standards against money laundering**, terrorist financing and proliferation financing related to weapons of mass destruction. • **India is a member.**
Currency Manipulators' Monitoring List	• US has once again included India in its monitoring list of countries with **potentially "questionable foreign exchange policies" and "currency manipulation".** • Currency manipulator' is a **label given by the US government to countries it feels are engaging in "unfair currency practices" by deliberately devaluing their currency against the dollar.** o Designation of a country as a currency manipulator does not immediately attract any penalties, **but tends to dent confidence about a country in global financial markets.**
Handicraft and GI Toys exempted from Quality Control Order	• This step is towards **vision of making India a global manufacturing hub for sale & exports of toys** and boost production & sale of indigenous toys across the country. • DPIIT has exempted these **from use of Standard Mark under licence from Bureau of Indian Standards.**
Iran's New Currency	• **Iran**'s parliament has passed a bill to change the monetary unit from 'Rial' to the popularly used 'toman'. • **Each toman will be worth 10,000 Rials under the new system.**

PT 365 - Economy

5. LABOUR, EMPLOYMENT, SKILL DEVELOPMENT AND ENTREPRENEURSHIP

5.1. PERIODIC LABOUR FORCE SURVEY (PLFS) 2018-19

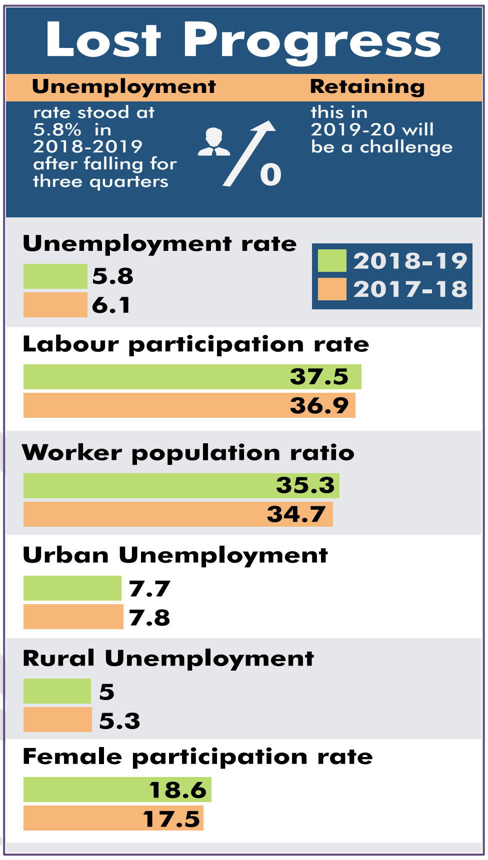
Why in News?

Recently, the Periodic Labour Force Survey (PLFS) 2018-19 was released by National Sample Survey Office (NSSO).

About the Survey

In 2017, **NSSO launched PLFS** to estimate **employment and unemployment indicators** mainly Labour Force Participation Rates (LFPR), Worker Population Ratio (WPR), and Unemployment Rate (UR).

- **LFPR** is defined as percentage of persons in labour force (i.e. working or seeking or available for work) in population.
- **WPR** is percentage of employed persons in population.
- **UR** is percentage of persons unemployed among persons in labour force.



Related News
Time Use Survey (TUS) by National Sample Survey Office (NSSO)

- National Statistical Office (NSO), Ministry of Statistics and Programme Implementation released India's first Time Use Survey for the period January to December 2019.
- Objective of TUS is to measure **participation of men, women and other groups of persons in paid and unpaid activities.**

5.2. LABOUR CODES

Why in News?

Parliament has passed the three Labour Code bills – the Occupational Safety, Health and Working Conditions code, 2020; the Industrial Relations code, 2020; and the code on Social Security, 2020.

5.2.1. CODE ON INDUSTRIAL RELATIONS, 2020

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

Major provisions under the code:

- **Definition of worker:** It defines a 'worker' as any person who work for hire or reward. It excludes persons employed in a managerial or administrative capacity, or in a supervisory capacity with wages exceeding Rs 18,000.
- **Standing Orders:** All industrial establishment with 300 workers or more must prepare standing orders on the matters relating to:
  - classification of workers,
  - manner of informing workers about work hours, holidays, paydays, and wage rates
  - termination of employment, and
  - grievance redressal mechanisms for workers.
- **Prior permission of the government for closure, lay-off and retrenchment:** It is required for an establishment having at least 300 workers to seek prior permission of the government before closure, lay-

off, or retrenchment. Central government is **empowered only to allow an increase in the threshold** through notification.

- **Negotiating Union and Council**
  - **Sole Negotiating Union**: If there are more than one registered trade union of workers functioning in an establishment, the trade union having more than 51% of the workers as members would be recognised as the sole negotiating union.
  - **Negotiation Council**: In case no trade union is eligible as sole negotiating union, then a negotiating council will be formed with representatives of unions that have at least 20% of workers as members.
- **Tribunals for settlement of disputes:** for the settlement of industrial disputes. Each Industrial Tribunal will consist of a Judicial member and an Administrative member.
  - The code **classifies any dispute** in relation to discharge, dismissal, retrenchment, or otherwise termination of the services of an individual worker to be an industrial dispute.
  - **In case of disputes relating to termination of individual worker,** the worker may apply to the Industrial Tribunal for adjudication of the dispute 45 days after the application for the conciliation of the dispute was made.
- **Re-skilling fund**: To re skill those workers who are fired from their jobs. Contributions for the fund will be made from the employer of an industrial establishment amounting to fifteen days wages last drawn by the worker immediately before the retrenchment along with the contribution from such other sources.

Related News

Draft IRC rules have been formed to ensure time-bound permission for companies to retrench, lay-off or shut its businesses.

- For establishments with at least 300 workers, permission has to be sought from centre at least **15 days in advance for lay-offs, 60 days for retrenchments, and 90 days for closure.**
  - Government has **also reduced the information sought from employers** at the time of retrenchment or lay-off.
- Proposes establishing **a re-skilling fund for retrenched workers** where workers will get money electronically for re-skilling within two months of being retrenched.
- **All applications** relating to notice for strike, lockout, permission for retrenchment, lay-offs or closure of unit, conciliation, and tribunal application **to be submitted electronically.**
- **State governments to finalize rules for** political contribution, utilization of funds or negotiating council for trade unions.

5.2.2. CODE ON SOCIAL SECURITY, 2020

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

Major provisions of the code

- **Applicability:** The code is **applicable to any establishment** (subject to size-threshold as may be notified by the central government).
- **Social security fund**: The code states that the central government will set up such a fund **for unorganized workers, gig workers and platform workers**. Further, state governments will also set up and administer separate social security funds for unorganized workers.
- **Provisions Aadhaar based registration including self-registration** by unorganized workers, gig workers and platform workers on the portal of the Central Government.
- **National Social Security Board**: for the purposes of welfare of above three categories of workers and recommend and monitor schemes for them. The Board will comprise of (i) five representatives of aggregators, nominated by the central government, (ii) five representatives of gig workers and platform workers, nominated by the central government, (iii) Director General of the ESIC, and (iv) five representatives of state governments.
- **Contribution for Schemes:** Schemes for gig workers and platform workers may be funded through a combination of contributions from the central government, state governments, and aggregators.
- **Changes in definitions**: These include expanding the definitions of (i) 'employees' to include workers employed through contractors, (ii) "inter-state migrant workers" to include self-employed workers from another state, (iii) "platform worker" to additional categories of services or activities as may be notified by the government, (iv) audio-visual productions to include films, web-based serials, talk shows, reality shows and sports shows.
- **Term of eligibility for gratuity for journalists**: The code reduces the gratuity period from five years to three years for working journalists.

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

5.2.3. CODE ON OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS, 2020

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

Major provisions under the code:

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

Labour code	What it subsumes	Certain provisions on which amendments are done	Implications
Labour Code on Industrial Relations	• Subsumes Trade Union Act, 1926; Industrial Employment (standing orders) Act, 1946; Industrial Disputes Act, 1947	• Hiring and firing laws eased. • Legal backing for fixed-term employment. • Norms tightened for forming unions.	• Easier to hire and fire thus encouraging employment. • Fixed-term employment will create more jobs.
Labour Code on Social Security & Welfare	• Subsumes 9 Labour Acts like: Employees' Compensation Act, 1923, Maternity Benefit Act, 1961, etc.	• Proposes social security for gig and platform workers. • National social security board will be setup.	• Will benefit 40 crore organised workers. • Will open up EPFO and ESIC for individuals.
Labour Code on Occupational Safety, Health & Working Conditions	• Subsumes 13 Labour Acts like: Factories Act, 1948, Plantation Labour Act, 1951, Mines Act, 1952 etc.	• Uniform provision for women, fixed-term and contract workers. • Special provisions for certain classes of establishments such as factories, mines, dock workers, and constructions workers	• Will ensure uniform health and safety conditions for all. • Work hours for different classes of establishment and employees will be notified by the central or state government.

5.3. DRAFT CODE ON WAGES (CENTRAL) RULES, 2020

Why in News?

Ministry of Labour and Employment released the draft Code on Wages (Central) Rules, 2020

About the news

- Rules were released under the **Code on Wages, 2019** which was passed last year by both the Houses.
- In the new draft rules, **normal working hours in a day are reduced to eight hours** (see infographic for other details).
- **About the Code on Wages, 2019**
  - **Code replaces the following four laws:**
    - ✓ Payment of Wages Act, 1936;
    - ✓ Minimum Wages Act, 1948;
    - ✓ Payment of Bonus Act, 1965;
    - ✓ Equal Remuneration Act, 1976.
  - Code seeks to **universalise the provisions of minimum wages** and timely payment of wages to all employees, irrespective of the sector and wage ceiling.
- Minimum wage will aim to **ensure a uniform standard** of living across the country.
  - At present, there are differences in minimum wages across states and regions as both central and state governments set, revise and enforce minimum wages.

WHAT THE DRAFT RULES SAY

01 Centre to set a national floor for minimum wages to be followed by states compulsorily and revised every five years

02 For the first time, the Centre has proposed to follow the Supreme Court's advisory in Ruling in 1992, and recommendations of the 15th indian labour conference made in 1957 for prescribing minimum warges

03 The manner of calculating the minimum rate of wages not prescribed in government rules so far which often lead to litigation

04 25% of minimum wage component will include expenses of a worker's family on education of children and medical needs

05 Govt will keep in mind the expenditure of a worker's family (of three) towards food, clothing, houserent, fuel and electricity

06 Minimum wages to vary across skill sets- unskilled, semi- skilled, skilled and highly- skilled and geographies-metro, non-metro and rural area

07 Centre divides occupations skillwise: 123 belong to unskilled, semi-skilled, 320 skilled, and 111 highly skilled

5.4. FIXED TERM EMPLOYMENT

Why in news?

The Ministry of Labour and Employment (Ministry) has notified the draft of the **Model Standing Orders, 2020** for all manufacturing, mining and services sector. The draft document has explicitly mentioned **Fixed Term Employment as one of the classifications of a worker.**

More on news

- The draft order has inserted fixed-term employment as a category of employment but has removed "casual work" from the list. The list includes **six categories of workers, namely Permanent, Temporary, Apprentices, Probationers, Badlis and Fixed Term Employment.**
    - A badli is a worker who is appointed against the post of a permanent worker or probationer who is temporarily absent.
- It will be **applicable to all manufacturing and mining establishments** with **300 or more workers.**
- The order will be finalized and **integrated with the Industrial Relations Code Act 2020** after receiving feedback from experts, academics, and others.

Background on Statutory status of Fixed Term Employment

- As per the **Industrial Employment (Standing Order) Act 1946,** Fixed-term employment was initially made available only to **apparel manufacturing sector** in 2016 and then to **Footwear manufacturing sector** in 2017 through amendments.
- **Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018** allowed all industries to hire workers on contract with a fixed tenure.
- On those lines, the **Union Ministry of Labour (in 2018) had urged all States to issue separate orders** permitting fixed-term employment (FTE) across all industries.

What is Fixed Term Employment?

Fixed-term employment is a **contract in which a company or an enterprise hires an employee for a specific period of time. Mostly, it is for a year** but can be renewed after the term expires depending on requirements.

Comparative analysis of Fixed-term employment

Feature	Fixed Term Employee	Permanent Employee	Contract Labour
Type of employment	Employment under written contract. No contractor or agency is involved. On the payroll of the establishment.	Employment directly under a written contract. On the payroll of the establishment.	Engaged in an establishment through a contractor or agency. Not on the payroll of the establishment.
Term	Stipulated fixed term. Employment lapses on completion of term, unless renewed. No notice is required to be given for termination.	Employed on a permanent basis Notice has to be given for termination of employment.	Based on terms negotiated with the contractor.
Nature of work	Not specified.	Hired for routine work.	Employment may be prohibited in certain cases, e.g., if similar work is carried out by regular workmen.

The Standing Order has provided following facets with regard to fixed term employment-

- According to it, "Fixed-term employment" means the engagement of the worker on the basis of a written contract of employment with an employer for a fixed period, but subject to following conditions-
  - His **hours of work, wages, allowances and other benefits shall not be less than that of a permanent worker** doing the same work or work of similar nature.
  - He shall be **available for all statutory benefits available to a permanent worker** proportionately according to the period of service rendered by him even if his period of employment does not extend to the qualifying period of employment required in the statute.
  - He shall be **available for gratuity**, if he renders service under the contract for a period of one year. (Gratuity refers to a sum of money paid to an employee at the end of a period of employment.)
  - For every completed year of service or part thereof in excess of six months, the **employer shall pay gratuity to the worker at the rate of 15 days wages.**
- The order has also clarified that termination of the service of a worker as a result of **completion of tenure will not be considered as retrenchment.**
- The draft proposes that salary payment will be more transparent and **all remuneration will be paid within a maximum of seven days after completion of the wage period of a worker.**
- It also states that the **wage rates should be displayed on an electronic device or notice board and website or human resources portal of the industrial establishment** in Hindi, English or the local language in which majority of the workers are conversant.
- Unlike most countries, there is **no cap on the number of times private firms can renew fixed-term contracts in India.**

5.5. DEVELOPMENTS WITH REGARD TO SKILL DEVELOPMENT

Skills Build Reignite (SBR) and Skills Build Innovation Camp (SBIC)	• It is a partnership between **Ministry of Skill Development & Entrepreneurship and IBM.** • SBR seeks to **provide job seekers and entrepreneurs, with access to free online coursework and mentoring support** designed to help them reinvent their careers and businesses. • SBIC is **10-week program which supports 100 hours of structured learning** to for gaining hands-on project experience to enhance learning and building network and enhance employability.
National Council of Vocational Education and Training (NCVET)	• **Recently, Ministry of Skill Development and Entrepreneurship (MSDE) and NCVET** unveiled new guidelines for Awarding Bodies and Assessment Agencies for strengthening skilling ecosystem. • **About NCVET** ○ It was notified by the **Ministry of Skill Development and Entrepreneurship** in 2018. ○ It subsumed the existing skill regulatory bodies- National Skill Development Agency & National Council for Vocational Training and will act as an overarching skills regulator. ○ It **regulates the functioning of entities engaged in vocational education and training**, both long and short term, and establishes minimum standards for the functioning of such entities.
Going Online as Leaders (GOAL) Project	• GOAL is a **digital skilling and mentorship initiative** that will engage renowned leaders and experts in their respective domains—from business, education, health, politics, arts and entrepreneurship among others, to **personally mentor scheduled tribe youths** across India. • Core areas include: are Digital Literacy, life Skills and Leadership & Entrepreneurship. • GOAL project was **launched by Ministry of Tribal Affairs in partnership with Facebook.**
The Urban Learning Internship Program (TULIP)	• TULIP is a program for **providing internship opportunities to fresh graduates** in all Urban Local Bodies (ULBs) and Smart Cities across country. ○ **Applicants must be Indian citizens** who have completed their final year of college within last 18 months. ○ Programme **does not have any budget of its own.** ○ It was earlier proposed in Union budget 2020-21 announcement. • It will have an **integrated digital platform** which allows interns and all ULBs/smart cities to interact and engage under one roof. ○ MoHUA will also undertake **capacity building initiatives in partnerships with State Governments** to enable participation of ULBs and smart cities under TULIP.

Skill Development Initiatives for Internal and external migrants

SWADES (Skilled Workers Arrival Database for Employment Support)	**Aatamanirbhar Skilled Employee-Employer Mapping (ASEEM) Portal**	**National Skill Development Corporation (NSDC) platform for speedy skilling of migrant returnees**
• It is a **joint initiative** of Ministry of Skill Development & Entrepreneurship,	• It is **Artificial Intelligence-based platform** which will map details	

Ministry of Civil Aviation and Ministry of External Affairs. • This is an initiative **to conduct a skill mapping exercise of returning citizens** under Vande Bharat Mission. • It aims **to create a database of qualified citizens** based on their skill sets and experience to tap into and **fulfil demand of Indian and foreign companies**	of workers based on regions and local industry demands and will **bridge demand-supply gap of skilled workforce across sectors.** • It is developed and managed by **National Skill Development Corporation (NSDC)** in collaboration with Bengaluru-based company Betterplace.	• It will focus on **in 116 most-affected districts,** where states are struggling to rehabilitate livelihoods. • List of districts **correspond to Atmanirbhar districts** planned by Centre **across UP, Bihar, MP, Jharkhand, Odisha, and Rajasthan.**

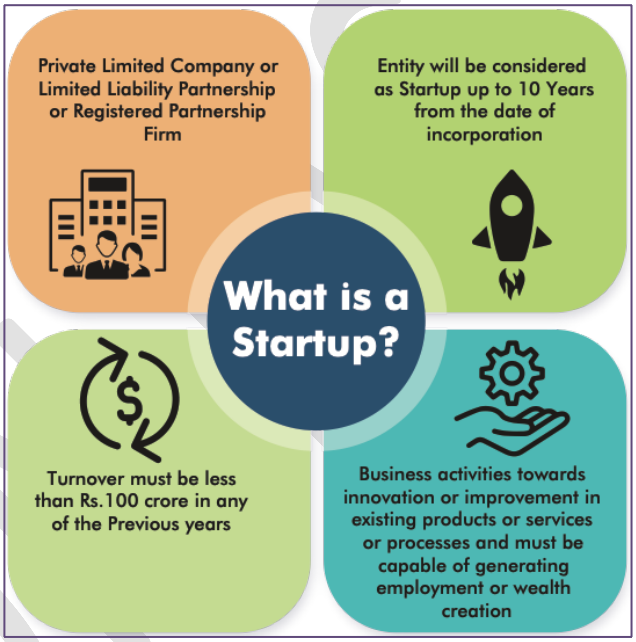
5.6. START-UP ECOSYSTEM IN INDIA

Why in news?

Recently, Prime Minister inaugurated the 'Prarambh: Startup India International Summit'.

More on news

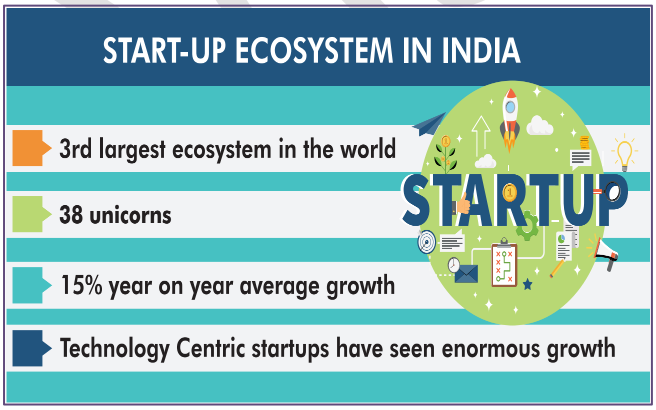
- This is the largest Startup India International Summit organized by the Government of India since **the launch of the Startup India Initiative in 2016.**
- Prarambh is expected to bring **together top policy makers, industry, academia, investors, startups and all stakeholders** from across the globe in order to attain objectives like-
- It is being organized by **Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry.**
- **Over 25 countries and more than 200 global speakers** including members of **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation) countries** participated in the inaugural event.

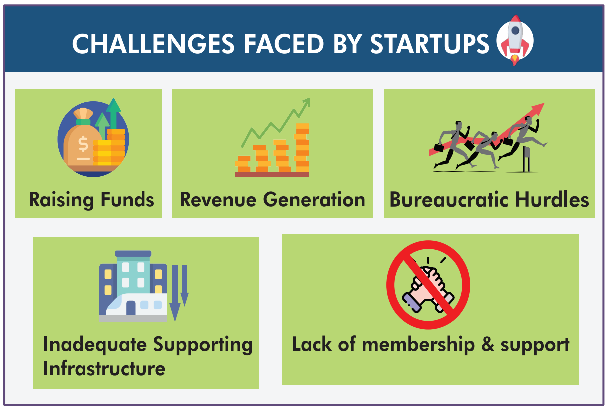


What is a Start-up?

The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry has defined a start-up as an entity **that is** incorporated as a **private limited company** (as defined in the Companies Act, 2013) or Registered as a **partnership firm** (under the Partnership Act, 1932) or Registered as a **limited liability partnership** (under the Limited Liability Partnership Act, 2008) in India**.**

What is current status of Start-up Ecosystem in India?





How Startup India initiative aims to help address these challenges and encourage startups?

Launched in 2016, Startup India is a flagship initiative of the Government of India, which aims at resolution of problems via a 3-pronged strategy. ***(Refer infographic)***. With the completion of 5 years of Startup India, its contribution to Startup ecosystem can be seen on following lines-

- **Over INR 3000 Cr has been committed by the government to 47 venture capital firms** and similar amount has already been invested in 323 startups from the **fund of funds corpus managed by Startup India through Invest India.**
- **Startup India enabled global market access and knowledge for Indian startups** through bilateral government collaborations with Russia, South Korea, Portugal, Japan, Netherlands, United Kingdom, Sweden, Finland, Israel, and Singapore.
    - **Also known as a Startup Bridge,** these collaborations enable startups, investors, incubators, accelerators and aspiring entrepreneurs of both countries to connect with one another by providing them with resources to expand and become global entities.
- More **than 8,000 startups have been registered** on **Government e-Marketplace (GeM portal),** with whom government has **done business worth 2300 crore.**

Related News

National Startup Advisory Council (NSAC)

- Government nominated 28 non-official members to NSAC.
- NSAC setup to **advise the Government on measures needed to build a strong ecosystem for nurturing innovation and startups in the country** to drive sustainable economic growth and generate large scale employment opportunities.
- **Composition**
    - **Chairman:** Union Minster for Commerce & Industry.
    - **Ex-officio members:** Nominees of the concerned Ministries/Departments/Organizations, not below the rank of Joint Secretary.
    - **Non-official members:** Nominated by Central government from various categories like founders of successful start-ups for a period of two years.

5.6.1. STATES START-UP ECOSYSTEM RANKING

Why in news?

The **Department for Promotion of Industry and Internal Trade (DPIIT)** recently conducted the second edition of the **States' Startup Ranking Exercise.**

About States' Startup Ranking Framework 2019

- A total of **22 States and 3 Union Territories participated** in the exercise.
- The framework has **7 broad reform areas consisting of 30 action points** ranging from Institutional Support, Easing Compliances, Relaxation in Public Procurement norms, Incubation support, etc.
- To establish uniformity and ensure standardization in the ranking process, States and UTs have been divided into two groups-
  - **Category 'Y'**- with UTs except Delhi and all States in North East India except Assam
  - **Category 'X'**- All other States and UT of Delhi
- For ranking, **States are classified into 5 Categories:** Best Performers, Top Performers, Leaders, Aspiring Leaders and Emerging Startup Ecosystems.

Rankings

- **Category X:** Best Performer- Gujarat and Top Performers- Karnataka and Kerala.
- **Category Y:** Best Performer- Andaman and Nicobar Islands and Leader- Chandigarh.
- **Leaders across 7 Reform Areas-**
  - **Karnataka** for reforms in areas of Institutional Leaders, Regulatory Change Champions and Procurement Leaders.
  - **Gujarat** for reforms in areas of Incubation Hubs, Awareness and Outreach Champions and Scaling Innovations Leaders.
  - **Bihar** for reforms in areas of Seeding Innovation Leaders.

5.6.2. NATIONAL STARTUP AWARDS 2020

Why in News?

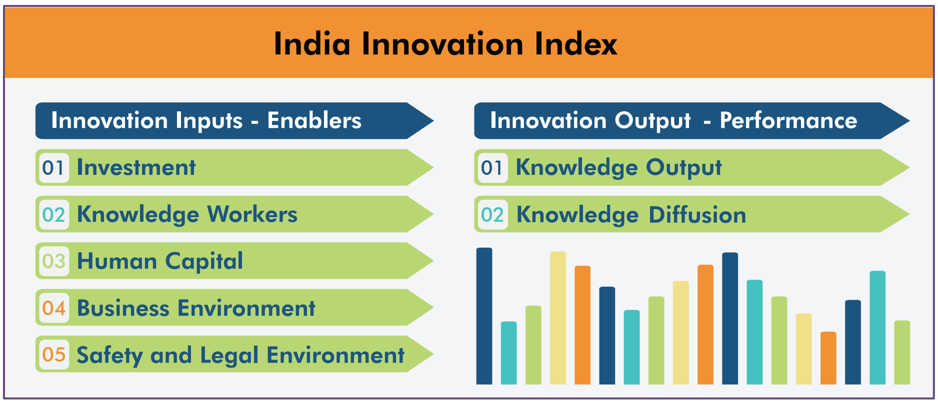
Department for Promotion of Industry & Internal Trade released results of first ever National Startup Awards.

About the News

- National Startup Awards were organized by Startup India, a flagship initiative of Government that aims to **build a strong eco-system for nurturing innovation and Startups** in the country.
- Aim is to guide organizations **to stop measuring success in just financial gains** for investors but also the **contribution to social good.**
  - **Applications were invited across 12 sectors** such as Agriculture, Education, Finance, Health, Space etc.
  - **Six parameters were evaluated:** Innovation, Scalability, Economic Impact, Social Impact, Environmental Impact, and Inclusiveness and Diversity.
- During the event **following initiatives were also launched:**
  - **Startup India Showcase,** a part of the Startup India portal, **an online discovery platform for the most promising startups** of the country. It will help industry, investors and public authorities find and connect with startups for potential partnerships, investments and public procurement respectively.
  - **Blockchain-based Certificate Verification System** will enable instant verification and access to certificates of recognitions issued by DPIIT.

5.6.3. NITI AAYOG RELEASES SECOND EDITION OF INDIA INNOVATION INDEX 2020

- Index's objective **is to scrutinize the innovation capacities and performance of Indian states and UTs.**
  - It aims to empower states/UTs to improve their innovation policies **by highlighting their strengths and weaknesses.**



* **Innovation** is the creation, development and implementation of a new product, process or service, with the aim of improving efficiency, effectiveness or competitive advantage.
* **Issues identified at:**
    * **National Level:** Regional imbalance with respect to the presence of research institutions, lack of incubator centres and limited grassroots innovations.
    * **State level:** lack of state specific innovation cell, lack of state-level engagements to showcase best Practices.
* **Suggestions**
    * **Showcase Best Practices:** Under cooperative federalism, best practices observed within the states should be often documented and disseminated **to encourage peer-to-peer learning.**
    * **Focus on State-Specific Policies.**
* Similarly, **Global Innovation Index (GII) is also published yearly by the World Intellectual Property Organization (WIPO)**with India ranking at 48th in 2020.

Best Perfomers

Four of the five highest scoring major State in the India Innovation Index are From the south

Rank	Major States	Score
1	Karnataka	42.5
2	Maharashtra	38.03
3	Tamil Nadu	37.91
4	Telengana	33.23
5	Kerala	30.58
6	Haryana	25.81
7	Andhra Pradesh	24.19
8	Gujarat	23.63
9	Uttar Pradesh	22.85
10	Punjab	22.54

Related News

India's rank improved in the Global Innovation Index (GII) by four places to 48th place in 2020 from 52nd position last year.

About GII

* It has been **developed by the World Intellectual Property Organization** (**WIPO**) together with top business universities like Cornell University, INSEAD etc.
* It measures the **innovative capacity and outputs** of 131 economies, using **80 indicators** ranging from standard measurements such as research and development investments and patent and trademark filings, to mobile-phone app creation and high-tech net exports.

UK launches £3 million innovation challenge fund in India

* The fund aims to **support scientists in academia and industry to tackle the COVID-19 pandemic** and climate change.
* Grants under the Fund are part of initiative under the Tech Partnership known as **Tech Clusters.**
* Tech Clusters **will support the development of Indian Tech Clusters** by breaking down barriers to growth, including building international links.

5.7. KEY CONCEPTS AND ENTITIES IN NEWS

National Database of Unorganised Workers (NDUW)	• NDUW is **first-ever national database of unorganized sector** workers including migrant workers. ○ It aims to **provide a platform for workers and employers, and for the government** to implement specific programmes for such labourers. ○ Ministry of Labour & Employment has envisaged development of NDUW **seeded with Aadhaar.** • **Unorganised Workers Social Security Act, 2008** had first mandated that every worker be registered and issued a smart ID card.
Sahakar Mitra	• It is an **internship programme to provide paid internship** to youth and ensure availability of assured project loans to young cooperators. ○ **Professional graduates** in disciplines such as Agriculture and allied areas, IT etc. will also be eligible. • It is an initiative by **National Cooperative Development Corporation (NCDC),** a statutory body under the Ministry of Agriculture & Farmers Welfare. ○ **Functions of NCDC:** Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce etc.
YuWaah	• YuWaah is a multi-stakeholder platform that aims to **prepare young people to transition from education and learning to productive work** and active citizenship. • Recently, Ministry of Youth Affairs and Sports and YuWaah (Generation Unlimited India) together signed on a partnership **to empower young people.** • It is being done in **collaboration with UN in India** (UNICEF, UNDP, UNFPA, UNODC, UNEP, UNHCR and ILO), aims to develop the potential of young people through meaningful engagement and participation in social, civic and community initiatives.

Entrepreneurship Development Institute of India (EDII)	• EDII, **an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions** - IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and State Bank of India. • It aims to promote entrepreneurship, augment the pool of entrepreneurs in different sectors, assist in capacity building and training in entrepreneurship etc. • EDII is a **nodal institution as a part of Government of Gujarat promoted Start-up Policy.** • EDII has been selected by Ministry of Education **to establish Institution Innovation Council with an aim to systematically foster the culture of Innovation.**
2nd edition of student entrepreneurship programme (SEP) launched	• It was **launched by NITI Aayog's Atal Innovation Mission** in collaboration with Dell Technologies for young innovators of Atal Tinkering Labs (ATLs). o They will receive mentor support; prototyping and testing support; intellectual property registration and patenting of ideas etc.from Dell volunteers. • SEP is a 360-degree development program for **future technology leaders and entrepreneurs.** o It is **dedicated to encourage innovation spirit of students** and nurturing their leadership and entrepreneurial skills.
CHUNAUTI – Challenge Hunt Under NGIS for Advanced Uninhibited Technology Intervention	• It is **NextGen Startup Challenge Contest** under Next Generation Incubation Scheme (NGIS) to find products & solutions to address challenges faced during and post pandemic situation **with special focus on Tier-II towns of India.** o NGIS is **Software Technology Parks of India's comprehensive incubation scheme** which has a vision to drive the rise of India as a Software Product Nation. • It **aims to identify around 300 startups working in identified areas** and provide them seed fund of upto Rs. 25 Lakh and other facilities (incubation facilities, mentorship, security testing facilities etc)

6. AGRICULTURE

6.1. AGRICULTURAL REFORMS

Why in news?

Recently, Government passed 3 Acts, namely- The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, The Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020 and The Essential Commodities (Amendment) Act, 2020.

What was the need for these reforms?

- **Non-remunerative farming.**
- **Issues with APMCs:**
  - **cartelization and reduced competition.**
  - **Undue deductions** in the form of **commission charges and market fees.**
  - The Acts are **highly restrictive in promotion of multiple channels of marketing.**

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

Key features of the Act

- **Trade of farmers' produce:** The Act allows **intra-state and inter-state trade of farmers' produce outside:** (i) the physical premises of market yards run by market committees formed under the state APMC Acts and (ii) other markets notified under the state APMC Acts.
- **Electronic trading**: It permits the electronic trading of scheduled farmers' produce (agricultural produce regulated under any state APMC Act) in the specified trade area. An electronic trading and transaction platform may be set up to facilitate the direct and online buying and selling of such produce through electronic devices and internet.
  - The following entities may establish and operate such platforms: (i) companies, partnership firms, or registered societies, having permanent account number under the Income Tax Act, 1961 or any other document notified by the central government, and (ii) a **farmer producer organization** or agricultural cooperative society.
- **Market fee abolished:** Act prohibits state govts. from levying any market fee or cess on farmers, traders, and electronic trading platforms for trade of farmers' produce conducted in an 'outside trade area'.

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

Key features of the Act

- **Farming agreement**: The Act provides for a **farming agreement between a farmer and a buyer** prior to the production or rearing of any farm produce.
  - The minimum period of an agreement will be one crop season, or one production cycle of livestock. The maximum period is 5 years, unless the production cycle is more than 5 years.

- **Pricing of farming produce**: The price of farming produce should be mentioned in the agreement. For prices subjected to variation, a guaranteed price for the produce and a clear reference for any additional amount above the guaranteed price must be specified in the agreement.
  - Further, the process of price determination must also be mentioned in the agreement.
- **Dispute Settlement**: A farming agreement must provide for a conciliation board as well as a conciliation process for settlement of disputes. The Board should have a fair and balanced representation of parties to the agreement.
  - At first, all disputes must be referred to the **board for resolution**. If the dispute remains unresolved by the Board after thirty days, parties may approach the Sub-divisional Magistrate for resolution. Parties will have a right to appeal to an Appellate Authority (presided by collector or additional collector) against decisions of the Magistrate.
  - Both the Magistrate and Appellate Authority will be **required to dispose of a dispute within thirty days from the receipt of application.** The Magistrate or the Appellate Authority may impose certain penalties on the party contravening the agreement. However, **no action can be taken against the agricultural land of farmer for recovery of any dues.**

6.1.3. THE ESSENTIAL COMMODITIES (AMENDMENT) ACT, 2020

Key features of the Act

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

6.2. MSP AND PROCUREMENT

Why in news?

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

Procurement regime in India

- Procurement mechanism functions plays a role to guide the cropping patterns and incentivize production.
- MSP serves as a Procurement Price and is used as a market price benchmark. Government notifies MSPs annually for 23 commodities inclusive of 14 kharif, 7 rabi and 2 calendar year season crops.
- In addition to these 23 crops, Government also notifies Fair and Remunerative Prices (FRP) for sugarcane and jute. MSP for Toria and De-Husked coconut also is fixed on basis of MSP's of Rapeseed/Mustard seed and Copra respectively.
- The Government notifies MSPs based on the recommendations of an independent body, called **Commission for Agricultural Costs and Prices (CACP)**.

Crops Under MSP

KHARIF CROPS					RABI CROPS			OTHERS
Paddy	Jowar	Bajra	Maize	Ragi	Wheat	Barley	Gram	Jute
Arhar	Moong	Urad	Soyabean	Sunflower	Masur (lentil)	Rapeseed		
Sesamum	Nigerseed	Cotton	Groundnut		Mustard seed	Safflower		Copra

A2 vs. C2 debate

There have been demands for considering a different costing method (C2). Adopting C2 will entail following changes:

- Over and above A2, C2 includes **land rent** (both leased and self-owned), **interest on fixed capital and value of labour** (both hired and self).
- It is also argued that **50 per cent of Cost C2 should be added as the profit component**, for determining the MSP.

A2	A2+FL	C2
Actual paid out cost	Actual paid out cost plus imputed value of family labour	Comprehensive cost including imputed rent and interest on owned land & capital

With the aforesaid framework for MSP, the existing procurement mechanisms by the government are implemented under:

- **Price Support Scheme (PSS):** Applicable in case of MSP notified crops.
- **Market Intervention Scheme (MIS):** To support commodities, for which MSPs are not notified - fruits/vegetables/other horticultural products.
- **Price Stabilization Fund (PSF):** A scheme to protect consumers from rising prices.
- **Food Corporation of India operations for Central Pool:** Wheat and Paddy is procured to meet buffer norms and for meeting targets of the public distribution system.

Reform initiated through PM-AASHA

An umbrella scheme has been initiated to further ensure remunerative prices to the farmers for their produce, namely Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA). Key components include:

- **Price Support Scheme (PSS)**: In Price Support Scheme PSS, physical procurement of pulses, oilseeds and Copra will be done by Central Nodal Agencies with proactive role of State governments.
- **Price Deficiency Payment Scheme (PDPS)**: Under PDPS, direct payment of the difference between the MSP and the selling/modal price will be made to pre-registered farmers selling his produce in the notified market yard through a transparent auction process. All payment will be done directly into registered bank account of the farmer. This scheme does not involve any physical procurement of crops.
- **Pilot of Private Procurement & Stockist Scheme (PPPS):** In addition to PDPS, it has been decided that for oilseeds, states have the option to roll out Private Procurement Stockist Scheme (PPSS) on pilot basis in selected district/APMC(s) of district involving the participation of private stockist.

Related News

Mechanism for Marketing of MFP through Minimum Support price and development of Value Chain of MFP Scheme.

About the scheme

- Scheme was introduced in 2013 as centrally sponsored scheme.
- **Objectives of Scheme:**
  - To **provide fair price to MFP gatherers**
  - To ensure **sustainable harvesting of MFPs.**
  - It will **have a huge social dividend for MFP gatherers**, majority of whom are tribals.
- MSP would be determined based **on cost of collection, cost of cleaning and primary processing, packaging and transportation cost for each state.**
- It has provisions to bridge last mile connectivity between **tribals and markets through activation of Haat bazars by strengthening of grassroots infrastructure for MFP procurement**, storage, transportation, marketing etc
  - For marketing of these products '**Van Dhan Vikas Karyakram**' was launched in 2018.
- **TRIFED is nodal agency** for implementation of scheme.

6.3. AGRICULTURAL MARKETING

6.3.1. E-NAM (NATIONAL AGRICULTURAL MARKET)

- **Mandis linked to e-NAM (National Agricultural Market) platform see 65% rise in count post-lockdown**
- With integration of 177 more mandis on e-NAM, total e-NAM mandis across country reached 962.
- e-NAM is a **pan-India electronic trading portal which networks** existing mandis run by Agricultural Produce Market Committees **(APMC) to create a unified national market for agricultural commodities.**
  - **Small Farmers Agribusiness Consortium (SFAC),** under Ministry of Agriculture and Farmers' Welfare is **lead agency for implementing e-NAM.**
- It was launched in April 2016 but progress was slow as
  - many States did not amend their APMC Acts;
  - most farmers were not part of the cooperatives that would help aggregate the bulk quantity of produce needed to interest online buyers
  - most mandis did not possess the infrastructure to make most of platform.
- Recently Centre introduced various new features in e-NAM:
  - **A trading module** allowing Farmer Producer Organisations to trade produce directly from their collection centres without bringing it to mandis.
  - A **warehouse-based trading module**
  - **A logistics module** offering users trackable transport facilities through aggregators.

Related News
e-Kisan Mandis
- **First e-kisan mandi** became operational in Pune. It is an initiative of **National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED)**
  - Unlike e-NAM, which focuses on APMCs, the e-kisan mandis will seek to bring farmers, agri-producers, traders and small buyers on a common platform for trading agricultural commodities.
- It would operate in a **hub-and-spoke model**, in which the NAFED -owned land will operate as a hub for FPCs in the area.

6.3.2. FARMER PRODUCER ORGANIZATIONS (FPOS)

Why in News?

Recently, Operational guidelines for formation and promotion of FPOs were released.

About FPOs

A Producer Organisation (PO) is a **legal entity formed by primary producers**, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen. **Farmer Produce Organizations (FPOs)** is one type of PO where the members are farmers. Currently there are around **5,000 FPOs functional in country**.

Operational guidelines

- **Eligibility:** FPO with a **minimum farmer-members' size of 300** in plains, while **100 in North-Eastern** and Hilly areas (including such other areas of UTs).
- Formation and promotion of FPO is based on **Produce Cluster Area (PCA).** PCA is a geographical area where produce of almost similar nature is grown.
- **National Project Management Agency** will be set up for providing overall project guidance, monitoring etc.
- **Implementing Agencies:** Small Farmers Agri-business Consortium, National Cooperative Development Corporation and NABARD. Also, State/UT can have its own implementing agency.
- **Cluster- Based Business Organizations** at the State/Cluster level to form and promote FPOs.
- **Provision for Equity Grant from government** to strengthen financial base of FPOs.

Related News
Small Farmers Agri-Business Consortium (SFAC) to help form 10,000 FPOs over 5 years starting 2019-20
- Recently, Agriculture Minister asked the Small Farmers Agri-Business Consortium (SFAC) to help in formation of 10,000 farmer-producer organisations (FPOs) as targeted by the government.
- The 10,000 FPOs are part of recently approved scheme **Formation and Promotion of FPOs.**

- FPOs will be **formed and promoted through Cluster Based Business Organizations (CBBOs)** engaged at the state/cluster level by implementing agencies.
- Priority will be given for formation of FPOs in aspirational districts with at least one FPO in each block of aspirational districts.
- **SFAC is one of the implementing agencies of the scheme**, apart from, National Cooperative Development Corporation and NABARD.

6.3.3. AGRICULTURAL COMMODITY TRADING

6.3.3.1. AGRIDEX

- **National Commodity and Derivatives Exchange (NCDEX)** announced the commencement of trading in the country's first agriculture futures index called AGRIDEX
- NCDEX AGRIDEX **is India's first return based agricultural futures Index** which tracks the performance of the ten liquid commodities (both **kharif and rabi seasons**) traded on NCDEX platform.
    - **Ten commodities include** Castor seed, Chana, Coriander, Cotton Seed Oil cake, Guar Gum, Guar Seed, Jeera, Mustard Seed, Refined Soy oil and Soybean.
    - No group of related commodities may constitute more than 40% of the total weightage in the index in order **to ensure diversification.**
- It will facilitate the **participants in hedging their commodity** risk based on price anticipation of the products.
- It is based on the **revised guidelines issued by the Securities and Exchange Board of India (SEBI),** which allowed futures trading in commodity indices.
- NCDEX has partnered with **National Stock Exchange (NSE) Indices**, a leading Index service provider, to maintain and disseminate real-time NCDEX AGRIDEX values.

Futures
- These are a **type of derivative instrument.**
    - A derivative is an instrument whose **value is derived from the value of one or more underlying** assets, which can be commodities, precious metals, currency, bonds, stocks, stocks indices, etc.
    - Common examples of derivative instruments are Forwards, Futures, Options and Swaps.
- In futures, there is an agreement to buy or sell a specified quantity of financial instrument or physical commodity in a designated future month at a price agreed upon by the buyer and seller.

About NCDEX
- It is the **country's leading agricultural commodity exchange**, which offers services across the entire value-chain of agricultural commodities.
- It offers a wide range of benchmark products across agriculture commodities.
- It **brings buyers and sellers together** through its electronic trading platform.

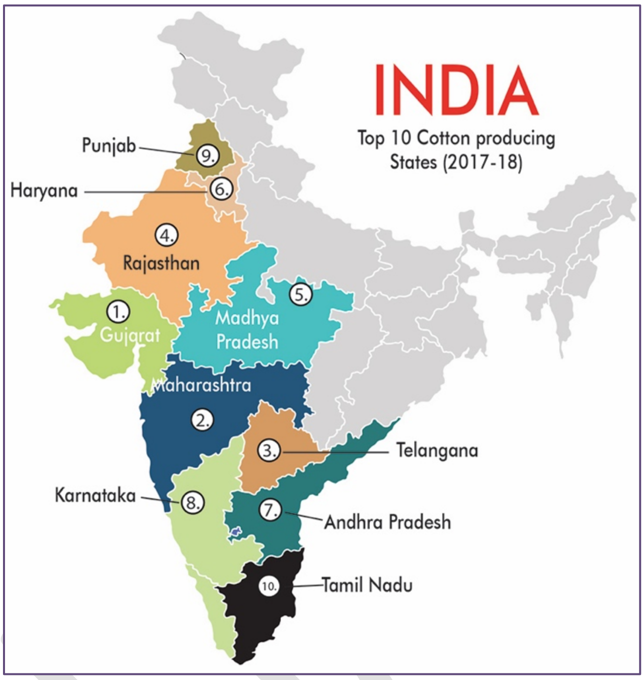
6.3.3.2. BSE E-AGRICULTURAL MARKETS LTD. (BEAM)

- **Bombay Stock Exchange (BSE) has launched an electronic spot platform** for agricultural commodities - "BSE E-Agricultural Markets Ltd. (BEAM)" - through its subsidiary BSE Investments.
- This platform will **function as a national, institutionalised, electronic, transparent commodity spot trading platform** in line with the Prime Minister's vision to create a single market
    - It **facilitates spot agricultural commodities transactions across the value chain,** consisting of producers, intermediaries, ancillary services and consumers.
    - It will **facilitate risk-free and hassle- free purchase and sale of various agriculture commodities** by leveraging on state-of-the-art technology to offer customized solutions to farmers, traders, and stakeholders.
- With BEAM, **farmers in one state will be able to reach out to markets in other states** and auction their produce.
    - This will not only help farmers and farmer collectives **discover best prices for their produce based on the quality**, but also offers to build capacity to help intermediaries, processors and exporters procure from states.

About spot market
- A spot market is where **financial instruments are exchanged for immediate delivery,** such as commodities, currencies, and securities.
- Spot commodity refers to **a commodity that is being sold (on the spot market) with the intention of being delivered to the buyer fairly immediately** --either presently or within only a few days.

6.3.3.3. BRAND AND LOGO FOR COTTON

- India's premium Cotton **would be known as Kasturi Cotton in the world cotton Trade.**
    - Kasturi Cotton brand will represent Whiteness, Brightness, Softness, Purity, Luster, Uniqueness and Indianness.
- **India grows all four species of cultivated cotton** Gossypium arboreum and herbaceum (Asian cotton), G.barbadense (Egyptian cotton) and G. hirsutum (American Upland cotton).
- Cotton is a **Kharif crop and grows well in black cotton soil** (high water retention capacity) of deccan plateau.
    - Annual temperature requirement is **20-28 degree Celsius** and rainfall **of 55-110 cm is ideal**. It requires **minimum 180 frost-free days.**
- India is the **2nd largest cotton producer** (produces 23% of the world cotton) **and the largest consumer** of cotton in the world.
    - India produces about **51% of the total organic cotton production** of the world.
    - It provides livelihood to about **6 million cotton farmers.**



- Cotton Corporation of India **(CCI) has developed a mobile app, Cott-Ally** for providing information regarding weather condition, Crop situation and best farm practices.
    - CCI, under Ministry of Textiles, is a Public Sector Undertaking. Its **major role is to undertake price support operation for cotton.**

6.4. AGRICULTURAL EXPORTS

Why in news?

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

India's status in Agricultural Export

- In 2018, India was the **second largest agriculture producer in the world** and had the largest arable land.
- In 2019, India exported about **7% of Indian agriculture production.**
- India ranks **13th in the world in agriculture exports despite being leading producer of milk, bananas, mangoes etc.**
    - One key cause of the discrepancy between rank in production and exports is the **large domestic demand.**
- From 2013 to 2018, growth has slowed down relative to the impressive growth of 2009 to 2011.
    - **Exports dropped by 10% CAGR due to a drop in global process** and back-to-back drought in 2014, 2015 and 2016.
- India exports **70% of its commodities and agricultural product exports to nearby geographies, including the Middle East, Africa and Asia Pacific**, only exporting 30% to Europe and the Americas showing low agri market diversification.
- India has a **2018 Agri Export Policy** which is framed with a focus on agriculture export-oriented production, export promotion, better farmer realization and synchronization within policies and programmes of Government.

Agri Export Policy 2018
- Implemented by the **Department of Commerce under Ministry of Commerce and Industry.**
- It aims to double agricultural exports from **US$ 30+ Billion (2018) to US$ 60+ Billion by 2022** and reach US$ 100 Billion in the next few years thereafter.
- It tries to promote **novel, indigenous, organic, ethnic, traditional and non-traditional Agri products** exports.

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

6.4.1. RICE EXPORT PROMOTION FORUM (REPF)

Why in news?

Recently, government set up **Rice Export Promotion Forum (REPF)** under the aegis of the **Agricultural and Processed Foods Export Promotion Development Authority (APEDA).**

About REPF

- Its objective is to identify, document particulars and reach out to stakeholders across the **entire production/ supply chain of export of rice** for increasing these exports significantly to the global market.
  - It will monitor, identify and anticipate developments pertaining to rice production and exports and **recommend necessary policy measures.**
  - It will be in touch with **rice producers, exporters and other relevant stakeholders and** hear their problems, and facilitate, support and provide solutions to them.
- It will **comprise representatives** from the rice industry, exporters, and officials from APEDA, Commerce Ministry, Agriculture Ministry and Directors of Agriculture from major rice producing states such as West Bengal, Uttar Pradesh, Punjab, Haryana etc.

About APEDA

- APEDA was established under **the Agricultural and Processed Food Products Export Development Authority Act, 1985.**
- It is under **Ministry of Commerce and Industry**.
- It is mandated with the **responsibility of export promotion and development of products** such as Fruits, Vegetables, Meat, Poultry, Dairy Products, Floriculture, Alcoholic and Non-Alcoholic Beverages etc.
  - Under **'Agriculture Export Promotion Scheme of APEDA'**, APEDA provides financial assistance to the registered exporters under sub-components of the Scheme - Market Development, Infrastructure Development, Quality Development and Transport Assistance.
- APEDA has also been entrusted with the responsibility **to monitor the import of sugar as well.**

Rice production in India

- India is the **second largest producer of rice in the world** and has been the **largest exporter** of rice after the shipments of the non-basmati were allowed from 2011.
- Major share of rice is cultivated during **Kharif season** while a small share of rice is grown in rabi /summer season with assured irrigation.
- **India's rice production has grown** from around 96 million tonnes in 2010-11 to 117.47 million tonnes in 2019-20 (22% increase), as per the Second Advance Estimates.

6.5. FISHERIES SECTOR

Introduction

- Fisheries are an **important source of food, nutrition, employment** and income in India.
  - The sector provides livelihoods to about 16 million fishers and fish farmers at the primary level and almost twice the number along the value chain.
  - The sector accounts for about **6.6 per cent share of Agricultural GDP**.
- The marine **exports stand at about 5% of total exports of India** and constitute about 19 % of Agri-exports (2017-18).
- In the recent years, the fish production in India has **registered an average annual growth rate of more than 7%.**
- India is **second largest producer** in fishery sector.
- There are two benches of fishery sector **namely Inland Fisheries and Marine Fisheries**. The total fish production has nearly **65% contribution from the inland sector** and rest form marine fishing.
- **Fisheries being a State subject**, the States play a pivotal role in fisheries governance.

- While Inland Fisheries are fully managed by State Governments, Marine Fisheries are a shared responsibility between the Central and Coastal State/UT Governments.
- Coastal States/UTs are responsible for development, management and regulation of fisheries in the sea waters inside the 12 nautical mile (22 km) territorial limit.

- Centre is responsible for the development, management and regulation of fisheries in the EEZ waters beyond 12 nautical miles and up to 200 nautical miles

Fish Cryobanks

- **Ministry for Fisheries, Animal Husbandry and Dairying** has announced setting up of fish cryobanks. This would be the **first time in the world** when "Fish Cryobank" will be established.
- It will facilitate all time **availability of fish sperms of desired species** to fish farmers.
- This will **enhance fish production and productivity** and thereby increasing prosperity among fish farmers.
- **National Fisheries Development Board in collaboration with National Bureau of Fish Genetic Resources** will take up the work to establish Fish Cryobanks.

6.5.1. INDIA'S PROPOSAL ON FISHERIES SUBSIDY AT WTO

Why in News?

Recently, India has proposed for **special and differential treatment (S&DT) for developing countries** in case of fish subsidy.

About the negotiations at WTO:

- WTO members are negotiating to **finalise rules to eliminate subsidies for illegal, unreported and unregulated fishing,** and to prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing.
  - Negotiations **were launched in 2001 at Doha Ministerial Conference**.
  - Harmful subsidies are **estimated at $14-20.5 billion annually.**
- **Demands of the Developing countries :**
  - At the meeting, Developing countries demanded **special and differential treatment (S&DT) to protect small fishing communities.**
    - ✓ S&DT are special provisions which **give developing countries special rights** and allow others to treat them more favourably.
    - ✓ **S&DT provides several flexibilities for developing countries**, such as longer time periods for implementing agreements and commitments, lower levels of commitment and measures to increase trading opportunities.
  - India's Stand: On this India proposed, **a developing country is not eligible for exemption if**
    - ✓ Its **GNI per capita crosses $5,000** for three consecutive years.
    - ✓ It has **above 2% share in global marine capture.**
    - ✓ **Share of agriculture, forestry and fishing sectors** is less than 10% of its GDP

      India wants to maintain its fisheries subsidies as **curtailing the programmes for subsidising fuel, nets and boats could impact livelihood of poor fishers.**
  - Developing countries including India stated that as per UN Sustainable Development Goals, **effective S&DT is an integral part of WTO fisheries subsidies negotiation.**
- **Countries like US and Australia have opposed to S&DT** for developing countries as this will lead to exemptions of some large developing countries, especially China.

6.6. ANIMAL HUSBANDRY

6.6.1. ANIMAL HUSBANDRY INFRASTRUCTURE DEVELOPMENT FUND

Why in news?

Cabinet Committee on Economic Affairs has recently approved the establishment of **Animal Husbandry infrastructure Development Fund** worth **Rs. 15000 crores**.

About Animal Husbandry Infrastructure Development Fund (AHIDF)

- **Objective:** To increase milk and meat processing capacity and product diversification, providing greater access to market, promote export and entrepreneurship, etc.

- AHIDF would facilitate **investments in establishment of infrastructure** for **dairy and meat processing** and **value addition infrastructure** and establishment of **animal feed plant** in the private sector.
- **Eligible beneficiaries:** Farmer Producer Organizations (FPOs), MSMEs, not-for-profit companies, Private Companies and individual entrepreneurs.
- **Funding**: Minimum **10% margin money** to be contributed **by beneficiary.** The **balance 90%** would be the **loan component** to be made available by scheduled banks. Loan **would not be provided for acquisition of land**. Eligible entities are **responsible for obtaining statutory clearances.**
- **Interest subvention:** Government of India will provide **3% interest subvention** to eligible beneficiaries.
  - There will be **2 years moratorium** period for **principal loan** amount and **6 years repayment** period thereafter.
- **Credit Guarantee Fund:** Government of India would also set up Credit Guarantee Fund of **Rs. 750 crores** to be **managed by NABARD.** Credit guarantee would be provided to those **sanctioned projects** which are covered under **MSME defined ceilings**.
- It was **announced under AtmaNirbhar Bharat Package.**

6.6.2. INTEREST SUBVENTION ON WORKING CAPITAL LOANS FOR DAIRY SECTOR SCHEME

Why in News?

Ministry of Fisheries, Animal Husbandry and Dairying has introduced this new scheme for **supporting Dairy Cooperatives and Farmer Producer Organizations engaged in dairy activities** for implementation during 2020-21.

About the scheme

- The scheme provides **interest subvention of 2% per annum**, with an additional incentive of 2% per annum interest subvention to be given in case of prompt and timely repayment.
- It is applicable to **working capital loan** taken from scheduled Commercial Banks/RRBs/Cooperative Banks/Financial Institutions between 1st April 2020 and 31st March 2021 by Cooperatives/FPOs for conversion of milk into conserved commodities and other milk products.

Health Certificate Must for Dairy Exports

- Ministry of Commerce and industry notified **Export of Milk and Milk Products (Quality Control, Inspection and Monitoring) Rules, 2020.**
  - The order supersedes the Export of Milk Products (Quality Control, Inspection and Monitoring) Rules, 2000.
- **According to new rules**
  - Exporters of milk and milk products would have to obtain **a certificate of export worthiness from a government agency for the shipments.**
  - Milk and milk products shall be subjected to **quality control or inspection or both prior to export.**

6.6.3. NATIONAL BEEKEEPING AND HONEY MISSION (NBHM)

Why in News?

Recently, Government approved a new Central Sector Scheme "National Beekeeping & Honey Mission (NBHM)" for 2020-21 to 2022-23.

About the Mission

- **NBHM is a Central Sector Scheme** for overall **promotion & development of scientific beekeeping** and production of **quality honey & other beehive products**.
- It was launched considering importance of beekeeping and **to achieve goal of Sweet Revolution.**
- It has **3 components:**
  - **production & productivity improvement** of various crops through pollination
  - **post-harvest management** of beekeeping/ beehive products
  - Research & Technology generation for different Agro-Climatic and Socio-Economic conditions.
  - Under this, **National Bee Board** has trained 30 lakh farmers in beekeeping.

Beekeeping in India

- According to FAO, **India ranks 8th in the world in terms of honey production.**
- **Beekeeping highly underdeveloped and unorganized sector** mostly prevalent among the rural and tribal population.
- Adoption of bee keeping can **enhance livelihood incomes of unemployed women and tribal populations.**

6.7. SUGAR INDUSTRY

Why in news?

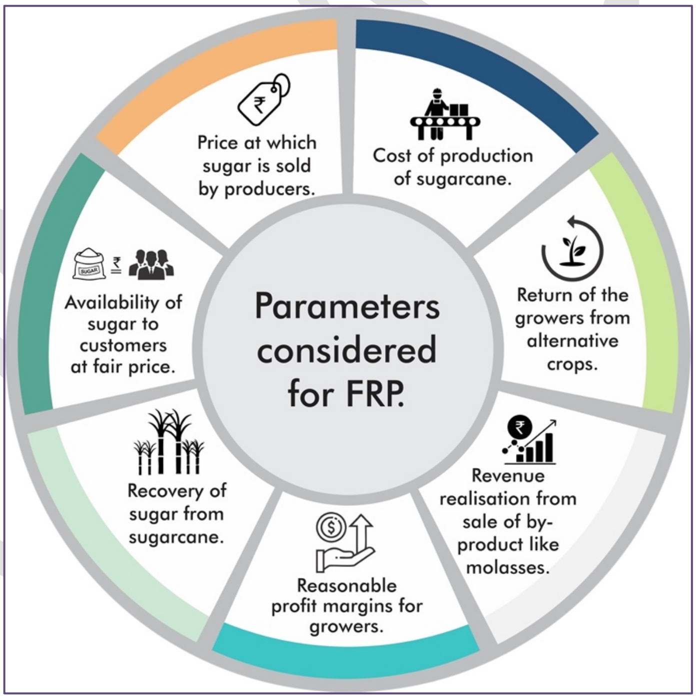
Recently, a NITI Aayog task force on sugarcane and sugar industry submitted its report to the government.

Growth of Sugar industry in India

- A major step to liberate the sugar sector from controls was taken in **1998** when the **licensing requirement for new sugar mills was abolished.**
- Delicensing caused the installed capacity in the sugar sector to grow at almost 7% annually between 1998-99 to 2011-12 compared to 3.3% annually between 1990-91 to 1997-98.
- Till 1997-98, sugar cooperatives dominated the sugar industry but by 2011-12 this changed significantly with the **private sector contributing the largest share of total installed capacity.**
- Although delicensing removed some regulations in the sugar sector, other regulations (i.e. pricing policy, compulsory jute packaging etc.) persisted.

Sugarcane pricing in India

The pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955.



Fair and Remunerative Price (FRP)

- It is the cane price announced by the Central Government on the basis of the **recommendations of the Commission for Agricultural Costs and Prices (CACP)** after consulting the State Governments and associations of sugar industry.
- FRP is minimum price **paid by mills to farmers**.
- Under the FRP system, the farmers are not required to wait till the end of the season or for any announcement of the profits by sugar mills or the Government.
- FRP is linked to a basic recovery rate of sugar, with a premium payable to farmers for higher recoveries of sugar from sugarcane.

State Advised Price (SAP)- Citing differences in cost of production, productivity levels and also as a result of pressure from farmers' groups, some states declare state specific sugarcane prices called State Advised Prices (SAP), usually higher than the FRP.

Sugar pricing Policy

- Price of sugar are market driven & depends on demand & supply of sugar. However, with a view to protect the interests of farmers, concept of **Minimum Selling Price (MSP) of sugar** has been introduced.
- MSP of sugar has been fixed **taking into account the components of Fair & Remunerative Price (FRP) of sugarcane and minimum conversion cost of the most efficient mills.**

Some recent steps taken by the government

- **Changes in levy of duty:** The import duty was increased from 50% to 100%, along with the removal of the 20% export duty.
- **Duty Free Import Authorisation Scheme:** under which exporters are allowed to import sugar at zero duty within three years.
- **Export allowed:** The government allowed export of two million tonnes of sugar until the end of the 2017-18 marketing year, in order to clear surplus stocks and improve cash flow to millers for making payment to sugarcane farmers.
- **Stock holding limit on sugar mills**: by the Central Government since June, 2018 indicating the mill-wise quantity of white/ refined sugar prescribed for domestic sale/despatch for that particular month.

    - Government has fixed the **maximum monthly sugar sale quota** and **minimum ex-mill sugar sale price** under this.
- **Building of buffer sugar stock of 30 lakh tonnes:** in order to cut the large inventory with sugar mills and help contain a slide in the prices of the sweetener and boost the mills' margins.
- **Other subsidies:** The government also provided production subsidy, transport subsidy and 50 lakh tons export quotas.
- **Ethanol Blending Program:** The Central Government notified the mandatory 10% ethanol blending with petrol across the country.
    - **New Bio-fuel Policy in 2018** allows sugar mills/distilleries to make ethanol from cane juice, molasses, foodgrains, potato etc. It also envisages an indicative target of 20% blending of ethanol in petrol and 5% blending of bio-diesel in diesel by 2030.

Scheme to enhance ethanol distillation capacity in the country

- Cabinet **extended interest subvention to distilleries that use crops other than sugarcane** (rice, maize, sorghum, wheat, barley, corn and sugar beet) as feedstock to augment 1st Generation (1G) ethanol production capacity
    - So far, soft loan scheme **was available for distilleries producing ethanol only from sugarcane.**
- Government is also encouraging distilleries to **produce ethanol from maize; & rice available with Food Corporation of India.**
    - Government has fixed **remunerative price of ethanol from maize & rice.**
- **About Ethanol Blending:**
    - Bio ethanol is an alcohol produced from **fermentation of carbohydrate and cellulosic material of crops** and other plants and grasses.
    - Current level of ethanol blending for petrol is around 5%.

6.8. KEY CONCEPTS AND ENTITIES IN NEWS

Tariff Rate Quota (TRQ) Scheme	• TRQs are established under trade agreements between countries. • TRQ Scheme allows a set quantity of **specific products to be imported at a low or zero rate of duty.** • Under this scheme**, Government allows import of four products:** maize (corn); "milk and cream in powder, granules"; crude sunflower seed or safflower oil and refined rape, colza or mustard oil. • Recently, Centre has notified norms for **import of 5 lakh tonnes of maize at a concessional customs duty of 15** %, under TRQ scheme.

Rastriya Kamdhenu Aayog (RKA)	• RKA will hold a countrywide online examination on 'gau vigyan' (cow science).
	• RKA is a permanent apex advisory body, **under Department of Animal Husbandry and Dairying,** to
	  o Organize **animal husbandry on modern and scientific lines.**
	  o Take steps for **preserving and improving breeds.**
	  o **Prohibit the slaughter, of cows and calves** and other milch and draught cattle.
	• It functions as an **integral part of Rashtriya Gokul Mission** (a project under National Programme for Bovine Breeding and Dairy Development).

KRITAGYA Hackathon	• With an aim to promote **potential technology solutions for enhancing farm mechanization with special emphasis on women-friendly equipment**, the Indian Council of Agricultural Research (ICAR) has announced KRITAGYA (Krishi-Taknik-Gyan) hackathon under the **National Agricultural Higher Education Project (NAHEP).** o NAHEP aims to develop resources and mechanism for supporting infrastructure, faculty and student advancement, and providing means for better governance and management of agricultural universities. The project is **proposed on 50:50 cost sharing basis between the World Bank and the Government of India**, implemented at the Education Division, ICAR, New Delhi. • **Students, faculties, and innovators or entrepreneurs** from universities and technical institutions can apply and participate in the event in the form of a group.

7. INDUSTRY AND ASSOCIATED ISSUES

7.1. COMPANIES (AMENDMENT) ACT, 2020

Why in News?

Recently, Companies (Amendment) Act, 2020 was amended.

Background

- Companies (Amendment) Act, 2020 has been based on Company Law Committee (CLC) which was set up under the **Chairmanship of Shri Injeti Srinivas** in 2019.
- CLC was constituted with a view to **decriminalize offences and provide ease of doing business as part of the government's COVID-19 relief package** to the corporates and other stakeholders.

About Companies Act 2013

- This law regulates **incorporation of a company, responsibilities of a company, directors**, dissolution of a company.
- It also introduced mandatory **Corporate social responsibility (CSR) contributions** for large companies.
- National Financial Reporting Authority (NFRA) and National Company Law Tribunal (NCLT) is established under this act.

Key amendments made

- **Decriminalising offenses:** Amendment removes the penalty, imprisonment for 9 offenses which relate to non-compliance with orders of the national company law tribunal (NCLT) and reduces the amount of fine payable in certain cases.
  - However, there will be **no relaxation for serious offences, including fraud** and those that cause "injury to public interest or deceit".
  - Also, under the Act, **one-person companies or small companies are only liable to pay up to 50% of the penalty** for certain offences.
    - ✓ Amendment **extends this provision to all producer companies and start-up companies.**
- **Exclusion from listed companies:** Amendment empowers the Centre in consultation with the SEBI, to exclude companies issuing specified classes of securities from the definition of a "listed company".
- **Producer companies:** Under the 2013 Act, certain provisions from the Companies Act, 1956 continue to apply to producer companies. These include provisions on their membership, conduct of meetings, and maintenance of accounts.
  - **Amendment removes these provisions** and adds a **new chapter in the Act with similar provisions on producer companies** which will particularly benefit to Farmers Producer companies.
- **Corporate Social Responsibility (CSR):** Under 2013 Act, companies with net worth, turnover or profits above a specified amount are required to constitute CSR Committees and spend 2% of their average net profits in the last three financial years, towards its CSR policy.
  - Now, Amendment **exempts companies with a CSR liability of up to Rs 50 lakh a year from setting up CSR Committees.** Also, eligible companies under CSR provision will be allowed to set off any amount spent in excess of their CSR spending obligation in a particular financial year towards such obligation in subsequent financial years.
- **Benches of NCLAT:** Amendment seeks to **establish benches of the National Company Law Appellate Tribunal in New Delhi.**
- **Remuneration to non-executive directors:** Amendment extends special provisions for payment of remuneration to non-executive directors, including independent directors if the company has inadequate or no profits in a year.

Related News

Factoring Regulation (Amendment) Bill, 2020

- Recently, The Factoring Regulation (Amendment) Bill, 2020 was passed in Lok Sabha.
- It seeks to **amend Factoring Regulation Act, 2011** to widen scope of entities which can engage in factoring business.
- Bill seeks to help micro, small and medium enterprises by providing **additional avenues for getting credit facility,** especially through **Trade Receivables Discounting System (TReDS).**
  - TReDS is an electronic platform for facilitating the **financing and discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers.**
    - **These receivables can be due from corporates and other buyers,** including Government Departments and Public Sector Undertakings.

- Receivable Exchange of India was set up by SIDBI in National Stock Exchange in 2016 for this purpose.
- 2011 Act was enacted to **provide for regulating the assignment of receivables to factors, registration of factors carrying on factoring business** and the rights and obligations of parties to the contract for assignment of receivables.
  - **Factoring business** is a business where an entity (referred as factor) acquires the receivables of another entity (referred as assignor) for an amount.
  - **Receivables** is the total amount that is owed or yet to be paid by the customers (referred as the debtors) to the assignor for the use of any goods, services or facility.
  - **Factor** can be a bank, a registered non-banking financial company or any company registered under the Companies Act.

7.2. BUSINESS REFORM ACTION PLAN- EASE OF DOING BUSINESS RANKING

Why in News?

Recently, **Department of Industrial Promotion and Internal Trade (DPIIT) in collaboration with World Bank,** released 4th edition of Business Reform Action Plan (BRAP) ranking of states.

About BRAP

- DPIIT has developed **BRAP for State Reforms since 2015** and circulated it with States/UTs for implementation. It is designed keeping in mind 2 factors viz. Measurability and Comparability across States.
- Under BRAP, **DPIIT provides a set of recommendations meant to reduce the time and effort spent by businesses on compliance with regulation.**
  - It also recommends all states have a **single-window system** that provides all necessary information on permits and licenses required for starting a business.
  - DPIIT recommends that the **duration of licenses be extended or that they be renewed automatically** based on self-certification or third-party verification.
  - A state is also rewarded if a **set of regulations (like labour or environment laws) are not applicable to it.**
- BRAP aims to achieve larger **objective of attracting investments and increasing Ease of Doing Business (EoDB) in each State** by introducing an element of healthy competition through a system of ranking.

TABLE: EASE OF DOING BUSINESS RANK, TOP 10 IN 2019

STATE	2015	2016	2017	2018
Andhra Pradesh	2	1	1	1
Uttar Pradesh	10	14	12	2
Telangana	13	1	2	3
Madhya Pradesh	5	5	7	4
Jharkhand	3	7	4	5
Chhattisgarh	4	4	6	6
Himachal	17	17	16	7
Rajasthan	6	8	9	8
West Bengal	11	15	10	9
Gujarat	1	3	5	10

BRAP Report 2018-19

- **It includes 180 reform points covering 12 business regulatory areas** such as Access to Information, Single Window System, Labour, Environment, etc.
  - For the first time since its inception in 2015, the **BRAP rankings relied entirely on the feedback it received from the businesses** for whom these reforms were intended.
- States are required to submit proof of implementing each reform on the DPIIT's EoDB portal and submit a list of users of these reforms.
- **Ranking categorises states as:** Top Achievers (Above 95% compliance); Achievers (90 - 95%); Fast Movers (80 - 90%); Aspirers (Below 80%).

Related News

Recently, new guidelines aim to improve Ease of Doing Business of IT Industry particularly Business Process Outsourcing (BPO) and IT Enabled Services (ITES).

- **OSPs are entities providing applications services, ITES or any kind of outsourcing services using telecom resources.** The term refers to BPOs, Knowledge Process Outsourcing (KPOs), call centres, amongst others.
- **According to new guidelines:**
  - **No registration certificate will be required for OSP centres** in India.
  - BPO industry engaged in data related work have been taken out of the ambit of OSP regulations.
  - OSPs **may operate under Work From Home, Work From Anywhere in India.**
- It will allow BPOs and ITES firms to **cut down cost of location, rent for premises and other ancillary costs, reducing compliance burden etc. and will make India a preferred destination for investment in BPOs and KPOs.**

7.3. AMENDMENTS TO PUBLIC PROCUREMENT ORDER, 2017

Why in news?

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

Key highlights of the amended order

- Enables nodal Ministries/ Departments to **notify higher minimum 'local content' requirement** for Class-I & Class-II local suppliers.
  - Earlier, Class-I local suppliers were defined as those having local content equal to or more than 50%, Class-II suppliers as having local content between 20% and 50%.
  - **Local content is defined** as the total value of the item procured less the value of imported content in the item as a proportion of the total value.
- Specifying **foreign certifications/ unreasonable technical specifications/ brands/ models** in the bid document is considered restrictive and discriminatory practice against local suppliers.
  - Foreign certification shall be stipulated **only with approval** of Secretary of the Department concerned.
- Entities of **countries which do not allow Indian companies to participate in their government procurement for any item, shall not be allowed to participate** in government procurement in India for all items related to that nodal ministry or department, **except** for the list of items published by the ministry or department permitting their participation.
- All administrative Ministries/ Departments whose procurement exceeds Rs. 1000 Crore per annum shall **notify their procurement projections for the next 5 years** on their respective website.
- An **upper threshold value of procurement beyond which foreign companies shall enter** into a joint venture with an Indian company to participate in government tenders shall be notified.

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

- It was issued under **General Financial Rules 2017** to promote domestic value addition in public procurement.
- Under this, as revised in June 2020, only Class-I and Class-II local suppliers are eligible to bid in procurement of all goods, services or works, and with estimated value of **purchases less than Rs. 200 crores.**
  - Global tender enquiry **can be issued with the approval of the competent authority** for purchases less than Rs. 200 crores.
- It is applicable on **procurement of goods, services and works (including turnkey works)** by a Central Ministry, Department, attached, subordinate offices, autonomous bodies controlled by the Government of India, Government companies, their Joint Ventures and Special Purpose Vehicles.
- For the verification of the local content, **self-certification would be necessary**. Nodal Ministries may also constitute committees with internal and external members for independent verifications of the self-declarations.
- A committee in **Department for Promotion of Industry and Internal Trade** will oversee the implementation of this order.

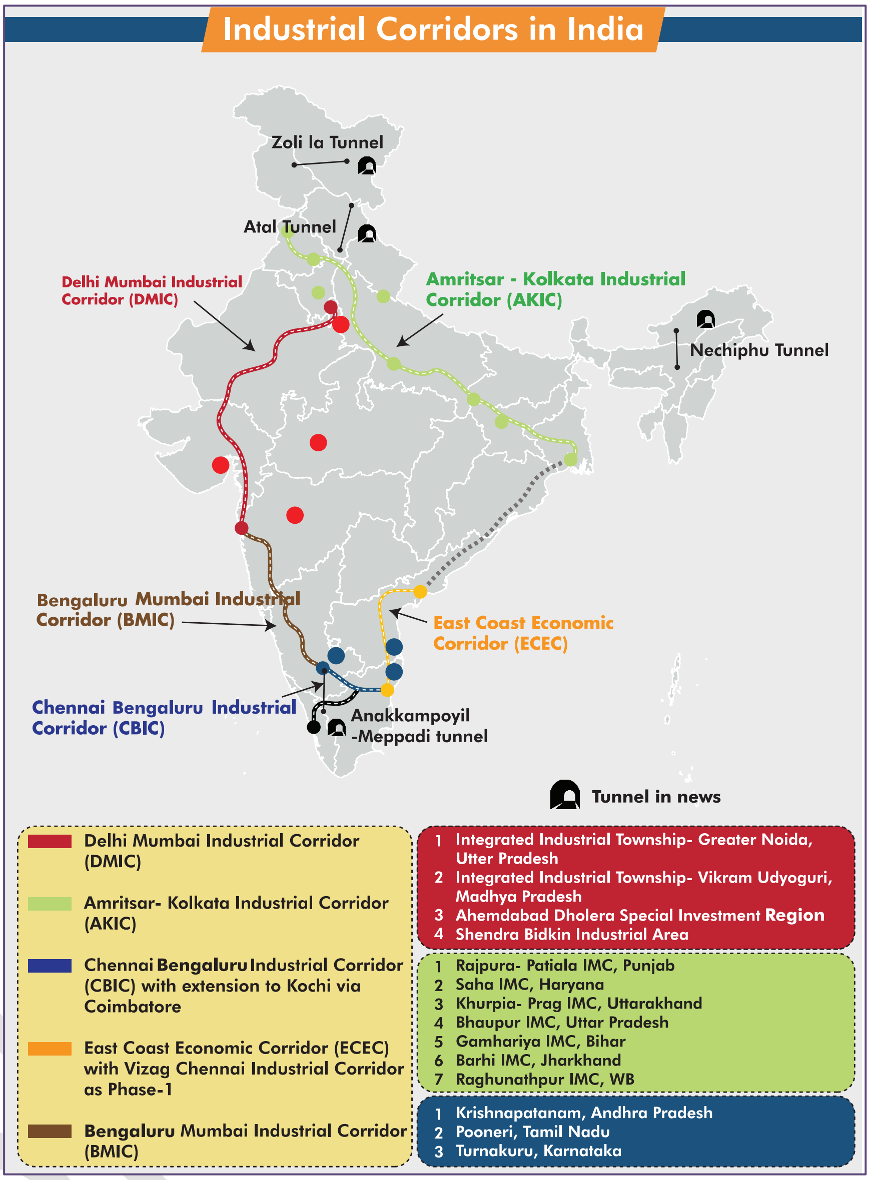
Other measures for promotion of local supplies in public procurement

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

7.4. INDUSTRIAL CORRIDOR

Why in News?

Recently, the Cabinet Committee on Economic Affairs (CCEA) has approved industrial corridor nodes in South and logistics hub in UP.



About the News

- CCEA approved construction of **industrial corridor nodes** at Krishnapatnam in Andhra Pradesh and Tumakuru in Karnataka **under Chennai-Bengaluru Industrial Corridor (CBIC).**
- Industrial nodes at strategic locations are proposed to be **developed within the Industrial corridor to provide**
    - **Greenfield industrial cities** with sustainable, 'plug n play', ICT enabled utilities.
    - **Land parcels for immediate allotment** for attracting investments into manufacturing.
    - **World-class infrastructure, road and rail connectivity for freight movement** to and from ports and logistic hubs along with reliable power and quality social infrastructure.
- **CBIC will address infrastructure bottlenecks** while benefiting from strengths and competitiveness of each CBIC states (viz. Tamil Nadu, Karnataka, Andhra Pradesh).
- Also, **Multi Modal Logistics Hub (MMLH) & Multi Modal Transport Hub (MMTH) was approved** (at Greater Noida) with a view to make India a strong player in global value chain.

7.5. PRODUCTION LINKED INCENTIVE (PLI) SCHEME

Why in news?

Recently, the Government had announced addition of 10 sectors to the Production Linked Incentive (PLI) Scheme.

What is Production Linked Incentive (PLI)?

Production Linked Incentive refers to a **rebate given to producers**. This rebate is calculated as a **certain percentage of sales of the producer** (sales referred in it can be total sales or incremental sales). For example, **PLI scheme for Electronics Sector offered a rebate of 4-6% on the incremental sales of the producer.**

Government announcement and PLI Scheme in India

Before this announcement, the Centre had rolled out the PLI scheme already for **Mobile Manufacturing and Specified Electronic Components, Critical Key Starting materials/Drug Intermediaries and Active Pharmaceutical Ingredients** and **Manufacturing of Medical Devices.**

With this announcement, the Government has expanded this scheme to 10 more sectors with incentives worth 2 lakh crore over a 5-year period. The additional sectors are:

- Advance Chemistry Cell (ACC) Battery
- Electronic/Technology Products
- Automobiles & Auto Components
- Pharmaceuticals drugs
- Telecom & Networking Products
- Textile Products: MMF segment and technical textiles
- Food Products
- High Efficiency Solar PV Modules
- White Goods (ACs & LED)
- Specialty Steel

The **final proposals** of PLI for individual sectors will be appraised by the **Expenditure Finance Committee (EFC) and approved by the Cabinet**. Savings, if any, from one PLI scheme of an approved sector can be utilized to fund that of another approved sector. **Any new sector for PLI will require fresh approval of the Cabinet.** With regard to nature of the scheme, following can be cited as key features of the PLI Scheme-

- The **scheme is outcome-based**, which means that incentives will be disbursed only after production has taken place.
- The calculation of incentives is **based on incremental production** at a high rate of growth.
- The scheme **focuses on size and scale** by selecting those players who can deliver on volumes.
- The **selection of sectors** covering cutting-edge technology, sectors for integration with global value chains, job-creating sectors and sectors closely linked to the rural economy**, is highly calibrated**.
- Also, the design of the earlier PLI scheme for electronics is such that it is **compatible with World Trade Organization commitments** as the quantum of support is not directly linked to exports or value-addition.

7.6. MSME SECTOR

MSME Sector in India

- Micro, Small, and Medium Enterprises in India are **classified as per a Composite Criteria** based on Investment in Plant & Machinery/equipment and Annual Turnover (see table).

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises Rendering Services	Investment <₹ 1 Crore and Annual Turnover < ₹ 5 Crore	Investment <₹ 10 Crore and Annual Turnover < ₹ 50 Crore	Investment <₹ 50 Crore and Annual Turnover < ₹ 250 Crore

Significance of MSME Sector

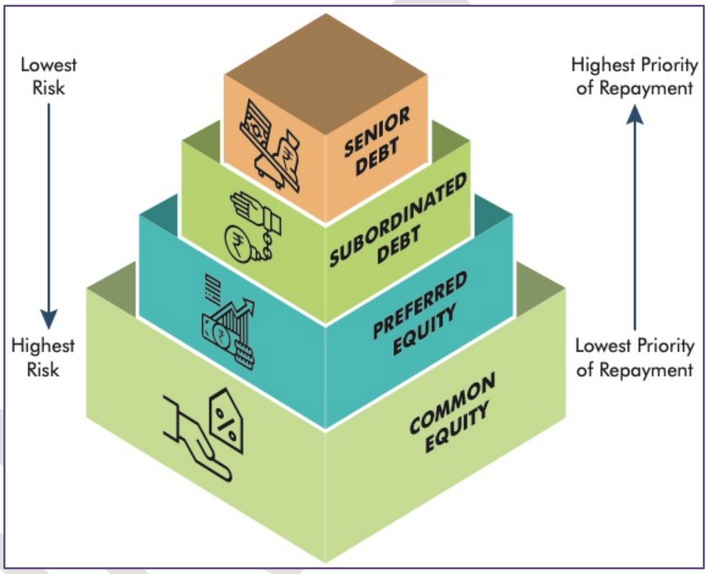
55.8 Million enterprises employing 124 Million People	Accounts for 29% of India's GDP and 45% of exports	Also Plays a role in - Income augmentation - Rural infrastructure - Women empowerment - Promotion of traditional goods etc.

Government Initiatives for Financial Support to MSMEs under Atmanirbhar Bharat package

- **Emergency Credit Line Guarantee Scheme (ECLGS):** Under the Scheme, 100% guarantee coverage to be provided by National Credit Guarantee Trustee Company Limited (NCGTC) for **Collateral Free Automatic**

Loans up to **Rs. 3 lakh crores** to eligible MSMEs and interested MUDRA borrowers, in the form of a **Guaranteed Emergency Credit Line (GECL)** facility.
  - GECL is a loan for which 100% guarantee would be provided by National Credit Guarantee Trustee Company to Member Lending Institutions (MLIs).
- **Fund of Funds created to infuse equity worth Rs.50,000 crore** in the MSME Sector to help potential MSMEs in expansion.
- **Credit Guarantee Scheme for Sub-ordinate Debt (CGSSD):** Guarantee cover worth Rs. 20,000 crores will be provided to the promoters who can take debt from the banks to further invest in their stressed MSMEs as equity.
  - It is being operated by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE). **CGTMSE will guarantee 90% of the subordinate debt** given by the banks, with the remaining 10% being covered through a collateral put up by the borrower.
- **Global tenders to be disallowed** for Government tenders up to Rs.200 crore to enable MSMEs to participate in the Government procurement process.
- **ICT based system 'CHAMPIONS' portal:** has been launched by the Ministry of MSME. The portal will help in handholding MSMEs, providing guidance to grab the new business opportunities and in the long run, become national and international Champions.
  - It is **fully integrated with Centralized Public Grievance Redress and Monitoring System (CPGRAMS)** and MSME Ministry's own other web-based mechanisms.

MSME will now be known as Udyam
- Recently, Ministry of MSME has come out with guidelines for classification and registration of MSMEs.
- Also, **Udyam Registration can be filed online based on self-declaration** with no requirement to upload documents, papers, certificates or proof.



Related News

ANIC-ARISE (Atal New India Challenges in Applied Research and Innovation for Medium and Small Enterprises) Launched
- It is a program launched by Atal Innovation Mission **to promote research & innovation and increase competitiveness of Indian startups and MSMEs.**
  - It provides funding support of up to Rs 50 lakh for speedy development of the proposed technology solution and/or product.
- It will be driven by **Indian Space Research Organization (ISRO), four ministries**—Ministry of Defence; Ministry of Food Processing Industries; Ministry of Health and Family Welfare; and Ministry of Housing and Urban Affairs—and associated industries.

Bharat Craft Portal
- It is an e-commerce portal planned by **Ministry of Micro, Small and Medium Enterprises (MSME),** last year, for marketing of products manufactured by MSMEs in the country.
- However, it is **yet to take off** due to lack of a business plan, the unavailability of a technology partner, and shortage of funds.

7.7. TEXTILE INDUSTRY INITIATIVES

7.7.1. TECHNICAL TEXTILES

Why in News?

Ministry of Textiles seeks proposals to setup an Export Promotion Council (EPC) for Technical Textiles.

About the news

- It aims to **promote international trade of Technical Textiles.**
  - Currently, most of the exporters of technical textiles go through the EPCs for other products.

- Dedicated EPC for technical textiles **is one of the components of the National Technical Textiles Mission** launched this year.
    - NTTM was launched to position the country as a global leader in technical textiles.
    - It aims at an **average growth rate of 15-20% to increase the domestic market size of technical textiles to $ 40-50 Bn by the year 2024.**
- Technical textiles are **textile materials and products manufactured primarily for their technical performance** and functional properties rather than aesthetic and decorative characteristics.
    - They are **used individually or as a component/ part of another product** to enhance its functional properties.
    - They have been **divided into 12 major segments** (see infographic).
    - Technical textile accounts for **approximately 13% of India's total textile and apparel market and contributes to India's GDP at 0.7%.**

7.8. STEEL INDUSTRY

Why in News?

The government is mulling a comprehensive steel policy in a bid to push Atmanirbhar Bharat in the steel sector.

About the News

- Move is aimed to **cut import dependence** and steer steel sector towards self-reliance.
    - India is **second-largest steel producer and consumer in the world** and sector accounts for 2.3% of the country's GDP.
- **Various suggestions include:**
    - Government is **examining border adjustment tax (BAT)** on imports.
        - ✓ **BAT** is a duty imposed on imported goods in addition to the customs levy that gets charged at port of entry. This creates a level playing field for domestic producers.
        - ✓ **WTO rules allow for the adjustment of certain types of internal taxes** at border under certain conditions like
            - Tax must be applied **equally to imports and "like" domestic products.**
            - Tax must be **borne by a product and not be direct.**
            - Tax must **not subsidize exports.**

KEY CONSTRAINT
factors affecting domestic steel cost

Finance	30-35
Logistics & infrastructure	25-30
Power	8-12
Taxes, duties on iron ore	8-12
Import duty on coal	5-7
Clean energy cess	2-4
Total Cost disadvantage	80-100

Trends in india's Steel exports and imports

Year	Exports	Imports
FY17	10.9	7.9
FY18	11.7	8.2
FY19	8.4	8.8
FY20 (April-July)	1.5	2.5

Initiatives for Steel Industry

- **Mission Purvodaya:** The mission was launched by **Ministry of Steel** in partnership with CII and Joint Plant Committee for **Accelerated development of eastern India through integrated steel hub in Kolkata, West Bengal.**
    - The scheme would encompass Odisha, Jharkhand, Chhattisgarh, West Bengal and Northern part of Andhra Pradesh.
    - It aims to **enable swift capacity addition and improve overall competitiveness of steel producers** both in terms of cost and quality.
- **DMI&SP policy was introduced in 2017 to promote growth and development of domestic steel Industry** and **reduce the inclination to use, low quality low cost imported steel** in Government funded projects.
    - DMI&SP are those **iron and steel products which are manufactured by entities** that are registered and established in India, including in SEZs.
    - It was **applicable to all Ministries & Departments** of Government.
    - It is applicable to supply of iron & steel products having **aggregated estimate value of more than Rs 25 Crores.**
- In June 2020, **anti-dumping duty was imposed on imports** of some steel products originating from China, Vietnam, South Korea.
- In 2017, **National Steel Policy** was launched with an aim to scale up India's steelmaking capacity to 300 million tonnes by 2030.

Related News

Ministry of Railways releases 'Iron-ore Policy 2021' governing allocation of rakes and transportation of iron-ore

- It aims to **meet the complete requirement of transportation of iron ore customers.**
    - Higher priority will be given to the movement of iron-ore traffic for **domestic manufacturing activity.**
    - Provide total **logistics support to steel industry to meet the competitive challenges** domestically and globally.
    - Provide **impetus to the core sector of the economy** and boost the country's economic growth.
- Iron ore is the **second most important stream of traffic of Railways and along with steel after coal.**
    - **India is the fourth largest iron ore producing country.**
- **Earlier, under 'Freight Equalisation Policy (FEP), 1952'** long-distance transportation of iron, steel, cement and the like minerals was subsidized by the central government.
    - The **policy was intended to redistribute natural resources so as to provide equal access to everybody.**
- However, it **deprived the resource surplus states** like Bihar, Odisha from Industrial development and was eventually scrapped in 1993 after India's economy was liberalised.

7.9. SOLAR MANUFACTURING IN INDIA

Why in news?

Recently, India has received proposals for setting up **10 GW of solar equipment manufacturing capacity.**

Present capacity of solar manufacturing

- India's **renewable energy generation capacity is the fourth largest in the world** (currently 136 GW which is 36% of total capacity). It is growing at the fastest speed among all major countries.

- The nation has around **9 GW of annual solar module manufacturing capacity and around 3 GW of annual solar cell production** capacity.
  - **A solar cell is the basic building block** of a solar module.
- India needs to increase its solar manufacturing capacity and overcome challenges faced in increasing this capacity.
- At the inauguration of 3^{rd} **Global Renewable Energy Investment Meeting and Expo (Global RE-INVEST),** PM highlighted that India's demand for solar energy is creating a market opportunity worth $20 billion annually.
  - **Global RE-INVEST** is renewable energy investors Meet & Expo, organised by Ministry of New and Renewable Energy in collaboration with the World Bank and others.

Main technologies utilised for harnessing solar energy
• **Solar Photovoltaics (PV):** It is based on the photovoltaic effect, by which a photon (the basic unit of light) impacting a surface made of a special material generates the release of an electron. • **Concentrating Solar Power (CSP):** It uses sunlight to heat a fluid (depending on the particular application, it can be water or other fluid)

Related News
SEZ-based solar manufacturers oppose basic customs duty (BCD) • The Centre's decision to implement a basic customs duty (BCD) on solar equipment imports has caused substantial consternation among a large group of domestic solar gear manufacturers. • **About the News** o Solar equipment makers have pointed out that local solar factories in **SEZs will have to shut down if the government levies a BCD on the import of solar cells and modules** without providing a level-playing field to these manufacturing units. o If the BCD is imposed, those in the domestic tariff area who buy cells and modules from the SEZ units will have to pay the duty under the 2005 SEZ Act. o **BCD** is a type of duty or tax imposed under the Customs Act, 1962. **750 MW Rewa Solar Project (Asia's largest single-site solar power plant)** • Developed by Rewa Ultra Mega Solar Limited, it is **first solar project** in country to break **grid parity barrier.** o Grid parity happens when **alternative energies – like solar – costs less than, or equal to, the electricity from conventional energy** forms like coal. • **India has an annual solar cell manufacturing capacity of about 4 GW** while the average annual demand is 10-15 GW.

7.10. KEY CONCEPTS AND ENTITIES IN NEWS

Software Product Development Fund (SPDF)	• MEiTY Proposed **Software Product Development Fund (SPDF)** aims to deploy **domestic capital into India's software products ecosystem**, as economy reopens after two-month lockdown. o SPDF was first announced in **National Policy on Software Products (NPSP) 2019.** o It will have a corpus of 5000 crore with 1000 crore from government and remaining from Industry. o It will: ✓ participate in venture fund **to provide risk capital** for **scaling up of market ready Software Products.** ✓ **fill gap between capital requirements** of technology and knowledge-based software product start-up enterprises and funding available from traditional institutional lenders such as banks. • **NPSP 2019** has **5 missions:** o Aiming **ten-fold increase in share of Global Software product market** by 2025. o Nurture **10,000 technology startups**, with 1000 such technology startups in Tier-II and Tier-III cities. o Create **talent pool for software product industry.** o Build **cluster-based innovation driven ecosystem**. o **National Software Products Mission** to be set up.
National Productivity Council (NPC)	• NPC is **autonomous organization** under **Department for Promotion of Industry and Internal Trade** (Ministry of Commerce & Industry) to promote productivity culture in India. • It is **tri-partite non-profit organization** with equal representation from government, employers and workers' organizations. • NPC has been **granted accreditation conforming to ISO 17020:2012** by National Accreditation Board for Certification Body, Quality Council of India for undertaking inspection and audit work **in the area of Food Safety Audit and Scientific Storage of Agricultural Products**. o It **will enable NPC to undertake Independent Third-Party Audits** of Food Business Operators.

Apparel Export Promotion Council	• AEPC is the **official body of apparel exporters in India** that provides assistance to Indian exporters as well as importers/international buyers who choose India as their preferred sourcing destination for garments. o It aims to **promote, support and facilitate Indian apparel industry** to enhance its competitive advantage and global positioning. • It is sponsored by **Ministry of Textiles.**
Limited Liability Partnership	• It is an **alternative corporate business vehicle** that provides the benefits of limited liability of a company, but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. o LLP is governed by the provisions of the **LLP Act, 2008.** • LLP as a separate legal entity, is **fully liable of its assets but liability of the partners is limited** to their agreed contribution in the LLP. o It limits the liability of partners as far as civil cases are concerned. o In such a partnership, partners can't be held liable for another's misconduct or negligence.
Industry Status (to Sports)	• Mizoram became the **first state** to grant industry status to sports. • It is expected to **increase investments in sports,** generating employment and increasing value.
Automotive Solutions Portal for Industry, Research and Education (ASPIRE)	• Developed by **International Centre of Automotive Technology (ICAT).** o ICAT is an automotive testing, certification and R&D service provider under the aegis of **NATRiP (National Automotive Testing and R&D Infrastructure Project).** o It is an initiative of **Department of Heavy Industry (DHI), Ministry of Heavy Industries and Public Enterprises.** • **Key objective** of this portal is to **facilitate the Indian Automotive Industry to become self-reliant** by assisting in innovation and adoption of global technological advancements by bringing together the stakeholders from various associated avenues.

8. INFRASTRUCTURE SECTOR

8.1. RECENT INFRASTRUCTURE INITIATIVES

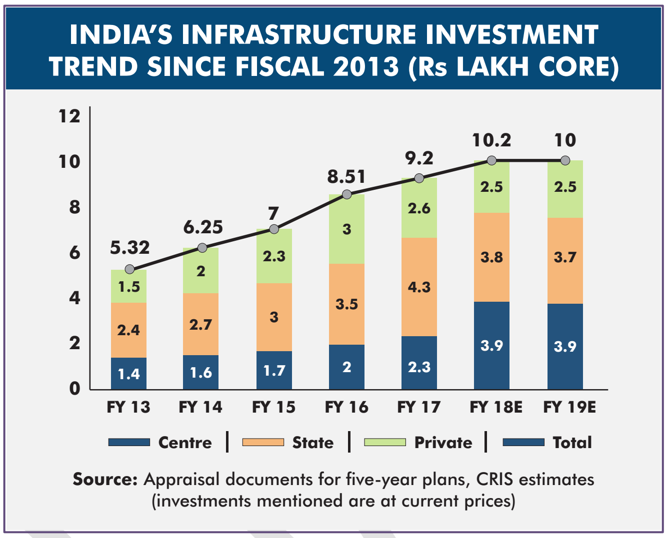
8.1.1. NATIONAL INFRASTRUCTURE PIPELINE

Why in news?

Finance Minister recently launched an Online Dashboard for National Infrastructure Pipeline (NIP).

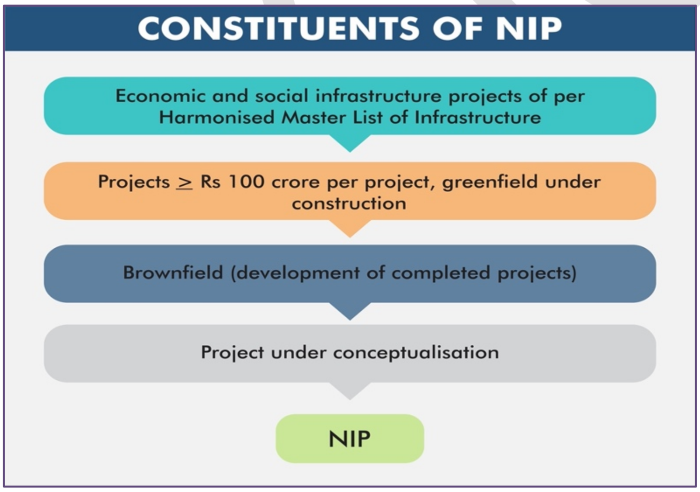
More on News

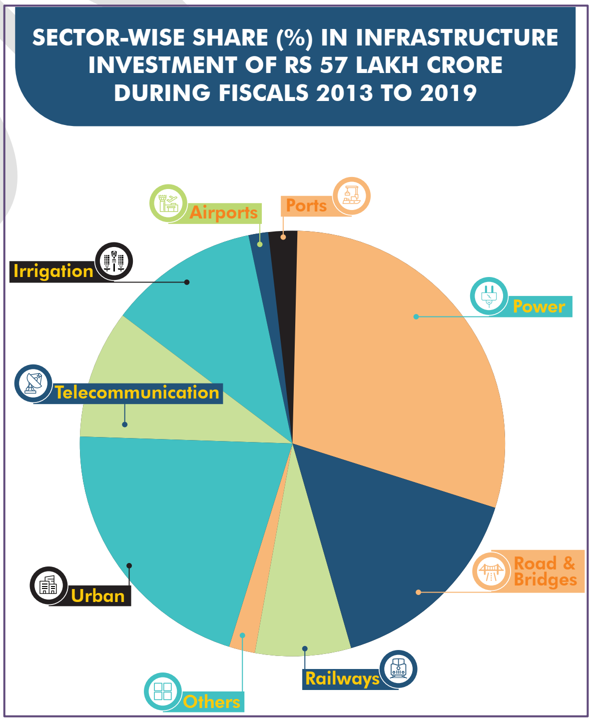
- Online dashboard is envisaged as a one stop solution for all stakeholders looking **for information on infrastructure projects in India.**
- Dashboard is being **hosted on the India Investment Grid (IIG),** an interactive online platform that showcases updated & real-time investment opportunities in the country.
    - IIG is an **initiative of Department for Promotion of Industry & Internal Trade** (Ministry of Commerce) **and Invest India** (national investment promotion and facilitation agency).



National Infrastructure Pipeline (NIP)

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





8.1.2. NATIONAL PROGRAM AND PROJECT MANAGEMENT POLICY FRAMEWORK (NPMPF)

- NPMPF, launched by NITI Aayog and Quality Council of India (QCI), **envisages radical reforms in the way infrastructure projects are executed in India.**
    - NPMPF will help in developing **good quality infrastructure, robust governance and reducing costs and waste material,** without compromising on the environment and ecology.

- NPMPF will provide coherent execution approach that forms a **crucial link between the portfolios of projects and their component strategic disciplines** to ensure smooth execution of the projects.
  - As per the Economic Survey 2017-18, **India will require investments of around $4.5 trillion by 2040** to develop the infrastructure for sustaining its economic growth.
- **NPMPF provides an action plan to:**
  - Adopt a **program and project management approach** to infra development.
  - Institutionalize and promote the profession of program and project management and **build a workforce of such professionals.**
  - **Enhance institutional capacity and capability** of professionals.

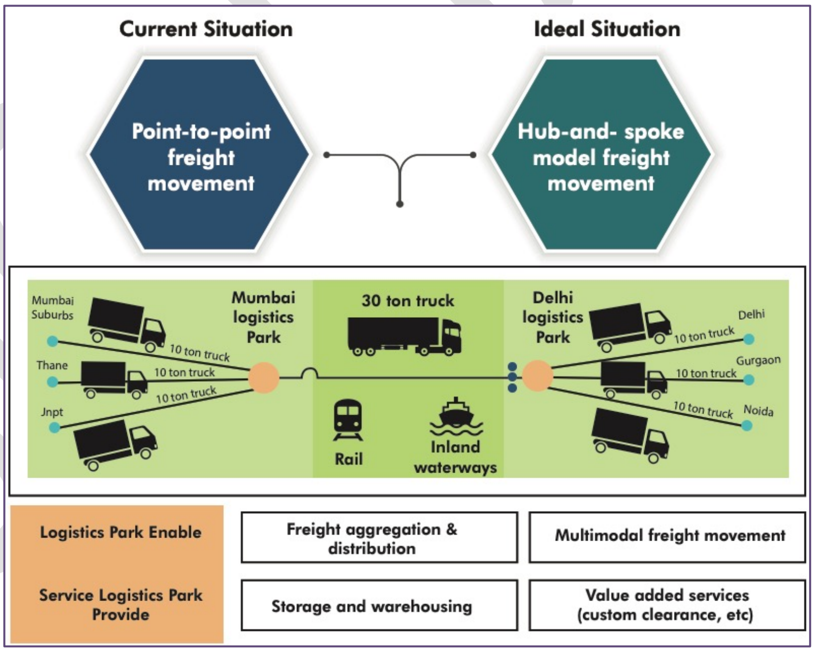
8.2. LOGISTICS SECTOR

Why in news?

India's first ever multi-modal logistic park (MMLP) to be set up at Jogighopa in Assam.

About the news

- MMLP is the refined form of Logistics Park where **various value-added services are rendered in addition to rail/road based transportation.**
- MMLP will be developed **under Bharatmala Pariyojna** and will provide direct air, road, rail and waterways connectivity to the people.
  - Earlier in 2017, a program was launched to develop **35 MMLPs across the country .**
  - **Draft National Logistics Policy** also emphasizes on the development of MMLPs.
- Development of MMLPs at strategic locations **will rationalize logistics cost in India and improve its competitiveness.**
  - **At 13%–14% of GDP, logistics costs are far higher** than the global benchmark of 7%–8%.
- **Higher logistics cost is due to:**
  - **Skewed modal transportation mix**: In India, 60% of freight moves by road.
  - **Underdeveloped material handling infrastructure.**
  - **Procedural complexities** related to toll collections, inter-state freight movement etc.
- **MMLPs can provide**
  - Infrastructure for enabling **seamless multimodal freight transfer**.
  - **Mechanized warehouses** and specialized storage solutions such as cold storage.
  - **Value-added services** such as customs clearance, quarantine zones, testing facilities, and warehousing management services.
  - **Late-stage manufacturing activities** such as grading, sorting, labeling, packaging etc.



Related News

Government considering new law to streamline logistics sector

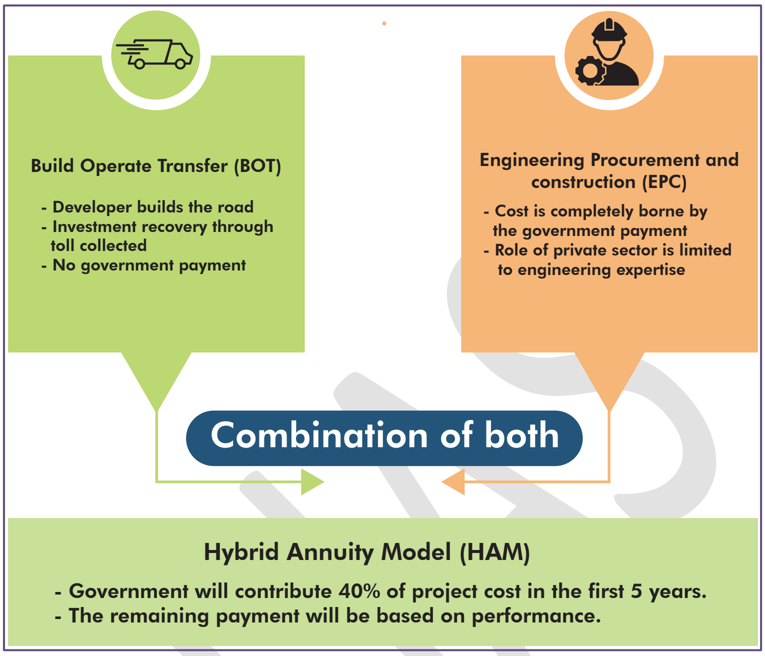
- Ministry of Commerce is considering framing a law, **National Logistics Law Efficiency and Advance Predictability Act (NLLEAP),** to replace Multi-Modal Transportation of Goods Act 1993.
- Through such a law **govt aims to**
  - **Define various participant**s of logistics space and **create a light regulatory ecosystem.**
  - **Reduce the logistics cost,** from present 14% of GDP to less than 10%, as this impacts competitiveness of domestic goods in international market.
  - Improve India's ranking in **Logistic Performance Index (LPI).**
    - ✓ LPI ranking (released by World Bank) is **44th (2018)** out of 160 countries.

8.3. ROADWAYS

8.3.1. MODEL CONCESSION AGREEMENT FOR BOT MODEL

Why in news?

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



Background

- BOT toll model accounted for almost **96% of NHAI's all project awards in 2011-12**, which came down almost to zero in the last two fiscals, due to various issues in existing MCA for BOT (Toll) projects.
- This has forced NHAI to shift to **Engineering Procurement and Construction (EPC) and Hybrid Annuity Model (HAM). (See infographic)**
- However, overdependence on EPC and HAM is **adversely impacting the finances** NHAI. Thus, new changes in BOT model were proposed to attract private investors.
- NHAI will rely on the private sector for constructing more than half of the projects during the current fiscal year since the government **is facing liquidity issues.**

Key features and expected benefits of modified MCA

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

Related information

Toll Operate Transfer (TOT) model

- TOT is a model for monetizing operational national highway projects where **investors make a lump sum payment in return for long-term toll collection rights backed by a sound tolling system.**
- Under TOT, the **highest bidder wins the right to operate and maintain operating road assets for 30 years**, with rights to toll revenues from these assets until then.
- This model is **more attractive for investors as they don't have to build an infrastructure project from scratch.**
- TOT rectifies the **deep risk-sharing weaknesses of BOT(Build operate transfer)** and regularly garners fresh funds for investment.

8.3.2. MOTOR VEHICLE AGGREGATOR GUIDELINES

Why in News?

Recently, the Ministry of Road Transport and Highways has issued the Motor Vehicle Aggregator Guidelines 2020.

About the News

- **Aggregator refers to a digital intermediary** or marketplace for a passenger to connect with a driver for the purpose of transportation. Ola Cabs, Meru and Uber are some of the popular cab aggregators in India.
- **Objectives of issuing these guidelines are:**
  - **Regulating shared mobility** and reducing traffic congestion and pollution.
  - To **provide ease of doing business**, customer safety and driver welfare.
- **Guidelines provide for**
  - **License issued by the State Government is a mandatory requisite** for permitting business operations by the aggregator.
  - For regulating the aggregators, the guidelines specified by the Central Government may be followed by State Governments.
  - Guidelines seek **to establish a regulatory framework for aggregators by State Governments** to ensure that the aggregators are accountable and responsible for the operations executed by them.
  - Proposed Guidelines is **to ensure regulation of aggregators**, compliances with regard to Aggregator App and Website, manner of fare regulation, drivers' welfare, service to citizens parameters and ensuring safety etc.

8.3.3. NATIONAL HIGHWAY AUTHORITY OF INDIA (NHAI)

Why in News?

Recently, NHAI filed an application with SEBI as it plans to offer 19 projects worth Rs 35,000 crore under InvIT model.

More on News

- Union Cabinet in **December 2019 approved NHAI to set up InvIT** under Indian Trust Act, 1882, and complying with Sebi (Infrastructure Investment Trusts) Regulations, 2014.
- Through InvITs, **NHAI aims to monetize its assets** and money raised through monetization would be used for further investment in road sector.
- InvITs are investment **scheme similar to mutual funds that allow investment from individuals and institutional investors** in infrastructure projects to earn a portion of the income as return.
  - It is part of **government's plans to tap alternative sources** of financing to boost public spending in roads and infrastructure sector.
  - **Benefits of InvITs:** Investment becomes more attractive for investors as it provides greater flexibility, Generation of specialized O&M (operation and maintenance) Concessionaires etc.
  - **InvIT would be the NHAI's first asset monetisation model** after it had earlier placed projects under the toll-operate-transfer (TOT) model.
    - ✓ Unlike InvIT, the responsibility of operation and maintenance in the TOT model is vested with the contractor.

About NHAI

- **NHAI was constituted by an Act of Parliament in 1988** under the administrative control of the Ministry of Road Transport and Highways. The authority, however, **became operational in 1995.**
- NHAI has been set up as a C**entral Authority to develop, maintain and manage the National Highways** entrusted to it by the Government of India.
- The Authority consists of a **full time Chairman, and not more than five full time Members** and **four part time Members** who are appointed by the Central Government.

Related News
Data Lake and Project Management Software
It is a **cloud based and Artificial Intelligence** powered Big Data Analytics platform launched by National Highway Authority of India (NHAI).
- With launch of this, NHAI becomes **first construction sector organisation to go 'Fully Digital'**
- All project documentation, contractual decisions and approvals are now being done through portal only.
- It will bring benefits like No delays, Quick decision making, No question of missing records, Work from anywhere/anytime, enhance transparency etc.

8.4. RAILWAYS

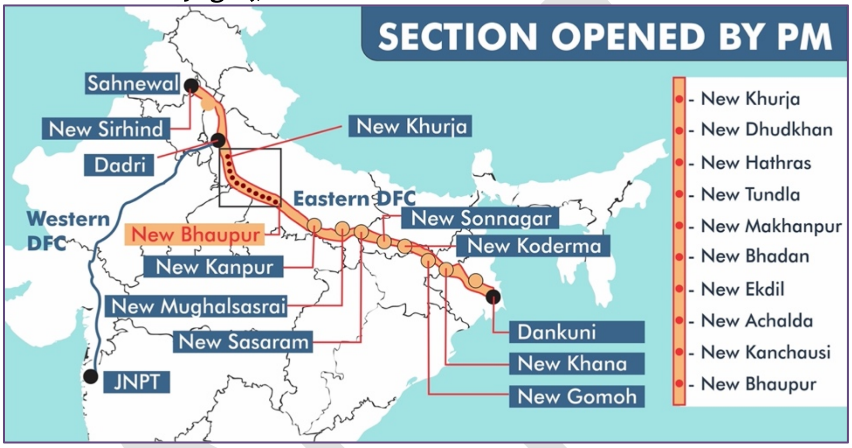
8.4.1. DEDICATED FREIGHT CORRIDORS

Why in news?

The Prime Minister recently inaugurated the New Bhaupur- New Khurja section and the Operation Control Centre of Eastern Dedicated Freight Corridor.

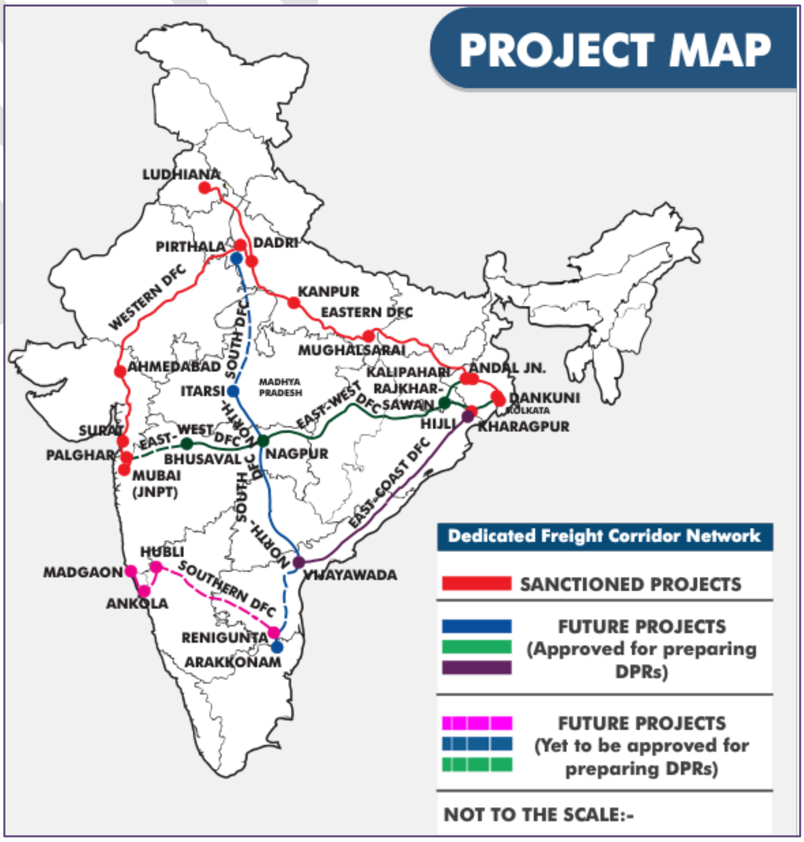
More on news

New Bhaupur- New Khurja section is a **351-km section** between Khurja and Bhaupur in Uttar Pradesh and state-of-the-art **Operation Control Centre is located in Prayagraj, UP.**



Dedicated Freight Corridors

- It is a **high-speed and high-capacity railway corridor dedicated exclusively for freight movement** and built to affirm a higher throughput per train and a more significant share in the freight market.
- **The DFC consists of two arms-** Eastern Dedicated Freight Corridor and Western Dedicated Freight Corridor.
    - Additionally, **four more corridors** namely, East Coast (Kharagpur-Vijaywada), East-West (Kolkata-Mumbai), and North-South (Delhi-Chennai) and Southern (Chennai-Goa) Sub-Corridor **are also in the pipeline.**
- **Eastern Dedicated Freight Corridor (EDFC):**
    - It will be the **1,856 km** long **from Sahnewal in Punjab to Dankuni in West Bengal** having double electrified tracts. It will run across six States.
    - The Corridor is **projected to cater to a number of traffic streams**-
        - **coal for the power plants in the northern region** of U.P., Delhi, Haryana, Punjab and parts of Rajasthan **from the Eastern coal fields,**
        - **finished steel, food grains, cement, fertilizers, lime stone from Rajasthan to steel plants in the east** and
        - general goods.
    - It is also proposed to set up **Logistics Park at Kanpur in U.P. and Ludhiana in Punjab** to be developed on Public Private Partnership mode by creating a sub-SPV for the same.



- **Western Dedicated Freight Corridor (WDFC)**
    - It will be **linking Dadri in National Capital Region (NCR) to Jawaharlal Nehru Port (JNPT) in Mumbai.** It will run across six States and is proposed **to join Eastern Corridor at Dadri.**

- It is proposed to set up Logistics Parks at Mumbai area, Gujarat, Jaipur, & NCR.

- Railways is also planning to **build nearly 4,000-km DFC connecting industrial areas** in eastern and western parts of the country to southern India **through major ports in Odisha and Andhra Pradesh. These DFCs are:**
  - **East Coast corridor** from Kharagpur (West Bengal) to Vijayawada (Andhra Pradesh)
  - **East-West corridor** which includes Bhusaval-Nagpur-Kharagpur-Dankuni (near Kolkata) route, and Rajkharswan-Kalipahari-Andal (West Bengal) route.
  - **North South sub-corridor** Vijayawada-Nagpur-Itarsi (Madhya Pradesh) route.
- The **Dedicated Freight Corridor Corporation of India Limited (DFCCIL)**, responsible for developing the DFC project, recently announced that Indian Railways will be operating its freight trains on 40 per cent of the corridor by 2021.

Dedicated Freight Corridor Corporation of India Limited (DFCCIL)

- It was incorporated as a company under the Companies Act 1956 in 2006 to undertake planning & development, mobilization of financial resources and construction, maintenance and operation of the dedicated freight corridors.
- As the dedicated agency to make the vision into reality, **DFCCIL's mission** is:
  - To build a corridor with appropriate technology that enables Indian railways to regain its market share of freight transport.
  - To set up Multimodal logistic parks along the DFC.
  - To support the government's initiatives toward ecological sustainability.

8.4.2. PRIVATE PARTICIPATION IN RAILWAYS

Why in News?

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

About the recent step

- It would be **the first initiative of private investment for running passenger trains over Indian Railways network** attracting investments of an estimated ₹30,000 crore which is expected to begin in 2023.
  - Trains shall be designed for a **maximum speed of 160 kmph.**
- The **Request for Qualification** has been issued under the **Make in India policy**. So, the coaches would have to be manufactured in India and the local component would be as specified in the policy.
- **Responsibility of Private Entity**:
  - It shall be responsible for **financing, procuring, operation** and maintenance of the trains.
  - The operation of the trains by the private entity shall conform to the **key performance indicators like punctuality, reliability, upkeep of trains** etc.
  - **Private firms will have the freedom to decide fares and stoppages**, and also the basket of services on offer in these trains.
- **Responsibility of IR:**
  - The **driver and guard of the trains** will Railway officials who will operate these trains, maintain track infrastructure etc.
  - The **safety clearance of trains** will be done by Railways only.
- Private sector will be allowed to **run these trains for a 35-year period** in return for a share in the revenues they earn, apart from payments in the form of fixed haulage charges and energy charges for using public infrastructure.

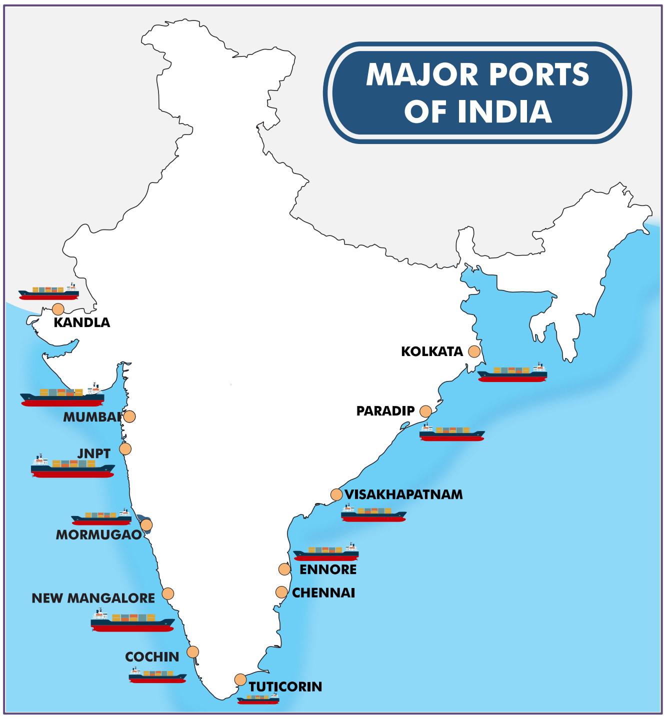
8.4.3. OTHER DEVELOPMENTS WITH REGARD TO RAILWAYS

National Rail Plan (NRP)	• NRP has been drafted **to address the capacity constraints and improve the modal share of Railways & Business.** • **Key highlights of the NRP** ○ **Vision 2024 has been launched** (as part of the NRP) **for accelerated implementation of certain critical projects** such as 100% electrification by 2024, multitracking of congested routes, upgradation of speed etc. ○ **Future projects** (for implementation beyond 2024 in both track and signalling) **have been identified with clear cut timelines for implementation.** ✓ **Three Dedicated Freight Corridors,** namely East Coast, East-West & North-South identified.

	○ **Sustained involvement of the Private Sector** in areas like operations and ownership of rolling stock etc.
Green Railways by 2030	• Ministry of Railways aims to transform Indian Railways into Green Railways by 2030. • **To achieve net zero carbon emission,** IR has taken several initiatives. ○ **Electrification of all routes on Broad Gauge (BG) by December 2023.** ○ **Initiatives to promote clean energy and to reduce fuel burden of IR** ✓ **100 MW of Solar plants** have been commissioned on roof-tops of various buildings, using its land potential to produce power from land Based Solar installations for running trains. ✓ **103 MW wind-based power plants** have already been commissioned. ○ **In order to save fuel (diesel),** 505 pairs of trains have been converted to Head on Generation (HOG). ✓ In HOG, **power is drawn from Overhead Electric supply** instead of using power generators cars.
Roll On Roll Off (RORO) Train Services	• **First ever RORO service of South Western Railway was started from Nelamangla (near Bengaluru) to Bale (near Solapur)** ○ RORO service was first introduced in Indian Railways by Konkan Railways in 1999. • RORO is a concept of carrying road vehicles loaded with various commodities, on open flat railway wagons. • **Advantages of RO-RO:** Faster movement of goods and essentials, reducing Time taken by trucks to reach destination; reduces congestion on the roads; Saves precious fuel; reduces carbon footprint.
Kisan Rail	• A Kisan Rail was launched **between Anantpur and New Delhi.** • It is **South India's 1st and India's 2nd Kisan Rail.** ○ Earlier, the first Kisan Rail was flagged off between Devlali in Maharashtra and Danapur in Bihar. • Kisan Rail is conceptualized **to provide priority to the farming sector and facilitate transportation of perishable agricultural products** to various marketplaces across the country.
Special Parcel Train	• This is **for the first time** that the Indian Railways loaded special **parcel train beyond the country borders.** • It transported **dry chillies from Guntur District of Andhra Pradesh to Benapole** in Bangladesh. ○ Guntur and its surrounding areas in the state of Andhra Pradesh are well known for Chillies cultivation (Guntur Sannam Chillies also have a GI Tag). The quality of this farm produce is internationally renewed for its uniqueness in taste and brand.

8.5. PORTS AND SHIPPING

8.5.1. DRAFT INDIAN PORTS BILL 2020



Why in News?

Recently, Ministry of Ports, Shipping and Waterways circulated **draft Indian Ports Bill 2020 for public consultation.**

About the Draft bill

- It will **repeal and replace Indian Ports Act, 1908** to create an enabling environment for the growth and sustained development of the ports sector in India.
- **Key Features in the bill:**
  - **Constitution of Maritime Port Regulatory Authority** with following functions:
    - ✓ To advise the Central Government on matters relating to the **National Port Policy and Plan.**
    - ✓ Formulate **short-term and perspective plans** for development of the Port Sector.

- ✓ **Co-ordinate the activities of the planning agencies** for optimal utilization of the Coastline of India to sub serve the interest of the national economy.
  - **Formulation of the National Port policy and National Port plan** in consultation with Coastal State Governments, State Maritime Boards and other stakeholders.
  - **Formulation of specialised Adjudicatory Tribunals** namely Maritime Ports Tribunal and Maritime Ports Appellate Tribunal to curb any anti-competitive practices and act as a speedy and affordable grievance redressal mechanism.

8.5.2. MAJOR PORT AUTHORITIES BILL, 2020

Why in News?

Recently, Lok Sabha passed the Major Port Authorities Bill, 2020

About the Bill:

- It seeks to provide for **regulation, operation and planning of major ports and provide greater autonomy** to these ports. It will replace the Major Port Trusts Act, 1963.
  - Bill aims at **decentralizing decision making** and to infuse professionalism in governance of major ports.
- **Key features of Bill**
  - **Board of Major Port Authority (BPA)** would be constituted for each major port, which will be vested with powers of administration, control, and management of such ports. These boards will replace the existing Board of Port Trusts.
  - Role of **Tariff Authority for Major Ports has been redefined.** BPA has now been given powers to fix tariff, which will act as a reference tariff for purposes of bidding for public private partnership projects.
  - **Reorient the governance model to landlord port model** to bring transparency in operations of Major Ports.
  - In Landlord Port Model, **ownership of the port remains with port authority. Infrastructure is leased to private firms** that provide and maintain their own superstructure and install their own equipment to handle cargo. In return, landlord port gets a share of revenue from the private entity.

	Major Port Authorities Bill, 2020	Major Port Trusts Act, 1963.
Major Port Authorities Board	• A Board of Major Port Authority for each major port will be formed. • These Boards will replace the existing Port Trusts.	• Under this, all major ports were managed by the respective Board of Port Trusts that have members appointed by the central government.
Composition of Board	• **Board will comprise of a Chairperson and a deputy Chairperson,** both appointed by central government on the recommendation of a selection committee. • **Other Members:** ○ One each from respective state governments, Railways Ministry, Defence Ministry, and Customs Department. ○ Board will also include two to four independent members, and two members representing the interests of the employees.	**Board of Port Trusts consisted of:** • Chairman to be appointed by the Central Government. • one or more Deputy Chairman. • such number of persons, as the Central Government may, from time to time from amongst persons namely Mercantile Marine Department, Customs Department, Defence Services etc.
Powers of the Board	• Bill allows the **Board to use its property, assets and funds as deemed fit** for the development of the major port. • **The Board can also make rules on** ○ Declaring availability of port assets for port related activities and services. ○ Developing infrastructure facilities such as setting up new ports, jetties. ○ Providing exemption or remission from payment of any charges on any goods or vessels.	• Power to raise loans. • Power to make regulations w.r.t employees. • Power to execute works and provide appliances. • Power with respect to landing places and bathing ghat. • Power of Board to order sea-going vessels to use docks, wharves, etc
Fixing of rates	• Board or committees appointed by the Board will **determine rates for assets and services available at ports.**	• Currently, the Tariff Authority for Major Ports, established under the 1963 Act, fixes the scale of rates for

	• Such fixing of rates will not be with retrospective effect.	assets and services available at ports.
Financial powers of the Board	• **Board may raise loans** from any scheduled bank or financial institution **within India, or any financial institution outside India.** • However, for loans above 50% of its capital reserves, the Board will require prior sanction of the central government.	• Board had to seek prior sanction of the central government to raise any loan.
Adjudicatory Board	• It provides for the constitution of an Adjudicatory Board by the central government.	• Under this Tariff Authority for Major Ports were constituted for this role.
Penalties	• Any person contravening any provision of the Bill or any rules or regulations will be punished with a fine of up to one lakh rupees.	• There were various penalties for contravening provisions of the Act.
Public Private Partnership (PPP) projects	• Bill defines PPP projects as projects taken up through a concession contract by the Board. • For such projects, the Board may fix the tariff for the initial bidding purposes.	
Corporate Social Responsibility	• Board may use its funds for providing social benefits. This includes development of infrastructure in areas such as education, health, housing, and skill development.	

8.5.3. OTHER DEVELOPMENTS IN RELATION TO PORTS

SAROD-PORTS	• **Society for Affordable Redressal of Disputes-PORTS (SAROD-PORTS)** will help in settlement of **disputes through arbitrations in maritime sector,** including ports and shipping sector in Major Port Trusts, Non-major Ports, including private ports, jetties, terminals and harbours.
	• It is **established under Societies Registration Act, 1860** with following objectives:
	  ○ **Affordable and timely resolution of disputes** in fair manner.
	  ○ **Enrichment of Dispute Resolution Mechanism** with panel of technical experts as arbitrators.
	• It will also cover disputes between granting authority and Licensee/ Concessionaire/ Contractor and also disputes between Licensee/Concessionaire and their contractors

Vessel Traffic Services (VTS) and Vessels Traffic Monitoring Systems (VTMS)	• Recently, Ministry of Shipping e-launched an indigenous software solution for VTS and VTMS. ○ This will **reduce the expenditure of foreign exchange on this issue** and also minimize the dependence on foreign support for VTS software • VTS and VTMS software **determines vessel positions, position of other traffic or meteorological hazard warnings and extensive management of traffic** within a port or waterway. • VTMS is **mandatory under International Maritime Organization Convention** SOLAS (Safety of Life at Sea).

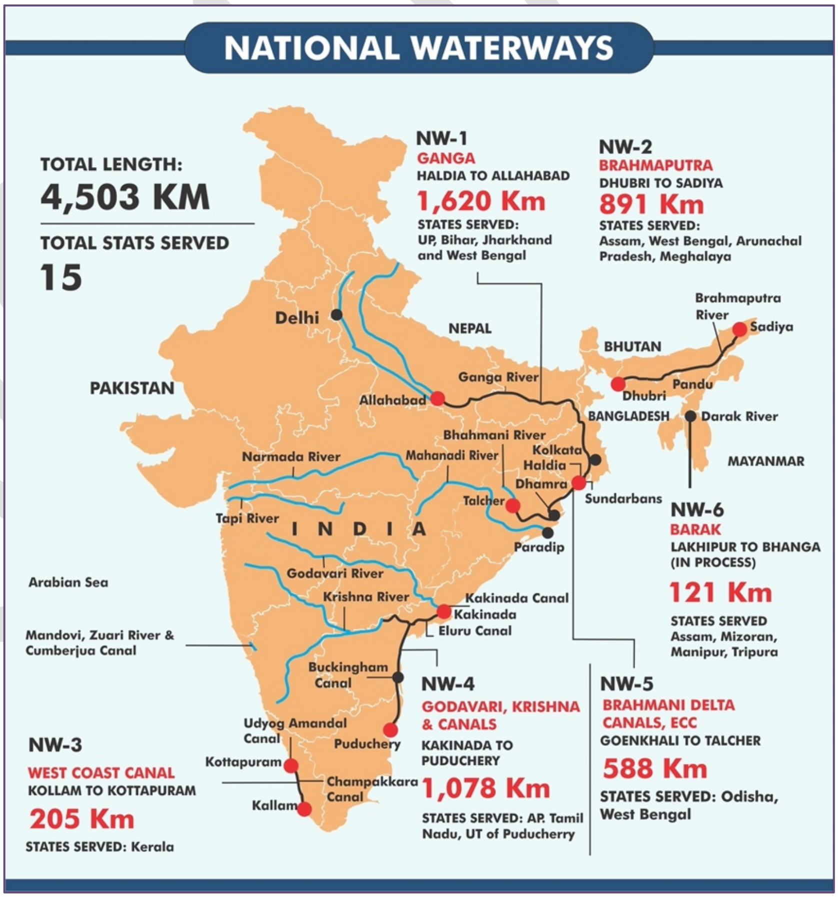
Transshipment Ports	• India has two trans-shipment ports**, Vallarpadam terminal in Cochin and Vizhinjam port in Trivandrum.** Proposed Enayam port is third major trans-shipment port.
	• A transshipment terminal act like a hub, **into which smaller feeder vessels bring cargo that then gets loaded onto larger ships** for transportation to final destinations.
	  ○ It is a port that has **connections to origin and destination.**
	  ○ Larger vessels bring about **economies of scale and lower the cost of operations** like lower freight rates for exporters and importers.
	• Under 'Atmanirbhar Bharat', Ministry of Shipping is planning to develop a port as a transshipment hub **to cut India's dependence on overseas hubs** to send and receive container cargo.

National Logistics Portal (NLP-Marine)	• Ministry of Shipping plans to develop a **NLP- Marine to help exporters, importers and service providers exchange documents seamlessly and transact business in a transparent and quick manner.** ○ The plan is to scale up the current Port Community System (PCS 1x). • It will **perform activities such as domestic tracking of the shipment, undertake Customs clearance** on their own, online transaction with custodians etc. • It is being developed **to facilitate ease of doing business** and make India one of the most **cost-effective and competitive countries in terms of carrying international trade.**

8.5.4. PORTS IN NEWS

Vadavan Port	Chidambaranar Port	Kolkata Port	Paradip Port
• Recently, Ministry of Environment, Forest and Climate Change has given green light to Vadhavan port, Maharashtra. • Vadhavan will be set up as **a corporate port under the Companies Act.** • It would be **developed as a landlord port,** with the port company building the basic port infrastructure, while berths, terminals and associated facilities will be constructed by private firms in the public-private-partnership (PPP) mode.	• Direct Port Entry (DPE) facility has been developed at Chidambaranar Port. • DPE facility **will enable the export clearance of factory stuffed e-sealed containers** on a 24x7 basis resulting in faster and cost-effective export admittance. • V.O Chidambaranar port trust in Tamil Nadu, **formerly known as the Tuticorin Port Trust,** is one of the 12 major ports in India.	• First-ever container ship was moved from Kolkata Port to Agartala via Chattogram Port. • This was **done under Agreement on use of Chattogram and Mongla Ports** for movement of India's transit cargo through Bangladesh. • It will **provide alternative and shorter route to connect North East Region** through Bangladesh.	• Cabinet approved a project Deepening and Optimization of Inner Harbour Facilities including **Development of Western Dock to handle cape size vessels at Paradip Port.** • Project **would help in decongesting the port, reducing sea freight,** thereby making coal imports cheaper and creating jobs.

8.5.5. INLAND WATERWAYS



Why in news?

Ministry of Shipping has waived Waterways Usage Charges (WUC) for Three Years.

More on news

- WUC has been waived off considering the **Centre's vision to promote inland waterways as a supplementary, eco-friendly and cheaper mode of transport.**
    - Presently, Inland Waterways Authority (IWAI) of India levies **WUC for plying of Inland cargo vessels on national waterways** which acted as a **hindrance in administration of traffic movement and collection of traffic data.**
    - IWAI is the **statutory authority** in charge of the waterways in India.

About Inland Waterways

- India has about **14,500 km of navigable waterways** which comprise of rivers, canals, backwaters, creeks, etc.
- **National Waterways Act 2016** declared 111 rivers or river stretches, creeks, estuaries in India as **National Waterways.**
- Inland Water Transport in India has **only 0.5% modal share**; compared to 42% in Netherlands, China 8.7%; USA 8.3% and Europe 7%.

8.6. KEY CONCEPTS AND ENTITIES IN NEWS

Transferable development rights (TDR)	• TDR is a mechanism **to facilitate the speedy acquisition of land for developing infrastructure** such as city road development, satellite towns, and metro rail. • Under the TDR route, the **government acquires land from the landowner in exchange for development rights** that are transferred to the landowner. o Such 'development rights,' issued as Development Rights Certificate (DRC), empowers the owner to go for extra floor area ratio (FAR), which shall be fixed by the government.
CITIIS (City Investments to Innovate, Integrate and Sustain) program	• It aims to **assist Indian cities in implementing urban infrastructure projects** that are integrated, innovation driven and sustainable. o Program combines **financial assistance through loans and technical assistance through grants** to selected cities. • Project is being coordinated and managed by Program Management Unit at National Institute of Urban Affairs. • CITIIS is supported by **Ministry of Housing and Urban Affairs, French Development Agency (AFD) and European Union (EU).**
Bureau of Civil Aviation Security (BCAS)	• BCAS is a **regulatory authority for civil aviation security** in India under **Ministry of civil aviation** with headquarters in New Delhi. • The main responsibility is to lay down standards and measures to ensure **security of civil flights** at International and domestic airports in India. • It is **headed by Director General** (Bureau of Civil Aviation). • It was set up on **recommendation of the Pande Committee.**

Investment Clearance Cell (ICC) for Aviation Sector	• Ministry of Civil Aviation (MoCA) has setup ICC to **serve as a single-window system for attracting investment &** expedite various investment proposals in the domestic aviation industry.
	  o 10-member ICC will be headed by **Amber Dubey**, joint secretary MoCA.
	  o Earlier, ICC was announced in 2020-2021 Union Budget.

9. ENERGY SECTOR

9.1. ELECTRICITY: CONSUMPTION AND MARKETING

9.1.1. BUNDLING SCHEME FOR ROUND-THE-CLOCK (RTC) POWER SUPPLY

Why in news?

Recently, Ministry of power issued guidelines **for supply of RTC power to distributors** through a Bundling Scheme, **which is first of its kind scheme in world.**

Energy Consumption Scenario in India

- With a total energy consumption of 553.9 Million Tonnes of Oil Equivalent (Mtoe) in 2017-18, India stood the **third largest energy consumer** in the world after United States of America and China.
- **India also ranks highest in terms of growth rate of energy consumption** in the world.
- India's energy consumption is expected to grow fastest among global economies and account for 11% of global energy demand by 2040.

About Bundling scheme

- It is a plan to **sell renewable energy (RE) and thermal power in a bundle** so that end users can get uninterrupted supply of power.
  - First phase of National Solar Mission provided for such a scheme to facilitate grid connected solar power.
- It will provide **RTC power to DISCOMs from RE sources** complemented/balanced with coal based thermal power.
- Scheme will facilitate renewable capacity addition and **fulfillment of Renewable Purchase Obligation (RPO)** requirement of DISCOMs.
- It will enable **procurement of power at competitive prices** in consumer interest, improve bankability of projects and ensure reasonable returns to the investors.
- Scheme will provide a **framework for an Intermediary Procurer** as an Aggregator/Trader for the inter-state/ intra-state, long-term, sale-purchase of power.
- As per the guidelines:
  - **Power generators have to ensure at least 85% availability** both annually and during peak hours.
  - Bidders will have **to supply at least 51% of the power from renewable sources.** Bidders can club smaller thermal projects to tie-up with their renewable projects.
    - RE component can **include solar and non-solar sources** such as wind, hydro, or any combination of the same.
  - Bidder will have to pay **a penalty equivalent to 25% of the shortfall** in energy terms.

About Renewable purchase obligation (RPO)

- RPO is a mechanism by which the obligated entities are obliged **to purchase certain percentage of electricity from Renewable Energy sources,** as a percentage of the total consumption of electricity.
  - Obligated Entities include Discoms, Open Access Consumers and Captive power producers.
- RPOs are **categorized as Solar and Non Solar RPO.**
- RPOs are provided under Electricity Act 2003 and the National Tariff Policy 2006.

9.1.2. REAL TIME MARKET IN ELECTRICITY

Why in news?

Recently, pan-India Real Time Market in electricity was launched.

About Real Time Market in electricity

- Real time market is **organised market platform** enabling buyers and sellers to meet their energy requirement closer to real time operation.
- Under this, auctio**ns will be held 48 times a day**, once every half an hour.
- It became operational on two platforms: **Indian Energy Exchange (IEX) and Power Exchange India Limited (PXIL).**
- **Power System Operation Corporation Limited (POSOCO) will route electricity** from supply sources to consumption point with help of **Regional Load Despatch Centres.**

Power System Operation Corporation Limited (POSOCO)

- It is a wholly owned Government of India enterprise under the **Ministry of Power.**
- It facilitates competitive and efficient wholesale electricity markets and administer settlement systems.
- It **consists of 5 Regional Load Despatch Centres and a National Load Despatch Centre (NLDC)** to ensure integrated operation of the national power system with Reliability, Economy and Sustainability.

- To implement the **Real Time Market as amendments were made to:** Power Market regulations, Indian Electricity Grid Code (IEGC) Regulations, and Open Access in inter-state transmission regulations.

Indian Energy Exchange (IEX)
- It is the **first and largest energy exchange** in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates and Energy Saving Certificates.
- It is regulated by the **Central Electricity Regulatory Commission (CERC).**
- IEX is one of the two power exchanges in India. (Other being Power Exchange India Ltd (PXIL)).
- Recently, Central Electricity Regulatory Commission (CERC) has approved the application of Pranurja Solutions Ltd, a company promoted by BSE, PTC Ltd and ICICI Bank, to set up the third power exchange in the country.

9.1.3. GREEN TERM AHEAD MARKET

Why in News?

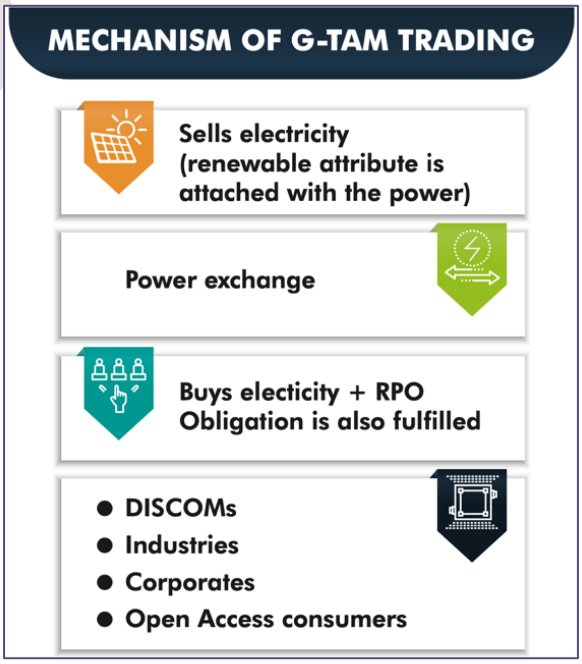
Recently, Central Electricity Regulatory Commission (CERC) approved Green term ahead market (GTAM) contracts on the Indian Energy Exchange (IEX) platform.

More on news

- This step comes after **Real Time Market (RTM) trading was approved in power exchanges in June 2020.**
- **IEX currently trades through following models:**

Day Ahead Market (DAM)	Transactions in electricity are allowed for a day in advance.
Term Ahead Market (TAM)	Electricity is traded the same day to up to 11 days in advance.
Renewable Energy Certificate (REC)	• RECs are a type of **market-based instrument to provide an economic incentive** for electricity generation from renewable energy sources. o One REC is created when **one megawatt hour of electricity** is generated from an eligible **renewable energy resource**. • Generators can sell electricity from renewable sources just like conventional electricity and offer RECs separately to obligated entities to fulfil their **renewable purchase obligation.**
Real time Market (RTM)	Auction sessions are conducted at even time blocks on the hour, and delivery commences one hour after the trade session is closed.

- Though the renewable penetration in the country is increasing, the **participation of renewable energy in the existing DAM and TAM segment has remained negligible (less than 1%)** as there has been no segregation between conventional power and green power by the system. To overcome this issue, an alternative new model, namely GTAM was introduced.



About GTAM

- GTAM has been specifically introduced for **selling off the power by the renewable developers in the open market** without getting into long term Power Purchase Agreements (PPAs).
- GTAM will provide an **exclusive platform for short-term trading of Renewable Energy**.
- **Key features of GTAM:**
  - Energy scheduled through GTAM contract shall be **considered as deemed RPO** compliance of the buyer.
    - ✓ Earlier, buyer of power from wind or a solar company **could not claim that he had met RPO.**
  - Also, transactions through GTAM will be bilateral in nature with clear identification of corresponding buyers and sellers, there will not be any difficulty in accounting for **Renewable Purchase Obligations (RPO).**

- There will be **separate contracts for both Solar and Non-Solar energy** to facilitate Solar and Non-Solar RPO fulfillment.
- It will have **Green Intraday** (Ten Hourly Contracts for Same Day)**, Day Ahead Contingency** (Hourly Contracts for Next Day)**, Daily** (All or a block of Hours in a single day) **and Weekly Contracts** (Monday to Sunday)**.**
- Price discovery will take place on a continuous basis i.e. price time priority basis.

9.1.4. ELECTRICITY (RIGHTS OF CONSUMERS) RULES, 2020

Why in news?

Recently, **Ministry of Power released Electricity (Rights of Consumers) Rules, 2020** which gives rights to consumers to get the reliable services and quality electricity.

Electricity (Rights of Consumers) Rules, 2020

- These rules are framed under the **Electricity Act, 2003,** which has a consumer charter.
- These rules empower the consumers of electricity by allowing consumers in India to **access continuous supply of quality, reliable electricity.**
- It **lay down rights that make distribution companies (DISCOMs) more accountable** to consumers.
- **These rights will**
  - empower the consumers of electricity **and ensure improved standard of living** as it has influence on a household's use of appliances.
  - **ensure savings for the consumer.** Direct savings to consumers come from lower energy cost and reactive power tariffs. **Indirect savings are gained by avoiding circumstances** such as damage and premature aging of equipment, loss of production or loss of data and work.
  - further the **ease of doing business** across country.

Key areas are covered in the Electricity (Rights of consumers) Rules

- Rights of consumers and Obligations of Distribution licensees
- Release of new connection and modification in existing connection
- Metering arrangement
- Disconnection and Reconnection provisions.
- Reliability of supply
- Consumer as prosumer
- Standards of Performance of licensee
- Compensation Mechanism
- Call Centre for Consumer Services
- Grievance redressal mechanism

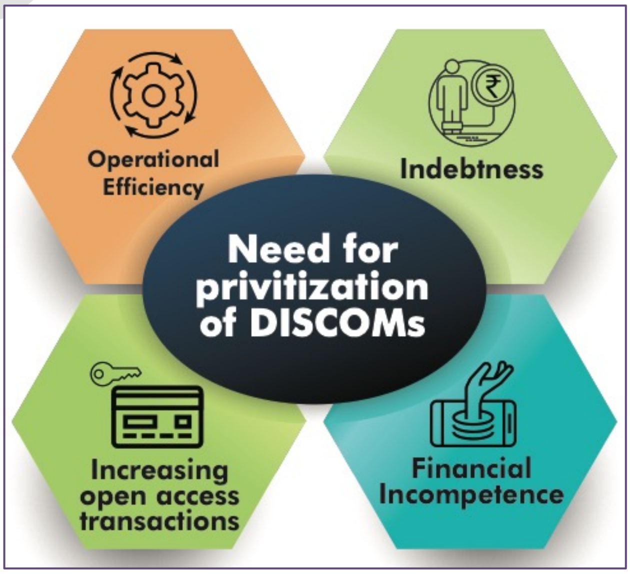
9.2. PRIVATIZING DISCOMS

Why in news?

Government is planning to privatise the electricity distribution companies (discoms) in Union Territories (UTs) by January 2021.

Initiatives by the government to improve the condition of DISCOMs

- **Bailout package of ₹90,000 crore** as part of a ₹20 trillion stimulus package to revive the economy.
- **Proposed distribution reforms scheme**—tentatively named Atal Distribution System Improvement Yojana (Aditya)—to cut electricity losses below 12%.
- **Power sector reforms,** including implementing the direct benefit transfer (DBT) scheme in the electricity sector for better targeting of subsidies and instilling financial discipline at discoms.
- According to **draft amendments to the Electricity Act, 2003,** the government has pitched for a cost reflective tariff and setting up an Electricity Contract Enforcement Authority to enforce power purchase agreements (PPAs).



- **One-time relaxation in working capital borrowing limits** imposed under Ujwal Discom Assurance Yojana (UDAY).
- **New tariff policy** focusing on improving consumer rights, promoting industry and ensuring the sustainability of the sector to be released soon.

Related News

PRAAPTI (Payment Ratification and Analysis in Power procurement for bringing Transparency in Invoicing of generators)

- PRAAPTI App and web portal **has been developed by Ministry of Power to bring transparency in power purchase transactions** between Gencos and Discoms.
- PRAAPTI **will also enable consumers to evaluate financial performance of their Discoms** in terms of payments being made to Gencos.
- As per PRAAPTI portal, Power producers' total dues owed by discoms rose by 37% year-on-year in August 2020, **reflecting stress in the sector**

9.3. ENERGY EFFICIENCY

9.3.1. ENERGY TRANSITION INDEX REPORT

Why in news?

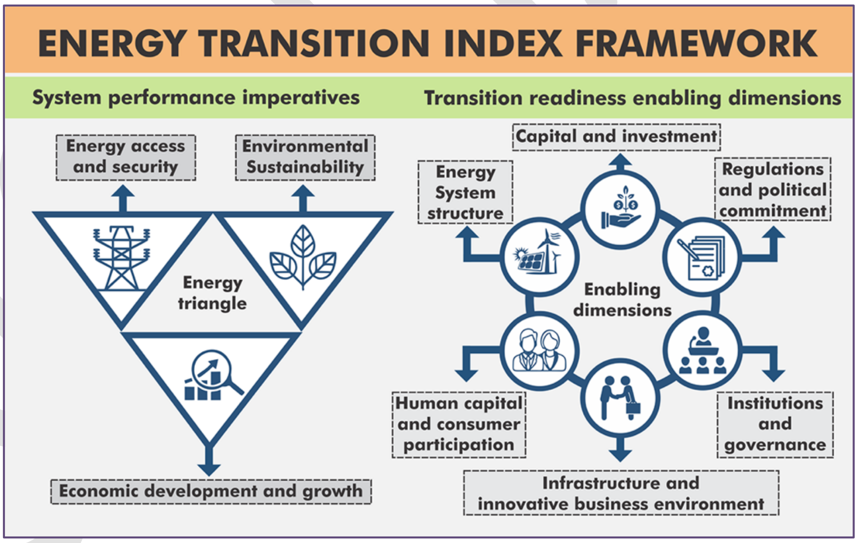
Recently, the World Economic Forum released the **Energy Transition Index 2020**.

About Energy Transition Index (ETI)

- **ETI** is a composite score of 40 indicators which benchmarks 115 countries on the **speed and direction of their energy transition** and identifying opportunities for improvement.
- **ETI** is a part of the **World Economic Forum's Fostering Effective Energy Transition Initiative.**
    - It is a continuation of the annual energy system benchmarking series, previously published as the **Energy Architecture Performance Index** (EAPI) series from 2013 to 2017.
- The ETI framework consists of two parts i.e. the **current energy system performance** and the **enabling environment for the energy transition.** (Refer the infographics).

Fostering Effective Energy Transition Initiative

- It aims to accelerate the speed of the global energy transition by promoting the adoption of effective policies, corporate decisions and public-private collaboration for the transition to a secure, sustainable, affordable and inclusive future energy system.
- It offers a platform to establish a common understanding among all stakeholder groups on the end-state of the energy transition, necessary imperatives, market and policy enablers, and the resulting human impact.



Key findings of the ETI 2020

- **ETI 2020 Rankings**- Sweden (1), Switzerland (2), Finland (3), India (74), China (78).
- The **gaps** between the top performers and the rest have been steadily decreasing, mainly due to rising levels of political commitment and improving access to capital for investment in emerging economies.

9.3.2. IMPACT OF ENERGY EFFICIENCY MEASURES FOR THE YEAR 2018-19 REPORT

Why in news?

Bureau of Energy Efficiency released the Report titled "Impact of energy efficiency measures for the year 2018-19".

More about report

- **Bureau of Energy Efficiency (BEE)** conducted an annual study comparing the actual energy consumption in 2018-19 with the estimated energy consumption had the current energy efficiency measures not been undertaken i.e. counterfactual.

- The **overall objective of the study** is to **assess the impact of all the energy efficiency schemes/ programmes** in India in terms of total energy saved and reduction in the amount of CO_2 emissions in 2018-19.

India's Energy Efficiency (EE) Measures

- Realising the importance of energy efficiency in promoting low carbon transformation, India had launched the **Energy Conservation Act in 2001**.
- It had further directed its policies by setting up the **Bureau of Energy Efficiency (BEE)** and then initiating the **National Mission for Enhanced Energy Efficiency (NMEEE)**.

Bureau of Energy Efficiency (BEE)

- BEE is a **statutory body** under Ministry of Power, setup under the provisions of the Energy Conservation Act, 2001.
- Its **mission** is to assist in developing policies and strategies with a thrust on self-regulation and market principles, within the overall framework of the Energy Conservation Act, 2001 with the **primary objective of reducing energy intensity of the Indian economy.**
    - Energy Intensity is measured by the quantity of energy required per unit output or activity (or GDP).

- Along with BEE, there are other organizations at national level that are also supporting in energy efficiency by launching its own set of schemes.
- Currently India is running several Energy Efficiency schemes/Programmes. These include

Large Industry	Perform, Achieve and Trade (PAT) Scheme
Industry- MSME	BEE SME Program, GEF – World Bank – BEE Programme
Domestic- Lighting & appliances	Standards & Labeling (S&L), UJALA
Domestic- Buildings	Eco Niwas Samhita, Residential Labeling
Commercial Buildings	ECBC– Commercial Building, BEE – Star Rating Programme, Building Energy Efficiency Programme (BEEP)
Agriculture- Appliances (Star Rated Pumps)	Agriculture Demand Side Management Programme (AgDSM)- (Star Rated Pumps)
Transport- Road Transport	Corporate Average Fuel Economy (CAFE), Faster Adoption & Manufacturing of Electric Vehicles (FAME)
Municipality- Lighting & Appliances	Municipal Demand Side Management Programme (MuDSM) - (SLNP and MEEP)

9.3.3. INDIA ENERGY MODELLING FORUM

Why in news?

Recently, NITI Aayog announced governing structure for India Energy Modelling Forum (IEMF).

About IEMF

- IMEF was **jointly launched by NITI Aayog and United States Agency for International Development (USAID)** under the US–India Strategic Energy Partnership.
- IMEF is **part of the Sustainable Growth pillar of US–India Strategic Energy Partnership (SEP)**.
    - SEP organizes interagency engagement on both sides across four primary pillars of cooperation: Power and Energy Efficiency; Oil and Gas; Renewable Energy; and Sustainable Growth.
- IEMF aims to engage Indian researchers, knowledge partners, think tanks and national and international government agencies and departments **for modelling and long-term energy planning.**
- The governing structure of IEMF will consist of an inter-ministerial and a **steering committee. It will comprise representatives of the:** Government, Industry Associations, Academia, Policy research organizations, think tanks and funding agencies.

9.4. COAL SECTOR

9.4.1. COMMERCIAL COAL MINING

Why in news?

Recently, a new online single window clearance portal was launched to speed up operationalization of coal mines alongside the signing ceremony for the **first tranche of coal blocks to be auctioned for commercial use.**

Background

- **Through 'the Coal Mining Nationalisation (CMN) Act, 1973'** all the coal mines were handed over to the government-owned Coal India Limited.

- Before the 1970s, coal sector consisted mostly of private coal mines. Nationalisation was needed to improve the poor working and living conditions and poor safety standards for labour.

- **As the economy was liberalized, in 1993 the CMN Act, 1973 was amended to allow captive mining** by Private companies, and Public Sector Undertaking (PSUs) (for use in their own industrial units) in the power, steel, cement, aluminum sectors.
- **But theses mine allotments were cancelled by the Supreme Court in 2014** on the grounds that they were made arbitrarily.

Coal in India
- India has the **world's fifth-largest reserves of coal**, yet it is the world's second-largest importer.
  - In 2019, India imported about 235 million tonnes of coal (both thermal and coking coal) mainly from Indonesia, South Africa, Australia, and Russia.
- Currently, India produces about 729 million tonnes of coal per year with **83% of the production coming from Coal India Ltd (CIL).**
- Coal fired plants accounts for **72% of India's electricity generation.**
- Coal reserves are located mainly in states of: **Jharkhand, Odisha, Chhattisgarh, West Bengal, Madya Pradesh, Telangana, Maharashtra.**
- Indian coal reserves are **primarily of Lignite and Bituminous types** (other two types are Peat and Anthracite.
- **Indian coal has lower calorific value** and high ash content.

- Therefore, Coal Mines (Special Provisions) Act, 2015 was passed paving the way for **captive coal mining through auction.**
- **Mineral Laws (Amendment) Act, 2020** was enacted for amendments in Mines & Mineral (Development and Regulation) Act 1957 and the Coal Mines (Special Provisions) Act, 2015 to end the captive coal regime and **clearing the path for commercial coal mining.**

Other steps taken in coal sector
- The **coal linkages have been rationalized** in order to reduce the distance in transportation of coal from the coal mines to the consumer.
  - Under the **coal linkage policy**, power producers are linked to the coal producers. The commitments under the linkages are binding and the coal cannot be transferred to other consumers.
- Recently, the Ministry of Coal has further liberalized the framework under which coal linkages can be swapped in the country
- Environment Protection Act was amended to **drop mandatorily washing coal** for supply to thermal power plant, citing reason it prompts industries to import coal. Instead, thermal power plants were **directed to install the technology for handling ash content.**
- Amendment in the **guidelines of preparation, processing and approval of Mining Plan** with simplified guidelines, and measures are being taken to formulate an **online single window clearance system.**
- Amendments were made to **Mineral Concession Rule 1960** to provide more flexibility in plan and operation.
- **Mineral Laws (Amendment) Act, 2020** includes provisions like removal of restriction on end-use of coal, Composite license for prospecting and mining etc. to promote ease of doing business in coal mining.
- **Announcements under Atmanirbhar Bharat Abhiyan,** including spending ₹50,000 crore on creating infrastructure for coal extraction and transport; **rebate on revenue share** payable to government for early production, producing excess of the scheduled target and for coal used in gasification etc.

Related News
Foreign Direct Investment (FDI) in Commercial Coal Mining
- Centre has clarified that any FDI in **commercial coal mining from an entity of a country that shares land border** with India will be allowed only after government approval.
- Presently, 100% FDI is permitted under automatic route in coal mining activities including associated processing infrastructure.
- It was allowed to allow opening up commercial coal mining for the private sector and to attract global miners to invest in India

9.5. GAS AND OIL SECTOR

9.5.1. INDIAN GAS EXCHANGE (IGX)

Why in news?

India's first gas exchange — the Indian Gas Exchange (IGX) — was launched recently as wholly owned subsidiary of **Indian Energy Exchange.**

About IGX

- It is a digital trading platform that will allow buyers and sellers of natural gas to trade **both in the spot market and in the forward market for imported natural gas** across three hubs —**Dahej and Hazira in Gujarat, and Kakinada in Andhra Pradesh.**
- **Imported Liquified Natural Gas (LNG) will be regassified** and sold to buyers through the exchange, removing the requirement for buyers and sellers to find each other.
    - The bidding is done in an anonymous manner, where the buyer and seller do not know their counterpart.
- The price of **domestically produced natural gas** is decided by the government and it will **not be sold on the gas exchange.**
    - Domestic production of gas has been falling over the past two fiscals as current sources of natural gas have become less productive.
    - Domestically produced natural gas currently accounts for less than half the country's natural gas consumption; imported LNG accounts for the other half. Hence, IGX encourages trading in imported LNG.
- The contracts traded at IGX are for **compulsory specific physical delivery and settlement** of the trade are subject to the condition that such contracts are non-transferable in nature.

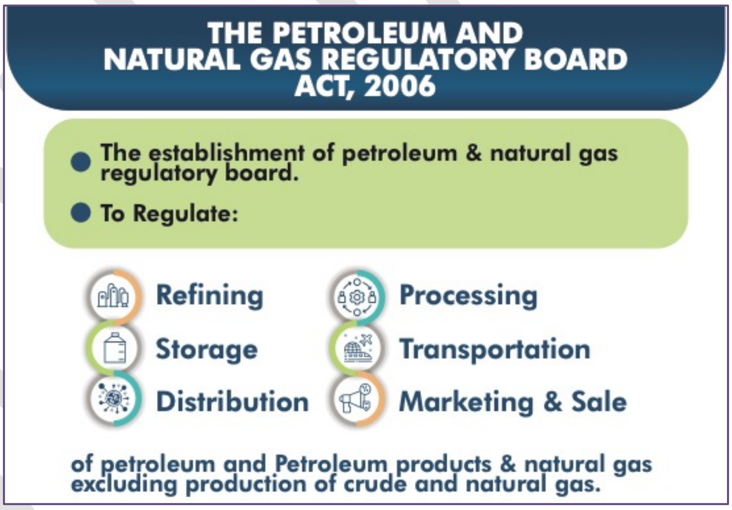
Spot and Forward Market

- The spot market is a public financial market in which financial instruments or commodities are traded for immediate delivery.
- A forward market is an over-the-counter marketplace that sets the price of a financial instrument or asset for future delivery.

9.5.2. NATURAL GAS MARKETING

Why in news?

The Cabinet Committee on Economic Affairs has approved **'Natural Gas Marketing Reforms',** taking another significant step to move towards gas based economy.



Natural gas

- Natural gas is a **mixture of gases which are rich in hydrocarbons** consisting of methane, nitrogen, carbon dioxide etc.
- Natural gas reserves are de**ep inside the earth near other solid & liquid hydrocarbons beds** like coal and crude oil.
- It is not used in its pure form; it is processed and converted into cleaner fuel for consumption.
- **It could be used in following ways:** Feedstock in the manufacture of fertilizers, Fuel for electricity generation, Cooking in domestic households, Transportation fuel for vehicles.

Natural Gas scenario in India

- Natural gas comprises **about 6.2% of India's primary energy mix,** far behind the **global average of 24%.**
- The government plans to increase this share **to 15% by 2030.**
- **Domestically produced** natural gas contributes to only **48% of India' total consumption** of domestic gas.
- It is being supplied from the **oil & gas fields located at western and southeastern area**s viz. Hazira basin, Mumbai offshore & KG basin as well as North East Region (Assam & Tripura).
- Government is also planning to cut down the cost of transportation of natural gas by setting a fixed tariff for the transportation of natural gas for longer distances to boost gas consumption.
    - Currently**, tariffs for pipeline usage are divided into zones of 300km**, with the tariff increasing for zones further away from the point where gas is injected.

Pricing of domestically produced natural gas

- Administered Price Mechanism (APM)
    - Price is set by the Government of India every six months.
    - It is weighted **average of prevailing prices in US, UK, Canada and Russia.**
    - Presently, it is USD 1.79 million Btu far less than the price of imported LNG.
    - This pricing regime **covers almost 80% of the domestically produced natural gas.**

- Non-Administered Price Mechanism (Non-APM) or Free Market gas
    - This mechanism is applicable on **contractual agreements based gas production.**
    - These are only 20% of the total domestic production.
    - The new reform would cover beneficiaries in this regime.

9.5.3. CITY GAS DISTRIBUTION (CGD) NETWORKS

Why in News?

In 2019, Ministry of Petroleum and Natural Gas had commenced work for 10th CGD. .

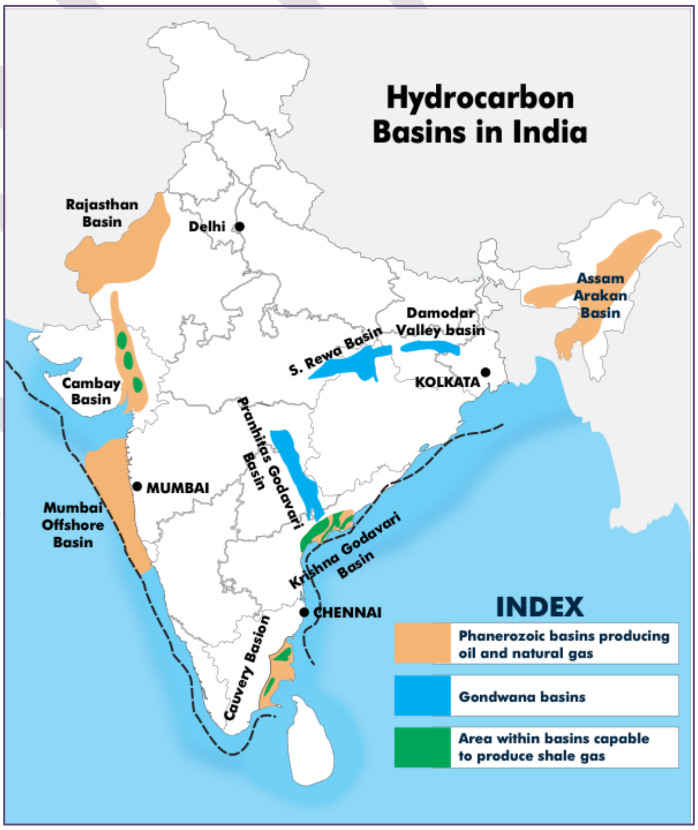
About CGD

- CGD is **interconnected network of pipelines to make supply of natural gas** to domestic, industrial or commercial premises and CNG stations situated in a specified Geographical Area (GA).
    - **Natural gas is a superior fuel** as compared with coal & other liquid fuels as it is environment friendly, safer and cheaper fuel.
- CGD networks are being **developed based on availability of trunk gas pipeline connectivity** or gas sources and techno-commercial feasibility in a GA.
- **Benefits of CGD networks:** Uninterrupted supply of cooking fuel to households, combating industrial pollution, saving on cost, moving towards gas based economy, reducing carbon emissions etc.

9.5.4. INDIA'S 8TH HYDROCARBON PRODUCING BASIN

Why in news?

ONGC Limited has begun crude oil production from Bengal Basin making Bengal basin India's eighth producing basin.



More on news

- **Other basins are:** Krishna-Godavari (KG), Mumbai Offshore, Assam Shelf, Rajasthan, Cauvery, Assam-Arakan Fold Belt and Cambay.
- According to Directorate General of Hydrocarbons, **there are 26 sedimentary basins in India.** Of these, 16 are onland basins, 7 located both onland and offshore and 3 completely offshore.
- **Related News:** Reliance Industries Limited (RIL) and BP (British Petroleum) announce first gas from Asia's deepest project
    - **RIL and BP announced the start of production from the R Cluster** which is ultra-deep-water gas field in KG-D6 (Krishna Godavari Dhirubhai-6) block off the east coast of India.
    - **It is the deepest offshore gas field in Asia** located at a water depth of greater than 2000 meters.
    - Krishna Godavari (KG) Basin is extensive **deltaic plain formed by Krishna and Godavari in Andhra Pradesh spread across 50,000 sq km** and adjoining areas of Bay of Bengal in which these rivers discharge their water.

About PCRA

- It is a **registered society set up under Ministry of Petroleum & Natural Gas.**
- It is engaged in **promoting energy efficiency in various sectors of economy and environment protection** leading to improvement in quality of life.
- It helps the government in **proposing policies and strategies for petroleum conservation** thus **reducing excessive dependence** of the country on oil requirement.

9.6. KEY CONCEPTS AND ENTITIES IN NEWS

North Eastern Region Power System Improvement Project (NERPSIP)	• Recently, Cabinet approved **revised cost estimate of NERPSIP**. • Scheme is implemented through **POWERGRID, a PSU under Ministry of Power** and is being funded with assistance of World Bank fund. • Objective of NERPSIP is **total economic development of North Eastern Region (NER)** and to strengthen Intra-State Transmission & Distribution Infrastructure in NER. ○ Beneficiary states: **Assam, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura.** • It will **create a reliable power grid and improve NER States' connectivity** to the upcoming load centers.
UNlocking NATional Energy Efficiency potential (UNNATEE)	• It is a national strategy document for **accelerating energy efficiency in India**. It describes a plain framework and implementation strategy to establish a clear linkage between energy supply-demand scenarios and energy efficiency opportunities. • It does so by **clearly delineating the energy efficiency targets for the respective demand sectors** upto the state levels.

Sustainable Alternative Towards Affordable Transportation (SATAT) initiative	• SATAT is an **initiative aimed at setting up of CBG production plants** and make it available in the market for use in automotive fuels by inviting Expression of Interest from potential entrepreneurs.
	  ○ It envisages setting up of 5000 CBG plants by FY 2023-24.
	  ○ It was launched by MoPNG in 2018.

SAATHEE Portal	• SAATHEE (State-wise Actions on Annual Targets and Headways on Energy Efficiency) – A portal for State Designated Agency for state level activities **was launched by Ministry of Power** • It is a Management Information System (MIS) portal which is **developed by Bureau of Energy Efficiency (BEE) to facilitate real-time monitoring** of the progress of implementation of various energy conservation endeavours at state level.

10. MISCELLANEOUS

10.1. INTERNATIONAL COMPARISON PROGRAM OF WORLD BANK

Why in News?

Recently, World Bank released new PPPs for reference year 2017 under its International Comparison Program (ICP).

About ICP

- ICP is **worldwide data-collection initiative** that is managed by World Bank under auspices of UN Statistical Commission.
- The **main objective** of the ICP is to **produce comparable volume measures of GDP** and its expenditure components based on **Purchasing Power Parities (PPPs).**
- India has **participated in ICP rounds since its inception in 1970**. Ministry of Statistics and Programme Implementation is National Implementing Agency for ICP in India.
- India was **co-Chair of the ICP Governing Board** along with Austria for the ICP 2017 cycle.
- Next ICP comparison will be conducted for reference year 2021.

Related terms

- **Actual individual consumption** refers to all **goods and services actually consumed by households.** It encompasses consumer goods and services purchased directly by households, and services provided by non-profit institutions and the government for individual consumption (e.g., health and education services).
- **Gross fixed capital formation** is defined as the acquis**ition of produced assets, including the production of such assets** by producers for their own use, **minus disposals of fixed assets.**
- PLI is **ratio of a PPP to its corresponding market exchange rate.** It is used to compare price levels of economies. If an economy's PLI is less than that of another economy, then its items or expenditure aggregates are less expensive than those in the other economy.

Purchasing Power Parities (PPPs).

- PPP is the **rate at which currency of one country would have to be converted** into that of another country to buy **same amount of goods and services** in each country.
- E.g. if a pair of shoes costs Rs 2500 in India. Then it should cost $50 in USA when the exchange rate at PPP is 50 between the dollar and the rupee.
- **PPPs numbers are**
  - Used to compare living standards across countries
  - Used by World Bank to construct measures of global poverty
  - Relevant for estimating non-traded goods and services such as price of taxi ride etc.
- PPP exchange rates are **relatively stable than market exchange rates.**
- However, PPP is **harder to measure than market-based rates** as ICP is a huge statistical undertaking, and new price comparisons are available only at infrequent intervals.
- Also, **ICP does not cover all countries,** which means that data for missing countries must be estimated.
- **Market-based exchange rate:** It is the exchange rate at which one **currency** will be exchanged for another in foreign exchange market. It is **determined by supply and demand factors** of currencies.

10.1.1. INDIA STAYS LOWER-MIDDLE-INCOME NATION FOR 2020-2021

Why in news?

World Bank assigns the world's economies to four income groups—low, lower-middle, upper-middle, and high-income countries (see infographics).

Group	July 1, 2020(new)	July 1, 2019(old)
Low income	< 1,036	< 1,026
Lower-middle income	1,036 - 4,045	1,026 - 3,995
Upper-middle income	4,046 - 12,535	3,996 - 12,375
High income	>12,535	>12,375

More on news

- Classifications are **updated each year on July 1 and are based on gross national income (GNI) per capita** (current US$) calculated using Atlas method.
- **GNI per capita** is obtained by dividing GNI with countries population.
- India **ranked 145th** (GNI per capita: 2130 $), Switzerland 1st.
- GNI is a **measurement of a country's income** that includes all the income earned by a country's residents, businesses, and earnings from foreign sources.
  - GNI comprises **GDP plus net receipts of primary income** (compensation of employees and property income) from non-resident sources.

- It **does not count income earned by foreigners** located in the country.
- **Benefits of using GNI:** It is closely correlated with other, non-monetary measures of the quality of life, such as life expectancy, mortality rates of children, and enrolment rates in school etc.
- **Drawbacks of using GNI:** GNI may be underestimated in lower-income economies that have more informal, subsistence activities. Nor does GNI reflect inequalities in income distribution.

10.2. NOBEL PRIZE IN ECONOMICS

Why in news?

This year's Nobel Economics Prize has been awarded to U.S. economists Paul Milgrom and Robert Wilson for their **works on auction theory.**

More in news

- They won the Nobel Economics Prize for improvements to auction theory and **invention of new auction formats that could also be applied to selling of goods and services** (such as radio frequencies) that are difficult to sell through traditional auction formats.
- The discoveries have benefitted sellers, buyers and taxpayers around the world.

What is an auction?

- An auction is a **price discovery mechanism of various goods and services.**
- In any auction, **potential buyers place competitive bids** on the goods and services (put for bidding) either in an open or closed format.
- Generally, in any auction, the private entities want to maximize their revenue, whereas **government may give priority to the factors other than maximizing revenue.**
- For instance, instead of allocating the spectrum to the highest bidder government may choose a bidder who would make the telecom accessible to the poor.
  - In fact in India, **before auctions became the norm for limited resources** such as radio waves, governments used to allocate them through licensing mechanism to the **private entity best suited for ensuring social benefits like accessibility to the poor.**
  - This approach, however, led to a proliferation of lobbying.
- **Key variables that determine the outcome of an auction:**
  - Rules of the auction
  - Value (personal or professional) attached to the good put to vote
  - The uncertainty involved in bidding

What is auction theory?

- It is a **concept of transparent allocation of resources or items of business in a free market** to the best bidder for optimum utilization.
- It is a branch of applied economics and prescribes different sets of rules or designs for transactions.
- Essentially, it is about how auctions lead to the discovery of the price of a commodity. **Auction theory studies:**
  - How auctions are designed?
  - What rules govern the auctions?
  - How bidders behave in auction?
  - What outcomes are achieved through auction?

Individuals contributions

- **Winners curse:** Wilson worked on common value principle and opined that the rational bidders tend to place bids below their own best estimate of the common value to evade the **winner's curse.**
  - It is possible to overbid ($50 when the real value is closer to $25) due to various reasons, in such cases one wins the auction but loses out in reality.
- **Multi stage bidding:** Milgrom opined that private values differ from bidder to bidder. He demonstrated that **an auction format will give the seller higher expected revenue when bidders learn more about each other's estimated values** (which depends on both private as well as common value) during bidding.
  - Therefore, allowing multi-stage bidding is a good way to get more value as every participant gets more time to match/outbid the previous highest bid.
  - He analysed the bidding strategies in a number of well-known auction formats, and demonstrated that an auction format will give the seller higher expected revenue when bidders learn more about each other's estimated values during bidding.