GOOD MORNING TIMES

Economics –PT Shots

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TOPIC GENERAL STUDIES 3: ECONOMICS- ECONOMIC DEVELOPMENT- GOV POLICIES

October 2017

1. **SAATHI SCHEME**
   - Recently, Sustainable and Accelerated Adoption of Efficient Textile Technology to Help Small Industries (SAATHI) scheme has been jointly launched by Ministry of Power and Ministry of Textile.
   - **About SAATHI**

☐ Under this initiative, Energy Efficiency Services Limited (EESL), would procure energy efficient Power looms, motors and Rapier kits in bulk and provide them to the small and medium Power loom units at no upfront cost.

☐ The initiative will be jointly implemented by Energy Efficient Services Limited (EESL) and the office of the Textile Commissioner on a pan-India basis.

2. **ABU DHABI TO INVEST IN NIIF'S MASTER FUND**
   - Recently, India's National Investment and Infrastructure Fund (NIIF) signed an investment agreement worth $1 billion with Abu Dhabi Investment Authority (ADIA).
   - **Highlight**

☐ ADIA will become the first institutional investor in NIIF's Master Fund and a shareholder in National Investment and Infrastructure Ltd, the NIIF's investment management company.

☐ Fund will play an important role in facilitating the flow of foreign capital into India's infrastructure sector.

- **About NIIF**

☐ NIIF was set up in 2015 and registered as a category II alternative investment fund with the SEBI.

☐ The corpus of the fund is proposed to be around Rs. 40, 000 crore, with the government investing 49% and the rest to be raised from third-party investors such as sovereign wealth funds, insurance and pension funds.

☐ A governing council under the chairmanship of the Finance Minister act as an advisory council to NIIF.

☐ It will invest in areas such as energy, transportation, housing, water, waste management and other commercially viable greenfield, brownfield and stalled projects in the infrastructure sector.

3. **NOBEL PRIZE IN ECONOMICS**
   - US economist, Richard Thaler won the 2017 Nobel Economics Prize for his contributions in the field of behavioural economics.
   - **More on News**

☐ Richard Thaler describes various psychological experiments for economics research such as;

o Nudge Economics/Nudging: It is an economic action in which small stimuli are provided to influence people's behaviour. Nudges work at an individual level, but they are also used by companies.

o Thaler asserted that short-term temptations to spend/consumption disrupt people's plans to save for their old age, or live a healthier lifestyle.

o He developed the theory of mental accounting, explaining how people simplify financial decision-making by creating separate accounts in their minds, focusing on the narrow impact of each individual decision rather than its overall effect.

- **Significance**

☐ His contributions have built a bridge between the economic and psychological analyses of individual decision-making and challenges the traditional economic analysis based on the assumption that people are rational actors.

☐ Findings will be utilised in better policy formulation such as; Digital India, Swatch Bharat Abhiyan, National Pension System etc.

☐ The findings and its various models help in effective formulation of financial engineering and ease-out the foreseen threat thereof, by placing human being at core of economic action.

4. **PROJECT CHAMAN**

- Recently Agriculture and farmer's welfare ministry reviewed project CHAMAN.
- Coordinated Horticulture Assessment and Management using geo-informatics (CHAMAN)

☐ It uses Geographical Information System tools along with remote sensing data for generating action plans for horticultural development.

☐ It also aims to carry out research activities on horticultural crop condition studies, diseases assessment and precision farming.

☐ It was launched in 2014 by Ministry of Agriculture under the Mission of Integrated Horticulture Development.

☐ It is being implemented by New Delhi based Mahalanobis National Crop Forecast Centre (MNCFC).

- **Significance of CHAMAN**

☐ Development in the North East- The waste land/ jhum land areas identified for one crop in one district each of North Eastern States would be taken up for development on priority by state governments.

☐ Post-Harvest damages- It can help in identifying areas of high Post harvest losses which can be reduced by creation of desired Post Harvest Infrastructures like cold storages.

☐ Doubling Farmers' Income-Geo-Spatial Studies like crop intensification, orchard rejuvenation and aqua horticulture would further help the farmers to grow their crops in a profitable manner thus doubling their income.

☐ Scaling benefits-The Geo-Spatial Studies would be conducted in all major states of the country and remote sensing technology would be extended to other horticulture crops in future, giving a boost to horticulture in India.

☐ Boost to agricultural GDP- It can be one of the major drivers of growth in agriculture sector at large and increase its share in overall GDP.

☐ Improves food security- It can help horticulture sector provide nutrient rich crops to the people and thus ensuring food and nutritional security to all people.

☐ Creation of Employment opportunities in the primary, secondary and tertiary sectors. Thus, it has gained significant prominence in the recent years.

- **Horticulture sector in India**

☐ India is the second largest producer of fruits and vegetables in the world, and a top producer of crops like banana, mango and lemons.

☐ Horticulture accounts for 30% of India's agricultural GDP from 8.5% of cropped area.

☐ Production of horticulture crops (fruits, vegetables and spices) in 2017 has overtaken the production of food grains for the fifth year in a row.

☐ In comparison to food grains, most horticulture crops are grown with assured irrigation and, therefore, are more immune to monsoon deficits.

☐ The resource-poor farmers benefit the most from the growth in horticulture sector as fruits and vegetables are mostly grown by marginal and small farmers (with less than 2 hectare of land).

☐ However, India's share in the global market accounts for just 1.7% of the global trade in vegetables and 0.5% in fruits.

☐ The horticulture farmers need better access to markets, facilities like warehouses and cold storages, and credit to help them better manage price risks and avoid distress

5. **LAND BANK FOR INDUSTRIAL ALLOCATION**

- State government of Odisha is creating a 1.2 lakh acre land bank across the state for allocation to the industrial sector.
- **What is Land Bank?**

☐ Land bank is a pool of land which allows government to offer land to investors without waiting for the process of land acquisition.

☐ It is conceived to do away with regulatory process and avoid any land acquisition related issues.

- **Significance of Land Bank**

☐ Improving Ease of doing business: State government is acquiring land for industrial use and proposes to offer it with all facilities in place.

☐ Attracting investment: Creation of the land bank helps in attracting investment (FDI/local investment) in various sectors and has the potential of generating new Employment opportunity in the region.

☐ Preventing distress sales of land by farmers as farmer can sell their land to government whenever they required and there will also be no forcible land acquisition.

- **Land Bank and different law regarding it in India**

☐ Forest Conservation Act of 1980: Under it, government is required to get forest 'clearance' or approval from the central environment ministry to use forest land for a non-forest purpose. However, there is no provision to obtain forest clearance for a 'land bank' under the Act.

☐ Forest Rights Act of 2006: Under it, government cannot change the use of forest land without recognizing the land and forest rights of people living or dependent on it since generations.

☐ PESA [Panchayat Extension to Scheduled Areas Act]: It empowers village councils of scheduled areas to approve, reject or change the government programmes proposed in their regions.

☐ Land Acquisition, Rehabilitation and Resettlement Act (LARRA) of 2013: Under it, if land acquired under this law is unutilized for more than five years, the state government can put it in its land bank or give it back to the people it was acquired from.

6. **PEER TO PEER (P2P) LENDING**

- After classifying peer to peer lending as non-banking financial companies (NBFCs), the RBI recently introduced rules and mechanism for them to follow.
- **Background**

☐ Peer to peer lending refers to a crowd-funding platform (mostly online) where people looking to invest and people in need of borrowing come together.

☐ Till now, P2P companies were registered under the Companies Act.

☐ Once the lender and borrower register themselves on a P2P platform, due diligence is carried out by the platform and those found to be acceptable are allowed to participate.

☐ Such companies follow a reverse auction process that lenders bid for borrower's proposal and the borrower is free to choose whether or not to borrow.

- **Major Takeaways from RBI Regulation**

☐ Being classified as an NBFC, P2P lending will get access to credit bureaus and will have to share loan related data with credit bureaus.

☐ Consequently, P2P platforms will also have to mandatorily share the borrower's credit information with the lenders which will help them make an informed decision.

☐ Also, sharing credit information of borrower with credit bureaus will make it difficult for defaulters to take loans from other banks and NBFCs.

☐ Fund transfers across the platform are to be done through escrow account mechanism.

☐ The RBI has also increased the maximum loan amount up to 10 lakhs across all platforms. It will largely benefit small enterprises and start-ups.

☐ The RBI has also capped a particular investor's exposure to a single borrower to Rs 50, 000. This dilutes the risk in case of a default.

☐ Contrary to the case earlier when courts rejected the cases of defaults stating lack of locus standi, P2P platforms (being NBFCs) can now pursue cheque bounce (P2P loan recovery works through post-dated cheques) cases in court.

☐ In case of delay of repayments, the platforms need to follow RBI guidelines for recovery bringing relief to borrowers with genuine delays.

☐ P2P platforms also need to put a proper grievance mechanism in place and appoint a nodal officer. In case of no satisfactory reply, lenders or borrowers can approach the RBI.

- A Non-Banking Financial Company (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 Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business. Difference between Banks and NBFCs

☐ NBFC cannot accept demand deposits

☐ They are not part of the payment and the settlement system and thus cannot issue cheques drawn on itself.

☐ Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.

7. **LINKING BANK LENDING RATES TO EXTERNAL BENCHMARK**

- A five-member panel of RBI headed by Dr. Janak Raj has recommended linking the bank lending rates to a market benchmark in order to hasten the monetary policy transmission.
- **Background**

☐ Currently, the banking lending rates are determined by the MCLR or marginal cost of funds lending rate introduced in 2016.

☐ MCLR replaced the base rate system (introduced in 2010).

☐ Both the base rate and the MCLR were internally determined by the banks themselves. However, the major difference between the two was that calculation of base rate was done as the bank saw fit while MCLR was to be calculated through a set formula. Major Findings of the Panel

☐ The study noted that banks indulged in malpractices which include violation of RBI guidelines, inflating of base rate and arbitrary adjustment of spreads.

☐ Also, despite 18 months, since the launch of MCLR, only 40 percent of the corporate portfolio and one fourth of the retail portfolio are under it.

☐ One of main reasons was that banks charged a onetime fee to switch over to MCLR. Also, there was no proper information handout by the banks for switching over MCLR.

- **Recommendations of the Panel**

☐ The panel advised that all interest rates for loans be linked to one of the three external benchmarks: Treasury bill rates, Certificate of deposit rates or repo rate.

☐ The lending rates must be reset every quarter compared to the current practice of resetting of once a year.

☐ Banks migrate all existing borrowers to the new proposed regime without any charges or fees.

☐ The decision of the spread over the external benchmark should be left to the commercial judgement of banks.

- **Pros**

☐ Linking lending rates to an external benchmark would decrease the discretion of a bank and reduce the arbitrariness with which banks calculate the base rate and MCLR.

☐ Interest rate reseting in a quarter is more likely to result faster monetary policy transmission.

☐ The panel's recommendation that banks be allowed to link deposits to external benchmark as well will help in avoiding asset-liability mismatch.

- **Cons**

☐ Linking lending rate to the market rate might make the lending rates volatile.

☐ T-bills being government securities are the funding cost of the government and not the banks. And therefore, it seems unfair to link bank lending rates to T-bills.

☐ With lesser buyers (also called shallow or thin market), T-bills and CDs rate may not work in favour of the banks.

☐ RBI's repo rate on the other hand brings back the question of calculation of tenor and premium resulting in the problem of spreads.

- **Treasury Bills:** These are government securities (debt instruments) used by the government to raise money for a shorter period of time i.e. less than a year. Therefore, they are categorized as money market instruments. T-bills do not pay interest but are rather sold at a discounted rate and can be redeemed at the face value at maturity.
- **Certificate of Deposits:** It is a money market instrument issued in demat form or as promissory notes by banks against funds deposited at the banks. they can either be offered at a discounted rate or with a floating rate (to be determined by the market forces).
- **Repo rate:** it is the rate at which banks borrow money from the RBI

against the pledge of government securities.

- **MCLR:** It refers to the minimum interest rate of a bank below which it cannot lend. It is calculated on the basis of marginal cost of arranging one more rupee to the prospective borrower.
- **Base Rate:** It is the minimum interest rate at which a bank can lend. It is calculated according to the RBI guidelines. It differs from one bank to another.
- **Spread:** It is difference between base rate and the rate charged to the customer on loans and advances.

8. GOLD OPTIONS ON MULTI COMMODITY EXCHANGE

- Recently, gold options were launched for the first time in India on Multi Commodity Exchange (MCX).
- **Background**

☐ The launch of gold options is in line with the government's announcement of including new commodities in the derivatives markets.

☐ This is the first commodity that the Securities and Exchange Board of India (SEBI) has approved for options trading in 14 years.

☐ The launch is also in consonance with the earlier initiatives taken up by the government for easing trade in gold such as the Gold Monetisation Scheme launched in 2015 and the Sovereign Gold Bonds launched in 2016.

☐ The options allow trading in 1 kg of gold.

☐ The gold options would allow investors to hedge any volatility in the price of the metal

- **Multi Commodity Exchange**

☐ Similar to the BSE and the NSE, MCX is an exchange where commodities are traded.

☐ It was formed in 2003. It falls under the regulatory purview of SEBI.

☐ Four types of commodities are traded on the MCX – bullion, base metals, energy and agro commodities

- **Difference between Options and Futures**

☐ Under both futures and options, an investor enters into a contract to buy (or sell) an asset at a predetermined price within a certain time frame.

☐ However, under a future, an investor is obligated to buy or sell (as the case maybe) within the time frame while under options, he has the option not to.

9. BHARAT NET PROJECT

- Recently, Government has announced that the first phase of Bharat Net Project will be completed by December 2017.
- **Bharat Net Project**

☐ In 2011, National Optical Fibre Network (now called Bharat Net Project) was launched to provide broadband connectivity to 2.5 lakh Gram Panchayats with an affordable broadband connectivity of 2 Mbps to 20 Mbps.

☐ It is being implemented by a special purpose vehicle (SPV) named Bharat Broadband Network Ltd (BBNL) set up under Companies Act.

☐ It is funded through Universal Service Obligation Fund (USOF)

☐ Bha
also significant for generation of as much as 5 lakh jobs during the installation of Wi-Fi hot spots.

☐ Till now Optical Fibre Cable connectivity has been achieved in 1,03,275 Gram Panchayats (GPs) by laying fibre for 2,38,677 km.

- **Challenges**

☐ High usage of internet through mobile phone- Approximately, 77% of urban users and 97% of rural population believe that the primary source to access internet is through mobile phone.

☐ Security – Issues related to data protection, cyber security etc. pose a challenge to provide secure cyber space to users.

☐ High cost– Affordability of internet remains an issue which restricts rural population to adopt the services.

☐ Low internet education – Internet knowledge and familiarity with applications such as e-mail still remain a challenge.

- **Way Forward**

☐ Increase awareness regarding broadband usage and improve computer knowledge among population.

☐ A better revenue model should be adopted to reduce the prices of the internet.

☐ Low priced laptops and Personnel Computers should be developed to increase the usage as done by the mobile phone manufacturers.

☐ It is imperative to create a fibre first programme where the government as well as private sector, can join hands to double the reach of the telecom fibre network in the country by 2020.

☐ Efforts must be made to improve cyber security and address the issues related to privacy.

- **Universal Service Obligation Fund:**

☐ It aims to provide non-discriminatory access to quality ICT services at affordable prices to people in rural and remote areas through subsidy support to incentivizing telecom service providers to venture forth and provide services to such target beneficiaries.

☐ It was envisaged in National Telecom Policy, 1999 and was given statutory status through Indian Telegraph (Amendment) Act, 2003.

☐ The resources are raised through a 'Universal Access Levy (UAL)', which would be a percentage of the revenue earned by the operators under various licenses.

10. PANEL ON MARKET INFRASTRUCTURE INSTITUTIONS

- Recently, SEBI constituted a committee under former RBI deputy governor R. Gandhi to review the norms for Market Infrastructure Institutions (MII).
- **Background**

☐ The review is in line with the recommendation of the Bimal Jalan committee, 2012 which had asked the regulator to conduct a review of Market Infrastructure Institutions every five years.

☐ It recommended:

o Only anchor institutional investors such as adequately capitalised public financial institutions and banks should be eligible to own up to 15-24 per cent of stock exchanges.

o Depositories and clearing corporations should not own other classes of MIIs;

o MIIs should not be listed on stock exchanges;

- **Highlight**

☐ Committee will take overall assessment of the existing MIIs' framework and identifying areas for review in the SECC (Stock Exchanges and Clearing Corporations) norms, depository participants regulations and identify areas for improvement of systems, procedures and practices.

☐ SEBI's review is significant in the wake of Multi-Commodity Exchange Ltd and BSE Ltd getting listed and National Stock Exchange of India Ltd preparing for an initial public offering (IPO).

- **Market Infrastructure Institutions (MII)**

☐ These institutions are systemically important for the country's financial development and serve as the infrastructure necessary for the securities market.

☐ They include stock exchanges, depositories and clearing corporations.

11. **SAMPOORNA BIMA GRAM YOJANA**

- Recently, Ministry of Communications launched Sampoorna Bima Gram Yojana (SBG) yojana and also expanded the coverage of Postal Life Insurance.
- **SBG yojana**

☐ Aim: To provide affordable life insurance services to people living in rural areas of the country through the postal network.

☐ Feature:

o to identify at least one village (having a minimum of 100 households) in each of the revenue districts of the country and cover all households with a minimum of one RPLI (Rural Postal Life Insurance) policy in that village.

o Coverage: All villages under the Saansad Adarsh Gram Yojana will be covered under it.

- **Postal Life Insurance (PLI)**

☐ It was introduced in 1884 for the benefit of Postal employees.

☐ It is the oldest life insurer in this country.

☐ Apart from Government and semi-Government employees, benefits of PLI have now been expanded to professionals such as Doctors, Engineers, Lawyers, Bankers etc. and to employees of listed companies of National Stock Exchange and Bombay Stock Exchange.

- **Rural Postal Life Insurance (RPLI), 1995**

☐ Introduced on the recommendations of Official Committee for Reforms in the Insurance Sector (Malhotra Committee).

☐ It provides insurance cover to people residing in rural areas, especially weaker sections and women living in rural areas.

☐ It is operated by Department of Posts, Ministry of Communications.

- **Saansad Adarsh Gram Yojana (SAANJHI)**

☐ It was launched for the development of model villages.

☐ Under it, Members of Parliament (MPs) will be responsible for developing the socio-economic and physical infrastructure of three villages each by 2019, and a total of eight villages each by 2024.

☐ Funds will be utilized from existing schemes such as MPLAD, NGNREGA etc.

12. **SANKALP & STRIVE SCHEMES: SKILL INDIA MISSION**

- The Cabinet Committee on Economic Affairs has approved two new World Bank supported schemes - Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) and Skill Strengthening for Industrial Value Enhancement (STRIVE).
- **Highlights of the Schemes**

☐ These are outcome focused projects marking a shift in government's implementation strategy in vocational education and training from inputs to results.

☐ **SANKALP**, a centrally sponsored scheme (funded directly by Central Ministries and implemented by States or their agencies), addresses this need by setting up national bodies for accreditation and certification. The bodies shall regulate assessment and certification in both long- and short-term vocational education and training (VET).

☐ **STRIVE**, a central sector scheme (funded and implemented by the Central Government machinery), aims to modernize 500+ ITIs through outcomes and reform linked funding.

☐ The architecture shall help to converge the efforts of various central, state and private sector institutions thereby avoiding duplication of activities and bringing about uniformity in vocational training.

☐ The schemes aim to strengthen institutions such as State Skill Development Missions (SSDMs), National Skill Development Corporation (NSDC), Sector Skill Councils (SSCs), ITIs and National Skill Development Agency (NSDA) etc. and ensure greater decentralization in skill planning.

☐ They support universalization of National Skills Qualification Framework (NSQF) including National Quality Assurance Framework (NQAF) across the skill development schemes of central and state output.

13. **<u>RO-RO FERRY SERVICE LAUNCHED</u>**

- Recently, Ro-Ro (‘roll-on, roll-off) Ferry Service was launched in Gujarat between Ghogha and Dahej.
- **Ro-Ro Ferry Service**

☐ It refers to vessels used to carry wheeled cargo like cars, trucks, semi-trailer trucks, trailers, and railroad cars, that are driven on (rolled on) and off (rolled off) the ferry on their own wheels or using a platform vehicle.

☐ It has been launched by Ministry of Shipping as part of Sagarmala Project.

☐ It funded partly by Gujarat Government and partly under Sagarmala Project.

☐ It is also being proposed to be extended to other locations such as Gulf of Khambhat and Gulf of Kutch.

- **Other Ro-Ro services that have been proposed**

☐ Jharkhand – multimodal terminal at Sahibganj on Ganga River

☐ Assam – Ro-Ro service terminal at Dhubri on Brahmaputra River (NW-2) connecting Dhubri with Hatsingimari along the Meghalaya border

☐ Bihar- West Bengal – proposed to join Kalughat Terminal in West Bengal with Gaighat in Bihar under Jal Marg Vikas Project.

- **Ro- Ro and Lo- Lo Service Ro-Ro Service** – Roll on and Roll off Service a vessel which is used to transport wheeled cargo. Lo-Lo Service – Lift on – Lift off service is a vessel which is used to transport cargo which is loaded and discharged over the top of the vessel using cranes
- **Sagar Mala Project**

☐ It aims to promote port-led direct and indirect development and to provide infrastructure to transport goods to and from ports quickly, efficiently and cost-effectively.

☐ It is based on three key deliverables, Port Modernization, Efficient Evacuation to and from hinterland, and Coastal Economic Development.

14. HYDROPOWER GENERATION IN INDIA CHALLENGES AND PROSPECTS

- In a recent presentation to Ministry of Power various challenges leading to stalling up of hydroelectric power plants were highlighted.
- **Classification of Hydro Projects based on Installed Capacity?**

Micro: Up to 100 KW
Mini: 101KW to 2 MW
Small: 2 MW to 25 MW
Mega: Hydro projects with installed capacity >= 500 MW and Thermal Projects with installed capacity >=1500 MW
The projects less than 25MW capacity come under the purview of Ministry of New & Renewable Energy

- **More about the news**

☐ India's total generation capacity stands at 330GW, of which 44GW is from hydropower.
☐ India has hydro potential of 148GW (5th largest in the world) but only 30 per cent of the total potential is harnessed.
☐ The share of hydropower in the overall energy mix has been falling since 1962-63 when it stood at 51 per cent, against 13 per cent today.
☐ The presentation pointed out while 592 hydro projects of total 145.3 GW capacity have been allotted across the country, only 30.7 per cent of the projects have been completed as yet.

- **Major Challenges**

☐ Huge time and cost overruns: Hydropower projects are getting completed at two or more times the sanctioned cost and in double the sanctioned time. For e.g. Nathpa Jhakri, Tehri, Koldam etc.
☐ High upfront cost: Hydropower projects are capital-intensive and financing them, by finding an optimum balance between bankability and affordability, is often a challenge.
☐ Long-drawn process to get clearances: Some of the major challenges under this have been: o Environmental and forest clearances for e.g. Subansiri lower project on border of Assam and Arunachal Pradesh.
o Land acquisition and other local issues
o Rehabilitation and resettlement issues
o Legal and social problems such as social resistance for large hydro projects.
☐ Inter- state disputes: for e.g. Shivasamudram, Mekadatu, Hogenekkal and Rasimanal have been affected due to Cauvery water dispute between Tamil Nadu and Karnataka.
☐ Additional cess by state governments: for e.g. Jammu and Kashmir as well as Uttarakhand charges "Water Cess", which create additional burden on hydro projects.
☐ High tariff and reluctance of states to sign power purchase agreements (PPAs): The cash flow to repay the loan during initial year is high which results into higher tariff costs and thus making power distribution companies reluctant to buy hydroelectric based electricity.

- **Suggestions**

☐ Better Governance framework including overarching policy framework, specific sector strategies, and clear and transparent processes for accelerating hydropower development needs to be developed.
☐ Benefit-Sharing Framework: Mitigation of social and environmental risks also plays a critical role in the development of hydropower projects. Thus, the government and developer must share the benefits with all stakeholders including the locals.

☐ Facilitating Private sector Investments: Private sector participation currently standing at 7 % needs to be increased through optimum risk allocation.

☐ Facilitate Market Development through steps like hydropower purchase obligations, differential tariff structure for peak and off load season, developing market for ancillary services, support across the national grid etc.

☐ Technical Capacity Development including capacity-building of the agencies involved as well as the introduction of modern techniques and technologies.

☐ Parliamentary committee on energy had recommended

o Declaring all hydro projects as renewable energy sources and introducing Hydro Power Obligation (HPO) which will oblige electricity companies to buy hydropower and thus improve investor confidence,

o Reinstating mega power benefit for hydro projects

o Providing better financing options (long-term loans by extending project life from 35 to 60 years, introducing tax-free bonds, etc.).

15. BHARATMALA PROJECT

- Recently, Cabinet cleared Bharatmala project for construction of 24,800 Km of highway connecting western and eastern part of the country.
- Bharatmala Project

☐ It will undertake programs for improvement in Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International connectivity roads, Coastal and Port connectivity roads and Green-field expressways.

☐ It has been envisaged as an umbrella program that will subsume unfinished parts of NHDP.

☐ It will undertake development of national highways, state highways and along with some state roads.

☐ It will start in Gujarat and Rajasthan, followed by Punjab and subsequently traversing the Himalayan belt through Jammu and Kashmir, Himachal Pradesh, Uttarakhand, parts of Uttar Pradesh, Bihar, West Bengal, Sikkim, Assam, Arunachal Pradesh, Manipur and then to Mizoram.

☐ It will be funded through market borrowings, central road funds, monetizing government-owned road assets, and budgetary allocation.

☐ The mains agencies that will implement the program are National Highways Authority of India, National Highway and Industrial Development Corporation and state public works departments. For tough terrains assistance will be taken from Border Road Organisation.

- **Significance of Bharatmala Project**

☐ It will increase last mile connectivity, boost movement of cargo, increase exports, boost the employment opportunities and fast track the development of roads.

☐ The project will provide the required impetus to manufacturing sector and schemes such as Make in India, Start-up India etc. by reducing the logistics cost which is highest in India when compared with other emerging markets.

☐ It will improve India's ranking in Logistics Performance Index of World Bank (2016 Index ranked India at 35.)

16. BOOSTING SILK PRODUCTION

- Recently government has pumped ₹ 690 crore in 24 districts under

North East Region Textile Promotion Scheme (NERTPS) for increasing silk production in India.

- **Silk industry (Sericulture) in India**

☐ India is the second largest producer of silk in the world. It provides employment to over 8.25million people in the country.

☐ There are four major types of silk produced in India: Mulberry, Tasar, Muga, Eri of which Mulberry accounts for 70% of total raw silk production

☐ In India, mulberry silk is produced mainly in the states of Karnataka, Andhra Pradesh, Tamil Nadu, Jammu & Kashmir and West Bengal, while the non-mulberry silks are mainly produced in Jharkhand, Chhattisgarh, Orissa and northeastern states.

☐ Karnataka is the leading producer of silk followed by Andhra Pradesh.

☐ India's north eastern region has the unique distinction of producing all these commercial varieties of silk contributes about 21 per cent of the total silk production in the country.

☐ Handlooms account for about 85 per cent of silk consumption in India while power looms use the remaining.

- **Significance of Sericulture**

☐ Low Gestation & High Returns; Five crops can be taken in one year under tropical conditions,

☐ Women friendly occupation as currently they consist of more than 60 % of total workforce.

☐ Ideal Programme for weaker sections of the Society, as it less capital-intensive industry.

☐ Eco-friendly activity: As a perennial crop with good foliage and root-spread, mulberry contributes to soil conservation and provides green cover. Waste from silkworm rearing can be recycled as inputs to garden.

☐ Fulfil equity concerns: as end-product users are mostly from the higher economic groups, the money flows from high end groups to low end groups.

☐ Labour intensive &high income generating – It generates employment especially in rural sector and is a means to earning foreign exchange.

- **Challenges faced by industry**

☐ Low export earnings – due to global recession and reduced demand in western countries for silk goods. A weaker rupee is also hurting exports. However, the silk exports are finding non-traditional/new markets in UAE, Nigeria, Thailand etc.

☐ Selling power loom in the name of handloom – leads to inadequate returns on hard work of handloom workers since power loom is much cheaper

☐ Declining inclination of youth towards weaving – as one can earn the same money working at a power loom with less stress

☐ Competitive pricing - The blending of cheap imported Chinese silk or artificial/synthetic silk yarns putting the natural silk traders on the verge of distress sales.

☐ Decline in area cultivated - Mulberry silk in the country has seen a steady decline in its area of mulberry cultivation because of rapid urbanization, industrialization and a shortage of agricultural labour.

☐ Piece meal approach of government in term of banning foreign silk, lack of integrated market and inadequate knowledge of sericulture amongst the traders.

- **Way forward**

☐ Establishment of close linkage between forward and backward sub-systems for greater efficiency and synergy as sericulture and silk industry is highly scattered and unorganized.

☐ Adequate thrust on non-traditional uses of silk such as use for artificial skin and other medical applications could create a positive pressure for high value addition.

☐ Protection to some extent of Indian silk market from Chinese cheap raw silk and fabrics by implementation of anti-dumping duty.

☐ Identification and promotion of potential clusters for silk production in potential traditional and nontraditional areas.

☐ Skill up-gradation through structured and specially designed training programme.

☐ Evolution of appropriate cost-effective technologies through focused research projects for the development of superior and hybrid breeds.

- **North East Region Textile Promotion Scheme (NERTPS)**

☐ It aims to develop and modernise the textile sector in the North East Region by providing the required Government support in terms of raw material, machinery, skill development etc.

☐ It is being implemented under two broad categories viz., Integrated Sericulture Development Project (ISDP) and Intensive Bivoltine Sericulture Development Project [IBSDP].

☐ It is an umbrella scheme under Ministry of Textiles for the development of various segments of textiles, i.e. silk, handlooms, handicrafts and apparels & garments.

- **Facts about Silk**

☐ It is made of proteins secreted in the fluid state by a caterpillar (silkworm).

☐ Asia is the main producer of silk in the world and produces over 95 % of the total global output.

☐ China and India are two major producers of silk, followed by Japan, Brazil and Korea.

☐ Vanya silks refer to non-mulberry varieties of silks wild silkworms that feed on leaves of castor, kesseru, sal etc. These include tasar, eri and muga silk.

- **Integrated Scheme for the Development of Silk Industry**

☐ It is a central sector scheme implemented by Central Silk Board,

☐ It co

components:

o Research & Development, Training, Transfer of Technology and I.T. Initiatives,

o Seed Organizations,

o Coordination & Market Development,

o Quality Certification Systems (QCS)/Export Brand Promotion & Technology Up-gradation

☐ It focuses on improving production, quality and productivity of domestic silk so as to reduce the country's dependence on imported silk.

- **Related bodies**
  - ✓ Central Silk Board – It is a statutory body under Ministry of Textiles. It is entrusted with the overall responsibility of developing silk industry
  - ✓ The Indian Silk Promotion Council – It has initiated various programmes for growth and development of the silk industry including trade shows and fairs across the world. It also facilitates meetings between exporters and potential customers.

17. SEBI PANEL ON CORPORATE GOVERNANCE

- Recently, **Uday Kotak** panel on corporate governance has submitted its report to SEBI, suggesting various changes in corporate governance.

- **Background**

☐ India's corporate sector is currently facing problem of excess debt and boardroom disputes (e.g. TATA, Infosys).

☐ Various committees in the past, such as those led by Kumar Mangalam Birla (1999) and N.R. Narayana Murthy (2003), contributed to the process of improving standards of corporate governance in India.

- **Recommendations by the Uday Kotak Panel**

☐ Regarding Audit Committee- To provide requisite time to address matters beyond quarterly reporting, it recommended at least 5 Audit Committee meetings. Further, the audit committee should- o Review the utilization of funds of the listed entity infused into unlisted subsidiaries including foreign subsidiaries. o Review the use of loans, advances and investment by holding company if it exceeds Rs. 100 crores

☐ Regarding Nomination & Remuneration Committee:

o in order to ensure the independence of the Committee it shall have at least 2/3rd members as Independent Directors.

o the committee's role includes identifying persons who may be appointed in 'senior management' and recommending to the board of directors their appointment and removal.

☐ Quorum for Committee Meetings: To protect the interest of all stakeholders, the Panel recommended that at least one Independent Director may be made mandatory for attaining quorum for such meetings.

☐ For transparent functioning of independent directors:

o the companies must list the competencies of every director present on the board.

o At least half (earlier 1/3rd) of the board of a listed entity be constituted of independent directors with a minimum of six independent directors on the board, and at least one-woman director among the independent directors.

o A formal induction should be mandatory for a new independent director, and at least once in five years for the existing directors.

o the listed firms should also disclose the detailed reasons for the resignation of the independent directors, and at the same time these firms not be allowed to appoint a person as an alternate director in the place of any of the independent directors.

o It provides for minimum compensation for them and calls for more frequent exclusive meetings among them to discuss company affairs.

☐ On the compliance and regulations front:

o the board of directors be updated on regulatory and compliance changes at least once in a year.

o It has sought frequent interaction between Non-Executive Directors and senior management, at least once a year.

o the roles of Chairman and MD-CEO of the listed firms shall be separated.

☐ For better Risk Management- o Succession planning and risk management must be discussed at least once a year.

o to protect the interest of independent directors the top 500 companies by market capitalization must undertake Directors and Officers Insurance for its independent directors.

- **Conclusion**

☐ The recommendations of the Kotak committee are expected to enhance transparency and effectiveness in the way boards of listed companies' function.

- Since some of the proposed changes are structural in nature, it has provided timelines for implementation. The securities market regulator will need to develop capabilities to be able to regulate listed companies more effectively and protect the interests of small shareholders.

18. <u>SIDBI revamps portal for easy credit access</u>

- Small Industries Development Bank of India (SIDBI) has revamped its portal www.udyamimitra.in with enhanced features to provide easy access to credit and hand-holding services for micro small medium enterprises (MSME).
- **Key Features:**

- The portal brings transparency and competition among lenders
- It removes the need to approach several banks individually
- The portal is mobile-enabled and provides a self-assessment module.
- It sends various information on registered MSMEs from time to time.
- It also allows loan applications to be perused and picked up by multiple lenders.

- SIDBI: Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

19. <u>India emerging as a leader among milk producing nations</u>

- Union Agriculture and Farmers Welfare Minister said India is emerging as a leader among milk producing nations at Pashu Arogya Mela in Semwapur, Motihari. India produces 163.7 million tonne milk in 2016-17 worth over Rs.4 lakh crore. There are 19 crore cattle in the country, which amounts to 14% of the total cattle population of the world.
- **Rashtriya Gokul Mission:**

- Rashtriya Gokul Mission, 2014 is a focused project under National Programme for Bovine Breeding and Dairy Development.
- Its o
is to conserve and propagate indigenous breeds in an organized and scientific manner.

- **Progress update:**

- 1250 MAITRI centres are being set up to facilitate artificial insemination for cattle on the doorstep.
- One Gokul Gram (Integrated Indigenous Cattle Centres) will have 500 animals with high genetic quality, out of which 300 will be reproductive animals. The Gokul Grams will rear Lal Sindhi, Sahiwal and Gir breeds along with Bachaur.

- **Indigenous animals**: Indigenous animals are more suitable for the country particularly suitable for climate and environment of their reproductive areas. They are endowed with qualities of heat tolerance, resistance to diseases and the ability to thrive under extreme climatic stress and less than optimal nutrition.

- **Conclusion**: Dairy farming has been a traditional source of livelihood and it has a deep connection with the agricultural economy. It is essential to increase productivity of Indigenous breeds in the country through commercial farm management and balanced nutrition.

20. MSME Delayed Payment Portal – MSME Samadhaan

- Delayed Payment Portal – MSME Samadhaan was launched for empowering micro and small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.
- **Utility**

☐ The portal will greatly facilitate the monitoring of the delayed payment in a more effective manner.
☐ The information on the portal will be available in public domain, thus exerting moral pressure on the defaulting organisations.
☐ The MSEs will also be empowered to access the portal and monitor their cases.

- **Background**:

☐ The Portal will give information about the pending payment of MSEs with individual CPSEs / Central Ministries, State Governments, etc.
☐ The CEO of PSEs and the Secretary of the Ministries concerned will also be able to monitor the cases of delayed payment and issue necessary instructions to resolve the issues.

- The Micro, Small and Medium Enterprise Development (MSMED) Act, 2006 contains provisions to deal with cases of delayed payment to Micro and Small Enterprises (MSEs).

21. A plan to stamp out animal TB

- The first-ever road map to combat animal tuberculosis (bovine TB) and its transmission to humans, referred to as zoonotic TB, was recently launched at the 48th Union World Conference on Lung Health in Guadalajara, Mexico. The roadmap has been built on a 'One Health Approach', addressing health risks across sectors for the animal tuberculosis known as bovine TB and its transmission to humans.
- Four partners in health, the World Health Organization (WHO), the World Organisation for Animal Health (OIE), the Food and Agriculture Organization (FAO) of the United Nations (UN) and the International Union Against Tuberculosis and Lung Disease (The Union) have joined forces to develop the road map and, address the major health and economic impact of this disease.
- **Concerns:**

☐ New data released by the WHO estimates that over 140,000 people fall ill and more than 12,000 people lose their lives each year to zoonotic TB – mostly in the African and the South-East Asian regions.
☐ In India, consumption of raw milk and living in close proximity to cattle has been attributed to

high incidence rates of bovine TB in the central Indian populations.

☐ There is no cure for bovine TB and it threatens animal welfare and those with livelihoods based on livestock.

- **About Zoonotic TB:** It is a type of TB in people caused by mycobacterium bovis. The disease can affect many other species surrounding cattle and become established in wildlife reservoirs.

☐ Spread: Bovine TB is most often communicated to humans through food consumption, usually non-heat-treated dairy products or raw, or improperly cooked meat from diseased animals. Direct transmission from infected animals or animal products to people can also occur.

☐ There is no cure for bovine TB and it threatens animal welfare and those with livelihoods based on livestock.

- **Way ahead:**
  - ✓ Preventing and controlling bovine TB at its animal source is crucial to avoid its transmission to humans, improve food safety and protect the livelihood of many rural communities. To this aim, the implementation of strategies based on international standards and a cross-sectoral approach will enable improved surveillance and diagnosis of the disease in animals and consequently reduce the risks for humans.
  - ✓ For countries to achieve the global TB elimination targets, interventions addressing zoonotic TB must be introduced in the national programmes.

22. <u>Centre Proposes New Contract Labour Law</u>

- Definition of contract worker: If a work order is given to a contractor who has hired employees on payroll then the workers will not be treated as contract workers under the Contract Labour (Regulation and Abolition) Act.
- ILO convention: The proposed law is in line with International Labour Organisation Convention 181 (on private employment agencies).
- Uniform three-year licence: The government has proposed a major overhaul in the contract labour law, which includes a three-year licence for contractors to work across the country instead of a separate one for new work orders. Thus, Contractors will no longer require a licence for undertaking each project as per the proposed changes to the Contract Labour (Regulation and Abolition) Act, 1970. Presently, contractors hide away from labour law compliance due to the complexity involved in renewing licence with each work contract.
- Define the work area: However, the contractor will have to clearly

define a particular area of work. If the contractor wants to work in a single State for up to three years the permit needs to be obtained from the State Government.

- Information to the government: The contractor will need to inform the government whenever it receives a work order from a company failing which the licence may be cancelled.
- Distinction between different classes of contractor: The proposed law also seeks to make a distinction between contractors who provide services and those who provide human resources. Contractors who provide human resources to a company will no longer be responsible for providing canteen and restroom facilities to the workers. Providing facilities such as canteen and restroom to contract workers has to be the responsibility of the principal employer who had hired workers from the contractor.
- E-payment of wages: The government has also proposed to make wage payment primarily through electronic mode instead of cash payment.
- **Way Forward**

☐ The proposed law wil be a great step towards regulating the service conditions for the contractual workers. The new provisions defining the liability of the different parties and e payment of wages are laudable steps.

☐ But at the same time, it must also be ensured that a fair balance is maintained between the rights of workers and ease of doing business.

☐ Moreover, the state government must be consulted on the proposed laws as the implementation of labour law is basically a domain of the state government.

23. <u>Inheritance Tax on HNIs Likely to Be Reintroduced</u>

- The government is considering the levy of an inheritance tax on high net worth individuals. India had inheritance tax from 1953 and discontinued it in 1986.
- For this government has sought feedback, recommendations on the proposed re-introduction of inheritance tax also known as estate duty. The tax could range from 5% to 10% and would apply only to families with a certain net worth.
- As per Hurun Research Institute India had 617 individuals with wealth of 1000 crores. And currently there is no tax in India on bequeathed assets.
- **Positives**

☐ Reduce inequality: The taxes on high net worth individual will reduce the inequality in income, which is currently prevalent in India.

☐ Generation of revenue: The inheritance tax will increase the revenue source for the government to fund infrastructure and social schemes.

☐ Will resolve the issue of regressive nature of taxes: The current high reliance on indirect tax as a mode of revenue generation is regressive because burden of taxes falls mainly on poor people. But this issue will be addressed in inheritance taxes.

☐ Resolve the issue of black money: The inheritance tax will resolve the issue of black money where untaxed money is often invested in real estate sector.

- **Challenges**

☐ Loophole: Many people have found a way out of proposed tax by forming Family trusts. And in such cases inheritance tax will not apply because there is no transfer in ownership of assets, only a change in the trust shareholding. Thus, it will encourage tax avoidance through creation of trusts and shell companies to hold the assets.

☐ Effect on saving and capital formation: An inheritance tax will penalize savings, investment and will also discourage capital formation.

☐ Past failure: In India estate duty was in 1985 as it failed to produce much revenue and the share of estate duty in gross tax collections was only 0.13% in 1981-82.

☐ Other problems: The inheritance tax will not only lead to high administrative costs for the exchequer but will also increase the compliance costs for taxpayers.

- **Way Forward**

☐ Taxing wealth kills the incentive to save, invest and grow and threatens to offshore much economic activity.

☐ Thus, although India must try to increase the tax base but it must be in a right way i.e. it must come from policies that produce faster growth and taxation of that new income rather than imposing taxes on inheritance.

24. <u>Information Utility Under The IBC</u>

- National e-Governance Services Ltd became India's first information utility (IU) for bankruptcy cases under the Insolvency and Bankruptcy Code, 2016.
- Information utility is an information network that will store financial data like borrowings, default and security interests among others of firms. The utility would specialize in procuring, maintaining and providing financial information to businesses, financial institutions, adjudicating authority, insolvency professionals and other relevant stakeholders.
- Information utilities are governed by the Insolvency and Bankruptcy code, 2016 and IBBI (Information Utilities) Regulations, 2017.
- **Purpose of Creation of Information Utilities**

☐ Objective: The objective behind information utilities is to provide high quality, authenticated information about debts, defaults and expeditiously process & verify information received. ☐ Informed decisions by lenders: The database and records maintained by them will help lenders in taking informed decisions about credit transactions.

☐ Cautious debtor: It will also make debtors cautious in repayment, as credit information is available with the utility.

☐ Evidence during proceeding: Moreover, the information available with the utility can be used as evidence in bankruptcy cases before the National Company Law Tribunal. Challenges Before Information Utilities

☐ Sensitivity: While the onus is on financial creditors, operational creditors and corporate debtors to provide the required information but procuring authentic information might be a challenge due to the sensitivity involved.

☐ Bank's resistance: There may also be resistance by banks in sharing the information about the financial details of their clients.

☐ Risk of data theft: Since it is a digital database there is the risk of exposure to data piracy and data theft.

☐ Supreme court privacy judgment: The recent judgment by the Supreme Court in privacy matters has further complicated the issue of collection of data.

- Way Forward The setting up of the Information utility is an important step in quickly resolving the insolvency disputes. But to overcome the above challenges government must enact a comprehensive Right to privacy act and Data protection law. This will help in resolving the current impediments before the Insolvency law.

25. **<u>Recap Bonds to Shore Up Net Worth of PSU Banks</u>**

- The Centre announced a Rs 2.1 lakh crore capital infusion plan for state owned banks. Banks will get Rs 1.35 lakh crore from bonds, Rs 18000 crore from the Budget and raise the remaining 58000 crores through share sales.
- The government also emphasized that not all state-run banks will be equally supported. There will be a differential approach where performance, potential of each bank, their regional, national and international characters etc. will be factored.
- PSU banks have been short of capital due to the huge provisions needed for loan losses between March 2015 and June 2017 when NPAs rose by Rs 4.6 lakh crore.
- **Benefits of Recapitalization of Banks**

☐ Increase in capital base: The move will shores up banks capital base indirectly and will clean up the banks books and get them to lend more.

☐ Employment generation: Enhanced financing access will directly benefit micro, small and medium enterprises (MSMEs) and give a boost to employment generation.

☐ Increase of private investment: Credit growth at the end of September 2017 was 7% compared with 10% a year ago. Bolstering this is key to lifting private investment so as to revive growth.

☐ Attractive proposition: The Rs 2.1 lakh crore capital infusion plan will also make banks more attractive to equity investors to raise the said capital.

- **Challenges**

☐ Fiscal deficit: Recapitalization will increase the fiscal deficit of the government and may lead to possible downward revision of fiscal rating by the rating agencies as they insist on factoring such moves in assessing a country's fiscal deficit.

☐ Insufficient amount: Fitch Ratings estimates India's banks will need nearly $65 billion in bank capital by March 2019. The capital infusion announced by the govt amounts to about half that.

☐ Lack of clarity: There is still lack of clarity on how the recapitalization bonds will be structured thus further creates the confusion in mind of market players.

☐ Bank labour union: Likely opposition of the labour union may derail the government plan for capital infusion by stake sale.

- **Way Forward**

☐ The differentiated funds allocation where stronger banks will likely to be favoured is a positive step. The infusion should be accompanied by banking reforms this is critical; else the capital infusion will set off another wave of bad lending.

☐ In some selective banks the government stake needs to be brought down below 51% as given the some of the state-owned banks poor financial shape and they fast losing market share in an increasingly digital environment, holding on to them makes little sense.

☐ Further a bad bank needs to be established to warehouse the NPAs, leaving banks to operate with clean balance sheets.

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All the Best
Jai Hind ☺