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# GOOD MORNING TIMES

## Economics –PT Shots

## (DECEMBER-2019)

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

## December 2019

### 1) MEGA FOOD PARKS

• Recently, Avantee mega Food Park in Dewas (Madhya radish) was inaugurated. This is the first food park of central India.

• Government has come up with Draft National Food Processing Policy in 2019 to boost the food processing industry.

**Introduction**

• A well-developed food processing sector with higher level of processing helps in the reduction of wastage, improves value addition, promotes crop diversification, ensures better return to the farmers, promotes employment as well as increases export earnings.

• This sector is also capable of addressing critical issues of food security, food inflation and providing wholesome, nutritious food to the masses.

Mega Food Parks (MFP):

• Introduced in 2008, the scheme aims at providing modern food processing infrastructure along the integrated value chain from farm to market with a cluster-based approach.

• It operates in "hub and spoke model" comprising Collection Centres (CCs) and Primary Processing Centres (PPCs) as spokes and a Central Processing Centre (CPC) as hub.

o It includes creation of infrastructure for primary processing and storage near the farm in the form of PPCs and CCs and common facilities and enabling infrastructure like roads, electricity, water etc. at CPC.

o These PPCs and CCs act as aggregation and storage points to feed raw material to the processing units located in CPC.

• These are demand-driven projects and facilitate food processing units to meet environmental, safety and social standards.

• MoFPI does not establish MFPs on its own but assist Special Purpose Vehicle (SPV) registered under the Companies Act and State Government/State Government entities/Cooperatives to establish MFPs.

• Financial assistance is provided as grant-inaid @ 50% of eligible project cost in general areas and @ 75% in NE Region and difficult areas [Hilly States and Integrated Tribal Development Project (ITDP) areas] subject to a maximum of Rs. 50 crore per project.

**Significance of MFP Scheme**

• The scheme intends to facilitate establishment of an integrated value chain, with food processing at the core and supported by requisite forward and backward linkages.

• The scheme aims to bring together farmers, processors and retailers and link agricultural production to the market to ensure maximization of value addition, minimization of wastages and improving farmers' income.

Progress achieved under MFP scheme:

• Government has so far approved 42 Mega Food Parks. However, only 18 MFPs have been operationalized.

• Modern processing and preservation capacity of 23.02 Lakh MT & 63 PPCs with farm level infrastructure of 2.45 Lakh MT have been created so far in operational parks.

**Challenges of Mega Food Parks**

• The units in the MFP cannot own land and, therefore, they cannot use the land as collateral to take loans from banks.

• Delay in statutory clearances from State Government/Agencies.

• There are also problems of change in Detailed Project Report during implementation of the project, delay on the part of promoters to contribute their equity, change in promoters midway.

• The approach of the scheme is basically 'one-size-fit-all' and the scheme has not been able to attract investors with different investment requirements.

• The SPVs complaints that skill levels of workers are poor and skilled workforce is not cheap.

• The timeline of 30 months to make the park operational is too tight and it does not take into account the contingencies.

• The awareness of the scheme is low.

**Way Forward**

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

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

• The Policy envisages enhanced role of States in development of food parks, where the state government would- o allot land, on priority basis, to such parks to promote agri & food processing industry apart from support setting up of such parks in their respective states from their own resources.

o extend incentives viz. capital investment subsidy, stamp duty exemption, conversion charges to food parks and the units set up in such parks, under their respective policy.

o identify crop production and processing clusters using space technology and other IT tools and provide end to end value chain solution and backward and forward linkages.

• Mega Projects, as defined by Centre and the states governments, would be supported in fast track mode and will receive priority in the allotment of land, sheds in industrial parks, electricity, water connection, environmental clearances etc. o Special incentive package will be provided by the central and state governments to promote such projects which will support development of a cluster of smaller units around it.

• The Policy seeks to promote establishment of "Specialized Agro Processing Financial Institutions" (SAPFI) for the food processing sector through appropriate incentives. This will ensure easier access to credit to MFPs. o Cold chain and Food Parks have been declared as infrastructure to ensure greater flow of funds to the sector on easier terms. However, Given the nature of the industry,

## 2) FOOD GRAIN STORAGE IN INDIA

Recently, National Agricultural Cooperative Marketing Federation of India (NAFED), wasted over half of its onion buffer stock due to poor storage, at a time when government is importing tonnes of onion to keep prices at check. • As per the report of Central Institute of Post-Harvest Engineering and Technology (CIPHET), the annual harvest and post-harvest losses of major food grains ranges from 4.65 to 5.99% of total production.

o Post-harvest losses occur due to unscientific storage, insects, rodents, micro-organisms etc.

• According to World Bank Report (1999), post-harvest losses in India amount to 12 to 16 million metric tons of food grains each year, an amount that the World Bank stipulates could feed one-third of India's poor.

• On an average, Indian farmers incur Rs 92,651 crore per year in post-harvest losses, the primary causes of which are poor storage and transportation facilities.

o Also, according to the Ashok Dalwai committee report, an investment of Rs 89,375 crore—a figure marginally lower than the annual post-harvest losses—is all it takes to improve the state of storage and transportation facilities for food crops.

• The current food grain storage capacity in the country is 88 million tonnes (MT) (covered – 75 MT lakh tonnes and Covered Area Plinth (CAP) – 13 MT) with FCI and State agencies.

**Food Grain Storage and Management in India**

• FCI is the nodal agency under Ministry of Consumer Affairs, Food and Public Distribution responsible for the procurement, storage and movement of food grains, public distribution and maintenance of buffer stocks.

o Storage plan of FCI is primarily to meet the storage requirement for holding stocks to meet the requirements of Public Distribution System and Other Welfare Schemes undertaken by the central government.

o FCI procures food grains at minimum support price (MSP) from farmers on an open ended basis (i.e., accepting all the grains that are sold to it by farmers), provided the food grains meet central government's uniform quality specifications.

o The procurement is also done by State Government Agencies (SGAs) and private rice millers on behalf of the FCI. o All the procured food grains form the Central Pool.

o The grains are moved from the surplus states to the consuming states for distribution and for creation of buffer stocks and stored in FCI godowns for ensuring food security of the nation.

o The food grains are also disposed by FCI and State Governments through sale under Open Market Sales Scheme (OMSS) i.e., selling food grains at predetermined prices in the open market from time to time to enhance the supply of grains especially during the lean season and thereby to moderate the open market prices especially in the deficit regions.

o The economic cost to FCI includes acquisition cost of food grains at MSP, procurement incidentals (e.g. labour & transport charges, godown rentals) and distribution cost (freight, handling, storage & interest charges, losses during storage etc).

o Difference between Economic Cost and Central Issue Price (CIP) of food grains under various schemes (including National Food Security Act, 2013) is the operational loss to FCI and is reimbursed by Government of India as food subsidy.

• In India, food grains are stored using traditional structures by small farmers. The surplus grains are stored with government agencies like: Food Corporation of India (FCI), Central and State warehousing Corporations.

**Issues with Storage in India**

• Improper storage management: Often the stock stored in the warehouses remain in storage for more than its shelf life and such long storage, makes grains prone to rodents, moisture, birds and pests.

o The utilization of existing storage capacity in various states/UTs remains less than 75% in majority of the months. Due to this, the storage space cannot be utilized for fresh arrivals of the ensuing season.

• Unscientific storage: About 80% handling and warehousing facilities are not mechanized and traditional manual methods for loading, unloading and handling of food grains and other commodities are used.

o During procurement season, much of these stock gets damaged because of seepage of water from the ground in the absence of proper plinth or height of ground or due to floods and rains.

• Gap in storage capacity with FCI: With the increasing food grains stock in the central pool held by FCI, the storage gap with FCI has shown an increasing trend in recent years.

o The FC has insufficient number of grain silos and covered godowns with adequate storage capacities.

o Also, the existing cold storage capacity is not integrated with other requirements. There is lack of supporting infrastructure such as integrated packhouses, reefer trucks, ripening units etc.

o Therefore, an overall gap of about 84-99 % in achieving the target on improving the state of storage and transportation of the farm produce.

• Issues with cold storage: India's cold storage capacity is unorganized and dominated by traditional cold storage facilities.

o The distribution of cold storages is highly uneven with majority of the cold storages located in Uttar Pradesh, Gujarat, Punjab and Maharashtra. Further nearly two thirds of the total cold storage capacity is used for potatoes only.

Recommendations of Ashok Dalwai Committee on Improving Storage in India

• Promote integrated agri-logistics systems so as to enable efficient transfer of value from farmgate to end-consumers. These enable monetisation of the transferred value at optimal prices and will enlarge the share of produce that reaches markets.

• Preparing a district and state-wise storage plan to ensure efficient spatial distribution and modern warehouses and silos must be the preferred option if new storage creation is decided upon.

• Upgrading existing dry warehousing infrastructure to make them WDRA (Warehouse Development Regulation Authority) compliant and become eligible to issue eNWRs (electronic Negotiable Warehouse Receipts). o Upgrading the existing godowns and warehouses. o Developing comprehensive guidelines/procedures to promote large number of accreditations and enable farmers to access warehousing facility in close proximity of their farm gate.

• Promotion of the system of warehousing and eNWRs: Advocate and popularise these among all stakeholders, including bankers, the system of warehousing and eNWRs, which will help in using the facility of interest subvention based postharvest loans and buck the distress sale practice common among farmers.

• Increase accreditation of cold storage: In order to promote warehouse based post-harvest loans, in case of notified perishable commodities, it is necessary to substantively increase accreditation of cold storages in the country.

• Building aggregation units at village level: Building aggregation units (i.e. modern pack-houses and pooling points) at village level with transport links must be aggressively promoted. o Promote self-help groups (SHGs) of the gatherers and provide them with a well-appointed place (drying yard, storage, primary processing support etc.)

National Agricultural Cooperative Marketing Federation of India (NAFED)

• It is registered under the Multi State Co-operative Societies Act with the objective to promote Cooperative marketing of agricultural produce to benefit the farmers.

• It was founded to promote the trade of agricultural produce and forest resources across the nation.

• It is the nodal agency to implement price stabilization measures under "Operation Greens.

• NAFED along with FCI with proactive role of state governments also physically procures oilseeds, pulses and copra under the Price Support Scheme (PSS) which in turn is under the umbrella scheme of PM-AASHA.

**Significance of storage**

• The storage of goods, from the time of production to the time of consumption, ensures a continuous flow of goods in the market.

• Protects the quality of perishable and semi-perishable products from deterioration.

• Helps in the stabilization of prices by adjusting demand and supply;

• Provides employment and income through price advantages.

• Enables farmers to precondition, transport and store their produce, of their own volition, in safe and secure manner to markets of choice and at a time of choice.

**Types of Storage in India**

• Underground Storage Structures: These are dugout structures similar to a well with sides plastered with cowdung. These are safer from threats from various external sources of damage, such as theft, rain or wind.

• Surface storage structures: Bag storage and Bulk or loose storage.

• For large scale storage: o CAP Storage (Cover and Plinth): It is commonly used storage method which is economical but loss of grains is inevitable (vulnerable to wind damage). It is temporary storage method of storing crops in outdoor stacks of bagged grain, covered with a waterproof material.

o Silos: In these structures, the grains in bulk are unloaded on the conveyor belts and, through mechanical operations, are carried to the storage structure. The storage capacity of each of these silos is around 25,000 tonnes.

• Warehousing: These are scientific storage structures especially constructed for the protection of the quantity and quality of stored products. Ex: Central warehousing corporation (CWC), State Warehousing Corporations (SWCs), Food corporation of India (FCI).

**Storage management: What the Government is doing?**

• Private Entrepreneurs Guarantee (PEG) Scheme formulated in 2008 in which storage capacity is created by private parties, CWC and State Government Agencies for guaranteed hiring by FCI. After a godown is constructed and taken over by FCI, storage charges are paid to the investor for a guaranteed period of 9/10 years irrespective of the quantum of foodgrains stored.

• A central sector scheme is being implemented in the North Eastern States along with Himachal Pradesh, Jharkhand and Kerala. Funds are released by Government to FCI and also directly to State Governments for construction of godowns.

• Construction of Steel Silos: In addition to conventional godowns, construction of steel silos has been undertaken in Public Private Partnership (PPP) mode for modernizing storage infrastructure and improving shelf life of stored foodgrains.

• Government guidelines:

o Foodgrains in 'Cover and Plinth' (CAP) storage are to be stored on elevated plinths and wooden crates are to be used as dunnage material.

o Stacks are to be properly covered with specifically fabricated low-density black polythene water -proof covers and tied with nylon ropes/nets.

o There is a regular monitoring mechanism under which inspections at all levels are carried out.

o Only covered rail wagons are to be used for movement of food-grains.

• Government is supporting the creation of well-equipped scientific storage facilities to the farmers in the country through the scheme of "Agricultural Marketing Infrastructure (AMI)".

o So far, a total of 38,964 storage infrastructure projects (Godowns), with storage capacity of 655.48 Lakh MT have been sanctioned across the country under the scheme.

• At the level of research, the Department of Atomic Energy (DAE) & Bhabha Atomic Research Centre (BARC) is engaged in extensive research on use of radiation processing for extending shelf life of food products.

o It has resulted in shelf life extension of potato, onion and phytosanitary treatments of fruits (like Mango, Pomegranate, etc.).

**About Negotiable Warehouse Receipts (NWR)**

• NWR are issued by registered warehouses enables farmers to seek loans from banks against NWRs

• It enables them to extend the sales period of modestly perishable products beyond the harvesting season.

• Consequently, NWRs can avoid distress sale of agricultural produce by the farmers in the peak marketing season.

## 3) DIGITISATION OF LAND RECORDS

Recently, Ministry of Rural Development informed that about 90 per cent of villages in India have computerised the Records of Right (RoR) and about 53 per cent of survey maps showing boundaries and ownership of land have been digitised.

• Telangana and Maharashtra top the list of states with 99% computerisation of land records data followed by Andhra Pradesh at 98%.

• Along with some States in the North East, Kerala at 43.24% and Jammu and Kashmir at 9.32% are lagging behind in the computerisation of land records.

**Land ownership in India**

• Land title is a document that determines the ownership of land or an immovable property. Having a clear land title protects the rights of the title holder against other claims made by anyone else to the property.

• In India, land ownership is determined through various records such as sale deeds that are registered, property tax documents, government survey records, etc.

• However, land titles in India are unclear due to various reasons such as legacy issues of the zamindari system, lack of unified legal framework to implement policies between centre and state (land is a state subject) and poor administration of land records.

• This has led to several legal disputes related to land ownership, and affected the agriculture and real estate sectors and have highlighted the importance of having clear land titles, and a well organised digital land records system.

**Advantages of land digitisation: An organised digital land record system can help in:**

• Reduction in litigations and burden of cases: A NITI Aayog paper suggests that land disputes on average take about 20 years to be resolved. Land disputes add to the burden of the courts and impact sectors and projects that are dependent on these disputed land titles.

• Promoting agricultural credit: Land is often used as collateral for obtaining loans by farmers. It has been observed that disputed or unclear land titles inhibit supply of capital and credit for agriculture.

• Development of new infrastructure: The economy of the country is shifting from agrarian to manufacturing and services based. However, several new infrastructure projects are witnessing delays, with land related issues like non-updation of land records.

• Urbanisation and housing: Slum dwellers do not have access to a clear land title or ownership rights. Further, since such colonies are unauthorised it is difficult for the ULBs to provide basic services to them. Easier online approvals of plans and occupancy certificates will provide clarity over ownership status

• To check benami transactions: Unclear titles and non-updated land records enable carrying out property transactions in a non-transparent way. The Standing Committee on Finance in 2015 noted that generation of black money through benami transactions could be eliminated by digitisation of land records and their regular updation.

o Transparent and temper proof land records help to weed out corruption and checks fraudulent property deals.

**Government initiatives**

• Digital India Land Records Modernization Programme (DILRMP): The main aims of DILRMP are to usher in a system of updated land records, automated and automatic mutation, integration between textual and spatial records, inter-connectivity between revenue and registration, to replace the present deeds registration.

o The respective States/UTs would undertake the implementation of the programme with the financial and technical aid of the Department of Land Resources, under Ministry of Rural Development.

o The unit of implementation will be the districts where all activities under the programme will converge.

• Some state governments initiative to digitalise land records o Bhoomi project: It was undertaken and developed by the State Government of Karnataka. It was done so in order to computerize all the records of the land in Karnataka.

o Bhudhaar: This is an initiative of by Andhra Pradesh. Under this each land parcel will be given an 11-digit Bhudhaar number. It will help in easy identification of the details of the land parcel. o Mahabhulekh: It is initiative of Maharashtra government to issue digitally signed 7/12 and land record.

**Conclusion**

The land record computerisation and modernisation schemes have been in process for the last 30 years. However, The Ease of Doing Business report (2015) observed that the pace of modernisation of records and bringing them to an online platform has been slow. From 2008 till September 2017, 64% of the funds released under DILRMP have been utilised.

**Some measures that could encourage and improve the computerisation of land records include:**

• clarifying the policy and establishing clear criteria and accountability mechanisms for allocation of central funds on this;
• identifying and publicising best practices on technical and legal issues,
• promoting exchange and communication among technical staff across states;
• administrative changes at the state level that streamline the collection and maintenance of land data.

## 4) National Investment and Infrastructure Fund (NIIF)

Canada's largest pension fund Canada Pension Plan Investment Board (CPPIB) has agreed to invest about $600 million in National Investment and Infrastructure Fund (NIIF) through the NIIF Master Fund. With CPPIB's investment, NIIF Master Fund now has $2.1 billion in commitments and has achieved its initially targeted fund size.

**About NIIF:** The government had set up the ₹40,000 crore NIIF in 2015 as an investment vehicle for funding commercially viable greenfield, brownfield and stalled infrastructure projects. The Indian government is investing 49% and the rest of the corpus is to be raised from third-party investors such as sovereign wealth funds, insurance and pension funds, endowments, etc.
• NIIF's mandate includes investing in areas such as energy, transportation, housing, water, waste management and other infrastructure-related sectors in India.
• NIIF currently manages three funds each with its distinctive investment mandate. The funds are registered as Alternative Investment Fund (AIF) with the Securities and Exchange Board of India (SEBI).

**The three funds are:**

**Master Fund:** Is an infrastructure fund with the objective of primarily investing in operating assets in the core infrastructure sectors such as roads, ports, airports, power etc.

**Fund of Funds:** Managed by fund managers who have good track records in infrastructure and associated sectors in India. Some of the sectors of focus include Green Infrastructure, Mid-Income & Affordable Housing, Infrastructure services and allied sectors.

**Strategic Investment Fund:** Is registered as an Alternative Investment Fund II under SEBI in India. The objective is to invest largely in equity and equity-linked instruments. It will focus on green field and brown field investments in the core infrastructure sectors.

## 5) RAILWAY RESTRUCTURING

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

**Railway restructuring: The approved reforms**

• Creation of Indian Railway Management Service (IRMS): A unified central service by the unification of the existing eight Group A services of the Railways in consultation with Department of Personnel and Training and UPSC to facilitate recruitment and enable Railways to recruit engineers/non-engineers as per need.

• Re-organisation of Railway Board: Railway board will no longer be organised on departmental lines, and replaced with a leaner structure organised on functional lines.

o The board will have a Chairman, who will act as 'Chief Executive Officer (CEO)' along with 4 Members responsible for Infrastructure, Operations & Business Development, Rolling Stock and Finance respectively.

o The Board will also have some independent members, who will be highly distinguished professionals with deep knowledge and 30 years of experience including at the top levels in industry, finance, economics and management fields to help Railway Board in setting a strategic direction.

• The existing service of Indian Railway Medical Service (IRMS) to be consequently renamed as Indian Railway Health Service (IRHS).

**Need for restructuring**

• To curb departmentalism and bring more efficiency, accountability and cohesion: Railway departments are currently working "in silos", which manifests itself in the form of unhealthy competition among departments as well as pursuing narrow departmental goals at the cost of organisational goals and objectives; and o Unification of services will end this 'departmentalism', promote smooth working, expedite decision making, and create a coherent vision for organisation.

• For Better personnel management: Officers from a particular service are likely to grow only within their respective departments, except some general roles such as divisional railway manager (DRM), and general manager (GM). o Providing three different entries in the organisation created the distinct problem of fixing seniority among all services, each having a different (and not fixed) date of entry every year.

• Modernising the railway: Govt has set a vision of making railways a 100% safe, fast and reliable mode of transport for passengers and freight. The plan is to modernise the entire network by investing around Rs 50 lakh crore by 2030.

o This requires speed and scale, and a unified, agile organisation to work single-mindedly on this task and capable of responding to challenges. Issues raised with respect to restructuring

• Merger of services decision is said to be unscientific and against established norms, because it proposes to merge two fundamentally dissimilar entities, with multiple disparities i.e. between IAS and IES.

• The decision that posts of some the general managers from the various departments would be raised to the "apex" level and hence at par with the board members is problematic.

• Even after the merging of cadres, departments will continue to exist, and it would be the executive's job to settle the disputes at the end of the day.

o Thus, it should be understood that the problem is not departments but the composition of the same, and their role in the Railway organisation.

**About Railway Board**

• It is the apex decision-making body of Indian Railways which reports to the Parliament via the ministry of railways.

• It is organised into various departments like mechanical, electrical, traffic and finance that are vertically separated from the top to bottom.

• A member of the board, usually a secretary rank officer, heads each department.

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## 6) INDEPENDENT DIRECTOR'S DATABANK

Recently, the Ministry of Corporate Affairs (MCA), launched the Independent Director's Databank in accordance with the provisions of the Companies Act, 2013.

**About the Independent Director's Databank**

• This databank seeks to provide an easy to access & navigate platform for the registration of existing IDs as well as individuals aspiring to become IDs.

• Companies also may register themselves with the databank to search, select and connect with individuals who possess the right skills and attitude for being considered for appointment as independent directors.

• Also, IDs are now required to pass a basic online proficiency self-assessment test.

• The Indian Institute of Corporate Affairs (IICA), under the MCA, would be maintaining the databank portal.

• Powered by an Integrated Learning Management System, the data bank portal also provides for a wide array of e-learning courses on various topics including the Companies Act, Securities laws, basic accountancy, board practices, board ethics and board effectiveness.

• Several other value- added services are also expected to be rolled out through the portal for capacity building of Independent Directors.

**Corporate Governance**

• It is the system of rules, practices and processes by which a firm is directed and controlled. It deals with the ways in which suppliers of capital to corporations, especially faceless, powerless small investors, can assure themselves of getting fair treatment as stakeholders.

• At the core of corporate governance practice is the Board of Directors which oversees how the management serves and protects long-term interests of all stakeholders of the Company.

o It is based on the premise that a group of trustworthy and respectable people should look after the interests of the large number of shareholders who are not directly involved in the management of the company.

o They are governed by the Companies Act 2013.

• To further strengthen the corporate governance practices, the Companies Act also provides for the Independent Directors within the Board of Directors.

**About Independent directors (ID)**

• An ID is a director on a board of directors representing minority shareholders and who does not have a pecuniary relationship with the company or related persons, except for sitting fees.

• As per the Companies Act, 2013, Independent Director means any director other than a managing director or whole-time director or a nominee director.

• Schedule IV of the Companies Act, 2013 provides for the Duties, Role and Functions of IDs. It provides that the Independent Directors shall o uphold ethical standards of integrity and probity; o report concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy;

o help in bringing an independent and objective judgment to bear on the Board 's deliberations especially on issues of strategy, performance, risk management, resources, key appointments and standards of conduct;

o ensure their concerns about the running of the company or a proposed action are addressed by the Board;

o ascertain and ensure that the company has an adequate and functional vigil mechanism and to safeguard the interests of a person using such mechanism;

o safeguard the interests of all stakeholders, particularly the minority shareholders;

o moderate and arbitrate in the interest of the company as a whole, in situations of conflict between management and shareholder 's interest.

Given the importance of this role, the institution of independent directors must be continually supported and strengthened. In this regard, Companies Act, 2013 confers greater power and responsibility on them in the governance of a company.

• Companies Act requires every listed company to have at least one-third of total number of directors as IDs.

• In line with Kotak Committee recommendations, SEBI (Listing Obligations and Disclosure Requirement( LODR)) (Amendment) Regulations, 2018 impose stricter obligations that require at least half of the total directors of the board of a listed entity to be IDs if the Chairperson is executive/related to the promoter, and in other cases, at least one-third IDs.

o Moreover, it has mandated top 500 listed companies to have at least one women independent director. Same will be applicable for top 1000 listed companies by April 1, 2020.

• The Act also requires the Corporate Social Responsibility Committee of the Company to consist of at least three directors, including at least one independent director.

**Challenges to the working of IDs**

• Legal Provisions: The provisions in Companies Act, 2013, and SEBI listing norms say that IDs can be held personally liable for any acts of omission or commission by a company, with his knowledge, or consent, or connivance, or in cases where he had not acted diligently.

o The number of independent directors who resigned from board positions doubled in 2019, compared with total exits in the previous two years. o Greater liability, rising number of corporate governance cases, increasing fear of fraud risk and being held liable and chances of personal reputation being at stake led to the exodus of IDs. o IDs are also concerned because of reluctance of companies on signing up for the Directors and Officers Liability Insurance. This helps to protect the IDs in case they are being sued for mismanagement or wrong decisions.

• Information asymmetry: The problem of legal liability is compounded by the lack of information. o IDs are outside the company and usually interact with the management on a quarterly basis.

o They have no independent sources of information. They rely on the information provided by the company and by statutory and internal auditors who are appointed by the board of directors but are paid for by the company.

o However, there is a big gap between what auditors' report and what IDs are expected to do.

o Therefore, Independent directors have increasingly onerous fiduciary responsibilities, but no resources or tools to discharge them.

• Challenges to the Independence: Independence of Board is critical to ensure that Board fulfils its role objectively and holds management accountable to company. Lack of 'true' independence stems from the fact that most companies utilize the promoters' or other board members' personal network to search and appoint independent directors.

**Conclusion**

• These challenges have manifested into big corporate scams in recent times such as IL&FS crisis, various Bank frauds (ICICI bank, PNB), Infosys, Tata etc. Government is committed to address these challenges. Launching of Independent Director's Databank is a right step in this direction.

• Against the backdrop of the government making efforts to make its role minimal in the affairs of corporates, the role of IDs is more vital. There is a need to have a better understanding of the role of IDs and the kind of challenges faced by them.

## 7) THE CODE ON SOCIAL SECURITY, 2019

Recently the code on social security, 2019 has been tabled in Lok Sabha. The Code has been referred to the Standing Committee.

• The Second National Commission on Labour (2002) had recommended that the existing set of labour laws should be broadly amalgamated into the following groups, namely:

(a) industrial relations;
(b) wages;
(c) social security;
(d) safety; and
(e) welfare and working conditions.

• In pursuance of the recommendations of the said Commission, the Code on Social Security seeks to consolidate laws relating to social security of workers and subsume nine central labour enactments: Employees' Compensation Act, 1923; Employees' State Insurance Act, 1948; Employees' Provident Funds and Miscellaneous Provisions Act, 1952; Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959; Maternity Benefit Act, 1961; Payment of Gratuity Act, 1972; Cine Workers Welfare Fund Act, 1981; Building and Other Construction Workers Welfare Cess Act, 1996; and Unorganised Workers' Social Security Act, 2008.

• The amalgamation of the said laws will facilitate the implementation and remove the multiplicity of definitions and authorities without compromising the basic concepts of welfare and benefits to workers.

**Provisions of the Code and their Significance**

• Social security schemes: The Code proposes universalisation of social security benefits. Under the code-

o The central government may notify various social security schemes for the benefit of workers. These include – an Employees' Provident Fund (EPF) Scheme, an Employees' Pension Scheme (EPS), and an Employees' Deposit Linked Insurance (EDLI) Scheme.

o The government may also notify:

✓ gratuity to workers on completing five years of employment (or lesser than five years in certain cases such as death),

✓ maternity benefits to women employees,

✓ compensation to employees and their dependants in the case of occupational injury or disease.

o In addition, the central or state government may notify specific schemes for gig workers, platform workers, and unorganised workers to provide various benefits, such as life and disability cover.

✓ Gig workers refer to workers outside of the traditional employer-employee relationship (e.g., freelancers).

✓ Platform workers are workers who access other organisations or individuals using online platforms and earn money by providing them with specific services.

• The code also provides an enabling provision for constituting special purpose vehicles for the implementation of the schemes for unorganised sector workers and seeks to expand the sources of the fund for various schemes under the Code to include funds from corporate social responsibility.

• It also provide for payment of gratuity in case of fixed-term employment on pro-rata basis even if the period for fixed term contract is less than five years. Under the current Provisions, an employee is entitled for gratuity only after completing five years of continuous service.

o Fixed-term employment is a contract in which a company or an enterprise hires an employee for a specific period of time. In a fixed-term employment, the employee is not on the payroll of the company.

• The Code empowers the central government with an enabling provision to lower the mandatory monthly contribution towards employees' provident fund (EPF) for a certain class of employees for a certain period. o This will help increase the take-home pay of workers with relatively lower salaries and may boost consumption, which has been falling, dragging growth down.

• Social security organisations: The Code provides for the establishment of several bodies to administer the social security schemes. These include:

o a Central Board of Trustees, headed by the Central Provident Fund Commissioner, to administer the EPF, EPS and EDLI Schemes,

o an Employees State Insurance Corporation, headed by a Chairperson appointed by the central government, to administer the ESI Scheme, o national and state-level Social Security Boards, headed by the central and state Ministers for Labour and Employment, respectively, to administer schemes for unorganised workers.

• Provision for inspections and appeals:

o The appropriate government may appoint Inspector-cum-facilitators to inspect establishments covered by the Code and advise employers and employees on compliance with the Code.

o Administrative authorities may be appointed under the various schemes to hear appeals under the Code. For instance, the appropriate government may notify an appellate authority to hear appeals against the order of the Inspector-cum-facilitator for non-payment of maternity benefits.

o The Code also specifies judicial bodies which may hear appeals from the orders of the administrative authorities. For example, industrial tribunals (constituted under the Industrial Disputes Act, 1947) will hear disputes under the EPF Scheme.

• Provision for offences and penalties: The Code specifies penalties for various offences, such as: o The failure by an employer to pay contributions under the Code after deducting the employee’s share, punishable with imprisonment between one and three years, and fine of one lakh rupees, and o Falsification of reports, punishable with imprisonment of up to six months.

• The Code will make Aadhaar mandatory for seeding at the time of registration of member or beneficiary or any other person to register or for receiving benefits.

**Concerns**

• Lack of its universal character, since the existing thresholds for applicability of provident fund, employee state insurance, gratuity, maternity benefits have not been removed.

• Code provides enough room for change in many substantive provisions of the Code be made through executive decisions by bypassing the Parliament and other stakeholders. There are as many as 128 instances of terms "as may be prescribed" or "maybe framed" in the Code.

o For example, the provision to provide social security to unorganised sector workers leaves it to the government to formulate and notify suitable welfare scheme.

• The provision of production of Aadhaar for the purpose of availing benefits under the Code may be challenged by employees. This is in view of the judgment of the Supreme Court in KS Puttaswamy case, wherein it was held that Section 7 (proof of Aadhaar number necessary for receipt of certain subsidies, benefits and services) of the Aadhaar Act, 2016 cannot be applied to benefits earned by an employee on account of his / her services.

## 8) IMF SUGGESTS POLICY ACTIONS TO COMBAT SLOWDOWN

Recently IMF noted that India is now in the midst of a “significant economic slowdown” and suggested urgent policy actions to address it.

• According to the first advanced estimates of National Income, 2019-20, released by National Statistical Office (NSO), economic growth was just 5% for the whole year.

• In the same period estimated nominal GDP growth is just 7.5% (sector-wise growth estimates are shown in picture).

• Growth in the second quarter of FY 2019-20 came in at a six-year low of 4.5% (on a year-on-year basis).

• In April-November 2019, gross tax revenue grew by a paltry 0.8 %.

**Reasons identified by IMF for slow economic growth**

• Lingering weakness in some Non-Bank financial companies (NBFCs): Following ILFS crisis last year, abrupt reduction in NBFC’s credit expansion took place, leading to the associated broad-based tightening of credit conditions.

• Lesser consumption demand: Weak income growth, especially rural, has been affecting private consumption.

• Corporate and Environmental regulatory uncertainty: Private investment has been hindered by the financial sector difficulties (including in the public sector banks (PSBs)) and insufficient business confidence.

• Implementation issues with some structural reforms like goods and services tax (GST).

**Recommended policy measures by IMF**

• Financial sector: these reforms are needed in the short term as per IMF, such as: o Resolve balance sheet issues including in the commercial banks, the corporate sector, and the NBFCs including housing finance companies.

o More information on smaller NBFCs is needed to better understand the impact of reduced credit on private demand, especially micro, small, and medium-sized enterprises and in rural areas.

• Fiscal policy suggestions:

o In the short term, focus on the composition of expenditures and rationalising GST.

o Over the medium-term, focus on domestic revenue mobilisation like increasing personal income tax collections by ending exemptions, reducing the minimum threshold for taxpayers and by raising contributions by top earners, decreasing expenditures on subsidies, and enhancing fiscal transparency and thus reducing uncertainty.

• Monetary policy suggestions: Cut the policy rate further, especially if the economic slowdown continues.

• Structural reforms:

o Measures to enhance the efficiency of credit allocation and governance reforms in the banking sector are urgently needed to strengthen confidence.

o Labour, land, and product-market reforms aimed at enhancing competition and governance.

o Improvement in human capital (education and health)

**Related News**

Former Prime Minister of India Manmohan Singh warned that India could be entering a stagflationary phase. About Stagflation

• Inflation is the rate of rise in the general level of prices of a basket of selected goods and services in an economy over a period of time

• Usually inflation occurs when economy is growing because people are earning more that leads to more demand.

• Also, whenever the economy slows, inflation tends to dip as well as purchasing power gets eroded.

• Stagflation is a peculiar combination of stagnant growth and rising inflation leading to high unemployment.

o Stagnation is a prolonged period of little or no growth (usually less than 2 to 3% annually) in an economy. Indian situation

• Trends point towards a situation similar to stagflation.

o Retail inflation in India touched 7.35% in December last year, the highest in five-and-a-half-years with food inflation surging to 14.12%.

o According to the Index of Industrial Production (IIP) data, 18 of the 23 industry groups in the manufacturing sector showed negative growth.

**Why is stagflation dangerous?**

In normal low growth situation, the government or the central bank can provide economic stimulus via higher public spending and cut interest rates. But in stagflation, when inflation is already running high, fiscal and monetary stimulus can make it worse as that puts more money in the hands of the consumer.

## 9) FUTURE SKILLS PRIME

Ministry of Electronics and IT along with NASSCOM, have approved the expansion of the Future Skills initiative Future Skills PRIME (Programme for Reskilling/Upskilling of IT Manpower for Employability).

• In February 2018, Future Skills Initiative was announced at Hyderabad to reskill the IT industry workforce in emerging technologies and job roles.

• The Future Skills platform currently offers reskilling/ upskilling in 10 emerging technologies like Artificial Intelligence, Cyber Security, Blockchain, etc. across 70 new job roles and 155 new skills.

• Now, Future Skills initiative is extended as PRIME to industry professionals across different segments, higher education students and government officials, with the goal to train 4 lakh professionals in next three years.

• Through this new initiative, Government aims to create India Digital Talent Stack that will propel India into a leadership position in the digital world. Salient Features of Future Skills PRIME

• Jointly rolled out by Ministry of Electronics and IT along with NASSCOM, it will- o offer diagnostics for learner preference and skill gaps leading to identification of relevant courses.

o help in building digital fluencies in emerging technologies.

o offer online upskilling in identified skill competencies.

o offer blended programmes with online and classroom trainings.

o enable assessment and certification of learners in line with industry needs and Government standards.

• In addition to these each learner will-

o get a Skills Passport where competencies acquired by the learner will get accumulated.

o get a Skills Wallet where he/she will have the opportunity to get upto Rs. 12,000 from the Government of India as an incentive upon certification.

• This digital platform is being developed in strong partnership with the IT Industry, academia and government. Apart from industry, the existing infrastructure of CDAC and NIELIT centers will also be leveraged as resource centers in hub and spoke model.

• The data center for this digital platform will be kept in India.

## 10) INDIA SKILLS REPORT 2020

Recently, the 7th edition of India Skills Report 2020 was released.

**About the India Skills Report**

• It is a joint initiative of Wheebox (a global talent-assessment company), People Strong and Confederation of Indian Industry (CII) in collaboration with UNDP, AICTE and Association of Indian Universities.

• India Skills Report 2020 aims to provide an overview of the supply of talent and the demand from industry.

• The report brings together the readiness of our present talent pool for new-age jobs or job types and the skills that employers are today seeking in prospective employees.

**Skilling in India: Status**

• According to NSSO Report 2011-12, India's formally trained workforce stand at merely 2.3% in comparison to economies like South Korea which are at a mammoth share of 96%.

• According to Periodic Labour Force Survey (PLFS) 2017-18, only 1.8% of the population reported receiving formal vocational/technical training. 5.6% reported receiving informal vocational training (such as hereditary, self-learning, and on the job training).

o The bulk of the trainees were in the fields of electronics, IT/ ITeS sector, apparels, and mechanical engineering. o Moreover, around 33% of the formally trained youth was unemployed in 2017-18. Nearly a third of trained young men and more than a third of trained young women were unemployed.

Skill Development Initiatives

• Keeping in view the predominance of young population, the Government had formulated the National Policy on Skill Development & Entrepreneurship, 2015 under which the Skill India Mission by 2022 was formulated.

**Key Findings of India Skills Report**

• Employability of India's youth has remained stagnant for the past three years, lingering at 46.21% of participants who are job-ready.

• Female employability witnessed an upward trend at 47% while that of male workforce declined from 47.39% in 2019 to 46% this year. This reflects the opportunity for the industries to leverage female resource pool.

o However, Hiring Intent Survey for 2020 reflects a likely hiring ratio of 71:29 for Male to Female candidates.

• It also indicated the rising share of gig workers in the economy at 13% share in the overall hiring intent by employment type.

• Top 5 skills that Employers emphasize on are domain knowledge, adaptability to the environment, learning agility and positive attitude and interpersonal skills.

• Only 60% of students were aware of the National Apprenticeship Promotion Scheme (NAPS).

• About 50% of employers acknowledge the role of government initiated programmes in recruitments, of which almost 9 in 10 employers admit that candidates meet their requirements.

## 11) INDIA'S DIGITAL FINANCE INFRASTRUCTURE

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

**Introduction**

• Access to finance for individuals is critical for tapping the full potential of an economy. India has faced issue of financial inclusion of its population, due to factors like societal attitudes, legal frameworks and high transaction costs.

• Recent evidence from India highlight the role of digital technologies in overcoming these barriers and boost access to the banking and financial system.

**Digital financial infrastructure: Challenges and solution**

• Financial Inclusion through identity-Identification is one of the key elements of financial inclusion. Verifiable ID proofs makes it easy to open bank accounts, obtain credit and enroll in social welfare programmes.

o India had low levels of formal identification (in 2008, only 1 in 25 people) and inclusion (1 in 4 Indian adults had a bank account).

o India addresses this problem with rollout of Aadhar Card. Aadhaar has also served as the basis for other significant policy initiatives – most notably, the Pradhan Mantri Jan Dhan Yojana (PMJDY). By December 2019, almost 380 million bank accounts had been opened under PMJDY.

o As per an estimate, without Aadhar it would have taken 47 years to achieve 80% of adults with a bank account had India solely relied on traditional growth processes.

• Improving payment services within the formal financial system-In the face of emerging competition, keeping consumers within the banking system after they have entered it is very challenging.

o Costly payment transfers, processes that are cumbersome to navigate and slow to execute, and limited availability of transaction window etc are certain deterrent.

o India addressed this challenge through Unified Payments Interface (UPI) which acts as a single interoperable interface to bank accounts effectively granting everyone mobile access to the payment system and allowing instant financial transactions, on demand, and in fiat money inside the formal financial system.

✓ Recently the Merchant Discount Rate (MDR) charges has been removed on payment through UPI platforms. This will further lower the cost of transaction.

✓ UPI has facilitated the large-scale adoption of digital retail payments in India, increasing from 65% in 2013-14 to 95% in 2018-19

• Data empowerment with consent- India is becoming data-rich with increasing penetration of internet connectivity and mobile phones. It is challenging to balance out information asymmetries and lack of trust on the part of customers while ensuring that stakeholders do not misuse the data of these consumers.

o To address this challenge, in 2016 the RBI established the legal framework for a class of regulated data fiduciary entities, called account aggregators, which enable customer data to be shared within the regulated financial system with the customer's knowledge and consent.

✓ Customer can restrict consent in terms of time and data categories, as well as revoke it at any time. India's approach towards Digital Finance Infrastructure

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

• Providing digital financial infrastructure as a public good- In the last decade, since the launch of Aadhaar programme, India has created several innovative digital platforms, built as public goods. Each platform, designed within the regulatory system, solves a single need such as identity, payments or data sharing.

• Encouraging private innovation by providing open access to this infrastructure- When these digital identities through various platforms connect different parties, it attracts private sector to innovate in fintech by supporting open, free and contestable markets in digital finance. E.g. Digital Payment segment for private sector such as use of UPI platform by Paytm, PhonePe and OlaMoney.

• Creating a level playing field through the regulatory framework- which has enabled a type of collaboration between the public and private sectors that harnesses the rapid force of private innovation while protecting the economy (and consumers) through the traditional issues of regulation. Thus, the central bank has partnered with the private sector in fostering technological innovations in the financial sphere.

• Empowering individuals through a data-sharing framework that requires their consent- so that they can be protected from data theft, hackers and state's intrusion into the private details of users.

**Conclusion**

India offers an example of how various policy reforms related to digital finance including transformation of the traditional banking system with the central bank playing a pivotal role can solve many of the challenges of inclusive financial development that once seemed out of reach.

**About Bank for International Settlements (BIS)**

• Founded in 1930, BIS is an international financial organisation owned by 60 central banks, representing countries from around the world including India.

• Mission: to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.

• It carries out its work through its meetings, programmes and through the Basel Process – hosting international groups pursuing global financial stability and facilitating their interaction.

• Its headquarter is in Basel, Switzerland.

## 12) NATIONAL INFRASTRUCTURE PIPELINE (NIP)

Government released a report titled National Infrastructure Pipeline (NIP).

**About NIP**

• To achieve the GDP of $5 trillion by 2024-25, India needs to spend about $1.4 trillion (Rs. 102 lakh crore) over these years on infrastructure.

• National Infrastructure Pipeline (NIP) takes account projects to be implemented over the next five years (2019-2025) in 18 States.

• NIP includes both economic and social infrastructure projects. (see sector-wise breakup in picture) o Economic infra includes: Roads, energy, railways, shipping, steel etc. o Social infra includes: Education, health, sports etc.

• Expected yearly investments, share of funds from centre, states and private entities in these investments and status of projects in NIP has been shown in picture below.

**Why NIP?**

The report identifies five specific reasons why Indian infrastructure needs an overhaul.

• Increasing urbanization: 42 per cent of population to live in urban areas in 2030 as opposed to 31 per cent now.

• Growing working-age population: It is expected that the working-age population of India will grow ~1.2x times during 2015-2030. India is expected to have the world's largest working-age population of 1.03 billion (~68%) by 2030 compared with 0.97 billion in China and 0.22 billion in the US.

• Contribution of urban areas in total employment will increase at a higher rate than the contribution of rural areas during the period 2018-30. The proportion of urban areas in total employment will increase from 29% in 2012 to 41% in 2030 while that of the rural areas will decrease from 71% in 2012 to 59% in 2030.

• Shift to services-based economy: The trends in GDP and employment are reflective of India's economy gradually transitioning from an agrarian economy to a service centric economy.

• Climate change and disaster resilience: There is a clear need for ensuring that all new and existing infrastructure systems are climate and disaster resilient.

**Benefits expected from NIP**

• For Economy: Economic Survey 2018-19 argues that growth can be sustained by a virtuous cycle approach where investment is the key driver that drives demand, creates capacity, increases labour productivity, improve ease of living, generates jobs etc. NIP is prepared as a pipeline of projects based on viability and cost considerations to enable such investments.

• For Government: Well-developed infrastructure improves revenue base of the government, and ensures that quality of expenditure is focused in productive areas.

• For Developers: Make developers better prepared for project bidding, reduce aggressive bids/ failure in project delivery and enhanced access to sources of finance.

• For Banks/ financial institutions (FIs)/ investors: Builds investor confidence as identified projects are likely to be better prepared, exposures less likely to suffer stress given active project monitoring, thereby less likelihood of NPAs.

**Important reforms suggested in the report**

• Improving project preparation processes with transparent policy and legislative framework, presence of an empowered public institution for infrastructure planning, presence of guidelines, national standards, well-defined workflows etc.

• Enhancing execution capacity of private sector participants: Collaborations and joint-ventures with strong global infrastructure developers must be facilitated to build domestic capacity.

• Robust enabling environment to reduce delays and prevent financial stress. It includes:

o There should be optimal risk sharing between the government and the private sector, to encourage private sector participation. o Adoption of international contract standards by all infrastructure departments and strict legal enforcement of contracts. o Adequate safeguards in case the project termination in the form of clearly quantified termination payments should be there.

• Dispute resolution through institutionalizing dispute resolution mechanism to efficiently resolve disputes related to PPP projects. Investments must be made in the institutions created under The Commercial Courts Act 2015, The Specific Relief (Amendment) Act 2018 and the New Delhi Arbitration Centre Act 2019 to enable them to deliver sound results in enabling speedy resolution.

• Strengthening infrastructure quality: National Framework for Infrastructure Quality must be laid down in each sector within the next three months, based on global and national standards.

• Promoting competition to improve collaboration between Competition Commission of India (CCI) and sector regulators to ensure coordination and operationalisation of the National Competition Policy 2011 to establish uniform competition principles across different sectors.

• Financial sector reforms:

o Revitalising the bond and credit markets: to ensure the financing for infrastructure projects does not suffer.

o Strengthening the municipal bond market in India: to ensure effective participation of states. o Revitalising asset monetization: InvITs and REITs are promising but haven't taken off as yet in a big way.

o Enabling User charges to finance infrastructure.

o Long-term financing landscape by encouraging usage of innovative mechanisms such as loan securitisation, increased participation of Infrastructure Development Funds (IDFs), Development Finance Institutions (DFIs) etc.

**Concerns raised about the report**

• Lack of fiscal space: In FY 2019, India's total infrastructure investments were about Rs. 10 lakh crores only. And given the challenges like high debt-to-GDP ratio, fiscal deficit and increasing twin balance sheet problem, it would be very tough to finance these projects.

• Lending by banks: Infrastructure financing is the cause of a major part of the bad loans in banks. So, banks would be apprehensive to finance such a large scale of investment.

• Cooperation from States: centre and the states have to work together to sort issues like land acquisition and environmental clearances which have imposed huge time and cost delays on several key projects nationally.

• Lack of new projects: About 42% of identified projects are already under implementation, 19% are under development.

**8. GS-FOUNDATION batch for 2020… from 15th June 2019.**

All the Best to all my Economics students…

Hope this material will help you.

God bless…

JaiHind ☺