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

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1) Small finance banks

The Reserve Bank of India (RBI) granted 'in-principle' approval to Saharanpur-based Shivalik Mercantile Cooperative Bank to convert into a Small Finance Bank (SFB), making it the first such lender to have opted for the transition.

What next?

The 'in-principle' approval implies that the lender now has 18 months to comply with all conditions required to get the final SFB license from the RBI. On being satisfied that the applicant has complied with the requisite conditions laid down by it as part of "inprinciple" approval, the RBI would consider granting it a licence for the commencement of banking business under Section 22 (1) of the Banking Regulation Act, 1949 as an SFB.

What are small finance banks?

The small finance bank will primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

What they can do?

1. Take small deposits and disburse loans.
2. Distribute mutual funds, insurance products and other simple third-party financial products.
3. Lend 75% of their total adjusted net bank credit to priority sector.
4. Maximum loan size would be 10% of capital funds to single borrower, 15% to a group.
5. Minimum 50% of loans should be up to 25 lakhs.

What they cannot do?

1. Lend to big corporates and groups.
2. Cannot open branches with prior RBI approval for first five years.
3. Other financial activities of the promoter must not mingle with the bank.
4. It cannot set up subsidiaries to undertake non-banking financial services activities.
5. Cannot be a business correspondent of any bank.

The guidelines they need to follow:

1. Promoter must contribute minimum 40% equity capital and should be brought down to 30% in 10 years.
2. Minimum paid-up capital would be Rs 100 cr.
3. Capital adequacy ratio should be 15% of risk weighted assets, Tier-I should be 7.5%.
4. Foreign shareholding capped at 74% of paid capital, FPIs cannot hold more than 24%.
5. Priority sector lending requirement of 75% of total adjusted net bank credit.
6. 50% of loans must be up to Rs 25 lakh.

2) HSN Code

India not to allow imports without HSN code. This will enable India's exports to be accepted globally due to the quality of goods and services.

What does the HS code mean?-

Harmonised System, or simply 'HS': It is a six-digit identification code. Of the six digits, the first two denote the HS Chapter, the next two give the HS heading, and the last two give the HS subheading.

• Developed by the World Customs Organization (WCO).

• Called the "universal economic language" for goods.

• It is a multipurpose international product nomenclature.

• The system currently comprises of around 5,000 commodity groups.

HSN: HS Code is also known as HSN Code in India. Goods are classified into Harmonized System of Nomenclature or HSN. It is used up to 8 digit level.

Application: HSN classification is widely used for taxation purposes by helping to identify the rate of tax applicable to a specific product in a country that is under review. It can also be used in calculations that involve claiming benefits.

HS code are used by Customs authorities, statistical agencies, and other government regulatory bodies, to monitor and control the import and export of commodities through:

1. Customs tariffs
2. Collection of international trade statistics
3. Rules of origin
4. Collection of internal taxes
5. Trade negotiations (e.g., the World Trade Organization schedules of tariff concessions)
6. Transport tariffs and statistics
7. Monitoring of controlled goods (e.g., wastes, narcotics, chemical weapons, ozone layer depleting substances, endangered species, wildlife trade)
8. Areas of Customs controls and procedures, including risk assessment, information technology and compliance.

Need for and significance:

Over 200 countries use the system as a basis for their customs tariffs, gathering international trade statistics, making trade policies, and for monitoring goods. The system helps in harmonising of customs and trade procedures, thus reducing costs in international trade.

2) NATIONAL STRATEGY FOR FINANCIAL INCLUSION

Recently, Reserve Bank of India released National Strategy for Financial Inclusion (NSFI) for the period 2019-2024.

Financial inclusion in Indian context

• Financial inclusion has been defined as "the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost".

National Strategy for Financial Inclusion 2019-2024

• It sets forth the vision and key objectives of the financial inclusion policies in India to help expand and sustain the financial inclusion process at the national level through a broad convergence of action involving all the stakeholders in the financial sector.

• The strategy aims to provide access to formal financial services in an affordable manner, broadening & deepening financial inclusion and promoting financial literacy & consumer protection. The NSFI also recommends periodic evaluation of financial inclusion policies through monitoring Measurement of Progress of Financial Inclusion

• The NSFI also recommends periodic evaluation of financial inclusion policies through monitoring of financial inclusion parameters- Access, Usage and Quality.

• It would provide policy makers and stakeholders with necessary insights to understand the achievements made in the country and to address issues and challenges through a coordinated approach.

Way Forward

• Adequate measures are needed to create a safe environment by incorporating the principles of consent and privacy.

• Digital financial inclusion and the role of fin-tech should be meaningfully integrated in the policy discourse.

• Surveys and feedback from the customers, leveraging on Big Data sets and importantly collecting and analyzing granular data to gather a holistic perspective on the coverage and also the usage of financial services is essential.

3) WORLD EMPLOYMENT AND SOCIAL OUTLOOK

International Labour Organisation (ILO) has released the World Employment and Social Outlook: Trends 2020 (WESO) report. Highlights of the Report The annual WESO Trends report analyses key labour market issues including unemployment, labour underutilisation, working poverty, income inequality, labour income share and factors that exclude people from decent work.

• Slow Pace and skewed structure of economic growth in low-income countries: It endangers efforts to reduce poverty and improve working conditions.

o Over the past 18 years, average per capita growth has been only 1.8 per cent in low-income countries.

o Between 2000 and 2018, the employment share of agricultural and elementary occupations declined by only 6 percentage points in low-income countries (to 69 per cent)

• Labour Underutilisation: Mismatch between labour supply and demand extends far beyond the 188 million unemployed across the world in 2019.

o More than 470 million people worldwide lack adequate access to paid work as such or are being denied the opportunity to work the desired number of hours.

• Shortage of job expected to continue: Global unemployment is projected to increase by around 2.5 million in 2020.

o The global unemployment rate stood at 5.4 per cent in 2019 and is projected to remain essentially the same over the next two years.

o Given the high level of uncertainty over how trade and geopolitical tensions in the coming years will affect business and consumer confidence, and thereby job creation.

• Issue of getting decent work: Having a paid job was not a guarantee of decent working conditions or of an adequate income for many of the 3.3 billion employed worldwide in 2019.

o Currently working poverty affects more than 630 million workers, or one in five of the global working population. o It is defined as earning less than USD 3.20 per day in purchasing power parity terms.

o In addition, 165 million people do not have enough paid work, and 120 million have either given up actively searching for work or otherwise lack access to the labour market.

• Rise is Inequalities: Related to gender, age and geographical location continue to plague the job market, with these factors limiting both individual opportunity and economic growth.

o Low-income countries have the highest employment-to-population ratio (68 per cent), as many vulnerable workers are forced to take up any job, regardless of its quality.

o At the global level, the employment rate of the working-age population living in rural areas (59 percent) is greater than that in urban areas (56 per cent).

• Obstacle to women and young people: In 2019, the female labour force participation rate was just 47 per cent, 27 percentage points below the male rate (at 74 per cent). There is strong regional variation in gender disparities in access to employment.

o Around 267 million young people aged 15 to 24 worldwide (or 22 per cent of that age group) are not in employment, education or training.

• Future risks: The rise in trade restrictions and protectionism, which could have a significant impact on employment, is seen as a potentially worrying trend, as is the significant drop in the share of national income in the form of wages, compared to other forms of production.

o In terms of the type of growth, structural transformation, technological upgradion and diversification would be needed to shift employment from activities with low value added to those with higher value added.

4) NATIONAL DATA AND ANALYTICAL PLATFORM VISION DOCUMENT

Recently, the NITI Aayog released its vision for the National Data and Analytics Platform (NDAP).

Overview

• India has rich publicly available data. Government departments have digitised various processes and reporting requirements, which in turn are feeding into management information systems and interactive dashboards.

o This data is being used to track and visualise progress and make iterative improvements on the ground.

• However, the data landscape can improve as it is currently facing the following challenges-

o Data is not published in a user-centric manner. The current data formats are often not conducive for research and innovation.

o Data ecosystem is incoherent due to different standards. Ministries and Departments do not use a shared standard for common indicators.

✓ Attributes like region and time period defined differently. This makes it difficult for datasets to speak to each other and present a coherent picture.

✓ Various datasets exist in silos, resulting in a loss of cross-sectoral insights.

o Currently, there are various pockets of excellence in terms of data management and use. However, lessons and best practices are not uniformly applied. National Data and Analytics Platform (NDAP):

• It is a flagship initiative of NITI Ayog in the space of promoting larger access and better use of data.

• NDAP's Mission is to standardize data across multiple Government sources, provide flexible analytics and make it easily accessible in formats conducive for research, innovation, policy making and public consumption. Salient features of the NDAP

• Data Sources-

o Websites of over 50 Ministries and Departments of the Central Government and data. gov.in.

o Websites of all Departments and Ministries of the State Government, not exceeding 250.

• User-centric- The platform will be powered by a user - friendly search engine, backed by seamless navigation, with a world-class user interface. Data will be provided in a machine-readable format with customisable analytics.

o It will also provide tools for analytics and visualization.

• Coherency- Multiple data sets will be presented using a standardized schema, by using common geographical and temporal identifiers.

• Regular Updation- Standard Operating Procedures (SOPs) will be created to ensure data is updated regularly. There will be regular tracking of compliance to these SOPs.

• Governance Structure-

o High Powered Steering Committee under the chairmanship of Vice Chairman, NITI Aayog will be set up to provide direction, oversee progress, guide on data sources, and address various inter-ministerial issues on collating data.

o Technical Advisory Group consisting of sector and technology experts will be established to provide expert consultation. It will provide guidance on the development of the platform, management of data, and aligning the platform for user-needs.

o Project Management Unit established at NITI Aayog to coordinate with different stakeholders and manage various facets of NDAP.

o Technology vendor will be engaged for development and operation of NDAP.

• Timeline- The first version of the platform is expected to be launched in 2021.

Significance

• It intends to draw inspiration from the best platforms around the world e.g., platforms such as 'datausa.io' and 'data.gov.sg'.

• It seeks to build on the success of existing Indian data platforms. For example, data.gov.in provides ready access to data from 165 departments. DISHA, by the Ministry of Rural Development, provides access to data from 42 schemes across 20 ministries.

o Various states also have a 'Chief Minister's Dashboard'. Initiatives like these provide a rich source of data for NDAP.

• It will allow quick and easy availability to the most recent data, which is published periodically without any hassle to help the welfare of the country.

• It aims to democratize access to publicly available government data.

• It will aid India's progress by promoting data-driven discourse and decision-making. o It will deepen the understanding of India's dynamic economy and social conditions. This will in turn help improve the crores of lives by making the government's actions more scientific and data driven.

• It will spearhead the standardization of formats in which data is presented across sectors.

Conclusion

NDAP is a pan-India initiative by NITI Aayog. Its success requires extensive support and cooperation of various stakeholders such as Central Ministries, State Governments and guidance from experts to realise the vision and meet the timelines.

5) NORTH-EAST GAS GRID PROJECT

The Cabinet Committee on Economic Affairs has approved a Capital Grant as the Viability Gap Funding to Indradhanush Gas Grid Ltd for setting up the North East Natural Gas Pipeline Grid.

• A total of ₹5,559 crore has been earmarked as VGF.

• As per the plan, a 1,656-km gas pipeline grid would connect the eight states of the North-Eastern region, namely, Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.

• It is a part of "Hydrocarbon Vision 2030 for North-East India" which outlines steps to leverage the hydrocarbon sector for social and economic development of the north-east region.

National Gas Grid

• Gas Pipeline infrastructure is an economical and safe mode of transporting the natural gas by connecting gas sources to gas consuming markets. Gas pipeline grid determines the structure of the gas market and its development. Therefore, an interconnected National Gas Grid has been envisaged to ensure the adequate availability and equitable distribution of natural gas in all parts of the country.

• At present, there are about 16800 km long Natural Gas pipeline network which is operational in the country. In order to make available natural gas across the country, it has been envisaged to develop additional about 14,300 km pipelines to complete the National Gas Grid and same are at various stages of development.

• This would ensure easy availability of natural gas across all regions and also potentially help to achieve uniform economic and social progress.

Aims and objectives of National Gas Grid

• To remove regional imbalance within the country with regard to access of natural gas and provide clean and green fuel throughout the country.

• To connect gas sources to major demand centres and ensure availability of gas to consumers in various sectors.

• Development of City Gas Distribution (CGD) Networks in various cities for supply of CNG and PNG.

A brief of major gas pipeline projects which are being implemented by Central Government PSUs are as under

• Jagdishpur – Haldia/Bokaro – Dhamra Pipeline Project (JHBDPL): GAIL is executing a 2655 km. long pipeline project. The project is scheduled to be completed progressively by December, 2020. JHBDPL will cater to the energy requirements of five states, namely Uttar Pradesh, Bihar, Jharkhand, Odisha and West Bengal. o It is also known as the Pradhan Mantri Urja Ganga of Eastern India.

• Barauni- Guwahati Pipeline project (BGPL): It is being implemented as an integral part JHBDPL project to connect North East Region (NER) with the National Gas Grid. The approximate length of the pipeline is 729 km. Completion of the project is scheduled by December 2021.

• North East Region (NER) Gas Grid : A joint venture of 5 oil and gas CPSEs i.e. GAIL, IOCL, OIL, ONGC and NRL named as "Indradhanush Gas Grid Ltd" (IGGL) has been entrusted to develop trunk pipeline connectivity in all North Eastern States i.e. Assam, Sikkim, Mizoram, Manipur, Arunachal Pradesh, Tripura, Nagaland and Meghalaya in a phased manner.

• Kochi-Koottanad- Bangalore-Mangalore (Ph-II) Pipeline Project (KKBMPL): 41 Km of Phase-I of pipeline has been commissioned and 887 Km of Phase-II is under progress in two sections. Construction work by GAIL of Kochi-Koottanad- Mangalore Section (444 Kms) is under progress and expected to be commissioned shortly.

• Ennore-Thiruvallur-Bangalore- Puducherry-Nagapattinum– Madurai – Tuticorin Natural gas pipeline (ETBPNMTL): IOCL is laying 1385 km long pipeline. This pipeline will connect new Ennore LNG Terminal with various demand centres in the region.

City Gas Distribution (CGD) Networks

• Under the Petroleum and Natural Gas Regulatory Board (PNGRB) Act 2006, PNGRB grants the authorization to the entities for developing a City Gas Distribution (CGD) network (including PNG network) in a specified Geographical Area (GA) of the country.

• CGD sector has four distinct segments – Compressed Natural Gas (CNG) predominantly used as auto-fuel and Piped Natural Gas (PNG) used in domestic, commercial and Industrial segments.

• Regulations pertaining to authorization/bidding of City Gas Distribution (CGD) networks were amended in 2018. PNGRB has authorized 229 GAs covering 407 districts for development of CGD network across the country. o It covers about 53% of the country's area and 70% of country's population. It will make available environment friendly fuel i.e. CNG/PNG to public at large.

• To promote the development of CGD network, the Government has accorded the priority in domestic gas allocation to PNG (Domestic) and CNG (Transport) segments. It has been decided to meet 100% gas requirement of CNG (Transport) and PNG(Domestic) segments through supply of domestic gas which is cheaper than imported gas.

• At present, CGD sector is consuming approx. 14.36 Million Metric Standard Cubic Meter per Day (MMSCMD) of domestic Gas for CNG (Transport) and PNG (Domestic) sector.

Conclusion

To usher in Gas based economy and to increase the share of natural gas in country's primary energy mix, Government is taking focused steps viz. enhancing domestic gas production, expeditious development of gas infrastructure including pipelines, City Gas Distribution (CGD) networks and Re-gasified Liquefied Natural Gas (RLNG) Terminals as well as development of Gas market by providing open access to gas infrastructure.

6) ROAD INFRASTRUCTURE FUNDING

National Highway Authority of India (NHAI) recently unveiled the Infrastructure Investment Trust (InvITs) roadmap.

• Union Cabinet in December 2019 authorised NHAI to set up InvIT. o The trust enabled the NHAI to monetise completed national highways with toll collection record of at least one year and meet its funding requirements.

• Now, NHAI will initially raise ₹15,000-20,000 crore in its maiden InvIT offer and then go for a larger round.

• It is part of the government's plans to tap alternative sources of financing to boost public spending in the roads and infrastructure sector amid declining private sector interest in the build, operate and transfer model, where the entire initial cost is borne by them.

• ₹1 trillion National Infrastructure Pipeline (NIP) was also unveiled for the next five years. 19 per cent of the investments was earmarked to be channelised to road sector.

• NHAI currently addresses its funding requirement through ToT (toll-operate-transfer), partnering NIIF (National Investment and Infrastructure Fund), issuance of bonds to LIC and central budgetary allocations.

Issues in Road infrastructure funding

• Lack of financial support from government: The budgetary allocation to the Ministry of Road transport and Highways has failed to keep pace with the government's ambitions, forcing the former to look elsewhere for funds.

• Decline in Private investment in infrastructure: Growing stressed assets in the sector and market volatility have caused confidence deficit and even aversion among international and domestic investors.

o Declining interest of private sector in present models of financing, such as the Build, Operate and Transfer model.

• Lack of commercial bank funding: Due to a growing concentration of risks/ stressed assets in banks in terms of sector exposure and asset-liability maturity mismatch.

o Small banks lack the capacity to perform independent credit appraisal of such large projects and also to withstand credit risk from these loans.

Way Forward

• Government could resort to 'Asset reusing' (otherwise called capital recycling) to reinvest capital or assets in projects which have potential.

• Government could establish a 'Road Infrastructural Project Fund' to smoothen funding. o It ought to have a solid administration, autonomous reporting, and well-defined characterized key performance indicators approved by an independent audit to guarantee great execution.

• It could explore the option of issuing securities with a 30-to-50-year tenor. Bank and bond financing can supplement each other; it lessens financial delicacy and upgrades the effectiveness of capital allotment.

• A well-developed bond market broadens the subsidizing base, provides risk management apparatuses, reinforces corporate administration and upgrades discipline by restricting the impact of borrowers on banks.

Infrastructure Investment Trust (InvITs) for NHAI

• These are investment scheme similar to mutual funds that allow investment from individuals and institutional investors in infrastructure projects to earn a portion of the income as return.

• NHAI's InvIT will be a trust established under the Indian Trust Act, 1882 and Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014.

• InvIT Trust will be formed with an objective of investing primarily in infrastructure projects and InvIT may hold assets either directly or through an SPV or a holding.

• This will enable NHAI to monetise completed national highways that have a toll collection track record of at least one year.

Significance of InvIT

• Through the InvIT route, NHAI will now have an another funding route by mobilizing additional resources through capital markets to monetize its completed and operational National Highways projects. o NHAI is expected to monetise projects that have a toll collection track record of atleast one year or were NHAI reserves the right to levy toll on the identified highway.

• It can channelise new investments to greenfields projects like Bharatmala Pariyojana.

• InvIT is expected to help NHAI attract patient capital (for say 20-30 years) to the Indian highway market given that investors are averse to construction risk and are interested in investment in assets which provide long-term stable returns.

• InvIT is highly likely to attract the interest of foreign investors especially pension funds, sovereign wealth funds and insurance companies.

• Regulatory framework build around InvITs offers corporate governance, stable long-term returns because of mandatory distribution rules, lower risks, high quality assets and tax benefits on income distributions.

7) THE MINERAL LAWS (AMENDMENT) ORDINANCE 2020

Recently, The Mineral Laws (Amendment) Ordinance, 2020 was promulgated.

• It amends the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and the Coal Mines (Special Provisions) Act, 2015 (CMSP Act).

• In 2014, Supreme Court cancelled the allocation of the coal mines following the CAG report on Coal scam.

• The CMSP Act in 2015, provides for the auction and allocation of mines whose allocation was cancelled by the Supreme Court.

o Schedule I of the Act provides a list of all such mines;

o Schedule II and III are sub-classes of the mines listed in the Schedule I. o Schedule II mines are those where production had already started then, and Schedule III mines are ones that had been earmarked for a specified end-use.

• However, out of 204 coal blocks, only 29 of these blocks could be auctioned as some of these mines had end-use restrictions.

Key amendments

• Composite license for prospecting and mining:

o Currently, separate licenses are provided for prospecting and mining of coal and lignite, called prospecting license, and mining lease, respectively.

✓ Prospecting includes exploring, locating, or finding mineral deposit.

o The Ordinance adds a new type of license, called prospecting license-cum-mining lease. This will be a composite license providing for both prospecting and mining activities.

• Removal of restriction on end-use of coal:

o Currently companies acquiring Schedule II and Schedule III coal mines through auctions can use the coal produced only for specified end-uses such as power generation and steel production. This is known as captive mining.

o The Ordinance removes this restriction and thus companies will be free to use extracted mineral both for captive use of end use plants (power, steel, cement etc.) and commercial sale in the open market.

• Eligibility for auction of coal and lignite blocks:

o The Ordinance clarifies that the companies which do not possess any prior coal mining experience in India but are financially strong and or have mining experience in other minerals or in other countries can now participate in auction of coal/lignite blocks.

✓ This would help in attracting investments and allow the implementation of the 100% FDI through automatic route for sale of coal.

• Reallocation after termination of the allocations:

o The CMSP Act provides for termination of allotment orders of coal mines in certain cases.

o The Ordinance adds that such mines may be reallocated through auction or allotment and provides for compensation to the allottee whose allocation has been terminated.

• Prior approval from the central government:

o Under the MMDR Act, state governments require prior approval of the central government for granting reconnaissance permit, prospecting license, or mining lease for coal and lignite.

o The Ordinance provides that prior approval of the central government will not be required in granting these licenses for coal and lignite, in certain cases. These include cases where:
(i) the allocation has been done by the central government, and
(ii) the mining block has been reserved by the central or state governments to conserve a mineral.

• Non-exclusive reconnaissance permit (NERP) holders may apply for licence:
o Currently, the holders of non-exclusive reconnaissance permit (i.e exploration of certain specified minerals through certain surveys) are not entitled to obtain a prospecting license or mining lease.
o The Ordinance provides that the holders of such permits may apply for a prospecting license-cum-mining lease or mining lease. This provision will apply to certain licensees as prescribed in the Ordinance.

• Advance action for auction:
o Under the MMDR Act, mining leases for specified minerals (minerals other than coal, lignite, and atomic minerals) are auctioned on the expiry of the lease period.
o The Ordinance provides that state governments can take advance action for auction of a mining lease before its expiry.

• Transfer of statutory clearances to new bidders:
o Currently, the new lessee is required to obtain statutory clearances before starting mining operations This leads to delay and would adversely affect the mineral production in the country, which in turn would impact the important downstream industries like steel, cement etc.
o The Ordinance provides that the various approvals, licenses, and clearances given to the previous lessee will be extended to the successful bidder for a period of two years.

Conclusion

• While, the ordinance is a positive step to provide operational efficiency, the corresponding rules and bidding guidelines must be assessed in detail to ensure that progressive steps pursuant to the Ordinance are preserved and given full effect.

• The liberalised policy will allow global players to look for investment opportunities which in turn will allow the country to leverage their technical capabilities for effective utilisation of natural resources for the benefit of people at large.

8) E-COMMERCE IN INDIA

Recently, The Competition Commission of India (CCI) released a Report titled ‘Market Study on E-commerce in India: Key Findings and Observations’.

Key features of E-commerce ecosystem in India

• Fastest growing market in the world: Revenue from the India’s e-commerce sector is expected to increase from USD 39 billion in 2017 to USD 120 billion in 2020, growing at an annual rate of 51 percent, the highest in the world. • Funding: Since 2009, the e-commerce sector has received around USD 13,338 million in investments from across the world.

• MSME Participation: As per a Working Paper of United Nations Industrial Development Organization (UNIDO), nearly half of the manufacturing output in India comes from the Micro Small & Medium Enterprises (MSMEs) and 43% of the MSMEs participate in online sales in India.

• Dynamic pricing: Online trade has led to increased price transparency and the consequent ease of price comparison for the customers. It also enables sellers to monitor competitors' prices and use the same as an input in setting their own prices.

• Strategic response to e-commerce: Some smaller retailers are primarily using third party marketplace platforms to access the online consumers. Some have launched their own websites to complement the physical sales. Also, there are sellers who sell exclusively online, with no brick and mortar presence.

• Role of online marketplace platforms: The study reveals that third-party online marketplaces play a central role in e-commerce in India. An estimated 64% of digital retail trade in India is through online platforms.

• Growth enablers: Besides the growth in smartphone penetration and access to internet, the growth of ecommerce has been enabled through introduction of cash on delivery, discounts and deals offered by the marketplaces, faster deliveries including one-day delivery and access to a large product range, especially in tier II and tier III cities where choices were limited.

Challenges faced the sector

• Low customer base: India's total internet user base is set to grow from 665 million in 2019 to 829 million by 2021, yet e-commerce remains highly underpenetrated with only 50 million online shoppers.

• Low share in retail sales: As per World Bank report, online sales as a percentage of total retail sales were only 1.6% in India, versus over 15% for China and around 14% globally.

• Catering to the demands of new consumer base: Future consumers are set to emerge from India's tier-2 and tier-3 cities. Diverse array of languages, unfamiliarity with digital systems, and preferences for an eclectic array of products across micro markets remain key challenges.

• Logistic challenge: In addition to the infrastructural inefficiencies, cost of deliveries is driven up by factors like high return rate, high share of Cash on Delivery (COD) orders.

• Draft e-commerce policy puts an additional obligation on online retail giants such as Walmart-Flipkart and Amazon to set up a local data centre for collection and storage of such data.

• Issues related to online platforms:

o Platform neutrality: marketplaces use some critical data such as prices of competing products, consumer preferences, etc. to influence the competition in favour of the Preferred Sellers or Private Labels.

o Platform-to-business Contract Terms: There is no standard contract that is made available to all business users by a platform. The contracts are customised, to address individual needs of the sellers/service providers who are not all similarly placed.

o Practice of deep discounting leads to concerns such as unfair conditions and/or discrimination due to differential discounting structures, demotion in rankings, profitability erosion and loss of brand equity, etc.

o Exclusive arrangements such as exclusive launch of a product on a particular platform or to list only one brand in a product category generally result in increased prices and reduced choices to consumers.

o Platform Price Parity Clause restricts sellers/service providers from offering their goods or services at lower prices on other platforms.

o Lack of transparency and credibility issues around the user review and rating policy of some of these platforms.

Way forward

• Government's role: Efforts are needed via the expansion of formal banking and easy credit facilities for the citizenry, increased government support for 'Make in India' initiatives, particularly through the establishment of industrial corridors, logistics parks and special economic zones.

• Promotion of robust data protection frameworks: Levelling the playing field between offline and online players in terms of indirect taxation and easing restrictions on cross-border e-commerce transactions.

• New-age logistics partners, and the advent of technologies such as artificial intelligence (AI) and machine learning (ML), offers a solution to the existing issues, allowing ecommerce companies to reduce Return to origin (RTO) and COD rates. o RTO is when orders cannot be delivered and have to be shipped back to the warehouse.

• Self-regulation: Platforms may devise ways to govern, the following aspects to protect the interests of all contracting parties –i) negotiating framework for basic contract terms ii) discount policy iii) penalties and iv) conflict resolution.

• Case-by-case analysis: Issues related to Platform Price Parity Clause, Exclusive arrangements and deep discounting practices must be subjected to case specific analysis by the CCI to reconcile and balance out conflicting interests of stakeholders.

E-commerce sector and related terminologies

• E-commerce means buying and selling of goods and services including digital products over digital & electronic network.

• Types of e-commerce business models:

o **Inventory based model**- an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly. E.g.- Grofers

o **Marketplace based model -** means providing of an information technology platform by an ecommerce entity on a digital & electronic network to act as a facilitator between buyer and seller. E.g.- Amazon, Flipkart etc. • FDI **Provisions:**

o 100% FDI under automatic route is permitted in marketplace model of e-commerce. o FDI is not permitted in inventory based model of e-commerce.

9) STRESSED URBAN CO-OPERATIVE BANKS TO FACE PCA-LIKE CURBS

The Reserve Bank of India (RBI) has decided to revise Supervisory Action Framework (SAF) on urban cooperative banks (UCBs) for deterioration of financial position, in line with the prompt corrective action (PCA) framework that is imposed on commercial banks.

Revised SAF

• Under this, UCBs will face restrictions on worsening of 3 parameters: o Net non-performing assets exceed 6% of net advances. o Losses for two consecutive financial years or have accumulated losses on their balance sheets o Capital adequacy ratio (CAR) falls below 9%.

• Action can be also taken if there are serious governance issues.

• Possible restrictions/Actions that can be taken by the RBI o It may seek a board-approved proposal for merging the UCB with another bank or converting itself into a credit society if CAR falls below 9%.

o It can impose restrictions on declaration or payment of dividend or donation without prior approval if any one of the risk thresholds is breached.

o Some of the other curbs include restricting fresh loans and advances carrying risk-weights more than 100% on incurring capital expenditure beyond a specified limit and on expansion of the balance sheet.

o Actions such as issue of show-cause notice for cancellation of banking licence may also be considered.

About PCA

• It is a framework under which banks with weak financial metrics are put under watch by the RBI.

• The RBI introduced the PCA framework in 2002 as a structured early-intervention mechanism for banks that become under-capitalised due to poor asset quality, or vulnerable due to loss of profitability.

• It aims to check the problem of Non-Performing Assets (NPAs) in the Indian banking sector.

• The PCA framework deems banks as risky if they slip some trigger points - capital to risk weighted assets ratio (CRAR), net NPA, Return on Assets (RoA) and Tier 1 Leverage ratio.

10) ROAD INFRASTRUCTURE FUNDING

National Highway Authority of India (NHAI) recently unveiled the Infrastructure Investment Trust (InvITs) roadmap.

• Union Cabinet in December 2019 authorised NHAI to set up InvIT.

o The trust enabled the NHAI to monetise completed national highways with toll collection record of at least one year and meet its funding requirements.

• Now, NHAI will initially raise ₹15,000-20,000 crore in its maiden InvIT offer and then go for a larger round.

• It is part of the government's plans to tap alternative sources of financing to boost public spending in the roads and infrastructure sector amid declining private sector interest in the build, operate and transfer model, where the entire initial cost is borne by them.

• ₹1 trillion National Infrastructure Pipeline (NIP) was also unveiled for the next five years. 19 per cent of the investments was earmarked to be channelised to road sector.

• NHAI currently addresses its funding requirement through ToT (toll-operate-transfer), partnering NIIF (National Investment and Infrastructure Fund), issuance of bonds to LIC and central budgetary allocations.

Issues in Road infrastructure funding

• Lack of financial support from government: The budgetary allocation to the Ministry of Road transport and Highways has failed to keep pace with the government's ambitions, forcing the former to look elsewhere for funds.

• Decline in Private investment in infrastructure: Growing stressed assets in the sector and market volatility have caused confidence deficit and even aversion among international and domestic investors.

o Declining interest of private sector in present models of financing, such as the Build, Operate and Transfer model.

• Lack of commercial bank funding: Due to a growing concentration of risks/ stressed assets in banks in terms of sector exposure and assetliability maturity mismatch.

o Small banks lack the capacity to perform independent credit appraisal of such large projects and also to withstand credit risk from these loans.

Way Forward

• Government could resort to 'Asset reusing' (otherwise called capital recycling) to reinvest capital or assets in projects which have potential.

• Government could establish a 'Road Infrastructural Project Fund' to smoothen funding. o It ought to have a solid administration, autonomous reporting, and well-defined characterized key performance indicators approved by an independent audit to guarantee great execution.

• It could explore the option of issuing securities with a 30-to-50-year tenor. Bank and bond financing can supplement each other; it lessens financial delicacy and upgrades the effectiveness of capital allotment.

• A well-developed bond market broadens the subsidizing base, provides risk management apparatuses, reinforces corporate administration and upgrades discipline by restricting the impact of borrowers on banks.

Infrastructure Investment Trust (InvITs) for NHAI

• These are investment scheme similar to mutual funds that allow investment from individuals and institutional investors in infrastructure projects to earn a portion of the income as return.

• NHAI's InvIT will be a trust established under the Indian Trust Act, 1882 and Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014.

• InvIT Trust will be formed with an objective of investing primarily in infrastructure projects and InvIT may hold assets either directly or through an SPV or a holding.

• This will enable NHAI to monetise completed national highways that have a toll collection track record of at least one year.

Significance of InvIT

• Through the InvIT route, NHAI will now have an another funding route by mobilizing additional resources through capital markets to monetize its completed and operational National Highways projects. o NHAI is expected to monetise projects that have a toll collection track record of atleast one year or were NHAI reserves the right to levy toll on the identified highway.

• It can channelise new investments to greenfields projects like Bharatmala Pariyojana.

• InvIT is expected to help NHAI attract patient capital (for say 20-30 years) to the Indian highway market given that investors are averse to construction risk and are interested in investment in assets which provide long-term stable returns.

• InvIT is highly likely to attract the interest of foreign investors especially pension funds, sovereign wealth funds and insurance companies.

• Regulatory framework build around InvITs offers corporate governance, stable long-term returns because of mandatory distribution rules, lower risks, high quality assets and tax benefits on income distributions.

11) THE MINERAL LAWS (AMENDMENT) ORDINANCE 2020

Recently, The Mineral Laws (Amendment) Ordinance, 2020 was promulgated.

• It amends the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act) and the Coal Mines (Special Provisions) Act, 2015 (CMSP Act).

• In 2014, Supreme Court cancelled the allocation of the coal mines following the CAG report on Coal scam.

• The CMSP Act in 2015, provides for the auction and allocation of mines whose allocation was cancelled by the Supreme Court.

o Schedule I of the Act provides a list of all such mines;

o Schedule II and III are sub-classes of the mines listed in the Schedule I.

o Schedule II mines are those where production had already started then, and Schedule III mines are ones that had been earmarked for a specified end-use.

• However, out of 204 coal blocks, only 29 of these blocks could be auctioned as some of these mines had end-use restrictions.

Key amendments

• Composite license for prospecting and mining:

o Currently, separate licenses are provided for prospecting and mining of coal and lignite, called prospecting license, and mining lease, respectively.

✓ Prospecting includes exploring, locating, or finding mineral deposit.

o The Ordinance adds a new type of license, called prospecting license-cum-mining lease. This will be a composite license providing for both prospecting and mining activities.

• Removal of restriction on end-use of coal:

o Currently companies acquiring Schedule II and Schedule III coal mines through auctions can use the coal produced only for specified end-uses such as power generation and steel production. This is known as captive mining.

o The Ordinance removes this restriction and thus companies will be free to use extracted mineral both for captive use of end use plants (power, steel, cement etc.) and commercial sale in the open market.

• Eligibility for auction of coal and lignite blocks:

o The Ordinance clarifies that the companies which do not possess any prior coal mining experience in India but are financially strong and or have mining experience in other minerals or in other countries can now participate in auction of coal/lignite blocks.

✓ This would help in attracting investments and allow the implementation of the 100% FDI through automatic route for sale of coal.

• Reallocation after termination of the allocations:

o The CMSP Act provides for termination of allotment orders of coal mines in certain cases.

o The Ordinance adds that such mines may be reallocated through auction or allotment and provides for compensation to the allottee whose allocation has been terminated.

• Prior approval from the central government:

o Under the MMDR Act, state governments require prior approval of the central government for granting reconnaissance permit, prospecting license, or mining lease for coal and lignite.

o The Ordinance provides that prior approval of the central government will not be required in granting these licenses for coal and lignite, in certain cases. These include cases where:

(i) the allocation has been done by the central government, and

(ii) the mining block has been reserved by the central or state governments to conserve a mineral.

• Non-exclusive reconnaissance permit (NERP) holders may apply for licence:

o Currently, the holders of non-exclusive reconnaissance permit (i.e exploration of certain specified minerals through certain surveys) are not entitled to obtain a prospecting license or mining lease.

o The Ordinance provides that the holders of such permits may apply for a prospecting license-cum-mining lease or mining lease. This provision will apply to certain licensees as prescribed in the Ordinance.

• Advance action for auction:

o Under the MMDR Act, mining leases for specified minerals (minerals other than coal, lignite, and atomic minerals) are auctioned on the expiry of the lease period.

o The Ordinance provides that state governments can take advance action for auction of a mining lease before its expiry.

• Transfer of statutory clearances to new bidders:

o Currently, the new lessee is required to obtain statutory clearances before starting mining operations This leads to delay and would adversely affect the mineral production in the country, which in turn would impact the important downstream industries like steel, cement etc.

o The Ordinance provides that the various approvals, licenses, and clearances given to the previous lessee will be extended to the successful bidder for a period of two years.

Conclusion

• While, the ordinance is a positive step to provide operational efficiency, the corresponding rules and bidding guidelines must be assessed in detail to ensure that progressive steps pursuant to the Ordinance are preserved and given full effect.

• The liberalised policy will allow global players to look for investment opportunities which in turn will allow the country to leverage their technical capabilities for effective utilisation of natural resources for the benefit of people at large.

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