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GOOD MORNING TIMES

Economics –PT Shots

(JULY-2020)

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

JULY 2020

1) NATIONAL LAND MANAGEMENT CORPORATION

The government is planning to set up a National Land Management Corporation (NLMC) to facilitate monetizing state-owned surplus land assets in a systematic and specialised way.

• Earlier, government panel on boosting infrastructure investment had recommended setting up a National Land Management Corporation which will act as a facilitator for land monetisation and an asset manager for surplus lands owned by government of India and Central Public Sector Enterprises.

o 'Surplus' land or property are those that are not needed or are not appropriate for provision of public service for which the agency owning the property is responsible.

• NLMC would pursue land lease or concessions as a primary mode of commercial exploitation, including option of sale of land.

• **Key Responsibilities of NLMC would be:**

o Development/co-development of land belonging to Central government ministries or CPSEs etc.

o Maintaining an inventory of public land.

o Developing model concession agreements for land developments.

o Raising money from the market backed by land assets.

o Legal management of litigation/encumbrances relating to land.

o Resettlement and rehabilitation/eviction of occupiers.

o Functions related to change of land usage and revenue management.

Need for such a body in India

• Absence of specialised organization: to handle commercial development of government land. Apart from Railways and Defence, other government departments do not have such bodies.

• Utilisation of the surplus land assets of government and CPSEs: CPSEs and local bodies can reduce their debt burdens by monetizing their asset portfolio for further investment in creation of assets.

• Proper utilisation of unused land, acquired by governments: As per Government Land Information System (portal that records total area, geo-positioning maps, details such as ownership rights etc.) there is large amount of land that remains unused by various public sector enterprises.

• Restricted supply of land: Excessive holdings by the government generate an artificial scarcity of land for developmental purposes, and increases project costs.

• Encouraging participation of private sector: Asset monetization can enhance involvement of long-term institutional investors in the management of infrastructure assets.

• Freeing up unused resources for investment in infrastructure: It is estimated that India would need to spend

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$4.51 trillion on infrastructure by 2030 to realize the vision of a $5 trillion economy by 2025.

• Expedite decision making process: An independent body can effectively deal with the politically-sensitive issue of land, speeding up the process of land monetisation. It can also identify potential real estate opportunities and optimize value of public assets for the taxpayers.

Way forward

For competent management of public assets, NLMC must ensure that:

• Land Concession should follow a competitive and transparent process.

• All stakeholders, public and private, should receive fair compensation for the land that they make available, to incentivize further participation.

• Land-owning departments, including states or local bodies, also get a share of the proceeds, to incentivize release of land for commercial development.

2) Currency Swap Arrangement (CSA)

The Reserve Bank of India has agreed to a $400 million currency swap facility for Sri Lanka till November 2022.

What is this Currency Swap Arrangement (CSA)?

An arrangement between two friendly countries to involve in trading in their own local currencies.

As per the arrangements, both countries pay for import and export trade at the pre-determined rates of exchange, without bringing in third country currency like the US Dollar.

In such arrangements no third country currency is involved, thereby eliminating the need to worry about exchange variations.

Significance of the agreement:

• Improves the confidence in the Indian market.

• Enables the agreed amount of capital being available to India.

• Bring down the cost of capital for Indian entities while accessing the foreign capital market.

• Aids in bringing greater stability to foreign exchange and capital markets in India.

3) UNIFIED GAS PRICE SYSTEM

Government is planning to cut down the cost of transportation of natural gas by setting a fixed tariff for the transportation of natural gas for longer distances to boost gas consumption.

• Currently, tariffs for pipeline usage are divided into zones of 300km, with the tariff increasing for zones further away from the point where gas is injected.

• Thus, these tariffs increase the cost for buyers of gas further away from the point of injection of natural gas.

All of India’s imported natural gas arrives at terminals on the west coast leading to costs for buyers increasing, the further east they are located.

• The government is proposing a unified price system with one price for those transporting gas nearby within 300 km and one price for those transporting gas beyond 300km.

• Also, Petroleum and Natural Gas Regulatory Board (PNGRB) has published a discussion paper on moving from

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a system where buyers of gas are charged for every pipeline, to a single charge across a pipeline network.

Expected benefits of unified gas pricing system

• Reduced overall cost: Currently, transport cost accounts or as much as 10% of the final cost of gas to an industry because of low international prices. Usually, it accounts for around 2-3% of the price of natural gas.

• Reduction in tariffs: Currently, if a buyer needs multiple pipelines even from the same operator, that transport tariff would increase by adding the tariffs under different zones.

• Single market: It would facilitate in creating a single gas market by attracting investment to complete the Gas Grid as well as ensuring equitable access to natural gas across the country.

• Gas based economy: It would enable improving the affordability of gas across the country and attracting investments into the gas infrastructure. This will help achieve government's aim to increase the share of natural gas in the country's energy mix to 15% by 2030, from 6% today.

• Development of new gas markets: Present system causes wide disparity in pipeline tariffs, and thus it hinders the development of new demand centers in far-flung and remote areas.

Other challenges in gas pricing

• Pricing mechanism: Under Domestic Natural Gas Pricing Guideline 2014 domestically produced gas is priced at the average rate prevailing in gas exporting countries such as the US, UK, Canada, and Russia.

o The formula has no mention about gas actually imported into India, which means the pricing of domestic gas is not on the lines of market demand and supply.

o Also, domestic Gas prices are notified with a lag of one quarter. The time lag of a quarter mean that the domestic gas price movement is often out of sync with current international prices.

• Multiple pricing mechanisms: There are multiple pricing regimes existing in the country for Natural gas supplies, with Administered Price Mechanism for subsidized sectors such as fertilizers. This controlled pricing may result in disincentivizing investments in the sector, especially foreign players.

• Not under GST: As gas prices are not under GST, it has led to varying tax rates on natural gas production and related value chain, such as pipelines and retailing in different states.

Way forward

• Decontrolling of prices: India has to end central controls on gas pricing as it seeks to attract foreign investment to lift local output.

• Unbundling of transportation and the marketing of gas is to increase private participation and for the development of the pipelines network.

• Better regulation: Strengthen and clarify the roles and responsibilities with regard to the regulatory supervision of natural gas market activities (upstream, midstream and downstream).

• Include under GST: International Energy Agency (IEA) suggested to ensure gas is treated on a level playing field with other fuels for taxation and is included under the GST.

• Grant infrastructure status to natural gas pipelines, to incentivize investments which

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are prerequisite for increasing natural gas demand and thus reducing cost.

Steps taken for better pricing

• Gas price pooling, 2015: Under the plan, price of cheaper domestic gas will be averaged or pooled with cost of expensive imported LNG to create a uniform rate for fertilizer plants.

• Indian Gas Exchange (IGX) launched recently, as a digital trading platform that will allow buyers and sellers of natural gas to trade both in the spot market and in the forward market for imported natural gas across three hubs —Dahej and Hazira in Gujarat, and Kakinada in Andhra Pradesh.

• Hydrocarbon Exploration Licensing Policy: All gas production from new discoveries can be sold at market-based prices, though it remains subject to a price ceiling.

4) FINANCING OF MSME SECTOR

World Bank and Government of India recently signed a $750 million Agreement for Emergency Response Programme for Micro, Small, and Medium Enterprises (MSMEs).

MSME Sector in India

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

• Significance of MSME sector in India o Employment generation: In India, at present, there are about 55.8 million enterprises in various industries, employing close to 124 million people.

▪ Of these, nearly 14 per cent are women led enterprises, and close to 59.5 per cent are based in rural areas.

o Exports: The MSME sector accounts for 29 per cent of India's GDP and 45 per cent of exports.

o MSME sector also plays a key role in income augmentation, building rural infrastructure, women empowerment, promotion of traditional goods, innovation etc.

Major constraints in Financing the MSME Sector

• Poor access to formal capital: Only about 8 percent of MSMEs are served by formal credit channels. This can be attributed to factors such as:

o Lack of credit history and reliable financial statements: which makes carrying out credit appraisals of MSMEs difficult and results in high transaction costs for lenders.

o Lack of hard assets: that are essential for securing formal credit in most cases.

o Apprehension among lenders due to high default rates on MSME loans: Between December 2017 and December 2019, the non-performing asset (NPA) rate on MSME loans of public sector banks varied between 16.6 per cent and 18.7 per cent.

o Low financial and digital literacy: among MSME operators, limits their ability to seek cheaper formal credit through digital means.

• Limited funding capacity and accessibility of NBFCs and SFBs: These form key marketoriented channels of credit and respond to the urgent and varied needs of the MSMEs.

• Exclusion of individual entrepreneurs in current schemes: Large number of entrepreneurs such as truck owners, agriculture equipment owners etc.
are not registered as MSMEs and take business loans in their individual capacity. They are currently not eligible for additional lending under ECLGS.

• Uncertainty during COVID-19 pandemic: has affected financial stability of MSMEs due to reasons such as delayed payments, burden

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of fixed costs such as rent and repayment of bank dues, rising raw material prices etc.

Way Forward

• Expansion of current government schemes to include individual entrepreneurs and incentivizing individuals to officially register as MSME to gain benefits under various initiatives.

• Leveraging digital platforms can play an important role by enabling lenders, suppliers, and buyers to reach firms faster and at a lower cost, especially small enterprises that currently may not have access to the formal channels.

• Credit Risk Database for lenders to pool the large amount of data, related to MSME loans, being generated at various lending institutions. This will reduce risk for lenders and help them make informed decisions.

• Awareness generation is needed to inform MSME operators of the latest government schemes and programmes.

• Temporary Deferment of property taxes, rent and other utilities can be provided to distressed enterprises in order to avoid further costs and liquidity shortfalls.

• Strengthening NBFCs and SFBs by focusing on refinance facility for NBFCs and direct support to Small Finance Bank (SFBs) through loans and equity, since they form major sources of credit to MSMEs.

Government Initiatives for Financial Support to MSMEs under Atmanirbhar Bharat package

• Emergency Credit Line Guarantee Scheme (ECLGS): Under the Scheme, 100% guarantee coverage to be provided by National Credit Guarantee Trustee Company Limited (NCGTC) for Collateral Free Automatic Loans up to Rs. 3 lakh crores to eligible MSMEs and interested MUDRA borrowers, in the form of a Guaranteed Emergency Credit Line (GECL) facility.

• Fund of Funds created to infuse equity worth Rs.50,000 crore in the MSME Sector to help potential MSMEs in expansion.

• Credit Guarantee Scheme for Sub-ordinate Debt (CGSSD): Guarantee cover worth Rs. 20,000 crores will be provided to the promoters who can take debt from the banks to further invest in their stressed MSMEs as equity. • Global tenders to be disallowed for Government tenders up to Rs.200 crore to enable MSMEs to participate in the Government procurement process.

• ICT based system 'CHAMPIONS' portal: has been launched by the Ministry of MSME. The portal will help in handholding MSMEs, providing guidance to grab the new business opportunities and in the long run, become national and international Champions.

• Dues of MSME will be cleared by the government and Public Sector Units within 45 days.

Challenges faced by MSME sector other than financing

• Limited capital and knowledge

• Technological Backwardness

• Inadequate infrastructure facilities including access to power, water, & road

• Low production capacity and constraints in modernisation & expansions which inhibits the sector to profit from 'economy of scale'

• Ineffective marketing strategy

• Non-availability of skilled labour at affordable cost

• High competition from cheap imports

5) SPECIAL LIQUIDITY SCHEME FOR NBFCS AND HFCS

As a part of Aatma Nirbhar Bharat Abhiyaan, Special Liquidity Scheme for NBFCs/HFCs was approved last month

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and RBI has now laid down the eligibility criteria for these lenders to avail the facility.

• Most NBFCs do not have substantial on-balance sheet liquidity as they operate via asset-liability mismatch i.e. these firms borrow funds from the market for short duration at low interest rate and lend for longer tenures at higher interest rate. So, they need refinancing to repay their own liabilities.

• However, following the unexpected default by a major shadow lender IL&FS in 2018, it became tough for other NBFCs to refinance their debt as investors like Mutual funds and other banks turned risk averse.

o Shadow banking system is a term for the collection of non-bank financial intermediaries that provide services similar to traditional commercial banks but outside normal banking regulations.

• This led to a liquidity crunch for NBFCs.

o Due to liquidity crisis, NBFCs were forced to reduce lending to MSMEs, a vital pillar of the Indian economy that contributes majorly to the GDP.

• So, the stress among NBFCs can lead to spillover effects that can become a systemic risk to whole economy as well as hinder improvements in banks' asset quality.

About the Scheme

• RBI has announced a special liquidity scheme for non-banking finance companies (NBFCs)/HFCs through a Special Purpose Vehicle (SPV).

• Scheme aims to help NBFCs and HFCs to improve their liquidity position and avoid any potential systemic risks to the financial sector.

o With asset quality risk for NBFCs/ HFCs set to rise sharply in the coming months due to reduced economic activity, many medium and small-sized players are likely to face severe liquidity challenges.

• The SPV will purchase short-term papers from eligible NBFCs/ HFCs of debt up to ₹30,000 crore, who will utilise the proceeds under this scheme solely for the purpose of extinguishing existing liabilities.

o SBI Capital Markets, a unit of State Bank of India, has set up a SPV to manage this operation.

• Eligibility: NBFCs and HFCs should have-net nonperforming assets (NPAs) less than 6%; net profit in at least one of the last two preceding financial years; not reported under SMA-1 or SMA-2 category during last one year prior to 1 August 2018.

Reasons behind precarious financial situation of NBFCs

• Difficulties in access to credit: The mutual fund is among the biggest fund provider to NBFCs via commercial papers and debentures. These investors are getting reluctant to lend post the IL&FS crisis. o Recently, a mutual fund house Franklin Templeton had to shut down its 6 debt schemes following the unprecedented redemptions fuelled by apprehensions of credit risk.

• Crisis accentuated by pandemic: In a recent report, Moody credit rating agency said the inability of borrowers to repay loans amid the Covid-19 crisis, coupled with a six-month moratorium on repayment allowed by RBI, will lead to a disruption of inflow for NBFCs, even as outflow will have to continue.

o According to ratings firm ICRA, asset quality of HFCs will come under pressure following the economic impact of pandemic as salaried class and self-employed will face the prospect of a job loss or salary cuts and defer home purchases.

• Multiple regulatory bodies: RBI doesn't regulate all the NBFCs. Other institutions

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such as SEBI, Insurance Regulatory and Development Authority (IRDAI), etc. are also involved depending on the type of NBFC.

• Riskier Lending Pattern: Unlike banks, NBFCs are less cautious while lending. For example, NBFCs have grown their portfolio of small and micro loans in a big way where there are risks of lack of credit history, scale and historically high NPAs.

o The unsecure loan segment is also on the rise in the NBFC segment.

• Cascading effect of Infrastructure Leasing and Financial Services (IL&FS) default: Default followed by downgrade of IL&FS recently has created a liquidity squeeze for the entire non-banking financial company (NBFC) sector.

• Delayed Projects: Many infrastructural projects financed by NBFCs are stalled due to various reasons like delayed statutory approvals, problems of land acquisition, environmental clearance, etc. which has impacted their financial health.

Way Forward

• Better Regulatory Regime: The Financial Sector Legislative Reform Commission (FSLRC) recommendation of creating a body with powers to monitor risk-cutting across sectors should be implemented.

• Timely Project clearances: Ensuring timely clearances, especially to infrastructural projects is a must to minimise cost inflation of these projects.

o Expanding the “Plug and Play” approach to other sectors can be a possible solution. ‘Plug and play’ concept normally refers to ready facilities in terms of building, power-water-sewage connectivity, road connectivity, beside other basic things including clearances in hand required to start the industry.

• Suggestions for RBI: o RBI must encourage NBFC to securitise their assets that can be purchased by banks. o RBI may also open special window for mutual funds to get refinance against collateral.

o A coordinated and consultative approach at this point of time to address the various problems of the sector is critical to national economic health and stability.

About Non-banking finance companies (NBFCs)

• A NBFC is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of governmental or other marketable securities, leasing, hire-purchase, insurance business, chit business.

• It does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

• Difference from Banks:

o NBFC cannot accept demand deposits (but some can accept Time deposits and such NBFCs are called Deposit taking NBFCs)

o NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

o Deposit insurance facility is not available to depositors of NBFCs

o Unlike banks, CRR does not apply on any NBFCs while a lower SLR of 15% applies only to Deposit taking NBFC.

o NBFCs get license under Companies Act, 1956 and Banks under Banking regulation Act.

• Types of NBFCs: NBFCs can be categorised under two broad heads:

o On the nature of their activity: includes Housing Finance Company, Investment Company, Micro Finance Company/Institutions (MFIs) etc.

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o On the basis of deposits: Deposit accepting NBFCs and Non-deposit accepting NBFCs (these are further categorised into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND)). **Housing Finance Company (HFC)**

• A HFC is a company registered under Companies Act, 1956 which primarily transacts or has as one of its principal objects, transacting of the business of providing finance for housing, whether directly or indirectly.

• HFC is considered a NBFC under the RBI's regulations.

• Last year, regulation of HFCs was handed over to RBI from National Housing Bank.

Some recent steps taken by the government

• Targeted long-term repo operations (TLTRO): It was introduced twice. Under TLTRO 2.0, funds had to be invested in investment grade bonds, Commercial Papers and Non-Convertible Debentures of NBFCs, with at least 50% of the total amount availed going to small and mid-sized NBFCs and MFIs.

• Partial Credit Guarantee Scheme (PCGS) 2.0 worth Rs 45,000 crore has been launched where sovereign guarantee of up to 20% of first loss will be provided to state-owned banks for purchase of bonds or CPs of NBFCs, MFIs and HFCs having a credit rating of AA or below, including unrated paper with original maturity of up to one year.

• RBI announced a special refinance facility of Rs 50,000 crore to NABARD, SIDBI and NHB to help them meet funding requirements of agriculture and the rural sector, small industries, HFCs, NBFCs and MFIs.

• RBI has prescribed limits for HFCs for exposure to commercial real estate (maximum 20% of capital fund), capital market (maximum 40% of net worth total exposure) or group entities (25% of owned fund and 15% to single entity)

o In DHFL, a chunk of retail loans were found to have been diverted to group companies which led to its downfall.

6) What are pre-packs under the present insolvency regime?

The Ministry of Corporate Affairs (MCA) has set up a committee to look into the possibility of including what
are called "pre-packs" under the current insolvency regime to offer faster insolvency resolution under the
Insolvency and Bankruptcy Code (IBC).

So, what is a pre-pack?

Also called as a pre-packaged insolvency, It is an agreement for the resolution of the debt of a distressed
company.

• It is done through an agreement between secured creditors and investors instead of a public bidding
process.

• The process needs to be completed within 90 days so that all stakeholders retain faith in the system.

Benefits of a pre-pack:

1. Faster: This process would likely be completed much faster than the traditional Corporate Insolvency
Resolution Process (CIRP) which requires that the creditors of the distressed company allow for an
open auction for qualified investors to bid for the distressed company.

2. It would act as an important alternative resolution mechanism to the CIRP and would help lower the

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burden on the National Company Law Tribunal (NCLT).
3. In the case of pre-packs, the incumbent management retains control of the company until a final
agreement is reached. This is necessary because Transfer of control from the incumbent management
to an insolvency professional as is the case in the CIRP leads to disruptions in the business and loss of
some high-quality human resources and asset value.
4. Also, a financially distressed company can continue its operations during the period leading to a
formal default, and even thereafter, without the resultant reputational risks, business disruptions, or
value erosion.

What are some of the drawbacks of pre-pack?

Reduced transparency compared to the CIRP as financial creditors would reach an agreement with a potential
investor privately and not through an open bidding process.

• This could lead to stakeholders such as operational creditors raising issues of fair treatment when
financial creditors reach agreements to reduce the liabilities of the distressed company.

Unlike in the case of a full-fledged CIRP which allows for price discovery, in the case of a pre-pack the NCLT
would only be able to evaluate a resolution plan based on submissions by the creditors and the investor.

Do we need pre-packs?

Yes. It is because slow progress in the resolution of distressed companies has been one of the key issues
raised by creditors regarding the CIRP under the IBC.

• 738 of 2,170 ongoing insolvency resolution processes have already taken more than 270 days at the
end of March.

• Under the IBC, stakeholders are required to complete the CIRP within 330 days of the initiation of
insolvency proceedings.

7) AFFORDABLE HOUSING

Recently, the Cabinet approved the development of affordable rental housing complexes (ARHCs) for urban migrants and poor as a sub-scheme under the Pradhan Mantri Awas Yojana (Urban).

Key Features of the ARHCs Scheme

• Under the scheme, ARHCs shall be developed for exclusive use as rental housing for a minimum period of 25 years, using two models:

o Converting existing vacant government funded housing complexes through Concession Agreements.

o Special incentives for private/ public entities to develop ARHCs on their own available vacant land.

• Target beneficiaries: Workforce involved in manufacturing industries, service providers in hospitality, health, domestic/commercial establishments, and construction or other sectors, laborers, long term tourists/ visitors, students etc.

o Approximately, 3 Lakh beneficiaries will be covered initially under ARHCs.

• A Technology Innovation Grant of Rs 600 Crore will be released for projects using

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identified innovative technologies for construction.

• Intended Benefits of the scheme:

o Economically productive use of Government funded vacant housing stock.

o Conducive environment for Entities to develop AHRCs on their own vacant land.

o New investment opportunities and promotion of entrepreneurship in rental housing sector.

o Investment under ARHCs is expected to create new job opportunities.

Need for Affordable Housing in Urban Areas

• Rapid urbanization: By the year 2030, more than 40% of the Indian population is expected to live in urban India which is likely to create a demand for 25 million additional affordable housing units.

• Majority in low- and middle-income group: Urban housing shortage will be primarily driven by Below Poverty Line (BPL), Economically Weaker Section (EWS) and Low-Income Group (LIG) households due to their low disposable income, irregular income, ever increasing real estate prices etc.

• Better livability: Affordable housing is fundamental to the health and well-being of people and to the smooth functioning of the economy.

• To deter illegal encroachment of land: Rural to urban migration usually leads to development of illegal slums and informal/ unauthorized colonies in periurban areas due to lack of affordable alternatives.

• Resolving urban congestion: Making housing available at affordable prices close to the place of work and cut down unnecessary travel, congestion and pollution.

• Informal Rental housing sector in India: It leads to exploitation of tenants through inflated pricing, lack of proper maintenance, forced evictions etc.

• Reverse migration triggered by COVID-19: Lack of affordable housing, resulting in mass exodus of workers/ urban poor living in cities highlighted the need for affordable housing.

Challenges

• Lack of clear definition for affordable housing: It should be redefined clearly keeping in view the different geographies in India.

• Poor access to organized finance: EWS and LIG categories often finds it difficult to secure formal housing finance due to inability to produce formal pay slips and other relevant documentation to establish creditworthiness.

• Connectivity to workplace: Lack of affordable and adequately sized land parcels in inner urban localities has driven the development of Affordable Housing to urban peripheries.

• Archaic Laws: Landowners find rental housing unattractive as restrictive rent control laws increase the cost of transaction, lower residential yields and put them at high risk of property litigation.

• Other Issues:

o Liquidity crunch in Non-Banking Financial Companies (NBFCs) has adversely impacted funding availability.

o High land cost in urban cities: Land often constitutes more than 50% of the project cost for developers making affordable housing projects unviable.

o Regulatory hurdles: Delays in the land use conversion, building and construction approval processes etc, lead to cost escalation.

o Low Profitability in affordable sector: Private real estate developers prefer luxury, high-end and uppermid housing segment due to their higher returns.

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o High fees and taxes: Various forms of taxes and levies like VAT, Service Tax, Stamp Duty etc. increases the cost of home ownership.

Way Forward

• Inclusive definition "affordable housing": It should take into consideration different geographies in India and cover factors such as property taxes, operational and maintenance costs, transport costs, payments of basic utilities such as water, electricity, cooking fuel etc.

• Innovative micro mortgage financing mechanisms and the reach of Self-Help Groups (SHGs) can be utilized to ensure that housing finance is available to large sections of LIG and EWS populations.

• Formalization of rental housing sector by revising rent control laws to attract investment in the sector. Single window clearance and electronic submission of documents for approval for building permits.

• Focus on Long-term planning and land-management processes: to balance land and housing supply with projected future housing demand and population growth. Land records can be digitized to improve planning and utilisation of land.

• Zoning reforms: Land-use planning tools like Inclusionary Zoning can be used, which reserves land or earmarks zones to be exclusively used for affordable housing.

• Encouraging Rental management companies (RMCs) to bring efficiency especially in operation, maintenance and management of large-scale rental housing projects/schemes.

• Public-private-partnership [PPP] model: Collaboration between the public and private sectors creates a huge pool of resources and helps in addressing stakeholder concerns.

• Tapping foreign direct investment (FDI): Ministry of Housing and Urban Affairs, recently aid that it is open to the idea of allowing 100% FDI in affordable rental housing projects.

Government Initiatives to ensure affordable housing

• Draft National Urban Rental Housing Policy (NURHP) was released in 2015 with a vision to create a vibrant, sustainable and inclusive rental housing market in India.

• Affordable housing has been accorded the infrastructure status which has associated benefits such as lower borrowing rates, tax concessions and increased flow of foreign and private capital.

• GST rate on affordable housing projects was lowered from an effective 8% to 1%.

• A dedicated Affordable Housing Fund (AHF) was created in the National Housing Bank to boost demand and supply of low-cost homes.

• Real Estate (Regulation and Development) Act, 2016: It established the Real Estate Regulatory Authority (RERA) for regulation and promotion of the real estate sector. The act aims to protect the interest of home buyers, while ensuring that the sale/purchase of real estate project is carried in an efficient and transparent manner.

• Draft Model Tenancy Act, 2019 proposes to establish a framework for the regulation of Tenancy matters (residential and commercial) and to balance the rights and responsibilities of landlords and tenants including a process of fast adjudication process for resolution of disputes.

8) Rewa solar project

Inaugurated recently by Prime Minister Narendra Modi, it is Asia's largest 750 MW solar power project.

It is located at Rewa in Madhya Pradesh.

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• The Solar Park was developed by the Rewa Ultra Mega Solar Limited (RUMSL), a Joint Venture
Company of Madhya Pradesh UrjaVikas Nigam Limited (MPUVN), and Solar Energy Corporation of India
(SECI), a Central Public Sector Undertaking.

Significance:

The Rewa Project has been acknowledged in India and abroad for its robust project structuring and
innovations.

1. Its payment security mechanism for reducing risks to power developers has been recommended as a
model to other States by MNRE.
2. It has also received World Bank Group President's Award for innovation and excellence and was
included in the book "A Book of Innovation: New Beginnings" released by Prime Minister.
3. The project is also the first renewable energy project to supply to an institutional customer outside
the State, i.e. Delhi Metro, which will get 24% of energy from the project with remaining 76% being
supplied to the State DISCOMs of Madhya Pradesh.
4. The Project also exemplifies India's commitment to attain the target of 175 GW of installed
renewable energy capacity by the year 2022, including 100 GW of Solar installed capacity.

9) MULTIDIMENSIONAL POVERTY INDEX (MPI) 2020

2020 Global Multidimensional Poverty Index was released by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI).

What is Global MPI?

• MPI is the product of the incidence of poverty (proportion of poor people) and the intensity of poverty (average deprivation score of poor people) and is therefore sensitive to changes in both components.

• The MPI ranges from 0 to 1 and higher values imply higher poverty.

• It examines each person's deprivations across 10 indicators in three equally weighted dimensions— health, education and standard of living (see infographic) and identify both who is poor and how they are poor.

• In the global MPI, people are counted as multidimensionally poor if they are deprived in one-third or more of 10 indicators.

o Each indicator is equally weighted within its dimension, so the health and education indicators are weighted 1/6 each.

• MPI – with its information on both the level and composition of poverty – provides the data needed to pinpoint where and how poverty manifests itself.

Key highlights of MPI 2020

• The 2020 update of the global MPI covers 107 countries and 5.9 billion people in developing regions.

• Across 107 developing countries,1.3 billion people (22%) live in multidimensional poverty. Among them 82.3 percent are deprived in at least five indicators simultaneously. o Half of multidimensionally poor people (644 million) are children under age 18. One in three children is poor compared with one in six adults.

o 107 million multidimensionally poor people are age 60 or older— a particularly importantly figure during the COVID-19 pandemic.

• About 84.3% of multidimensionally poor people live in Sub-Saharan Africa and South Asia.

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• In every developing region the proportion of people who are multidimensionally poor is higher in rural areas than in urban areas.

o 84.2 percent of multidimensionally poor people live in rural areas, where they are more vulnerable to environmental shocks

• 65 countries reduced their global MPI value significantly in absolute terms. Absolute change (annualized) is the difference in a poverty measure between two years, divided by the number of years between surveys

• Largest reduction in multidimensional poverty was in India, where approximately 273 million people moved out of multidimensional poverty between 2005/2006–2015/2016.India also halved it MPI value in this period.

o However, 37.7 crore people lived under multidimensional poverty as of 2018. Benefits of using MPI vis-à-vis SDGs

• Leave No One Behind: MPI analysis tracks progress on poverty for different groups for example sub-national regions, by rural and urban areas, and by groups such as children, ethnic groups, and caste.

• Monitoring Progress: MPI is used to track and compare multidimensional poverty over time. National MPIs are used to compare regions and groups within a country; a regional or global MPI can also compare countries.

• Integrated, coordinated policy: MPI is used by senior policy makers to coordinate policy and to understand and track impact of their policies on the poor.

• Universal relevance: National and regional MPIs are tailored to the context and policy priorities. They address moderate or acute poverty and reflect contextual values and definitions.

Limitations of MPI

• Less sensitive: To be considered multidimensionally poor, households must be deprived in at least six standard of living indicators or in three standard of living indicators and one health or education indicator. This requirement makes the MPI less sensitive to minor inaccuracies.

• Unable to capture inequality: While the MPI goes well beyond a headcount to include the intensity of poverty experienced, it does not measure inequality among the poor.

• Unable to capture Intra-household inequalities: Intrahousehold inequalities may be severe, but these could not be reflected precisely because there is no individual-level information for all the indicators.

• unavailability of data: There are limits to the cross-country comparability of the MPI. The estimates presented are based on publicly available data and not all countries have data on all indicators. Better and more frequent data on poverty is urgently required.

10) Privatisation of Railways

Ministry of Railways has kick-started the process to allow private players to operate certain trains on its network by inviting Request for Qualifications (RFQ) for the operation of passenger train services on over 100 routes with 150 modern trains.

• The project will bring private sector investment of about Rs. 30,000 crore.

How it works?

1. Train sets have to be brought by private operators and maintained by them.
2. Fares in private trains will be competitive and prices on other modes of transport like airlines, buses
have to be kept in mind while fixing the fares
3. Private participation in passenger train operations will only be 5% of the total operations of Railways.

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95% of trains will still be run by Indian Railways.

Objectives of the initiative:

1. To introduce modern technology rolling stock with reduced maintenance.
2. Reduce transit time.
3. Boost job creation.
4. Provide enhanced safety.
5. Provide world-class travel experience to passengers.
6. Reduce demand supply deficit in the passenger transportation sector.

Recommendations by Bibek Debroy Committee:

The Bibek Debroy Committee, which was set up to suggest ways to mobilise resources for the Indian Railways and restructure the Railway Board, had favoured privatisation of rolling stock: wagons and coaches.

Rail Privatisation:

Pros:

Improved Infrastructure – It will lead to better infrastructure which in turn would lead to improved amenities for travellers.

Balancing Quality of Service with High Fares – The move would foster competition and hence lead to overall betterment in the quality of services.

Lesser Accidents – Because private ownership is synonymous with better maintenance, supporters of privatisation feel that it will reduce the number of accidents, thus resulting in safe travel and higher monetary savings in the long run.

Cons:

Coverage Limited to Lucrative Sectors – An advantage of Indian Railways being government- owned is that it provides nation-wide connectivity irrespective of profit. This would not be possible with privatisation since routes which are less popular will be eliminated, thus having a negative impact on connectivity. It will also render some parts of the country virtually inaccessible and omit them from the process of development.

Fares – Given that a private enterprise runs on profit, it is but natural to assume that the easiest way of accruing profits in Indian Railways would be to hike fares, thus rendering the service out of reach for lower income groups. This will defeat the entire purpose of the system which is meant to serve the entire population of the country irrespective of the level of income.

Accountability – Private companies are unpredictable in their dealings and do not share their governance secrets with the world at large. In such a scenario it would be difficult to pin the accountability on a particular entity, should there be a discrepancy.

11) MODEL CONCESSION AGREEMENT FOR BOT MODEL

Why in news?

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

Background

• BOT toll model accounted for almost 96% of NHAI's all project awards in 2011-12, which came down almost

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to zero in the last two fiscals, due to various issues in existing MCA for BOT (Toll) projects.

• This has forced NHAI to shift to Engineering Procurement and Construction (EPC) and Hybrid Annuity Model (HAM). (See box)

• However, overdependence on EPC and HAM is adversely impacting the finances NHAI. Thus, new changes in BOT model were proposed to attract private investors.

Key features and expected benefits of modified MCA

• Revised revenue assessment: Under the clause, in every five years during the concession period, the revenue potential of a project will be re-assessed, against every 10 years now. Therefore, if need be, the concession could will be extended early in the tenure of the contract, adding to certainty of cash flows.

• Land acquisition: The work order for building highway projects will be issued only when 90 per cent of the land is acquired and this will form a part of the condition precedent. Delays in land acquisition and approvals have led to significant delays in project completion and have been the prime reason for significant cost overruns.

• Dispute resolution board (DRB): It provides for setting up a dispute resolution board which will act as a continuous dispute resolution mechanism and provides for timely redressal within 90 days. This is a welcome step, as arbitration processes have been dragged for years, leading to significant lock-up of developers' funds. Concerns that remain

• No compensation: There is no provision for compensation in case a competing road comes in and causes traffic diversion from the project.

• Reduced traffic due to axle load: Recent revision permitting vehicles to carry increased load has caused a reduction in traffic volume and thus, loss in the revenue for the developers which is not addressed in the changed MCA.

• Fast-track resolution of arbitration awards remains a challenge, as the decision of DRB remains recommendatory in nature and courts remain the arbitration authority for dispute resolution for claims above Rs 25 crore in case the parties do not agree on dispute resolution board for arbitration. Conclusion NHAI should look into concerns like traffic risks, and others as Private developers/investors in the BOT (toll) space seek a firm, clear and bankable concession contract to ensure elimination of all ambiguities and safeguarding of their investment.

Types of investment models

• **Build Operate and Transfer (BOT) Toll model**: Under this model, a road developer constructs the road and he is allowed to recover his investment through toll collection. There is no government payment to the developer as he earns his money invested from tolls.

• **BOT Annuity Model:**

o A developer builds a highway, operates it for a specified duration and transfers it back to the government.

o The government starts payment to the developer after the launch of commercial operation of the project.

• **Engineering, Procurement and Construction (EPC) Model:**

o Under this model, the cost is completely borne by the government. Government invites bids for engineering knowledge from

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the private players. o Procurement of raw material and construction costs are met by the government.

o The private sector's participation is minimum and is limited to the provision of engineering expertise

• **Hybrid Annuity Model (HAM)**

o HAM is a mix of BOT Annuity and EPC models.

o As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity).

o The remaining payment will be made on the basis of the assets created and the performance of the developer.

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