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

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1) RECIPROCAL TRADE AGREEMENTS

• Why in news?

Commerce Minister emphasizes on reciprocal market access for Indian goods.

• Countries use bilateral/regional trade agreements to increase market access and expand trade in foreign markets. These agreements are called reciprocal trade agreements (RTAs) because members grant special advantages to each other.

• RTAs include many types of agreements, such as preferential arrangements, free trade agreements, customs unions, and common markets, in which members agree to open their markets to each other's exports by lowering trade barriers.

• **Need:** They have become an increasingly prominent feature of the multilateral trading system in recent years, in part, because of stalled global negotiations taking place under the auspices of the World Trade Organization (WTO). Many observers believe that RTAs deepen market integration and complement efforts by the WTO to liberalize international markets. While acknowledging that RTAs can open up markets, other observers contend that these agreements also distort trade and discriminate against non-member countries

2) IMD COMPETITIVENESS RANKINGS

The 2019 edition of the International Institute for Management Development (IMD) Business School World Competitiveness Rankings has been released.

About IMD World Competitiveness Rankings:

• started in 1989, the report ranks 63 economies on 235 indicators which are incorporated from each of these economies.

• The indicators are used to evaluate country's ability to foster an environment where enterprises can achieve desirable sustainable growth, generate employment and increase its citizen's welfare.

• IMD takes into account a wide range of statistics and hard data such as unemployment, GDP and government spending on health and education as well as soft data from an international business executive opinion survey on topics such as social cohesion, globalisation and corruption.

The economies are judged in four categories:

• Economic Performance
• Infrastructure
• Government Efficiency
• Business Efficiency.

Performance of India:

• India has moved up one place to rank 43rd (Previously: 44th position in 2018, 45th in 2017 and 41st in 2016.)

• This improved rank is result of India's robust economic growth, a large labour force and its huge market size.

Global findings:

• topped by Singapore. It has grabbed top position for the first time in nine years. In 2018 it stood at third rank.

• Hong Kong Special Administrative Region (SAR) has held onto its second position same as last year.

• The US slipped to the third place.

• Asia-Pacific region has emerged as a global beacon with 11 out of 14 economies either improved or holded onto their ground.

3) COMPLAINT MANAGEMENT SYSTEM (CMS) BY RBI

What is it?

Launched by the Reserve Bank of India (RBI), the Complaint Management System (CMS) is a software application to facilitate RBI's grievance redressal process.

• Aim: to improve customer experience in timely redressal of grievances.

How it works?

• Customers can lodge complaints against any regulated entity with public interface such as commercial banks, urban cooperative banks, Non-Banking Financial Companies (NBFCs). The complaint would be directed to the appropriate office of the Ombudsman/Regional Office of the RBI.

Benefits:

• The application improves transparency by keeping the complainants informed through auto-generated acknowledgements and enabling them to track the status of their complaints and file appeals online against the decisions of the Ombudsmen, where applicable.

• Complainants can also voluntarily share feedback on their experience in obtaining redressal.

Need:

• Sustaining the confidence of consumers in banks and other financial service providers (FSPs) through prompt and effective grievance redressal, together with empowering customers through education is pivotal for maintaining trust in the banking system.

4) NATIONAL ANTI-PROFITEERING AUTHORITY (NAA)

The tenure of National Anti-Profiteering Authority has been extended by 2 years.

About NAA:

• The National Anti-Profiteering Authority (NAA) has been constituted under Section 171 of the Central Goods and Services Tax Act, 2017.

• It is to ensure the reduction in rate of tax or the benefit of input tax credit is passed on to the recipient by way of commensurate reduction in prices.

• The Authority's core function is to ensure that the benefits of the reduction is GST rates on goods and services made by GST Council and proportional change in the Input tax credit passed on to the ultimate consumers and recipient respectively by way of reduction in the prices by the suppliers.

Composition:

• The National Anti-profiteering Authority shall be headed by a senior officer of the level of a Secretary to the Government of India and shall have four technical members from the Centre and/or the States.

Powers and functions of the authority:

• In the event the National Anti-profiteering Authority confirms the necessity of applying anti-profiteering measures, it has the power to order the business concerned to reduce its prices or return the undue benefit availed along with interest to the recipient of the goods or services.

• If the undue benefit cannot be passed on to the recipient, it can be ordered to be deposited in the Consumer Welfare Fund.

• In extreme cases the National Anti-profiteering Authority can impose a penalty on the defaulting business entity and even order the cancellation of its registration under GST.

5) THE FORGOTTEN FUNDS

What is a cess?

• A cess is levied on the tax payable and not on the taxable income. In a sense, for the taxpayer, it is equivalent to a surcharge on tax.

• A cess can be levied on both direct and indirect taxes. The revenue obtained from income tax, corporation tax, and indirect taxes can be allocated for various purposes.

• The proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI), an account of the Government of India.

Difference between tax and cess?

• Unlike a tax, a cess is levied to meet a specific purpose; its proceeds cannot be spent on any kind of government expenditure. While the tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission, the cess proceeds need not be shared with them.

• Recent examples of cess are: infrastructure cess on motor vehicles, clean environment cess, Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers), and education cess.

Education cess:

• The education cess, at 2%, which was first proposed in 2004, was aimed at improving primary education. In 2007, an additional cess of 1% was introduced to fund secondary and higher education (SHEC). And recently, in the 2019 Union Budget, a 4% health and education cess was announced which incorporates the previous 3% education cess as well as an additional 1% to provide for the health of rural families.

How is it utilised?

• In order to utilise the cess proceeds lying in the CFI, the government has to create a dedicated fund. As long as a dedicated fund is not created, the cess proceeds remain unutilised

• The dedicated fund for primary education is the 'Prarambhik Shiksha Kosh', or PSK, (created in October 2005, a year after the cess was introduced) while that for higher and secondary education is the 'Madhyamik and Uchchtar Shiksha Kosh' (set up in August 2017).

Present concerns:

• It is shocking that Madhyamik and Uchchtar Shiksha Kosh has remained dormant as of March 2018.

• Moreover, data from the 2017-18 annual financial audit of government finances conducted by the Comptroller and Auditor General (CAG) show that Rs. 94,036 crore of SHEC proceeds is lying unutilised in the CFI.

• The degree of economic injustice becomes sharper when the unspent account is seen in conjunction with the Central government's expenditure on education; for example, in 2017-18, the public expenditure on school and higher education was estimated to be Rs. 79,435.95 crore. In other words, the cumulative unutilised SHEC funds far exceeded the expenditure on both school and higher education for the year 201718.

Need of the hour:

• Since a cess is introduced with a specific purpose, it is completely unjustified when the proceeds remain unutilised for so many years. Moreover, in the current context of self-imposed fiscal discipline and the consequent reduction of public expenditure, the opportunity cost of unutilised education cess proceeds is significantly high. Finally, it is imperative that the government immediately begins utilising cess proceeds and also publishes an annual account of the manner in which they have been utilised.

• To make the point clear, the proceeds from the education cess cannot be used for cleaning the environment and vice versa.

6) FINANCIAL STABILITY AND DEVELOPMENT COUNCIL (FSDC)

FSDC meeting held recently was chaired by the Union Finance Minister.

About FSDC:

• The Financial Stability and Development Council (FSDC) was constituted in December, 2010. The FSDC was set up to strengthen and institutionalise the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.

• An apex-level FSDC is not a statutory body.

Composition:

• The Council is chaired by the Union Finance Minister and its members are Governor, Reserve Bank of India; Finance Secretary and/or Secretary, Department of Economic Affairs; Secretary, Department of Financial Services; Chief Economic Adviser, Ministry of Finance; Chairman, Securities and Exchange Board of India; Chairman, Insurance Regulatory and Development Authority and Chairman, Pension Fund Regulatory and Development Authority. It also includes the chairman of the Insolvency and Bankruptcy Board (IBBI).

• Recently, the government through a gazette notification, had included ministry of electronics and information technology (MeitY) secretary in the FSDC in view of the increased focus of the government on digital economy.

What it does?

• The Council deals, inter-alia, with issues relating to financial stability, financial sector development, inter– regulatory coordination, financial literacy, financial inclusion and macro prudential supervision of the economy including the functioning of large financial conglomerates. No funds are separately allocated to the Council for undertaking its activities.

7) RBI PANEL ON ECONOMIC CAPITAL FRAMEWORK

The Reserve Bank of India (RBI)-appointed committee to review the economic capital framework of the central bank has failed to arrive at a consensus during a recently held meeting leading to a delay in finalising its report.

Difference of opinion:

• The main difference of opinion has arisen between the panel members and the government's representative on the panel over the transfer of the RBI's 'excess' capital reserves.

• While most panel members were in favour of a phased transfer of the RBI's capital reserves to the government over the years, the government's view is for a one-time transfer.

• RBI had constituted a panel on economic capital framework. It was headed by Ex-RBI governor Bimal Jalan.

• The expert panel on RBI's economic capital framework was formed to address the issue of RBI reserves— one of the sticking points between the central bank and the government.

What's the isssue?

• The government has been insisting that the central bank hand over its surplus reserves amid a shortfall in revenue collections. Access to the funds will allow the government to meet deficit targets, infuse capital into weak banks to boost lending and fund welfare programmes.

What is economic capital framework?

• Economic capital framework refers to the risk capital required by the central bank while taking into account different risks. The economic capital framework reflects the capital that an institution requires or needs to hold as a counter against unforeseen risks or events or losses in the future.

Why it needs a fix?

• Existing economic capital framework which governs the RBI's capital requirements and terms for the transfer of its surplus to the government is based on a conservative assessment of risk by the central bank and that a review of the framework would result in excess capital being freed, which the RBI can then share with the government.

• The government believes that RBI is sitting on much higher reserves than it actually needs to tide over financial emergencies that India may face.

• Some central banks around the world (like US and UK) keep 13% to 14% of their assets as a reserve compared to RBI's 27% and some (like Russia) more than that.

• Economists in the past have argued for RBI releasing 'extra' capital that can be put to productive use by the government. The Malegam Committee estimated the excess (in 2013) at Rs 1.49 lakh crore.

What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?

• Although RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore, the government nationalised RBI in January 1949, making the sovereign its "owner". What the central bank does, therefore, is transfer the "surplus" — that is, the excess of income over expenditure — to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.

Does the RBI pay tax on these earnings or profits?

• No. Its statute provides exemption from paying income-tax or any other tax, including wealth tax.

Why RBI needs excess reserves?

• The RBI needs adequate capital reserves for monetary policy operations, currency fluctuations, possible fall in value of bonds, sterilisation costs related to open-market operations, credit risks arising from the lender of last resort function and other risks from unexpected increase in its expenditure.

• The RBI has maintained the view that it needs to have a stronger balance sheet to deal with a possible crisis and external shocks.

8) UNEMPLOYMENT RELATED ISSUES

• India's problem is not unemployment — this has bounced in the low and narrow range of 4-7 per cent for 50 years — but employed poverty.

Challenges:

• Larger percentage of workforce in informal sector.

• India's labour laws have an insane reverse payroll wedge — employers are forced to deduct 40 per cent-plus of gross wages for employees with monthly wages up to Rs 25,000.

• Our skill development system faces the difficult trinity of cost, quality and quantity combining with challenging changes to the world of education.

• Apprenticeships are the future of learning, yet India only has 5 lakh apprentices.

• India's credit to GDP ratio is 50 per cent (rich countries are at 100 per cent).

What needs to be done?

• Massive ease-of-doing business that rationalises (cuts down ministries, compliances, and filings), simplifies (adopts a universal enterprise number and one labour code) and digitises (adopts a paperless, presenceless and cashless process for all employer compliance by shifting from uploads to websites to an API architecture with straight-through-processing).

• Employee contribution must be made optional, employees must choose who handles their employer contributions, and social security programme fees must be capped to their costs.

• To improve Apprenticeship, the two central government initiatives, Regional Directorates Of Apprenticeship Training (RDAT) and Board of Apprentice Training (BOAT) could be merged.

• An effective online matching platforms could be launched and the regulatory legitimacy of apprenticeships could be reinforced as classrooms to overcome the trust deficit with employers.

• It's also time to enable degree-linked apprentices (skill universities await clearance for linking apprentices to degrees via distance and online delivery).

• There must also be a focus on financialisation reform and sustainable competition.

• A higher credit to GDP ratio needs more bank licences, fixing the governance at nationalised banks, blunting the asset liability mismatch at NBFCs (some irrationally funded 30 per cent of their balance sheet with commercial paper) and restoring the sanctity of the 270-day IBC bankruptcy deadline.

• We should consider making labour a state subject and must continue the decentralisation of funds, functions and functionaries to states while simultaneously creating accountability, capabilities and resources in city governance.

9) CRISIS IN NBFC

• The woes of non-banking finance companies and housing finance companies continue to reverberate through the financial system.

Present concerns:

• Financial conditions have worsened with spreads of NBFC bonds rising significantly in the recent past. Lenders are re-evaluating their risk.

What needs to be done?

• RBI should open a special borrowing window to provide liquidity to NBFCs/HFCs.

• RBI, under sections 17 and 18 of the RBI act, can provide short term liquidity to NBFCs, till financial conditions normalise.

• It could also nudge banks to increase their lending to NBFCs.

Challenges ahead:

• Risk-averse banks may be unwilling to lend.

• There is difficulty in differentiating between illiquid NBFCs from those that are insolvent.

Need of the hour:

• NBFC crisis could accentuate contagion risk in the financial sector. Cabinet committee on investment and growth must address it.

10) BASE EROSION AND PROFIT SHIFTING

The Union cabinet approved ratification of a multilateral convention to implement OECD's project on checking tax evasion.

About the Convention

• The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) was signed in Paris in 2017.

• It entered into force on 1st July 2018.

• The Multilateral Convention is an outcome of the OECD/G20 Project to tackle Base Erosion and Profit Shifting (BEPS).

• The Convention will modify India's treaties in order to curb revenue loss through treaty abuse and base erosion and profit-shifting strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out and where value is created.

• The Convention enables all signatories to meet treaty-related minimum standards to counter treaty abuse and eliminate double taxation that were agreed as part of the BEPS package.

Base Erosion and Profit Shifting (BEPS)

• It refers to tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no tax locations resulting in little or no overall corporate tax being paid.

• The OECD, under the authority of the Group of 20 countries, has considered ways to revise tax treaties, tighten rules, and to share more government tax information under the BEPS project, and had issued action plans in 2015. • The BEPS project would:

o increase tax revenues which were earlier lost due to BEPS. BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises.

o give level playing field for both and domestic and global companies by allowing them to conduct businesses under similar circumstances. Tax savings from BEPS give multinational companies an edge over domestic companies, who may lack the wherewithal to employ such strategies.

o prevent double taxation.

11) RATING AGENCIES

Recently, SEBI came up with set of wider disclosure norms for the Credit Rating Agencies (CRA).

• It introduced a "probability of default" mechanism under which rating agencies have to disclose the probability of default for the issuers they rate by December 2019.

• It also provides for formulation of Uniform Standard Operating Procedure for tracking and timely recognition of default. Credit Rating Agencies in India

• The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 empowers SEBI to regulate CRAs operating in India.

• As per the Regulations, CRA is defined as "a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue".

• SEBI (Credit Rating Agencies) Regulations, 1999 provide for a disclosure-based regulatory regime, where the agencies are required to disclose their rating criteria, methodology, default recognition policy, and guidelines on dealing with conflict of interest.

• All the credit agencies need to be registered with SEBI in order to operate in India.

• There are seven Credit Rating Agencies registered with SEBI, viz. CRISIL, ICRA, CARE, India Ratings and Research, SMERA, Infomerics and Brickworks.

Issues with Credit Rating Framework in India

• Conflict of interest: CRAs follow the 'issuer pays model', under which the entity issuing the financial instrument pays the agency upfront to rate the underlying securities. However, such payment arrangement may lead to a 'conflict of interest' and could result in compromising the quality of analysis. o

Another example of conflict of interest is non-rating services such as risk consulting, funds research and advisory services given to issuers for which ratings have been provided.

• Rating shopping: It is the practice of an issuer choosing the rating agency that will either assign the highest rating or that has the most lax criteria for achieving a desired rating. Hence, the system does not permit publishing a rating without the issuer's consent.

• Less competition: Credit-rating market in India is oligopolistic, with high barriers to entry. Lack of competition in the market enables CRAs to have longer, well-established relationships with the issuers which can hamper their independence.

• Poor Rating Quality: Often ratings are provided on limited information. For e.g. If the issuer decides not to answer some determinant questions, the rating may be principally based on public information. Many rating agencies don't have enough manpower which often leads to poor quality.

• Multiple Regulators: Other than SEBI, there are certain other regulatory agencies, such as the Reserve Bank of India (RBI), Insurance Regulatory and Development Authority, and Pension Fund Regulatory and Development Authority, which also regulate certain aspects of credit rating agencies under their respective sectoral jurisdiction.

Strengthening of the Credit Rating Framework

• Role of Regulators: They should review their regulations and suitably modify them to ensure greater objectivity, transparency and credibility in the whole credit rating framework. o Ministry of Finance should seek a factual report from the concerned regulators regarding the enforcement of the regulations and assess the action taken by the regulators against the CRAs.

• Holistic Disclosures Norm: It should also include important determinants such as:

(i) extent of promoter support,

(ii) linkages with subsidiaries, and

(iii) liquidity position for meeting near-term payment obligations.

• Alternative Innovative Model for Rating Agencies such as 'investor pays model' or 'regulator pays model' for avoiding conflict of interest.

• Mandatory Rotation of Rating Agencies for avoiding negative consequences of long term associations between the issuer and the credit rating agency. o It will helps reduce recurrence of major default cases such as the Infrastructure Leasing & Financial Services (IL&FS) crisis.

• Increase competition among rating agencies by lowering threshold for registration for CRA to encourage more entities, particularly start-ups with the requisite capability and expertise. o It will help investors to better gauge the performance of credit rating agencies.

• Legal protection for CRAs: There are instances of Indian CRAs being sued by the company it rates, in a bid to prevent the rating downgrade. The regulator should consider framing laws that allow CRAs to express their rating opinion without fear of being sued.

Importance of CRAs

• They provide retail and institutional investors with information that assists them in determining if debtor will be able to meet their obligations.

• They help investors, customers etc. to get an overall idea of the strength and stability of an organization and enable them to make informed decisions.

• These agencies also help build trust between the investors and the governments by quantifying the level of risk associated with investing in a particular country. For example-Sovereign credit ratings are given to the national governments which highlight a country's economic and political environment.

• CRAs help strengthening of secondary market by increasing borrower pool.

• CRAs ensure a discipline amongst corporate borrowers due to because of this desire to have a good image.

12) FOOD GRAIN MANAGEMENT IN INDIA

Why in news?

• With food grain stocks held by Food Corporation of India (FCI) in the central pool has hit 6 year high, the Government plans to increase allocations to below-poverty-line (BPL) families.

• Additionally, the Food Corporation of India has commissioned a new roadmap to speed up silo construction to meet its target of 100 lakh tonnes of storage space by 2022.

About Food grain Management in India

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

• FCI procures food grains at minimum support price (MSP) from farmers on an open ended basis (i.e., accepting all the grains that are sold to it by farmers), provided the food grains meet Govt. of India's uniform quality specifications. The procurement is also done by State Government Agencies (SGAs) and private rice millers on behalf of the FCI.

• All the procured food grains form the Central Pool. The grains are moved from the surplus states to the consuming states for distribution and for creation of buffer stocks and stored in FCI godowns.

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

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

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

Issues with India's food management system

• Excess of buffer stocks: Open ended grain procurement has increased food grain stockpiles beyond the needs of food security. E.g. By June 2019, FCI and state agencies stockpiled 76.1 million tonnes of staples (wheat and rice) against the requirement of 61 million tonnes.

• Lack of storage: Due to inadequate number of godowns for storage, a part of procured grains is maintained as outdoor stacks ('Cover-and-Plinth' system), which face high risk of rain damage and pilferage.

• Food inflation: More than 75% of the marketable surplus is procured by the Government. Such stocking of food grains which otherwise could have been sold in open markets adds to food inflation

• Poor quality of food grains & high wastage: Due to insect infestation, microbiological contamination, physiological changes due to sprouting and ripening etc., the shelf life of food grains remain poor. Lack of irradiation facilities also impedes long term storage.

• High costs for government: Fiscal load of procuring, carrying & maintaining excess stock is over ₹1 trillion and adds to the food subsidy bill.

• Countercyclical procurement policy: In drought years, when the production is low, Government increases MSP and stock uptake from farmers. This reduces the supply of grains in open market and pushes the prices high.

• Marginalization of private trade: Existing system of food grain management in India is dominated by the Government, right from production (as cropping pattern is influenced by MSPs) to stocking (FCI) and marketing (APMCs).

o Even in traditionally high producing states like Punjab and Haryana, private trade been marginalized due to open ended procurement by FCI.

o Further, limitations on private stock holding and additional state levies make private participation unviable.

• Uncompetitive Exports: Additional state levies make Indian exports uncompetitive in global markets. Moreover, reactionary policies like rising minimum export price (MEP) and putting ceiling limits on exports to check food inflation adversely affected India's exports in food grains.

• Corruption: According to Shanta Kumar Committee, 40-60% PDS food grains are siphoned from FCI godowns to black markets. Many such scams, like Punjab Wheat Procurement Crisis 2016, have come into the light recently.

• Economic Burden on FCI: FCI incurs the cost of around ₹23 per kg for wheat, which then gets sold at ₹2/kg under the National Food Security Act. However, Ministry of Finance constantly underpays FCI to keep in check food subsidy numbers and as a result, it has to borrow money commercially leading to an extra interest burden (₹35,700 cr between 2011-16).

Way Forward

• There is a need to reorient crop production in favour of high value & export worthy products E.g. Paddy can be substituted in north-western non-rice consuming region of India with basmati, cotton, maize, soyabean etc which are in high demand domestically and abroad. Haryana has started incentivising farmers to sow alternative crops.

• Procurement as a means of price support can be replaced with price deficiency payment and direct income support to the farmers, as envisaged in PM-AASHA and PM-KISAN schemes.

• Excess buffer stocks can be allocated to poor over and above their monthly quota of 5 kg under National Food Security Act (NFSA).

• Further, decentralization in procurement should be encouraged. Decentralized Procurement Scheme (DCP), introduced to reduce transport cost and leakages, has been adopted by a very few states.

o Under this scheme, the respective state governments themselves will procure food grains from farmers on the behalf of FCI and distribute them among poor beneficiaries.

• Lastly, FCI needs an organizational overhaul to make it more functionally efficient. Efficiency is even more important consideration to prevent 'moral hazard' as it is bound to operate under operational losses.

Why there is a problem of excess buffer stocks?

• Oversupply of food grains due to skewed cropping pattern. Excess production of food grains due to higher MSPs, additional bonuses offered on food crops by the states and no viable export outlets.

• Lack of coordination between FCI and Consumer Ministry which decides buffer norms.

• Open ended procurement i.e. procures all food grains supplied to it by farmers, state agencies etc.

• No automatic liquidation rule: Ideally, FCI should sell all grains above buffer stocks in open markets. But, there is no such rule and offtake happens only on the directive of the ministry.

13) SOLAR MANUFACTURING IN INDIA

Recently, there has been a view among experts, that India needs a Solar Manufacturing Strategy, if it wants to achieve its ambitious Solar Program.

Background

• India has made significant progress in creating capacity for solar energy generation in the last few years. India expanded its solar generation capacity eight times from 2,650 MW in 2014 to 28.18 GW on March 31, 2019.

• The government had an initial target of 20 GW of solar capacity by 2022, which was achieved four years ahead of schedule. In 2015, the target was raised to 100 GW of solar capacity by 2022.

• Despite the new policy focus on solar plant installation, India is still not a solar panel manufacturer.

Issues in Solar Manufacturing in India

• Overdependence on low-cost imports- India met 92.11 per cent requirement of its solar equipment through imports in 2017-18.

o China is the largest supplier of solar equipment accounting for about 89 per cent of India's total imports of solar cells in 2017-18.

• Lack of a manufacturing base for Poly-silicon, Ingots/wafers, the upstream stages of solar PV manufacturing chain, which is a very energy intensive process. Most Indian companies are engaged in only module assembly or wafer manufacturing and module assembly.

• Higher cost of production- due to lack of integrated set up, economies of scale & modern technology.

o Also, the domestic manufactures have to borrow at higher interest rates, compared to foreign manufacturers, pushing up their cost of production.

o Thus, the price of solar equipment produced in the country is not competitive as compared to that of foreign manufacturers.

• Government's attempts faced different challenges-

o India's attempt to provide a leg-up to local manufacturers through Domestic Content Requirement was thwarted when World Trade Organisation overruled the local sourcing requirements on imports placed by the Government.

o In 2018, India imposed a Safeguard Duty on imported solar panels.

✓ While imposition of this duty was aimed at incentivising domestic manufacturing, it led to an increase in tariffs, resulting in the cancellation of many solar auctions.

✓ But, for Indian manufacturers, protection from the safeguard duty soon disappeared since Chinese panel manufacturers also reduced the module prices.

• Other regulatory issues- such as high cost of land/ electricity, low capacity utilization, and lack of skilled workforce. These along with the aforementioned issues have led to a poor response from industries.

Steps taken by Government

• India's Manufacturing Policy recognizes solar manufacturing as an industry with 'strategic importance'.

• One of the objectives of the National Solar Mission is "to create favourable conditions for solar manufacturing capacity, particularly solar thermal, for indigenous production and market leadership".

• In the solar panel manufacturing sector, the Indian government allows 100% foreign investment as equity and it qualifies for automatic approval.

• The government is also encouraging foreign investors to set up renewable energy-based power generation projects on build-own-operate basis.

• A 25 percent capital subsidy for solar manufacturing units is available under the 'Modified Special Incentives Package Scheme' (M-SIPS).

• The Cabinet Committee on Economic Affairs (CCEA) approved a viability gap funding (VGF) scheme worth ₹8,580 crore, which would enable government-owned companies to set up 12 GW of solar power plants over the next four years using the costlier, made-in-India modules.

Measures, which need to be taken

• India needs a solar manufacturing strategy, on the lines of the Automotive Mission Plan (2006-2016), which is credited with making India one of the largest manufacturers of automobiles in the world. A right policy framework with well-defined objectives will help India set up a robust PV manufacturing ecosystem.

• Focus on large-scale public procurement- The government can call out bids for solar power plants with the requirement that these be made fully in India. This will not violate any WTO commitment.

• Cluster Approach- Globally, manufacturing bases are being planned as integrated solar industrial clusters with strong Government support. A SEZ that focuses only on integrated module manufacturing could be planned to create a conducive environment.

• Ideas which can be adopted from China- o Develop 'Solar Champions'- in a systematic manner through massive subsidies, low interest loans, grants and easy access to land and utilities.

o The Technology Top Runner Program- which aims to achieve higher-efficiency solar products for 1.5 GW of next-generation PV technology. Through such targets, China is able to drive mass production of cells.

Concept Note on Solar PV Manufacturing Scheme by Ministry of New and Renewable Energy

• To create end-to-end solar PV manufacturing capacity in India by way of building up manufacturing capacity of solar PV modules, cells, wafers/ ingots and polysilicon in India.

• To strengthen Make in India campaign, so as to reduce the dependency on foreign manufactures.

• To make domestic manufactures competitive with international manufactures.

• To ensure manufacture of quality solar PV equipment in the country.

• To insulate the domestic solar power industry from the vicissitudes of international market.

• To use this policy to create skilled jobs, and in domestic technology self-sufficiency.

• To convert India from a net importer country to a net exporter country and becoming a global player in solar manufacturing.

Potential of Solar Manufacturing in India

• Employment generation: It has a potential to create 50,000 direct jobs and at least 125,000 indirect jobs in the next 5 years.

• Reduction in imports: Domestic solar manufacturing can save USD 42 bn. in equipment imports by 2030, besides providing equipment supply security.

• Domestic demand: India's large demand (planned solar power growth) in the coming years is the perfect opportunity to build a domestic manufacturing base for equipment (panels and cells) and scale them up much like China did.

o According to the Ministry of New and Renewable Energy (2018), India has an annual solar cell manufacturing capacity of about 3 GW while the average annual demand is 20 GW.

• Expanding overseas market: India has taken a lead in the International Solar Alliance (ISA), which will help in the transfer of solar technologies across members.

o India also sees this as an opportunity for the domestic solar industry to find inroads in some of the smaller and untapped markets like Africa and South America.

14) NATIONAL INVESTMENT AND MANUFACTURING ZONES

Recently, the Government of India has granted the final approval to three National Investment and Manufacturing Zones (NIMZ), namely Prakasam (Andhra Pradesh), Sangareddy (Telangana) and Kalinganagar (Odisha).

Background

• The Government of India had notified the National Manufacturing Policy (NMP) in 2011 with the objective of enhancing the share of manufacturing in GDP to 25% and creating 100 million jobs by 2022. National Investment and Manufacturing Zones(NIMZs) are one of the important instruments of the policy to achieve these objectives. • So far, the Government of India has granted 'in-principle' approval to the sixteen NIMZs (outside the DMIC region) and eight Investment Regions along the Delhi Mumbai Industrial Corridor (DMIC) project. More about National Investment and Manufacturing Zones (NIMZ)

• The NIMZs are envisaged as integrated industrial townships with state of the art infrastructure, land use on the basis of zoning, clean and energy efficient technology, necessary social infrastructure, skill development facilities etc. to promote world-class manufacturing activities.

• At least 30% of the total land area proposed for the NIMZ will be utilized for location of manufacturing units.

• The land for these zones will preferably be waste infertile land not suitable for cultivation, not in the vicinity of any ecologically fragile area and with reasonable access to basic resources.

• On receipt of final approval, the NIMZ will be declared by the State Government as an industrial township under Article 243Q(1)(c) of the Constitution.

• Central government provides external physical infrastructure linkages to the NIMZs including rail, road, ports, airports and telecom, in a time-bound manner and also provides viability gap funding wherever required.

• The State Government will constitute a Special Purpose Vehicle (SPV) to discharge the functions specified in the policy.

• The SPV will prepare a strategy for the development of the zone and an action-plan for self-regulation to serve the purpose of the policy.

• The Department for Promotion of Industry and Internal Trade (former DIPP) is the nodal agency for NIMZ.

More on National Manufacturing Policy, 2011

• The policy is based on the principle of industrial growth in partnership with the States.

o The Central Government will create the enabling policy framework, provide incentives for infrastructure development on a Public Private Partnership (PPP) basis through appropriate financing instruments, and State Governments will be encouraged to adopt the instrumentalities provided in the policy.

• It focuses on foreign investments and technologies, while leveraging the country's expanding market for manufactured goods to induce the building of more manufacturing capabilities and technologies within the country.

• It seeks to incorporate the competitiveness of enterprises in the country as the guiding principle in the design and implementation of policies and programmes.

• It seeks to ensure that the compliance burden on industry arising out of procedural and regulatory formalities is reduced through rationalization of business regulations.

• It encourages innovation for augmenting productivity, quality, and growth of enterprises.

15) CIRCULAR ECONOMY

Recently at Circular Economy Symposium 2019, NITI Aayog CEO said that Circular Economy has the potential to generate 1.4 crore jobs in next 5-7 years.

What is Circular Economy?

• The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended.

• This is a departure from the traditional, linear economic model, which is based on a take-make-consume-throw away pattern. It relies on large quantities of cheap, easily accessible materials and energy.

Need for a Circular Economy

•Rise in consumerism: The robust economic growth coupled with rising household incomes have resulted in increased consumer spending, which is expected to reach USD 4 trillion by 2025. The rise in consumerism has led to more frequent replacement of assets on account of increased spending power and economies of scale.

• High resource demand: Increased domestic resource extraction due to urbanisation exerts increasing pressure on natural resources such as land, forest, air and water. At the current rate of growth of the economy, India’s resource requirements are projected to be nearly 15 billion tonnes by 2030. Therefore, an urgent need for decoupling economic growth from resources, which can be achieved through a circular economy approach.

• Import dependence: India’s dependence on the international market for accessing critical resources like rare earth minerals etc. due to shrinking reserves, technical constraints etc.

• Waste creation: The traditional linear economy approach results in massive waste generation at all stages of a product life cycle right from resource extraction, processing, value addition, consumption to end of life stage.

Benefits of a Circular Economy

• Fewer Greenhouse Gas Emissions: When it comes to reducing greenhouse gases, a circular economy can be helpful because it uses renewable energy that in the long run is less polluting than fossil fuels.

o A circular economy development path could halve carbon dioxide emissions by 2030, relative to today's levels.

• Fewer Negative Externalities – Following the circular economy's principles, negative externalities such as land use, soil, water and air pollution are better managed, as well as the emission of toxic substances and climate change.

• Increased Potential for Economic Growth: The increase in revenues from new circular activities, together with a cheaper production by getting products and materials more functional and easily disassembled and reused, has the power to increase GDP.

• Employment Growth – According to the 'World Economic Forum ', the development of a circular economy model, can bring greater local employment in entry-level and semiskilled jobs. New job will be created through increases in:

o Recycling and repairing practices,

o An increase in new businesses due to innovation processes and new business models

• Volatility Reduction and Safeguarded Supplies: More recycled inputs would be used, leaving companies less dependent on the volatility of the price of raw materials.

Way Ahead

• Need for Legislation to promote the circular economy in the country. Several countries have recognised the centrality of the circularity as the new paradigm for sustainable development.

• Policies like Zero Effect, Zero Defect in manufacturing stage, National Electricity Mobility Mission Plan in consumption stage, and the various Waste Management Rules in disposal stage, if tweaked properly, can be the ideal for integrating circular economy into the fabric of the Indian economy.

• Ensuring the transition to circular economy call for extensive collaborative efforts between key stakeholders, including regulators, policy makers, corporates, and financial institutions would need to work to adopt circular business models.

• Adequate financing needed for realization of these newer opportunities through innovative financing instruments, such as Green bonds, municipal bonds, SDG-aligned bonds.

Barriers to the implementation of a Circular Economy Model

• Economic Barriers:

o Social and environmental externalities are not considered in prices;

o Prices of raw materials are fickle and at low prices alternative, good quality secondary resources are not competitive;

o These models are harder to develop, as most investors are still working under a linear economy logic.

o Lack of qualified professionals with technical or ICT knowledge.

• Institutional Barriers:

o Many companies still have goals that focus on short-term value creation, whereas the circular economy model is a long-term value creation model.

o The GDP index doesn't consider social and environmental externalities, discouraging the creation of value in both these areas.

16) SMART CITIES MISSION

The number of projects completed under the Smart Cities Mission has witnessed quantum jump of 182% in last one year.

Background

• The Government of India launched the Smart Cities Mission (SCM) in 2015, to improve ease of living of citizens and create cities that are ahead of the curve in decision-making and problem solving.

• Although there is no universal definition of a Smart City, but broadly it can be described as an urban region that is highly advanced in terms of overall infrastructure, sustainable real estate, communications and market viability.

• Its focus is on sustainable and inclusive development and to set examples that can be replicated both within and outside the Smart City, thus catalysing the creation of similar Smart Cities in various regions and parts of the country.

Achievements of the Mission

• Completion of Projects- The number of projects completed has seen a quantum jump of 182% over the last one year. The projects completed have jumped from 318 in June 2018 to 897 in June 2019.

• Establishment of Smart City Centres (SCC)- has already been done in 10 cities such as Ahmedabad, Vadodara, Surat, Pune, Nagpur etc. Various success stories have come up (refer the box).

• Improvement in urban landscape- Impact of SCCs is being felt, especially in five areas such as enhanced quality of services, safety and resilience, inclusiveness in city operations, faster emergency response management, and environmental sustainability.

• Boost to the start up industry- it has provided a fillip to the entrepreneurial spirit of urban residents, thereby increasing employment.

Challenges in the Mission

• Inadequate private participation- At the outset, Smart City Mission had set a target of financing 21% of the total mission cost through private participation. So far, only 15% of the projects under implementation are under public-private partnership (PPP) mode.

• Sources of funding are not clear- While the top 60 cities have reported all their projects and the costs of most projects are stated in the project proposals (94%), but only 17 cities could identify the sources of finance at the level of each project.

• Increasing inequality- The mission has focused on the Area Based Development (ABD) model, where it indirectly incentivizes cities to focus the bulk of their funding on a small portion of the city. Thus, the ABD projects of 99 cities are found to be covering mere 7% of the total area and 80% of the total budget. Such approach creates inequality in and among cities.

• Increasing focus on limited sectors of the Smart City- such as 5 development categories of Transportation, Energy and Ecology, Water and Sanitation, Housing and Economy constitute almost 80% of the SCM budget. Other categories of IT, Governance, Culture and Heritage, and Health and Education constitute only 15% of the funding.

• Re-centralisation of Power- There has been increasing role of the Special Purpose Vehicles (SPV) in the cities, which have encroached the functions of the Urban Local Bodies. Also there is lack of clarity about relationship and hierarchy between the SPV and the municipality.

Way Forward

• The efficacy of SCCs will improve with the integration of more and more services. The aim of the mission should be convergence with other city projects and breaking through the silos of various government departments.

• An enabling environment including governance frameworks, policy protocols, capacities of urban local bodies, and the nature of citizen-government engagement needs to be developed to further improve the urban space.

17) NANDAN NILEKANI-LED PANEL ON DIGITAL PAYMENTS

Nandan Nilekani-led panel on digital payments has submitted its recommendations.

Background:

• The five-member high-level panel headed by Aadhar architect and former Infosys chairman Nilekani was constituted earlier this year by the central bank tasked to submit a comprehensive report holding consultations with all the major stakeholders to strengthen the digital payments industry which has seen a ten-fold growth in the last five years.

Key recommendations:

• Targets: It has set a target for the government and regulators to achieve a ten-fold volume growth in digital payments over the next three years through customer-friendly pricing mechanisms and broadening access infrastructure.

• Measures to increase the outreach: Banks need to ensure that no user is more than 5 kms away from a banking access point and if such areas are found, these must be considered 'shadow areas' and a local vendor be made a banking correspondent (BC) as he deals in money and stays there.

• Measures to less-cash economy: removing transaction charges on digital payments made to government, inducing a competitive Merchant Discount Rates (MDR) pricing structure and easing KYC costs to banks are amongst the key recommendations put forward by the committee.

• Role of the governments: committee has put the onus on government to be at the forefront of the transition by taking steps such as removing transaction charges on all digital payments made by customers to the government. The committee recommends that the Government, being the single largest participant in payments, take the lead on all aspects of digitization of payments.

• Committee has also asked RBI to set an interchange rate for transaction between customers and leave the MDR on competitive market pricing which would reduce the transaction cost for customers.

• Special impetus on digitising mass volume channels such as recurring bill payments, toll and ticket payments at public facilities and digital onboarding of khirana store merchants has also been recommended by the panel in order to achieve the targeted growth.

• The panel has also asked the government to set up special risk mitigation and complaint registering digital portals. A special data monitoring mechanism to garner granular district level data on consumer trends and payment behaviour has also been suggested by the committee for targeted intervention to improve the existing infrastructure.

18) PERIODIC LABOUR FORCE SURVEY (PLFS)

The latest edition of Periodic Labour Force Survey (PLFS) has been released.

Key findings:

• The unemployment rate (UR) in both rural and urban India is at its highest since 1972.

• The unemployment rates among men and women in both rural and urban groups, are also the highest ever. The increase in the UR is more than three times among rural men and more than double among rural women according to the usual status since 2011-12.

• In urban areas, the UR among men is more than twice and has increased twice among women since 201112. It is to be noted that the UR between 1972 and 2012 was almost static or did not have many differences (See Table 1). Besides, the UR rose sharply among youth of ages between 15-29 years and those who got better education.

• The unemployment rates in urban areas are higher than those in rural areas. In rural areas, the UR is 5.3 per cent, whereas in urban areas, the UR is 7.8 per cent according to the usual status. The overall unemployment rate is 6.1 per cent in India according to the usual status. The rural employment rate is 8.5 per cent whereas the urban rate is 9.6 per cent. The overall unemployment rate is 8.9 per cent.

• In urban areas, the unemployment rates for females are higher than those for males.

• The unemployment rate among youth between 15 and 29 years has risen sharply since 2011-12. Among rural males and females, the UR is almost three times since 2011-12, whereas among urban males and females, this rate is more than double.

• The UR has also sharply increased among those who are more educated. Since 2011-12, the UR among rural males has increased by almost three times, from 1.7 per cent to 5.7 per cent. Those who have higher degree of education and those who are completely not-literate have witnessed almost the same level of unemployment.

• Interestingly, unemployment among rural not-literate females has reduced and among urban females, the number of those who are literate up to primary-level jobs, is the same as 2011-12.

• Among social groups, the highest UR is among the 'General' or 'Others' category — 6.7 per cent. This groups is followed by Schedule Castes (6.3 per cent), Other Backward Classes (6 per cent) and Scheduled Tribes (4.3 per cent).

• Among religious groups, Christians have the highest UR in both urban and rural areas. In rural areas, Christians have a UR of 7.4 per cent, Muslims have a UR of 6.5 per cent, Sikhs 6.3 per cent and Hindus 5.2 per cent.

• In urban areas, Christians have a UR of 11 per cent, Sikhs 9.1 per cent, followed by Muslims 8.5 per cent and Hindus 7.6 per cent.

Background:

• The Union Ministry of Statistics and Programme Implementation had constituted PLFS under the chairmanship of Amitabh Kundu. The data was collected by NSSO from July 2017 to June 2018. The survey was spread over 12,773 first-stage sampling units (7,014 villages and 5,759 urban blocks) covering 1,02,113 households (56,108 in rural areas and 46,005 in urban areas) and enumerating 4,33,339 persons (2,46,809 in rural areas and 1,86,530 in urban areas).

19) ECONOMIC CENSUS

The 7th Economic Census -2019 is being conducted by MoSPI to provide disaggregated information on various operational and structural aspects of all establishments in the country.

• Implementing agency: MoSPI has partnered with Common Service Centres, CSC e-Governance Services India Limited, a Special Purpose Vehicle under the MEITY as the implementing agency.

About Economic Censuses:

• Launched in 1976 as a plan scheme.

• Coverage: All entrepreneurial units in the country which are involved in any economic activities of either agricultural or non-agricultural sector which are engaged in production and/or distribution of goods and/or services not for the sole purpose of own consumption.

• Objective: It provides detailed information on operational and other characteristics such as number of establishments, number of persons employed, source of finance, type of ownership etc.

• Significance: This information used for micro level/ decentralized planning and to assess contribution of various sectors of the economy in the gross domestic product (GDP).

• Total Six Economic Censuses (EC) have been conducted till date. First one was conducted in 1977 by CSO.

20) FISCAL PERFORMANCE INDEX (FPI) LAUNCHED BY CII

Confederation of Indian Industry (CII) has launched a Fiscal Performance Index (FPI) to assess state and central budgets.

Components of CII:

• The Index incorporates qualitative assessments of revenue expenditure, capital expenditure, revenues, fiscal prudence and the level of public debt.

Key findings:

• The CII has used this index to analyse state and central budgets from 2004-05 to 2016-17.

• The study found that despite improvement a reduction in the fiscal deficit between FY13 and FY18, the overall performance of the budget has been remained steady with improvements only in FY16 and FY17.

• This is largely due to moderation in the revenue, capital expenditure and and net tax revenues indices.

• The analysis also shows that the combine performance of all state budgets has improved despite worsening of fiscal deficit numbers because of improvements in revenue and capital expenditure indices.

• The study also points out that relatively high income states including Gujarat, Haryana and Maharashtra which are presumed to have good fiscal health because of low fiscal deficit to GDP ratio do not perform well on the composite FPI because of poor expenditure and revenue quality compared to other states.

• Other states including, Madhya Pradesh, Andhra Pradesh, Uttar Pradesh and Bihar have done well on the FPI because of their good performance in revenue and capital expenditure indices.

Need for FPI:

• A single criterion such as the ‘fiscal deficit to GDP ratio’ does not tell us anything about the quality of the Budget. Hence, the Government should use multiple indicators to measure the quality of Budgets at the Central and the State levels rather than a single indicator.

Way ahead- recommendations from CII:

• the government should attempt to broaden the tax base, increase investments in education and healthcare as well as maintenance of assets and well as increase investments in infrastructure, affordable housing and encourage public sector undertakings to also increase capital expenditure by limiting dividends to the government.

21) RBI ISSUES REVISED NORMS TO DEAL WITH STRESSED ASSETS

Following the quashing of its ‘revised framework for resolution of stressed assets’ by the Supreme Court in April, the Reserve Bank of India has issued a ‘prudential framework for resolution of stressed assets’.

Highlights of the latest norms:

• The new framework gives lenders a breather from the one-day default rule whereby they had to draw up an resolution plan (RP) for implementation within 180 days of the first default.

• It gives lenders (scheduled commercial banks, all-India financial institutions and small finance banks) 30 days to review the borrower account on default.

• During this review period, lenders may decide on the resolution strategy, including the nature of the RP and the approach for its implementation.

• Lenders may also choose to initiate legal proceedings for insolvency or recovery.

• The new circular is also applicable to small finance banks and systemically important non-deposit taking nonbanking financial companies (NBFCs) and deposit-taking NBFCs.

• In cases where the RP is to be implemented, all lenders have to enter into an inter-creditor agreement (ICA)for the resolution of stressed assets during the review period to provide for ground rules for finalisation and implementation of the RP in respect of borrowers with credit facilities from more than one lender.

• Under the ICA, any decision agreed to by the lenders representing 75 per cent of total outstanding credit facilities by value and 60 per cent by number will be binding upon all the lenders. In particular, the RPs will provide for payment which will not be less than the liquidation value due to the dissenting lenders.

• In cases where the aggregate exposure of a borrower to lenders (scheduled commercial banks, all-India financial institutions and small finance banks) is ₹2,000 crore and above, the RP has to be implemented within 180 days from the end of the review period, and the reference date has been set as June 7, 2019.

• In the case of borrowers in the ₹1,500 crore and above but less than ₹2,000 crore category, January 1, 2020 has been set as the reference date for implementing the RP. In the less than ₹1,500 crore category, the RBI will announce the reference date in due course.

Additional provisions:

• If the implementation of an RP crosses the stipulated 180 days from the end of the review period, the lenders have to make additional provisions of 20 per cent of the outstanding loan. If this timeline exceeds 365 days, they further have to make a provision of 15 per cent.

• These additional provisions are over and above the provisions already held or the provisions required to be made as per the asset classification status of the borrower account.

What is Inter-Creditor Agreement (ICA)?

• The inter-creditor agreement is aimed at the resolution of loan accounts with a size of ₹50 crore and above that are under the control of a group of lenders. It is part of the “Sashakt” plan approved by the government to address the problem of resolving bad loans.

• The agreement is based on a recommendation by the Sunil Mehta committee that looked into resolution of stressed assets.

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