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Economics –PT Shots

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

MARCH 2018

1. **NUTRIENT BASED SUBSIDY SCHEME**
   - Recently, government has approved the continuation of Nutrient Based Subsidy (NBS) till 2019-20.
   - **About Nutrient Based Subsidy Scheme (NBS)**

• Under this scheme a fixed amount of subsidy decided on annual basis, is provided to fertilizer companies (other than Urea) depending on its nutrient content to fertilizer manufacturer.

• Under this scheme Minimum Retail Price (MRP) of Phosphatic & Potassic (P&K) fertilizers has been left open and the manufacturers/importers/marketers are allowed to fix MRP of P&K fertilizers at reasonable level.

• MRP will be decided taking into account the international and domestic prices of P&K fertilizers, exchange rate, and inventory level in the country.

• The scheme aims:

o to ensure that adequate quantity of P&K is made available to the farmers at statutory controlled price.

o to ensure balanced use of fertilizers, improve agriculture productivity, promote growth of indigenous fertilizer industry and to reduce the burden of subsidy.

- **Issues involved and solutions**

• Roadmap: There was no clear roadmap in front of government to achieve the NBS objectives which resulted in failure of the policy in checking the imbalanced use of fertilizers. Specific well-coordinated measures with quantifiable deliverables and specific timelines need to be formulated.

• Monitoring mechanism: There is no monitoring mechanism in the department of fertilizers (DoF) to ensure prices fixed by fertilizer companies are based on their reasonable cost of production.

• There is absence of price fixation benchmark at a reasonable level for import of DAP (di-ammonium phosphate) fertilizer, which delays finalization of contracts between international suppliers and domestic fertilizer companies.

• High canalisation of urea import (fertiliser companies have to import it through only three agencies such as: State Trading Corporation, MMTC and Indian Potash Ltd.) often leads to mismatch in demand and supply of urea for the industry. Thus, de-canalisation needs to be done to allow fertiliser supply to respond flexibly and quickly to changes in demand.

• Distorted consumption pattern: underpricing of urea relative to other fertilisers, especially P&K, encourages distorted consumption pattern and unscientific use of it, resulting in significant environmental degradation, including depleted soil quality.

o Thus, subsidies should be rationalized along with dedicated awareness generation in farmers regarding the benefits of balanced usage of fertilizers. Also, modelling the fertilizer proportion according to different agro-climatic regions, is needed for the better growth and health of crops and soil.

• Fiscal state: Fertiliser accounts for large fiscal subsidies (about 0.73 lakh crore or 0.5 percent of GDP), the second highest after food and only 35% of total subsidy reaches the intended beneficiaries.

2. **FERTILISER SUBSIDY**

- DBT scheme has been approved by cabinet for fertiliser subsidy payment across India
- The Cabinet Committee on Economic Affairs (chaired by PM) has approved continuation of Urea Subsidy Scheme upto 2019-20 and there will be no increase in price of urea, till 2020.
- **Details of the DBT scheme in Fertilser**

• DBT would entail 100% payment to fertilizer companies on sale of fertilizers to farmers at subsidized rates.

a. Hence, the DBT model for fertilizers is slightly different from other schemes such as LPG, in which the ultimate consumer gets the entitlement in their bank account. PAHAL was the first actual roll-out of a scheme using the DBT approach for providing subsidies.

• At the time of the sale, details of the buyer, the quantity purchased, Aadhaar number, land records (wherever available) and soil health will be captured using a point-of-sale machine.

- **Urea Subsidy Scheme**

• Urea Subsidy is a part of Central Sector Scheme (wholly financed by the GoI).

• The continuation of Urea Subsidy Scheme till 2020 will ensure the timely payment of subsidy to the urea manufacturers resulting in timely availability of urea to farmers.

• Urea subsidy also includes Imported Urea subsidy which is directed towards import to bridge the gap between assessed demand and indigenous production of urea in the country.

• It also includes freight subsidy for movement of urea across the country.

• This is in continuation to farmer-friendly policies of the Central Government such as:

o 100% Neem Coated Urea was made mandatory in 2015 to plug the diversion of the subsidized Urea towards non-agricultural purposes.

o Decision to bag Urea in 45kg bags to help reduce the cost of fertilizers to the farmers.

o Notification of New Urea Policy, 2015:

✓ maximize indigenous urea production through setting up of new units and revival of old ones.

✓ promoting energy efficiency in urea production

✓ rationalizing subsidy burden on the government

- **Benefits of DBT in Fertiliser:**

• It is a beneficiary driven subsidy payment scheme.

• It creates Aadhaar seeded database of beneficiaries and provides transaction visibility at the level of buyers.

• It facilitates a more transparent and faster tracking of funds along the value chain i.e. from manufacturer to beneficiaries.

• It minimises diversion of fertiliser for commercial use.
• It generates data on the usage of the nutrients to help farmers

- **Challenges of DBT in Fertliser:**

• During peak seasons, taking biometric authentication of each individual will cause unnecessary delays (biometric mismatch, authentication failure, internet connectivity, etc.) or the retailer may resort to 'adjusted transaction' (registers all sales of the day on few Aadhaar numbers). There should be a faster check-out mechanism such as advanced-booking system.
• There is need for effective communication so that farmers are not overcharged.
• There should be an effective Grievance Redressal mechanism.

3. **INTEGRATED MANAGEMENT OF PUBLIC DISTRIBUTION SYSTEM**
    - IM-PDS is new central sector scheme that has been approved for implementation under Ministry of Consumer Affairs, Food & Public Distribution
    - **About IM-PDS**

• The key objectives of the scheme are
o to integrate PDS system/portals of States/UTs with Central System/portals,
o Introduction of National Portability: provide the option to PDS beneficiaries to lift their entitled food grains from the Fair Price Shops (FPS) of their choice at the national level. Presently, Andhra Pradesh, Haryana, Delhi has started portability at the State level, whereas, Karnataka, Maharashtra, Chhattisgarh and Telangana have also started portability in the few FPS areas within the State.
o De-duplication of ration cards/beneficiary
• It will bring more transparency and efficiency in distribution of food grains.

4. **CITY COMPOST SCHEME**
    - Recently, government has approved the continuation of City Compost Scheme till 2019-20.
    - **About City Compost Scheme**

• Market Development Assistance- under the scheme a market development assistance of Rs. 1500 per tonne of city compost for scaling up production and consumption of the product, is being provided.
• Marketing: Fertilizer companies and marketing entities will also co-market City Compost with chemical fertilizers through their dealers' network.
• Under the provision of adoption, companies also adopt villages for promoting the use of compost.
• An appropriate BIS standard/ Eco-Mark ensures that environment friendly quality product reaches the farmers.

- **About Compost**

• Composting is nature's way of recycling. Composting biodegrades organic waste. i.e. food waste, manure, leaves, grass trimmings, paper, wood, feathers, crop residue etc., and turns it into a valuable organic fertilizer.
• Finished compost can be classified as a 100% organic fertilizer containing primary nutrients as well as trace minerals, humus and humic acids, in a slow release form.

5. **EDIBLE OIL EXPORT**
    - Recently, Cabinet Committee on Economic Affairs (CCEA) removed the decades-old ban on export of bulk edible oils, except mustard oil.

- **More on News**

• Moreover, mustard oil will continue to be exported only in consumer packs up-to 5 kgs and with a minimum export price of $900 per tonne.
• At present, only certain edible oils were allowed to be exported in bulk and other oils only in 5 kg packs.

- **Background**

• India's vegetable oil economy is world's fourth largest after USA, China and Brazil.
• The oilseed accounts for 13% of the gross cropped area, 3% of the Gross National Product and 10% value of all agricultural commodities
• Major oils produced in the country include mustard oil, cottonseed oil, soya-bean oil and groundnut oil.

- **Arguments in favor**

• It will support growing production of oilseeds and would explore additional avenues for marketing of edible oils.
• It may also result in utilization of idle capacity in India's edible oils industry and is a step towards Ease of Doing Business.
• As much as liberal imports are necessary to support consumers, exports are critical to support domestic growers.
• It would be step toward progressive foreign trade policy in which both export and import windows are kept open. Counter Arguments
• Domestic production is already low because acreage under oilseeds also remained lower this kharif season due to falling prices in the spot market throughout last year.
• Country's annual edible oil demand stands at nearly 22 million tonnes and is growing by 3% to 4% per year. India meets only about 40% of its total edible oil demand.
• Mills prefer to import refined oil for blending directly with the oil of their choice for repacking and distribution for local consumption.

- **Conclusion:** To ensure that local market is not affected much and lowering the need of imports in wake of increased exports, the focus should be on improving oilseeds production. It can be done through • ensuring the availability of quality seeds by increasing investment in oilseeds R&D and developing new location-specific high yielding varieties.

• bridging the awareness gap in farmers regarding better techniques and effective agricultural extension system.
• developing supportive infrastructure facilities.
• ensuring an efficiently managed market for better price recovery.

6. **CHANGES IN PRIORITY SECTOR LENDING**

- The Reserve Bank of India (RBI) has revised certain priority sector lending targets & classification
- **Changes made**

• From FY 2018-19 the foreign banks with 20 branches and above will have to ensure that:
o minimum 8% of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure (CEOBE), whichever is higher, is earmarked for lending to the small and marginal farmers.
o minimum 7.5 per cent of ANBC or CEOBE, whichever is higher, is earmarked for lending to microenterprises.
• The loan limits per borrower for Micro/ Small and Medium Enterprises (Services) has been

removed for classification under priority sector. Now all bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, shall qualify under priority sector without any credit cap.

- **Impact**

• This will create a level playing field within banks.

• It will increase credit flow to these sections thereby promoting growth.

• The removal of loan limits under the MSME could help PSU banks meet their target better as higher-value loans to MSMEs could qualify as priority sector and earn them better returns.

- **Priority Sector Lending**: A brief What is Priority Sector Lending (PSL)? Lending by a commercial bank for certain sectors which are identified as "priority sector" by the central bank (Reserve Bank of India) is called as priority sector lending.

• Banks having any shortfall in lending to priority sector have to contribute to the Rural Infrastructure Development Fund (RIDF) established with Nabard and other specified funds.

- **Categories under priority sector include**

• Agriculture (include three sub-categories viz. Farm credit, Agriculture infrastructure and Ancillary activities.)

• Micro, Small and Medium Enterprises;

• Export Credit;

• Education;

• Housing;

• Social Infrastructure (include activities namely schools, health care facilities, drinking water facilities and sanitation facilities);

• Renewable Energy (include like solar based power generators, biomass-based power generators, wind mills, micro hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification); and

• Others

- **What is included under Weaker Sections under priority sector?**

This include Small and Marginal Farmers, Distressed farmers indebted to non-institutional lenders, Artisans, village and cottage industries, SCs and STs, SHGs, Persons with disabilities, women, Minority communities as notified by Government of India etc.

- **Priority Sector Lending Certificates (PSLCs)**

• Priority Sector Lending Certificates (PSLCs) are a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall.

• This also incentivizes surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under priority sector.

• Under the PSLC mechanism, the seller sells fulfilment of priority sector obligation and the buyer buys the obligation with no transfer of risk or loan assets.

7. <u>NATIONAL FINANCIAL REPORTING AUTHORITY</u>

- Recently, Union Cabinet approved establishment of National Financial Reporting Authority, a key recommendation under the Companies Act 2013.

- **National Financial Reporting Authority (NFRA)**

• It will be established as an independent regulator to oversee the auditing profession and accounting standards with jurisdiction extending to all listed companies and large unlisted companies.

o ICAI under the Chartered Accountants Act, 1949 shall continue to audit smaller unlisted companies.

o Quality Review Board will also continue quality audit in respect of private limited companies, public unlisted companies and also with respect to audit of those companies delegated by NFRA.

• It will have the power to investigate Chartered Accountants and their companies either suo motu or on a reference for any misconduct.

• If professional or other misconduct is proved,

o it can impose a penalty of not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals and not less than ten lakh rupees, but which may extend to ten times of the fees received, in case of firms

o It can also debar an auditor for 6 months to maximum 10 years.

• NFRA will have the same powers as of a Civil Court while trying a suit.

• It would enhance investor and public confidence in financial disclosure of companies and assist in further development of audit profession.

8. **<u>NITI AAYOG PANEL ON GOLD MARKET</u>**

- Recently, NITI Aayog panel, headed by Ratan P Watal, proposed a more liberalised approach toward the gold market.
- **Proposed recommendations**

• Target - To increase its contribution to the gross domestic product (GDP) to 3 per cent by 2022.

• On Tax - a sharp cut in all taxes on the gold business, including import duty and goods and services tax (GST) is needed.

• On Institution - setting up a Gold Board with statutory powers as a single-window agency to resolve all issues and for export promotion there should be gold domestic council in line with export promotion council.

• On Gold Monetisation Scheme (GMS) -

o Reducing minimum quantity of gold to be offered by customers under the GMS.

o Link gold metal loans with international lease rates.

o Temples should hold gold in prescribed limit and deposit rest under GMS.

• Replace sovereign gold bonds (SGB) with gold saving accounts and the gold investment in rupee terms in proposed savings accounts should be backed by physical gold lying with Indian households.

• It proposed a liberal PAN (permanent account number) limit and a new limit for providing data to respective organisation under the Prevention of Money Laundering Act.

• Others - promoting gold mining, responsible sourcing and good delivery of unrefined gold, making Indian standards for gold refined by Indian refineries etc.

- **Gold related schemes**

• **Gold Monetisation Scheme**

o A revamped version of an older Gold Deposit Scheme—to make idle gold productive, by getting consumers to either sell their gold or store it with banks.

o Its aim is to merge the gold into the formal economy and reduce the country's gold imports.

o Only Resident Indians (Individuals, HUF, Trusts including Mutual Funds/Exchange Traded Funds registered under SEBI (Mutual Fund) Regulations and Companies) can make deposits under the scheme, either individually or jointly.

• **Sovereign Gold Bond Scheme:**

o SGBs are government securities denominated in grams of gold issued by RBI.

o They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity.

o The Bond is issued by Reserve Bank on behalf of Government of India.

o SGBs carry a fixed interest rate and only resident Indian can invest in minimum 1g and maximum of 500g per year. Later, this limit of 500g was modified and raised to 4 kg for individuals, 4 Kg for Hindu Undivided Family (HUF) and 20 Kg for Trusts and similar entities notified by the Centre.

• **Gold Coin/ Bullion Scheme**

o It is a part of Gold Monetisation Programme.

o Initially the coins will be available in denominations of 5 grams and 10 gm. A 20-gm gold bar will also be available through 125 MMTC outlets across the country.

o Coins have anti-counterfeit features and tamper proof packaging. • **Measures announced in Budget 2018-19**

o The Government will formulate a comprehensive Gold Policy to develop gold as an asset class.

o The Government will also establish a consumer friendly and trade efficient system of regulated gold exchanges in the country.

o Gold Monetization Scheme will be revamped to enable people to open a hassle-free Gold Deposit Account

9. NATIONAL E-MOBILITY PROGRAMME

- Recently, Minister of Power has launched National E-Mobility Programme in India.
- **About the Programme**

• Aim: To provide an impetus to the entire e-mobility ecosystem including vehicle manufacturers, charging infrastructure companies, fleet operators, service providers, etc.

• Programme will be implemented by Energy Efficiency Services Limited (EESL).

• Under it, Electric Vehicles (EVs) will be procured by EESL in bulk to increase aggregate demand and ensure economies of scale.

- **Significance**

• Make in India: Adoption of EVs will promote indigenous production of e-vehicles and create a booming market for ancillary industries which will further give fillip to employment generation.

• Environment friendly: India is expected to save over 5 crore litres of fuel every year leading to a reduction of over 5.6 lakh tonnes of annual CO_2 emission with 20,000 EVs on road.

• Foreign Exchange Saving: EVs help us achieve autonomy from expensive petroleum imports as cost for an electric car is just 85 paisa/km against Rs 6.5/km for normal cars.

• Aligned with the Government's vision of 100 per cent e-mobility by 2030.

- **Way Forward**

• Framing policy for electric vehicle charging infrastructure to consider charging of e-vehicles as a service (no need of license for charging station).

• Dedicated ministry for Automobile Sector on the lines of Aviation, as it employs 7% of our working age population and contributes to 49% of our manufacturing GDP

10. NORTH-EAST INDUSTRIAL DEVELOPMENT SCHEME (NEIDS) 2017

- Recently, Union Cabinet approved the North East Industrial Development Scheme (NEIDS) 2017 up to March 2020.
- **More about scheme**

• Objective: To promote employment in the North East States including Sikkim, the government is incentivizing primarily the MSME Sector through this scheme

• Various specific incentives given under the scheme includes incentive on capital investment in Plant & Machinery; interest incentive on credit; reimbursement of insurance premium to the tune of 100% for 5 years; reimbursement of central government share of GST and income tax; transport incentive and employment incentive through part contribution to EPF.

• There is an overall cap of Rs. 200 crores per units for all components of incentives.

11. CORPORATE SOCIAL RESPONSIBILITY (CSR)

- Recently, Ministry of Corporate Affairs has decided to put in place a centralized system to keep a tab on entities' compliance with CSR obligations in the backdrop of non-compliance to CSR by one-third of firms on the S&P BSE 100 list.
- **More on news**

• Activities that witnessed rise in CSR expenditure included promotion of education, vocational skill development, environmental sustainability, gender equality, national heritage, slum development, community development, infrastructure, social welfare, welfare of armed forces veterans, war widows and their dependents.

• Activities that witnessed a dip in CSR expenditure included eradication of hunger and poverty, promotion of healthcare and sanitation, the contribution towards the Prime Minister's National Relief Fund.

• Industrialized states with large corporate presence such as Maharashtra, Gujarat, Karnataka and Tamil Nadu top the list of highest recipients of CSR expenditure by India Inc. However, Maharashtra followed by Daman & Diu and Odisha witnessed the biggest increase

- **About Corporate Social Responsibility**

• Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

• The corporate firms utilize valuable resources from the society in the form of raw materials etc. for their operations, so the firms must give back something for the welfare of the society.

• Section 135 of the Companies Act, 2013 which contains CSR provisions is applicable to companies

o with an annual turnover of INR 1,000 crore and more,

o or a net worth of INR 500 crore and more,

o or a net profit of five crore INR and more.

• The Act mandates companies to spend at least 2% of their average net profit in the previous three years on CSR activities.

• Schedule VII of the Act contains the list of activities which a firm can take up.

- **Benefits of a Robust CSR Programme for a Company**

• Gaining of trust of communities

• Attracting and retaining employees

• Enhancing corporate reputation and brand building

• Attract investors as they include ethics as part of their assessment while investing

• Increased profitability as ethical conduct exerts a growing influence on purchasing decisions of customers.

- **Few Challenges in CSR**

• Lack of robust policy: Lack of capability in many firms to formulate a long-term robust CSR policy leads to failure in giving definitive directions to CSR spending

• Disconnect with local requirements: A disconnect can be seen in what the requirements on the ground are and what the companies are allocating money towards. There is non-availability of well-organized NGOs in remote and rural areas that can assess and identify real needs of the community.

• Ease of implementation as basis: Many CSR efforts are driven purely by the company's operational perspectives and ease of implementation of their CSR projects.

• Duplication of activities by different corporate houses which results in competitive approach rather than collaborative approach.

• Lack of awareness in local communities about CSR: There is a lack of trust and interest of the local community in participating and contributing to CSR activities of companies. In fact, all stakeholders need to be involved including government, NGO, local agencies, community as well as private sector

• Lack of focus on rural areas: Many CSR initiatives and programs are taken up in urban areas and localities leaving the needy and the poor in the rural areas out from benefits of CSR.

• Inadequate monitoring: There is lack of an independent agency which can monitor and accreditate CSR efforts.

- **Anil Baijal Committee Recommendations** It was constituted to suggest measures for improved monitoring of implementation of CSR policies by companies.
- **Major Recommendations-**

• The rationale behind CSR legislation is not to generate financial resources but to use corporate innovative ideas and management skills in the delivery of 'public goods.

• There should be two models of implementation strategies for CSR: for companies having more than INR 5 crore CSR outlay; for companies having less than INR 5 crore CSR outlay.

• No additional mechanism for monitoring of CSR is required as the Board and CSR Committee are accountable for their own shareholders and public at large.

• Annual awards for incentivizing companies to take up CSR activities be set up – one each for the two categories of companies, large and small.

12. <u>CORPORATE GOVERNANCE NORMS</u>

- SEBI accepted about half the suggestions made by Uday Kotak panel constituted by SEBI in 2017 to improve corporate governance.
- **Details**

• Governance norms for Indian listed companies are set out in the Companies Act and Listing Obligations and Disclosure Requirement Regulations of 2015 of SEBI.

• SEBI constituted a series of committees — Kumar Mangalam Birla Committee in 2000, Narayana Murthy Committee in 2003 and Adi Godrej Committee in 2012 — to come up with more elaborate governance norms for India Inc.

• Later Uday Kotak committee was appointed to review reforms on whose recommendations SEBI has approved changes in the norms.

- **Key Recommendations of the Kotak Committee approved by SEBI:**

• Increasing Transparency -Enhanced Disclosure Requirements such as:

o Full disclosure of utilization of funds raised through Preferential Allotment and QIPs.

o Disclosures of Auditor Credentials, Audit Fee, Reasons for Resignation of Auditors

o Disclosure of Expertise/Skills of Directors and Enhanced Disclosure of Related Party Transactions (RPT) to enhance accountability.

• Reshaping the Institution of the Board of Directors and Enhancing the Role of Committees of the Board through:

o Separation of the office of the chairperson (i.e. the leader of the board) and CEO/MD (i.e. the leader of the management) by Top 500 listed companies.

o Augmenting board strength and diversity by having minimum of 6 directors on the boards of Top 1000 listed companies by 1 April 2019 and Top 2000 companies by 1 April 2020.

o Also, top 500 listed entities (by market capitalization) and the top 1000 listed entities have to have a minimum of one-woman independent director by April 1, 2019 and April 1, 2020 respectively.

o Quorum of the board of directors will be one-third of the total strength of the board of directors

o Capping the Maximum Number of Directorships for a person to 8. • Levelling the playing field in Algorithmic Trading for all investors:

o Stock exchanges would be allowed to introduce shared colocation services to reduce the cost for trading members

o Free tick-by-tick data feed for all the trading members

• Enhanced Role of committees

o Audit Committee will have to review the utilization of loans and/or advances from/investment by the holding company in the subsidiary exceeding Rs 100 crore or 10 percent of the asset size of the subsidiary, whichever is lower

o Role of Nomination and Remuneration Committee which recommends appointment and removal of the senior management has been expanded.

o Risk Management Committee shall now specifically cover cyber security.

• Down-streaming Corporate Governance in case of complex corporate structures with multiple subsidiaries through enhanced Obligations and mandatory secretarial audits for Listed Entities with Respect to Subsidiaries.

• Increase requirements for Shareholder Participation and Involvement by making the approval of minority shareholder mandatory for payments to related parties exceeding 2% of revenue.

- **Significance**

• The approved changes to corporate governance norms are aimed towards aligning corporate governance standards to global best practices.

• It will help in reducing the risks of promoter-raj at the cost of minority shareholders in Indian corporate sector.

• The recommendations, such as the enhanced disclosure requirements, will help reducing information asymmetry between the managers of a company and its shareholders.

- However, there are concerns that smaller listed entities have been precluded from such compliance requirements as well as compliance burden would increase on listed companies.

- **Issues with Corporate Governance in India**

• Nepotism in board appointments

• Lack of effectiveness and transparency in performance appraisal of directors.

• The Independent directors in India have either played a passive role or they can be removed easily if they do not side with promoters.

• Entire boards are not often present at general meetings for stakeholders to ask questions from them.

• Executive Compensation policies are not transparent and do not require shareholders' approval.

• Family owned Indian companies have excessive controls and poor succession planning.

• Unrealistic risk assessment policies.

• Inadequate emphasis on privacy and data protection, cyber security.

• Lack of serious effort by board towards Corporate Social Responsibility (CSR) projects.

13. MUNICIPAL BONDS

- Ministry of Housing and Urban Affairs has decided to provide incentive to ULBs covered under AMRUT for Issuance of Municipal Bonds.
- **More on news**

• The ministry will incentivise up to 10 Urban Local bodies (ULBs) for up to a maximum of 26 crores.

• The amount will be paid in one lump sum in the escrow account opened by ULB for the concerned purpose.

• The bonds issued will be taxable municipal bonds and not green bonds.

- **Need for Municipal Bonds**

• Improving urban infrastructure: A High Powered Expert Committee (HPEC) on Urban Infrastructure estimated a requirement of Rs 3.92 million crores to provide urban services conforming to national benchmarks for urban infrastructure over a period 2012-31.

• Alternative source of finance: It may help corporations in raising funds without looking to State grants or agencies such as World Bank. Also, rating agency CARE estimates that large municipalities in India could raise Rs. 1,000 to Rs. 1,500 crore every year considering municipal bond markets in US and China touch around $3.7 trillion and in China $187 billion.

• Attracting institutional investors: They may ensure participation of large institutional investors such as pension funds and insurance companies by providing less risky avenues of investments to them.

- **Challenges for Municipal Bond Market in India**

• Issues with municipal bond: They are relatively illiquid instruments due to absence of secondary market for them which results in investors having to hold municipal bonds until maturity. o Also, PFRDA classify municipal bonds as Class C instruments instead of Class G (Government securities) making them compete with other Class C instruments which have higher yields thus making municipal bonds unattractive.

• Credit worthiness: Earlier 94 cities which are part of Smart City Mission and Atal Mission for Rejuvenation and Urban Transformation (AMRUT), were rated by agencies such as CRISIL. Out of 94, 55 cities got investment grade rating (BBB- and above), while other 39 were rated below BBB-. Reasons affecting credit worthiness include:

o Thirteenth finance Commission data reflected that the municipal tax to GDP ratio is a meagre 0.5 per cent as compared to central tax to GDP ratio at 12 per cent.

o Dependence of Municipal bodies for funds and unpredictability of transfers from State governments to ULBs impact the outlook of financial position of ULBs.

• Except in a few big ULBs the budgeting and accounting systems of ULBs still lack transparency which leaves scope for misappropriation of assets and misleading picture of income and expenditure of ULBs.

• The absence of buoyant sources of revenues for ULBs in the past has increased their reluctance to borrow in future.

• There may be increased cases of default when the debts on Municipalities increase too much as is happening in china currently.

• Further there are no insolvency and bankruptcy laws and security enforcement laws applicable against municipalities unlike corporate sector.

- **Other Suggestions**

• Increasing the marketability of the bonds by bringing them under EEE category (Where the initial investment, the interest earned and the maturity amount are all exempted from taxation) so that retail investors can be brought into the market.

• Corporate Bonds and Securitisation Advisory Committee of SEBI had recommended for providing tax free status to municipal bonds charging an interest higher than 8% as well. At present, only bonds carrying interest rate upto maximum 8% per annum are eligible for this

• Need to encourage establishment of bond markets:

o Structuring of bonds by securitizing revenues such as property tax collections through an escrow mechanism to help 'A'-rated ULBs (urban local bodies) get a credit enhancement and access to the capital market.

o SEBI has also suggested a Pooled mechanism to float bonds which can help lower rated urban local bodies to come together and issue bonds.

o Creating a secondary market for bond trading to tap long-term savings and allowing households or institutions to sell their long-term bonds before maturity.

• Municipal bonds could be given the status of 'public securities' so that they become admissible for statutory liquidity ratio (SLR) investment by commercial banks.

• Further urban infrastructure can be made part of priority sector lending to increase the demand for municipal bonds from institutional investors.

• Introduction of a debt recovery and bankruptcy law applicable to urban entities

• Improving transparency and disclosure norms to increase investor confidence by disclosing information regarding the management, administration, projects, revenue generation, risk factors etc. to the public along with the future revenue generating capacity of the ULB.

• Structural reforms at the governance level must also be undertaken to equip municipalities with the technical and financial expertise to generate adequate credit worthy municipal finance opportunities.

• There is also a need to empower political executives in charge in municipalities and ideas such as directly elected mayors needs to be seriously considered.

• Other reforms such as realistic user charges and fees for municipal service, increase in property taxes must also be implemented to complement fiscal devolution and boost their capacity for issuance of bonds.

14. PRADHAN MANTRI ROZGAR PROTSAHAN YOJANA (PMRPY)

- The scope of PMRPY under Ministry of Labour & Employment has been enhanced by the cabinet.
- **About PMRPY**

• The scheme is active since 2016 and has been designed to incentivise employers for generation of new employment.

• Under the scheme, the government provided 8.33% of the contribution of Employers to the Employees' Pension Scheme (EPS) (12% in case of textile, leather and footwear industry) in respect of new employees (who have joined on or after 1st April 2016) having a new Universal Account Number (UAN), with salary up to Rs 15,000/- per month.

• The scheme has a dual benefit as the employers are incentivized for increasing the employment base of workers in the establishments and a large number of workers also find jobs and access to social security.

• All establishments registered with Employees' Provident Fund Organisation (EPFO) can apply for availing benefits under the scheme. The establishments must have a valid LIN (Labour Identification Number).

- **What is new?**

• The GoI will now contribute the employer's full admissible contribution (12%) for the first three years from the date of registration of the new employee, and for all the sectors including existing beneficiaries for their remaining period of three years.

• Now the informal sector workers would also get social safety net and there would be more job creation.

15. ENERGY TRANSITION INDEX

- Recently, energy Transition index was released by World Economic Forum.
- **About Energy Transition Index (ETI)**

• It is a part of first edition of the Fostering Effective Energy Transition Report which builds upon previous series of Global Energy Architecture Performance Index.

• It ranks countries on how well they are able to balance energy security and access with environmental sustainability and affordability.

• It is a composite index that focuses on tracking specific indicators to measure the energy system performance and transition readiness of 114 countries. The score varies from 0-100%.

- **Major Findings of the Index**

• India has been ranked at 78th position which is lower than Brazil and China.

• Although report recognizes India's bold measures to improve energy access, energy efficiency and deployment of renewable sources of energy, it notes that energy transition in the country will require large investments and an enabling environment and robust regulatory frameworks.

• The index has been topped by Sweden followed by Norway and Switzerland.

• Over the last five years, more than 80% countries have improved their energy systems however more efforts are needed to resolve the world energy challenges.

16. Draft Policy Seeks Stable Regime for Agriculture Exports

- The commerce ministry has drafted National Agriculture Trade Policy to help India realise the government's goal of doubling farmer's income by 2022.

- In agri-export, the inefficiencies are many else India's total agri-exports would have been far higher than $30 billion annually, which is around 2.2% of global agri-markets.
- **Features of The Policy**

☐ Doubling farm export: The aims of India's agri export policy are to become one of the top ten exporters of agricultural produce and to strive to double India's share in the global exports of agri produce from the present figure of over $30 billion to over $60 billion by 2022.

☐ Strategic and operational recommendations: The policy recommendations in the draft are organised in two broad categories i.e. strategic and operational. The strategic recommendations include policy measures, infrastructure and logistics, approach to boost exports and greater involvement of state governments in agri exports. While the operational focus includes clusters, promoting value added exports, marketing and promotion of produce of India, infrastructure and logistics to support agricultural exports, the establishment of a strong quality regime, self-sufficiency and export-centric production, research and development (R&D).

☐ Selection of crops for agri export: The effort of the agri export policy would be to analyze top agricultural commodities and products on the bases of current global and Indian trade. Each commodity would be studied in detail based on five key criteria namely global trade, five-year impact potential, India's current competitiveness, scope for value addition and future market potential. The effort would be to shortlist about ten commodities as focus commodities for specific farm, infrastructure and market intervention.

☐ Focus of the policy: The draft policy also pitches for high-value and value-added agricultural exports, focusing on perishables, apart from setting up an institutional mechanism to deal with barriers to market access and sanitary and phytosanitary issues.

☐ Ambit of the policy: Also, the policy is aimed at providing an assurance that processed agricultural products and all kinds of organic products will not be brought under the ambit of any kind of export restrictions, including the imposition of minimum export price, export duty and an outright ban.

☐ Non-interference: The draft National agriculture trade policy has sought a stable trade policy regime with limited government interference for key farm items including the politically sensitive onion and pulses.

☐ Role of States: It has advocated greater involvement of states, improvement in infrastructure and logistics and promotion of R&D activities for new product development for the upcoming markets as essential ingredients of the renewed push to farm exports. It wants all DGFT field offices, Export Promotion Councils, Commodity Boards and Industry Associations to act as advocacy forum for reform by all the states. The policy also wants the State Governments to remove perishables from their APMC Act.

☐ Reform APMC, Land leasing, mandi fee: Reforms in APMC Act, streamlining of mandi fee and liberalization of land leasing norms are among the raft of measures suggested in the draft policy.

☐ Contract farming: The policy made a strong case for promoting contract farming as it would help in attracting investments.

☐ Regulatory body: It also said that as global bodies like US FDA and European Food Safety Authority are empowered to frame, regulate and implement policies related to both agricultural production and trade and it may be worthwhile to explore such arrangement in India as well.

☐ Collaboration between Industry and research organisation: The draft policy also said that there is a need to ensure greater interaction between the various research organisations and industry bodies which will enable the research bodies to work on industry specific requirements.

- **Analysis**

☐ Current problem: The biggest bottleneck where India's agri-exports are concerned has been the arbitrary policy framework; governments have been prone to clamping down on exports of one product or another depending on what is politically expedient at the time.

☐ Limited focus of the policy: But the blueprint for doubling India's agri-exports promises free exports only for processed agri-products and all organic products. Exports of other products would be restricted. The draft policy paper notes that those products considered to be 'essential from a food security perspective' will be subject to restrictions. One assumes, therefore, commodities such as rice, wheat, sugar, pulses and vegetables would all be considered essential.

☐ Lack of basic infrastructure: There may be big potential to increase exports in areas such as marine products but before entrepreneurs commit to big investments, they need to be assured of some basic infrastructure facilities.

- **Way Forward**

☐ The new draft export policy issued by the ministry is an ambitious one but it will be a daunting challenge to implement. Such challenge includes low farm productivity, poor infrastructure, global price volatility and market access. These need to be resolved with the combined efforts of state and central government.

☐ At a policy level, the government must have a hands-off approach like it does for the IT sector. An investment of just 5250 crores in aquaculture for instance can yield additional exports of 36,400 crore per annum.

☐ The policy should also attempt to encourage export of value-added products. It can generate employment and earn more foreign exchange through domestic processing and value addition.

☐ Outdated concepts like minimum export price and minimum import price must be done away with. These restrictions distort the market and lend themselves to invoice manipulation by unscrupulous traders. Imposing and changing the rate of customs duty is the best way to regulate foreign trade.

17. <u>Mega food park</u>

- Greentech Mega Food Park Private Ltd, first mega food park in Rajasthan, was recently inaugurated at Roopangarh Village in Ajmer.
- The Park has been set up at a cost of Rs 113.57 crore and will benefit around 25,000 farmers in this as well as neighbouring districts.
- **About Mega Food Parks:** Ministry of Food Processing Industries is implementing Mega Food Park Scheme in the country.

☐ The Scheme of Mega Food Park aims at providing a mechanism to link agricultural production to the market by bringing together farmers, processors and retailers so as to ensure maximizing value addition, minimizing wastages, increasing farmers' income and creating employment opportunities particularly in rural sector.

☐ These food parks give a major boost to the food processing sector by adding value and reducing food wastage at each stage of the supply chain with particular focus on perishables.

☐ A maximum grant of R50 crore is given for setting up MFP, in minimum 50 acres of contiguous land with only 50% contribution to the total project cost.

- **Mode of operation:**

☐ The Scheme has a cluster-based approach based on a hub and spokes model. It includes creation of infrastructure for primary processing and storage near the farm in the form of Primary Processing Centres (PPCs) and Collection Centres (CCs) and common facilities and enabling infrastructure at Central Processing Centre (CPC).

☐ The PPCs are meant for functioning as a link between the producers and processors for supply of raw material to the Central Processing Centres.

☐ CPC has need based core processing facilities and basic enabling infrastructure to be used by the food processing unit's setup at the CPC. The minimum area required for a CPC is 50 acres.

☐ The scheme is demand-driven and would facilitate food processing units to meet environmental, safety and social standards.

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- **Facts for Prelims:**

☐ India's first mega food park 'Srini Mega Food Park', sprawling 147-acre space, was opened in Chittoor in Andhra Pradesh in 2012.

18. <u>Sukhad Yatra App</u>

- The government has launched Sukhad Yatra App.
- **About Sukhad Yatra App:**

☐ Sukhad Yatra mobile application has been prepared by National Highways Authority of India, NHAI, to empower the Highway user.

☐ The key feature of the app includes provision for the user to enter road quality related information or to report any accident or pothole on the highway.

☐ It also provides users with real-time data related to waiting time expected at Plazas and various facilities like points of interest, highway nest/nest mini, etc., available across the highway.

☐ The app can also be used by the users to purchase the FASTag tag and further facilitate the highway user experience.

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All the Best

Jai Hind ☺