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

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1) STEEL SCRAP RECYCLING POLICY

Recently, Ministry of Steel issued the Steel Scrap Recycling Policy.

Need of steel scrap recycling policy

• Useful waste: Steel scrap is a recyclable material left- over from steel manufacture or fabrication or at end of life of the product. o Steel scrap is unique in that it is 100 per cent recyclable. It can be used, reused and recycled infinitely. o While iron ore remains the primary source of steel making, used or re-used steel in the form of Scrap is the secondary raw material for the steel industry.

• To regulate scrap industry: Interventions are required to accord Industry / infrastructure status to the unorganized scrap recycling sector so as to ensure statutory compliance with respect to safety, health and environmental norms in collection and processing of scrap.

o There is very limited adherence to policies on safe dismantling and also low investment in infrastructure for safe disposal of waste materials.

• To Improve steel production and reduce import bill: The current supply of scrap is 25 MT from the domestic unorganized scrap industry and 7 MT from import of scrap. There is potential to harness this 7 MT of scrap that is currently being imported from the domestic market itself.

o Most of the major steel producing countries like Japan, USA, and China are continuously increasing scrap-based steel production with proportionate reduction from primary route.

o National Steel Policy 2017 (NSP-2017) also aims to develop a globally competitive steel industry by creating 300 Million TPA Steel production capacity by 2030

o There is also higher scrap availability due to increasing per capita steel consumption (doubled from 2004- around 33kg to around 60 kg).

• Environmental Benefits: Recycling steel requires 56 percent less energy than producing steel from iron ore, and reduces CO_2 emissions by up to 58 percent.

Key feature of Steel Scrap Recycling Policy

• Environment friendly: It promotes collection, processing and recycling of products in an organized, safe and environment friendly manner.

o The policy also proposed to create a mechanism for treating waste streams and residues produced from dismantling and shredding facilities in compliance to Hazardous & Other Wastes (Management & Transboundary Movement) Rules, 2016.

• Promote circular economy: The policy envisions promoting circular economy in the steel sector. The steel scrap shall be recycled to produce high grade steel. This can be used in the industries such as equipment manufacturing, automobiles and other downstream industries.

• High quality steel: The scrapping policy ensure that quality scrap is available for the steel industry. If quality scrap is provided as the charge to the electric furnaces, then the furnaces can produce high grade steel.

• Authorise Steel scrapping centre: It promote 6Rs principles of reduce, reuse, recycle, recover, redesign and remanufacture through scientific handling, processing and disposal of all types of recyclable scraps including non-ferrous scraps, through authorized centers / facility.

• Hub and the spoke model: To address the issue of collecting scrap and to structure the informal recycling sector based on environmental and scientific fronts, a hub and the spoke model has been suggested.

o A 4+1 hub and spoke model is suggested where 4 collection and dismantling centres are to cater to the 1 scrap processing centre. Around 400 jobs would be created by one such composite unit.

• Inter-Ministerial Coordination Committee: An Inter-Ministerial Coordination Committee has been set up with Secretary, Ministry of Steel as Convener and Secretaries of Ministry of Road Transport & Highways (MoRTH), Department of Heavy Industry (DHI), Ministry of Environment, Forest & Climate Change (MoEF&CC), Department Revenue and Ministry of Labour & Employment as members. The mandate of the Committee is

o Policy changes required for creating an organized steel scrapping eco system;

o Monitoring the operationalization and enforcement of relevant laws/regulations in this regard.

2) CMIE Report on Joblessness

The Centre for Monitoring Indian Economy (CMIE) has released a report on Unemployment in India.

1. India's unemployment rate in October rose to 8.5%, the highest level since August 2016.
2. Urban unemployment rate at 8.9%, is more than the rural unemployment rate of 8.3%.
3. Highest unemployment rate in Tripura and Haryana, at more than 20%.
4. Lowest in Tamil Nadu at 1.1%.

Why this is a cause for concern?

1. CMIE findings are in line with the findings of the latest Periodic Labour Force Survey, which had estimated an unemployment rate of 6.1% between July 2017 and June 2018, the worst in 45 years.
2. The data also comes on the back of other indicators showing a downturn in the economy, including the core sector output in September posting its worst contraction in at least 14 years.
3. Another research estimates that between 2011-12 and 2017-18, employment declined by an unprecedented nine million jobs (a 2% drop), with agricultural employment declining by 11.5%. In the same period, employment in the service sector increased by 13.4%, while manufacturing employment dipped by 5.7%.
4. While employment has been declining, the number of working age people who are "Not in Labour Force, Education and Training" has continued to increase — from about 84 million in 2011-12, it has now crossed 100 million.

What causes this?

Most of the decline in employment has happened due to the fall in the number of workers in agriculture and a sharp fall in the absolute number of female workers. While the trend of workers moving out of agriculture is seen since 2004-05 and is welcome, it also points to the rising vulnerability of farm production.

Way ahead: No doubt, the problem is not new and even earlier governments are to be blamed for the mess that the economy is in. Unfortunately, blaming the data or earlier governments does not make people who are looking for jobs vanish from the country. Stagnant wages and jobless growth are not just indicators of a weakening economy, but also a recipe for political instability and a crisis in the countryside. The least that is expected of the government is an acknowledgement of the extent of the problem and then try to address it.

Need of the hour: Falling manufacturing employment and decelerating construction employment growth are bad news for the economy. To sustain the growth of income, improve standard of living, and to reduce poverty, employment opportunities in manufacturing and construction (although a transitory sector) is necessary.

3) What is Trade Deficit?

India decided that it won't sign the Regional Comprehensive Economic Participation agreement. A key reason that India forwarded for declining to sign on was the existence of trade deficits with many of the constituents of the RCEP.

How RCEP would have affected India?

India was concerned that joining the RCEP trade pact could lead to Chinese goods flooding the Indian markets, and India's trade deficit ballooning against most of the RCEP members. This, India argued, would have led to several sectoral producers such as those in the dairy and steel sector being dominated by foreign competition.

What is trade deficit?

Simply put, the trade "balance" of a country shows the difference between what it earns from its exports and what it pays for its imports.

• If this number is in negative – that is, the total value of goods imported by a country is more than the total value of goods exported by that country – then it is referred to as a "trade deficit".

• If India has a trade deficit with China then China would necessarily have a "trade surplus" with India.

What does a trade deficit signify?

A trade deficit means broadly can mean two things:

1. The demand in the domestic economy is not being met by the domestic producers.
2. Many a time a deficit signifies the lack of competitiveness of the domestic industry.

More often than not, the trade deficit of a country is due to a combination of both these main factors.

Is a trade deficit a bad thing?

Not necessarily. No trade is ever balanced. That's because all countries have different strengths and weaknesses. Trade typically enhances wellbeing all across the world by forcing countries to do what they can do most efficiently and procure (import) from the rest of the world what they cannot produce efficiently. Another way to look at trade deficits is to look at the outcome of trade agreements on consumers instead of producers. For instance, if cheaper and better quality milk or steel was to come into India, Indian consumers would benefit as their health improves and their cars become more affordable. Of course, Indian producers of steel and milk will cry foul but then if they are not efficient, they should be producing something else.

Way ahead: Trade doesn't have elements that compromise a country's strategic interests and that is why there are some commodities in which every country wants to maintain self-sufficiency. But merely levying higher tariffs or not choosing to trade do not bring about self-sufficiency. For attaining self-reliance, a country's domestic industry has to improve and the best of this happening is when one learns from the competition.

4) Core Investment Companies (CICs)

RBI panel proposes stricter rules for core investment companies. The recommendations were made by the Working Group to Review Regulatory and Supervisory Framework for Core Investment Companies set up by the central bank on 3 July and headed by Tapan Ray, former secretary of the corporate affairs ministry.

These include:

1. Core investment companies (CICs) will have to form board level committees, appoint independent directors and conduct internal audits.
2. Prepare consolidated financial statement and ring-fence the boards of CICs by excluding employees or executive directors of group companies from its board.
3. Step-down CICs may not be permitted to invest in any other CIC, but can invest freely in other group companies. 4. The capital contribution by a CIC in a step-down CIC, can be over and above 10% of its owned funds. It should be deducted from its adjusted networth, as applicable to other NBFCs.
5. The number of layers of CICs in a group should be restricted to two and any CIC within a group shall not make investment through more than a total of two layers of CICs, including itself.

What are Core Investment Companies (CICs)?

CICs are non-banking financial companies with asset size of ₹100 crore and above which carry on the business of acquisition of shares and securities, subject to certain conditions. CICs, which are allowed to accept public funds, hold not less than 90% of their net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies. Investments of CIC in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets as mentioned in clause. Exemption: CICs having asset size of below Rs 100 crore are exempted from registration and regulation from the RBI, except if they wish to make overseas investments in the financial sector.

What do the term public funds include? Is it the same as public deposits?

Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. However, even though public funds include public deposits in the general course, it may be noted that CICs/CICs-ND-SI cannot accept public deposits. Need: This Concept was originated in order to safeguard NBFCs which are formed for group investments from stringent RBI procedures. Experts have been seeking a review of CIC guidelines ever since defaults by Infrastructure Leasing and Financial Services Ltd (IL&FS), a large systemically important core investment company.

3) CODE ON INDUSTRIAL RELATIONS BILL

Recently, the Labour Code on Industrial Relations 2019 was introduced in Lok Sabha.

• The labour ministry has decided to amalgamate 44 labour laws into four codes -

on wages, industrial relations, social security, and safety, health & working conditions.

o Codes on Wages – Already received Presidential assent o Occupational Safety, Health and Working Conditions Code – Introduced in Lok Sabha and referred to Standing Committee o Code on Social Security – Introduced in Lok Sabha

o Industrial Relations Code – Introduced in Lok Sabha

• The Labour Code on Industrial Relations will combine Industrial Disputes Act, 1947, the Trade Unions Act, 1926, and the Industrial Employment (Standing Orders) Act, 1946.

• It aims to create greater labour market flexibility and discipline in labour to improve upon ease of doing business and also to encourage entrepreneurs to engage in labour intensive sectors.

Significance of the code

• In sync with global standards- as now Indian companies are competing with global players so there should be a level playing field. This code will protect employment as much as possible, when there is commercial viability.

• Balances employer-employee concerns- The threshold required for government permission for retrenchment has been kept unchanged at 100 employees, as against the proposal for 300 employees in an earlier draft of the Bill, which was opposed by trade unions. o The Code also proposes setting up of a “re-skilling fund” for training of retrenched employees. The retrenched employee would be paid 15 days’ wages from the fund within 45 days of retrenchment.

o An industrial establishment will have to contribute an amount equal to 15 days’ wages or such other days as may be notified by the central government, to this fund for every worker retrenched.

• Balances reform with flexibility- To ensure that all such states do not have to go to their legislative Assemblies to follow the central law, the government has given safeguard measures to ensure that some provisions do not override the changes brought in by the states.

• Uniform application of fixed-term employment- The central government has proposed to bring fixed-term employment as part of the labour law, instead of administrative rules, so that it comes into effect across India.

o Fixed-term employment means a worker can be hired for any duration, three months or six months or a year depending on season and orders.

o Currently, companies hire contract workers through contractors. Now they will be able to hire workers directly under a fixed-term contract, with the flexibility to tweak the length of the contract based on the seasonality of industry.

o These workers will be treated on a par with regular workers during the tenure of the contract. It will help in the flow of social security benefits to all workers along with making it easier for companies to hire and fire.

• Better Industrial relations- could be achieved owing to the provisions of mass casual leave and majority-based recognition of trade unions. It could also improve the productivity of labour.

• Speedier Disposal of Cases- as the code also provides setting up of a two-member tribunal (in place of one member) wherein important cases will be adjudicated jointly and the rest by a single member. o Besides, it has vested powers with the government officers for adjudication of disputes involving penalty as fines, thereby lessening the burden on tribunal.

Issues

• Inadequate provisions for migrant workers- As per a 2016 survey, there were 10 crore migrant workers in the country, which was around 20 per cent of the labour force. Their concerns and requirements have not been placed effectively in the code.

• Lack of clarity in terms retrenchment- could lead to uncertainty, and discretionary behaviour during implementation by the central or state government.

• Doesn't address the issues concretely- as the critics allege that the code is kind of appeasement to both sides, which will not actually provide relief to either of them. o Such as definition of worker, which expressly excludes apprentice and similarly, different dates for implementing different provisions, exclusion clauses are against the spirit of Codification and simplification.

• Need for safeguards- such as in the fixed-term employment, otherwise it runs the risk of encouraging conversion of permanent employment into fixed-term employment

4) COMMERCIAL COAL MINING

India will now offer coal mines to private companies 'only for commercial mining and sale purpose', thereby moving away from the earlier regime of offering mines for captive use.

• The coal ministry will auction coal blocks for commercial mining on a revenue sharing basis and proposes to announce incentives for faster production. To incentivize bidders to begin early, the government proposes to offer up to 20% deduction in its revenue share.

• This will be the first auction outside the reverse bidding model since the mass cancellation of blocks by the Supreme Court. The revenue sharing model is based on recommendations of an expert committee headed by former Central Vigilance Commissioner Pratyush Sinha.

o In a reverse auction, the buyer puts up a request for a required good or service. Sellers then place bids for the amount they are willing to be paid for the good or service, and at the end of the auction the seller with the lowest amount wins.

Background

• Coal accounts for around 70% of the country's power generation, and the move for energy security through assured coal supply is needed.

• To ensure this, coal mining was nationalised in 1973 by Coal Mines (Nationalisation) Act, 1973.

• Following nationalisation, only state-owned CIL was allowed to sell coal. And even till recently, private sector firms were only allowed to mine coal for use in their cement, steel, power and aluminium plants i.e. for their captive (own) use. So, CIL, was so far the lone commercial miner in the country and accounts for 84% of India's coal output.

• From 1993-2014, 204 coal mines/blocks were allocated to the various government and private Companies under the provisions of Coal Mines (Nationalisation) Act, 1973. However, these allocations were often tainted with corruption and large kickbacks. So, in the backdrop of C&AG report, alleging loss of 1.85 lakh crore to exchequer, Supreme Court of India cancelled these allocations in 2014.

• Enabling provisions have been made in the Coal Mines (Special Provisions) Act, 2015 for allocation of coal mines by way of auction and allotment for the sale of coal.

• Prior to the enactment of Coal Mining (Special Provisions) Act in 2015, coal mines were never given out through bidding. Companies in sectors like steel, cement, power, coal-to-gas and coal-to-liquid used to apply for coal blocks and rights were given to them after scrutiny by an inter-ministerial committee.

Intended benefits of commercial coal mining

• Increased production and energy security: It will help the country come closer to its vision of producing 1.5 billion tonnes of coal annually by 2022.

• Reduced imports: India still meets a fifth of its annual coal requirement through imports, which costs about Rs 1 lakh crore. CRISIL estimates that substitution of imported non-coking coal with domestic production could save roughly Rs 30,000 crore of coal imports.

• Benefit to power sector: It would help stressed power plants to attempt a turnaround through better fuel management. Also, cement and steel sectors will gain the most being the largest consumers and importers of non-coking coal.

• Improved efficiency: Participation of private miners would increase much-needed competition, enhance productivity and efficiency by facilitating the use of latest equipment, technology and services through higher investments.

• Development of coal bearing states: especially in the eastern part of the country, as the entire revenue from these auctions will accrue to them. Also, revenue may increase as the coal blocks will be allocated to the highest bidder.

• Attract foreign investment: as it provides a great opportunity to overseas companies in countries where coal mining is either on the wane or has been stopped completely.

Challenges in Commercial coal mining

• Restrictive norms for auctioning: The last two auction-tranches had to be cancelled due to the shortage to sufficient bidders because private industry remained impassive to the set norms.

• Factors such as delays in land acquisition, multiple approvals at the state and the Central government levels, as well as issues with coal transportation account for stagnant or decreasing coal production and consumption. Coal India Limited (CIL), had the advantage of being a government-owned company on the above accounts. Without resolving these issues, increasing coal production via commercial mining may not bring the desired results.

• Increase in cost of production: As estimated by CIL, only about 21 billion tonnes (BT) could be extracted technically and economically. Thus, India may run out of easily extractable coal down to the depth of 300 metres in the next few years. This will mean that companies will need to mine deeper, which would require increased mechanisation with an increase in the cost of production.

• Shift to renewable energy: In current times there is an increasing shift to renewable resources both in terms of investment in technologies and creating physical assets and capacity. In such scenario it is difficult to attract investors.

• Shrinking and uncertain market: As against a large market for coal industry in industries, railways, defence, power etc. earlier, the market has now shrunk only to power and cement sectors. Unless a private investor is able to tie up with captive power utilities, it is extremely unlikely for them to venture into an uncertain market.

• The ascending forward auction route is expected to be adopted for coal block allocation where the companies will pay the bid price to the state government on actual production as revenue. While private players would like to keep the auction price lower, the government would prefer a higher bid price to garner increased revenue. This means, commercial mining may not necessarily lead to a decrease in the cost of coal.

• The final cost of coal consists of taxes, duties, cess and transportation charges; each of these components has been increasing steadily over the past few years. Therefore, even if the actual cost of production comes down due to commercial mining, the net landed cost of coal at the consumer end is unlikely to be impacted too much.

• No independent regulator: For the coal sector, there is no structure for independent regulation. Thus, there is no redressal mechanism in place for resolution of problems arising due to commercial mining or to protect the interest of consumers.

Way Forward

• Removal of private sector's disadvantageous position- by doing away with the direct coal allotment to PSUs o Coal Bearing Areas Act, 1957, should be amended to give private companies a level-playing field in land acquisition. o Besides, provisions in the Minerals & Mines Development Regulation Act and Coal Mining Special Provisions Act that give preference to government companies should be removed.

• Regulatory body- an independent regulatory body is needed for the coal sector to carve out coal blocks, oversee investments and also carry out valuation. o The Directorate General of Hydrocarbons, which handles bids for coal-bed methane, can be suitably empowered for coal. The US also has a single energy regulator.

• Marketing linkages- functional market for coal is needed, so that efficient producers can gainfully increase their supply as per effective demand.

5) Moody's Ratings

Global ratings agency Moody's Investors Service has cut its outlook on the Government of India's ratings to negative from stable, but affirmed the Baa2 foreign-currency and local-currency long-term issuer ratings. Moody's also affirmed India's Baa2 local-currency senior unsecured rating and its P-2 other short-term local currency rating.

What this means for India?

1. The decision to change the outlook to negative reflects increasing risks that economic growth will remain materially lower than in the past, partly reflecting lower government and policy effectiveness at addressing long-standing economic and institutional weaknesses than Moody's had previously estimated, leading to a gradual rise in the debt burden from already high levels.
2. Reduction in outlook is the first step towards an investment downgrade, as India is now just a notch above the investment grade country rating. An actual downgrade in country ratings can lead to massive foreign fund outflows.

Why has Moody's cut rating?

1. Moody's projected fiscal deficit of 3.7 per cent of gross domestic product (GDP) in the year through March 2020, a breach of the government's target of 3.3 per cent, as slower growth and a surprise corporate-tax cut curbs revenue.
2. India's growth outlook has deteriorated sharply this year, with a crunch that started out in the nonbanking financial institutions

(NBFIs) spreading to retail businesses, car makers, home sales and heavy industries.

3. Moody's said the outlook partly reflects government and policy ineffectiveness in addressing economic weakness, which led to an increase in debt burden which is already at high levels.

4. India's economy grew by 5 per cent between April and June, its weakest pace since 2013, as consumer demand and government spending slowed amid global trade frictions.

What does the government say?

Noting Moody's concerns, the Finance Ministry said that India continues to be among the fastest growing major economies in the world, and India's relative standing remains unaffected. The Government said it has undertaken series of financial sector and other reforms to strengthen the economy as a whole. It has also proactively taken policy decisions in response to the global slowdown. These measures would lead to a positive outlook on India and would attract capital flows and stimulate investments. The fundamentals of the economy remain quite robust with inflation under check and bond yields low. India continues to offer strong prospects of growth in near and medium term.

What are different general credit ratings?

AAA: Highest credit quality that denotes the lowest expectations of default risk.

AA+/AA/AA-: Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments.

A+/A/A-: High credit quality that denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong, however, vulnerability to adverse business or economic conditions exists. BBB+/BBB/BBB-: Good credit quality that indicates that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

BB+/BB/BB-: This rating indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.

B+/B/B-: This rating indicates that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC+/CCC/CCC-: Substantial credit risk exists in this rating, where the default is a real possibility.

CC: This rating shows a very high level of credit risk with a possibility of defaults.

C: This rating shows that a default or default-like process has begun, or the issuer is in a standstill.

DDD/RD/SD/DD/D: This indicates that the issuer has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure or has ceased business.

6) India to be a $5 trillion Economy

The road to a $5 trillion economy by 2025 is beset with many speed-breakers, the NITI Aayog has warned the government.

What is a $5-trillion economy?

Essentially $5-trillion economy is the size of an economy as measured by the annual Gross Domestic Product (GDP).

What it needs?

1. Apart from the monetary definition, a $ 5 Trillion Economy calls for pulling all the economic growth levers—investment, consumption, exports, and across all the three sectors of agriculture, manufacturing and services.
2. It also means improving all three sectors of the economy, India will more likely achieve its ambitious Sustainable Developmental Goals (SDGs).

Present state: In 2014, India's GDP was $1.85 trillion. Today it is $2.7 trillion and India is the sixth-largest economy in the world. Essentially the reference is to the size of an economy as measured by the annual GDP.

Are Indians the sixth-richest people in the world?

No.

That India is the sixth-largest economy does not necessarily imply that Indians are the sixth-richest people on the planet. GDP per capita gives a better sense of how an average resident of an economy might be fairing. It reveals a very different, and indeed a more accurate picture of the level of prosperity in the respective economies. For instance, on average, a UK resident's income was 21 times that of an average Indian in 2018. Still, the richest 1% of Indians own 58.4% of wealth. The richest 10 % of Indians own 80.7 % of the wealth.

Can India achieve the target by 2024?

The answer would depend essentially on the assumption about economic growth. If India grows at 12% nominal growth (that is 8% real GDP growth and 4% inflation), then from the 2018 level of $2.7 trillion, India would reach the 5.33 trillion mark in 2024. India must keep growing at a rapid pace to attain this target.

How will GDP per capita change when India hits the $5-trillion mark?

If by 2024 India's GDP is $5.33 trillion and India's population is 1.43 billion (according to UN population projection). India's per capita GDP would be $3,727. This would be considerably more than what it is today, still it will be lower than Indonesia's GDP per capita in 2018.

Challenges that need to be addressed:

1. Under-employment and the disguised employment.
2. Slowdown in agriculture.
3. Slow pace of infrastructure development in the last decade.
4. Funding issues.
5. Exports issues.

7) CONTRACT FARMING

Tamil Nadu has become the first State to enact a law on contract farming based on the lines of Model Contract Farming Act, 2018 of the Central Government.

- The law called Tamil Nadu Agricultural Produce and Livestock Contract Farming and Services (Promotion and Facilitation) Act has got the assent of President as well.
- This act ensures that farmers are paid at a pre-determined price, as per registered agreements, safeguarding their interests during times of bumper harvest or fluctuating market prices.
- As per the law, farmers would get support from purchasers for improving production and productivity by way of inputs, feed and fodder, technology.
- The Act covers output of agriculture, horticulture, apiculture, sericulture, animal husbandry or forest activities, excluding those

products that are banned or prohibited by law.

• To ensure proper implementation of this Act, a six-member body called the Tamil Nadu State Contract Farming and Services (Promotion and Facilitation) Authority would also be formed.

• The Act also provides for the setting up of a Dispute Settlement Committee at the level of revenue subdivision.

About Contract farming

• It involves agricultural production (including livestock and poultry) being carried out on the basis of a preharvest agreement (or forward contracts) between the buyers (such as food processing units and exporters) and producers (farmers or farmer organisations).

• It is under the Concurrent List; however, Agriculture is under State list.

• Government has also exempted firms engaged in contract farming from the existing licensing and restrictions on stock limit and movement of foodstuff under the Essential Commodities Act, 1955,

• Legislation related to Contract Farming in India

o In order to protect the interests of producers and sponsors of Contract Farming, the Ministry of Agriculture drafted Model APMC Act, 2003, which provided provisions for registration of sponsors, recording of agreement, dispute settlement mechanism.

✓ Consequently, some states had amended their APMC Acts to provide for it but Punjab had a separate law on contract farming. o Central government has put in place a Model Contract Farming Act 2018, which encourages state governments to enact clear contract farming laws in line with the model act.

✓ It has been drafted as a promotional and facilitative act and is not regulatory in its structure.

Benefits of Contract Farming

• Protects farmer's interests: It reduces farmers' risks by creating an assured market for their produce and protecting them from fluctuating market prices.

o Predetermined prices provide an opportunity to cover postharvest losses, if any.

• Private participation in Agriculture: As envisaged by National Agricultural Policy, it encourages the private sector investment in agriculture to promote new farming technology, developing infrastructure, etc.

• Improving Farmers' Productivity: It enhances productivity and efficiency of farming sector, by improving access to better inputs, scientific practices and credit facilities, leading to increased farmer incomes, new employment opportunities and food security at large.

• Better Price discovery: It breaks the monopoly of APMCs and makes farming an organized activity thereby improving quality and quantity of production.

• Increasing Export: It encourages farmers to grow crops required by the food-processing industry and link Indian farmers to global supply chains, particularly in high-value horticulture produce and reduce food wastage significantly.

• Consumers benefit: Increasing marketing efficiency gains, elimination of intermediaries, reduction in regulatory compliances etc. can significantly reduce artificial shortages of produce and control food price inflation.

Challenges

• Lack of uniformity or homogeneity among states law regarding kinds of produce, conditions etc. which is needed for allowing contract farming. States have been reluctant to carry forward reform for the fear of loss of revenue.

• Promote Regional Inequality: Currently it is practiced in agriculturally developed states (Punjab, TN etc.) while States with highest concentration of small and marginal farmers are not able to reap its benefit.

• Landholding Pattern: Buyers have no incentive for contract farming with a large number of small and marginal farmers due to high transactions and marketing costs, creating socio-economic distortions and preference for large farmers. o As per Agriculture census 2015-16, 86% of landholdings are small and marginal and average size of landholdings in India was 1.08 hectare.

• It increases dependency of farmers on corporate for inputs, making them vulnerable.

• Predetermined prices can deny farmers the benefits of higher prices prevailing in market for the produce.

• Capital-intensive and less sustainable pattern of cultivation: It promotes increasing use of fertilizers and pesticides which have detrimental impact on natural resources, environment, humans and animals.

• Encourages Monoculture Farming: This will not only impact soil health but also possesses risk of food security and import of food grains.

Way Forward

• Tax exemption can be given food processors involved in contract farming, in lieu of which they can be asked to invest in rural infrastructure, farmer welfare, etc.

o Tax duties on farm equipment imported for contract farming can be removed.

• The government should focus on providing an enabling environment by fostering competition and bridging information asymmetries between farmers and buyers.

• Finally, all states should adopt and implement Model contract farming act to ensure uniform protection for farmers, as well as provide an enabling ecosystem for buyers.

8) EDIBLE OIL DEFICIENCY

The Commerce ministry has asked the Agriculture ministry to prepare a road map for India to attain self-sufficiency in edible oil production.

• India imports most of its edible oils from Indonesia and Malaysia. Moreover, Malaysia has a duty advantage over Indonesia under the India-Malaysia Free Trade Agreement.

• Under the government's plan to double farmers' incomes, achieving self-sufficiency in oilseeds production by 2030 is a major target.

• Also, the need for a "zero edible oil import" plan was discussed at an inter-ministerial meeting.

Challenges in meeting the edible oil demand domestically

• Stagnation in oilseed production, at around 33 million tonnes over the last five years.

o Low remuneration for farmers- despite huge domestic supply deficit, large imports results in undue pressure on oilseed prices which often slips below the minimum support price (MSP).

o Reduction in area under cultivation- due to relatively lower profitability as against competing crops like maize, cotton or chickpea.

• Import dependence- processing industry prefers to import refined oil for blending directly with the oil for repacking and distribution for local consumption.

o Further, because of lesser taxes on refined oil as compared to crude oil, share of imported refined oil in overall imports has surged to 18% from 12% few years back.

o The average capacity utilisation of edible oil refineries has fallen to 46%, down from 65% five years ago.

• Agricultural conditions- Annual cultivation was about 26.7 million hectares, around 70 per cent of which is rain-fed.

o Agricultural yield, although increasing, but is heavily dependent on monsoon and lesser than global standards.

o Lack of resources- Majority of oilseed growers (more than 85%) are small and marginal farmers having poor resource base coupled with non-availability of quality seeds of varieties and hybrids.

• No cohesive policy: The lack of any clear policy on how procurement agencies are expected to liquidate their acquired oilseed stock has created more problems.

Way Forward

• Diversification: Extending oilseed cultivation to underutilized farming locations such as the rice fallows of eastern India and in some coastal region.

• Under the ambit of PDS: Including cooking oils in the PDS may provide a fillip to procurement operations while ensuring affordable supplies.

• Impetus to domestic varieties: Consumer awareness efforts may be needed to showcase the benefits of indigenous varieties.

o To revive distressed processing capacity, import tariffs need to be united with domestic MSPs and refining costs, with no ad-hoc tinkering with the tariffs.

• Control the imports: There is a need to fix an annual ceiling on import; and the import trade should be monitored strictly.

• Improved resources: The key to improve oilseeds production lies in ensuring the availability of quality seeds, bridging the awareness gap in farmers regarding better techniques, developing supportive infrastructure facilities and ensuring an efficiently managed market for better price recovery.

Steps taken by government

• Ministry of Agriculture has set the following targets to be achieved by 2022-23- o to take annual production of edible oils from current 7.31 mt to 13.69 mt. o increasing oilseed production from primary sources from the current 34 mt to 45.64 mt.

• Group of Secretaries (GoS) was constituted recently for launching a nationwide oil seed mission to minimise oil imports. o Government may levy a 2-10% cess on import of crude and refined edible oil to fund the mission.

• Ashok Dalwai committee, Committee on Doubling Farmers Income was setup. Some of its recommendations are-

o The strategy for self-sufficiency in oilseeds production should encompass all three sources of oils

✓ 9 primary sources of oilseed crops (seven edible (soybean, rapeseed-mustard, groundnut, sesame, sunflower, safflower and niger) and two non-edibles (castor and linseed))

✓ secondary sources (rice bran, cotton seed, solvent extracted oils)

✓ tree borne oils (TBOs), namely, palm oil, coconut, other tree and forest origins o To incentivize palm tree cultivation- it has suggested a price incentive mechanism for farmers through creation of an Edible Oil Development Fund (EODF), with contributions coming from a specially levied cess of 0.5% on the imports of crude and refined palm oil.

• ISOPOM (Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize) o Under this, four schemes related to oilseeds, pulses, oil palm and maize have been merged into one Centrally Sponsored ISOPOM. o Financial assistance is provided to farmers for purchase of breeder seed, production of foundation seed, production and distribution of certified seed etc.

• National Mission on Oilseeds and Oil Palm (NMOOP) o It is implemented under three Mini-Missions (MM) namely; MM I – Oilseeds, MM II – Oil Palm, MM III – TBOs (Tree Based Oil).

o The mission targets increasing production of oilseeds to 42 mt by FY2022 from estimated 34 mt. o The strategy and guideline for NMOOP includes:

✓ Increasing Seed Replacement Ratio (SRR) with focus on Varietal Replacement; increasing irrigation coverage under oilseeds from 26% to 36%. SSR is a measure of how much of the total cropped area was sown with certified seeds in comparison to farm saved seeds.

✓ diversification of area from low yielding cereals crops to oilseeds crops; inter-cropping of oilseeds with cereals/ pulses/ sugarcane;

✓ use of fallow land after paddy /potato cultivation

✓ expansion of cultivation of Oil Palm and tree borne oilseeds in watersheds and wastelands;

✓ increasing availability of quality planting material enhancing procurement of oilseeds and collection;

✓ Processing of tree borne oilseeds.

• Pradhan Mantri Annadata Aay SanraksHan Abhiyan (PM-AASHA): It is aimed at ensuring remunerative prices to the farmers for their produce as announced in the Union Budget for 2018.

o In this initiative, the third part is the pilot of Private Procurement & Stockist Scheme (PPSS).

o In the case of oilseeds, States will have the option to roll out PPSSs in select districts where a private player can procure crops at MSP when market prices drop below MSP.

9) STRATEGIC SALE OF PSUS

Centre has gave in-principle approval for the strategic disinvestment of the government shareholding in 5 PSUs, along with management control.

• These PSUs include: Bharat Petroleum Corporation Ltd (BPCL); Shipping Corporation of India; Container Corporation of India; Tehri Hydro Power Development Corporation (THDCIL) and North Eastern Electric Power Corporation Ltd.

• Based on current market prices, the sale of stakes in these three firms will fetch the government about ₹78,400 cr, taking it close to the disinvestment target for the fiscal year 2019-20 (1.05 lakh crore).

Rationale behind strategic sale

• Role of government: The major ideology behind strategic disinvestment is that "the government has no business being in business".

o That is, the government's role is to facilitate a healthy business environment rather than participating as a player. • Source of income: Disinvestment proceeds have been a source of additional income. This is especially important at a time when private investment is falling and government is unable to meet its fiscal deficit targets. o The Government can utilize the money gained from disinvestment process to improve services in public goods like infrastructure, health and education.

• Better management: Many Government units often suffer from poor management and aggressive trade unionism and have become umpire-less playfields for political parties. It often leads to halting of PSUs projects thereby hampering the efficiency in long run.

o Providing employment was also one of the major objectives of Government's holding in PSUs. Post LPG reforms, the vacancies in PSUs have done down substantially. Moreover, the problem of disguised unemployment and outdated skill in PSUs employee are the major cause of inefficiency.

o Economic potential of such entities may be better discovered in the hands of the strategic investors due to various factors e.g. infusion of capital, technology upgradation, better accountability and efficient management practices etc.

o The financial performance of many PSUs has improved drastically in many cases. E.g. Hindustan Zinc saw its net profits shoot up from ₹67 cr at the time of its sale in FY03 to ₹9,698 cr in FY19.

• Transferring of public debt: Disinvestment allows the transferring of the Indian government's enormous public debt of its PSUs to the Indian private sector.

Issues

• Privatization may not ensure efficiency: As per Rangarajan Committee 1993 report, mere change of ownership from public to private does not guarantee the efficiency.

o Success of privatization depends upon the transparency of the process and the effectiveness of the regulators.

o In absence of independent and effective regulator, it might lead to monopoly and oligopolistic practices by corporates

• May lead to unemployment: It might lead to the retrenchment of workers on a large scale, depriving them of their means of livelihood.

o Private ownership might overlook developmental region disparity in order to cut the cost of operation.

o E.g. Private sector has the tendency to use capital intensive techniques, which could be further detrimental to India's unemployment scenario.

• Loss to public exchequer: Disinvestment exercise often had been done by undervaluation of public assets and favouritism bidding, thereby, leading to loss of public exchequers.

o A CAG audit of the nine PSU strategic sales published in 2006 has flagged specific shortcomings in the sale process like undervaluation of assets on their balance sheets in the form of surplus land, facilities and intangibles.

• Sale of well performing PSUs: Loss making units generally fail to attract easy buyers, especially with nondisclosure of full financials and the government attaching too many conditions to the sale. o Because of short term exigencies such as shrinking liquidity/fiscal pressure disinvestment is resorted to as an option to generate additional resources even in the case of well performing PSUs (e.g. NavRatna company like BPCL).

Way Forward

• The disinvestment must be based on well-defined policy and appropriate yardsticks for PSU privatisation.

• Given that these PSUs had potential, it would be important to evaluate the right pricing for the taxpayers by rightly pricing their assets (land, facilities & intangibles).

o The centre must provide sufficient time to the valuers for a complete exercise, while ensuring that PSUs maintain a detailed record on their assets.
o Also, potential buyers should be presented with complete and clean set of books by the Government before the actual bidding process begins so to minimise post-sale claims.
• Moreover, greater focus should be given to the monetization of PSU assets rather than outright privatisation.
• Both domestic and foreign buyers should be allowed to bid freely for the states.
• Government must ensure that any investment in PSUs has to be only for the generation of adequate social and strategic returns such as defence, natural resources etc.
• The Government should look into strengthening the regulatory framework to ensure efficient market conditions.
Therefore, it is important that PSU strategic sale process looks beyond disinvestment targets and fiscal year deadlines and is dealt with in a more systematic manner.

10) DIGITAL FINANCIAL INCLUSION

The Economist Intelligence Unit's 2019 Global Microscope on Financial Inclusion report has pointed that digital financial services in India have improved.

Benefits of digital financial inclusion

• Access to formal financial services: Digital financial inclusion can be defined as digital access to and use of formal financial services by excluded and underserved populations. o It has the potential to provide affordable, convenient and secure banking service to poor individuals in developing countries. o It can also promote economic empowerment by enabling asset accumulation and, for women in particular, increasing their economic participation.
• Increase in GDP: Digital finance can provide convenient access to diverse range of financial products and services for individuals as well as businesses. This can boost aggregate expenditure thereby improving GDP levels.
• Reduced risks: Digital finance adoption can reduce the circulation of fake currency and also reduces risks of loss, theft, and other financial crimes posed by cash-based transactions.
• Reduced costs: It leads in reduction of costs associated with transacting in cash and using informal providers. McKinsey estimates that Indians lose more than US$ 2 billion a year in forgone income simply because of the time it takes travelling to and from a bank.
• Improve banking performance: Digital financial inclusion promises to help banks lower costs by reducing queuing lines, reduce manual paperwork and to maintain fewer bank branches.
o With digital financial inclusion, large number of depositors can easily switch banks thus forcing banks to provide quality services or risk losing depositors to rival banks.

Reasons for growth of digital financial inclusion in India

• Leveraging mobile phone and smartphone penetration: The extensive reach of mobile phones in the country offers an innovative low-cost channel to extend the reach of banking and payment services.
• Government initiatives: Over the last several years, many initiatives have been progressively launched for propagation of digital financial inclusion such as Digital India initiative, DigiShala, Digital Jagriti etc.
• Direct Benefit Transfers (DBT) and Government-to-Person (G2P) payments:

Receipt of DBT payments into a bank account was the a major initiative where marginalised sections used digital financial service. o According to the government's own figures, more than 75 million Pradhan Mantri Jan Dhan Yojna accounts are receiving DBT.

• Demonetization: Demonetization contributed as an immediate trigger to growth in digital payments by necessitating people to engage with digital payments for the first time, learning how they work and encouraging trust in the system.

• Limitations of traditional banking systems: Brick and mortar businesses are proving to be an uneconomical proposition for banks in rural or remote areas. Conventional banking models are not feasible for low ticket size of transactions, deposits, loans, etc. in such regions.

• Fintech revolution: It is led by a host of players, including commercial banks, telecommunication firms, payment banks, small finance banks and financial technology companies. Issues with digital financial Inclusion

• Can decrease financial inclusion: Digital finance services providers may focus their marketing towards high- income customers rather than towards low-income customers if they believe the latter cannot afford the associated fees. This could lead to lower financial inclusion for poor and low-income customers.

• Regulatory Framework: The regulation of payments and digital finance in India can be a complex web of institutions and rule-setting bodies. This regulatory uncertainty could potentially hamper development.

• Literacy and understanding: Digital finance providers moving into lower income markets will continue to face challenges around literacy (financial, digital and general) and the ability to comprehend the concepts and practical implications of using digital finance products.

• Lack of digital infrastructure: Digital service providers can also choose to withdraw or discontinue the provision of specific digital finance services to high-risk rural areas or communities that do not have the supporting infrastructure to sustain specific digital finance services (such as electricity, telecom network etc).

• Fear of being brought into the tax net: There is a perception among some merchants that moving out of the cash economy into the digitized financial sector means that people and small businesses who currently exist outside of the taxation system will be forced to pay taxes.

Way forward

• Develop the regulatory framework for digital finance: Regulatory and legal reforms are essential to enable the sustained development of a digital financial industry for the future. This require to introduce a new unified payments regulator.

• Ensure that digital consumers are protected: Government needs to ensure that consumer protection frameworks are appropriate and future-proof for new models of digital finance.

• Support for local level innovation: More support for local level innovation can also encourage entrepreneurs and institution outside of metro cities to build products and services that respond to more regional or localized issues.

• Ensure digital financial literacy: Digital financial services requires higher levels of digital financial literacy to make effective use of them and to avoid miss-selling, frauds such phishing, hacking attacks, unauthorized use of data and discriminatory treatment.

Digital financial regulator in India

• RBI is responsible for regulating payments and banks and for overall financial stability

• Ministry of Finance (in particular the Department of Financial Services) has traditionally run the government's financial inclusion programs and is responsible for PMJDY.

• TRAI, the communications regulator advises on data, KYC and digital payment systems.

• Ministry of Electronics and Information Technology coordinates the government's Digital India initiative.

11) Alternative Investment Funds (AIFs)

The Union Cabinet has approved the creation of an Alternative Investment Fund (AIF) of Rs. 25,000 crore to provide last-mile funding for stalled affordable and middle-income housing projects across the country.

Key features:

1. The fund size will initially be Rs. 25,000 crore with the government providing Rs. 10,000 crore and the State Bank of India and the Life Insurance Corporation providing the balance
2. The funds will be set up as Category-II Alternative Investment Fund registered with the Securities and Exchange Board of India and will be managed by SBICAP Ventures Limited.
3. The open-ended fund is expected to swell over time. The government is also in talks with sovereign bonds and pension funds to put in money in AIF further.
4. The Cabinet also approved the establishment of a 'Special Window' to provide priority debt financing for completion of stalled housing projects in the affordable and middle-income housing sector.

What are AIFs?

As defined in Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, AIFs refer to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP).

• AIF does not include funds covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of the Board to regulate fund management activities.

• Hence, in India, AIFs are private funds which are otherwise not coming under the jurisdiction of any regulatory agency in India.

Categories:

As per SEBI (AIF) Regulations, 2012, AIFs shall seek registration in one of the three categories:

1. Category I: Mainly invests in start- ups, SME's or any other sector which Govt. considers economically and socially viable.
2. Category II: These include Alternative Investment Funds such as private equity funds or debt funds for which no specific incentives or concessions are given by the government or any other Regulator
3. Category III : Alternative Investment Funds such as hedge funds or funds which trade with a view to make short term returns or such other funds which are open ended and for which no specific incentives or concessions are given by the government or any other Regulator.

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