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TARGET 2020

ENVIRONMENT & GEOGRAPHY II

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TARGET 2020
ECONOMY & AGRICULTURE – II
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ECONOMY

1. GROWTH AND DEVELOPMENT

1.1 NSO Estimates of GDP Growth

National Statistical Office (NSO) estimates of Gross Domestic Product (GDP) have pegged growth at 4.7% in the October-December 2020 period.

- The estimate for the GDP growth of the October-December quarter has pegged as it is a demand-filled festival season.
- This estimate is a distinct slowdown from the revised year-earlier and preceding quarters' 5.6% and 5.1% paces respectively.
- **Improved Sectors** - Agriculture and the three largest services sectors, including public administration and defence have shored up overall GVA.
- According to NSO estimates, farm output will expand by 3.5% and the government-centred services will grow by 9.7%.
- **Lagged Sectors** - Manufacturing contributes under a fifth to gross value added (GVA).
- But, this sector saw the biggest drag posting a 0.2% decline and extending the sector's contraction into a second straight quarter.
- Output at electricity and allied utility services shrank 0.7%, reflecting lack of demand from becalmed factories.

GDP

- It is the total market value of all the finished goods and services produced within a country's borders in a specific time period.
- As a broad measure of overall domestic production, it functions as a comprehensive scorecard of the country's economic health.
- Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well.

- Activity in construction softened worryingly to a 0.3% expansion, prolonging the industry's slowdown for a third consecutive quarter.
- **Key components of GDP**are private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF).
- A closer look at the actual numbers for PFCE and GFCF across the three quarters belies hope that the economy is out of danger.
- A downward revision of data for 2018-19 have lent a statistical boost of 0.6 percentage point to the 1st and 2nd quarter GDP growth estimates.
- Disconcertingly the second-quarter PFCE and GFCF figures have been revised downward from what was projected earlier. Of concern is the second successive contraction in capital formation.
- GFCF shrank 5.2% in the 3rd quarter, after declining 4.1% over July-September.
- This signals that in spite of government's corporate tax cuts, investment activity is recovering.
- Consumption spending remains palpably soft with the pace of growth for all three quarters lagging the year-earlier levels even after the revision.
- **Government's Stand** - The Economic Affairs Secretary cited an improvement in output at the 8 core industries as an uptick in momentum.
- So, the Centre was quick to assert that the economy appeared to have "bottomed out".
- The overall growth at the 8 industries that include coal, steel, cement and electricity averaged 2.2% in January 2020.

- This growth was propelled by an 8% increase in coal production.
- The survey-based India Manufacturing Purchasing Managers' Index (PMI) of IHS Markit for February 2020 pointed to an improvement in manufacturing, clearly a positive sign.
- But, Automobile sales are still floundering.
- The consumer confidence survey by the RBI points to a fall in non-essential consumption.
- The impact of the corona virus outbreak on global demand is yet to be factored in.
- Due to all these factors, the bottom may still be some distance away.

1.2 NSO Advance Estimates

NSO recently released the first advance estimates of the national income for 2019-20.

Nominal GDP and real GDP

- GDP is the total market value of all goods and services produced in the economy during a particular year.
- This is inclusive of all taxes and subsidies on products.
- The market value taken at current prices is the nominal GDP.
- The value taken at constant prices (prices for all products taken at an unchanged base year) is the real GDP.
- In simple terms, real GDP is nominal GDP without the effect of inflation.
- Real GDP growth thus measures how much the production of goods and services in the economy has increased in actual physical terms during a year.

National Statistical Office

- The National Statistical Office (NSO) forms the Statistics Wing of the Ministry of Statistics and Programme Implementation.
- It consists of the Central Statistical Office (CSO), the Computer center and the National Sample Survey Office (NSSO).
- It is responsible for conduct of large-scale sample surveys in diverse fields on All India basis.

- On the other hand, nominal GDP growth measures the increase in incomes resulting from rise in both production and prices.
- **Highlights -** NSO projected growth in India's GDP at market prices for 2019-20 at 4.98% in "real" terms.
- This is the lowest since the 3.89% in the global financial crisis year of 2008-09.
- More significantly, the estimated growth in "nominal" terms was 7.53%.
- This is the lowest since the 7.35% for 1975-76.
- Also, this is the first time since 2002-03 that nominal GDP growth has been in single digits.
- **Implications -** In the normal course, real growth is what is ordinarily looked at.
- But, the current fiscal year seems extraordinary because the gap between nominal and real GDP growth is just 2.6 percentage points.
- This is marginally higher than the difference of 2.5 percentage points in 2015-16.
- But in that year, real GDP growth was 8%, which translated into a nominal growth of 10.5%.
- In 2019-20, the real GDP growth is expected to be the lowest in 11 years.
- Also, the implied inflation is just 2.6%.
- [It is also called GDP deflator, or the increase in prices of all the goods and services produced in the economy.]
- In simple terms, producers have not gained from either higher output or higher prices.
- **Concerns -** In the 2019-20 Budget, Finance Minister had assumed nominal GDP would grow by 12% to Rs 211.01 lakh crore.
- However, the NSO's latest projection of nominal GDP for 2019-20 is only Rs 204.42 lakh crore.
- So, even if the Centre's fiscal deficit is contained at the budgeted numbers, it would be 3.44% of GDP, as against the originally targeted 3.3%.

- This is over and above the slippages in the absolute fiscal deficit itself due to the Centre's revenues turning out to be lower than the Budget projections.
- High nominal GDP growth also makes the government's debt seem more manageable, unlike with low nominal GDP.
- The debt stock (numerator) can keep going up so long as it does not exceed the nominal increase in GDP (denominator).
- This equation changes in a low nominal GDP growth scenario.
- For state governments too, low nominal GDP growth is a matter of concern.
- This is because their budgets normally assume double-digit increases in revenues.
- The Centre's compensation formula to states from the GST also promised to meet any annual revenue shortfall below 14%.
- That again, did not ever factor in the possibility of GDP growth (real GDP plus inflation) falling to 7.5% levels.

2. PUBLIC FINANCE

2.1 Abolition of Dividend Distribution Tax

The abolition of the Dividend Distribution Tax (DDT) in Budget 2020 is hailed as a big relief for corporates and non-resident shareholders.

- **Dividend** is a return given by a company to its shareholders out of the profits earned by the company in a particular year.
- Dividend constitutes income in the hands of the shareholders which ideally should be subject to income tax.
- However, the Indian income tax laws provide for an exemption of the dividend income received from Indian companies by the investors.
- **DDT** is levied on any domestic company which is declaring/distributing dividend and is paid at the rate on the gross amount of dividend.
- **Current regulations - Section 14A** provides that any expense concerning income not forming part of total income would not be allowed as deduction.
- Presently, the dividend income is not taxable in the hands of shareholder and does not form part of total income.
- **Section 56** charges income tax on the dividend.
- **Section 57** allows certain deductions while computing income from other sources.
- All expenses incurred wholly and exclusively to earn income taxable under Section 56 are allowed as deduction.
- **Present Taxation Structure** - Income may be interpreted in a wide manner to include receipts, windfalls and gifts.
- When the income like **profit** is taxed, the mechanism provided to tax it would allow for a deduction of expenses.
- Certain incomes like **royalty, fee** for technical service, etc, are subject to taxation on a gross basis.
- In case of **income from house property**, there is a cap on deduction towards interest paid on borrowed capital.
- The rationale is that the annual lettable value of a self-occupied property is deemed as nil.
- Where the assessee claims that dividend is **business income**, it may be possible to claim all expenses regarding it.
- However, the debate of whether dividend can ever constitute business income is already before the courts.

- **Budget 2020 proposal -** There will be no disputes regarding disallowance of expenses in terms of Section 14A of Income Tax (I-T) Act read with Rule 8D of I-T Rules.
- It proposes a proviso to Section 57 that states that no deduction shall be allowed against dividend income other than interest expenses.
- The deduction on account of interest will be restricted to 20% of the dividend income.
- The cap of 20% is based on the amount of income earned and offered to tax in the previous year.
- Hence, in case, no dividend income is earned in a year even though the assessee incurs interest expenditure or fee on investment managers, she cannot claim any deduction.
- Besides restricting the quantum of deduction in respect of interest, the amendments change the regime of taxation from being net to gross.
- The intention cannot be to discourage investors from borrowing heavily to invest in shares or paint all dividend earned as a windfall, nor can there be a fear of an excessive claim of expenses.
- Presently, expenses are allowed to be deducted as per Section 57, and it is nobody's case that it has resulted in a massive leakage of revenue.
- **Impact -** The abolition of DDT and reintroduction of tax on dividends in the hands of the shareholder has brought relief to non-resident investors.
- However, this change is likely to increase the pain of resident shareholders, especially those falling in higher tax brackets.

2.2 NRIs to Pay Tax

An amendment is proposed to the Income Tax Act in the Finance Bill or the Union Budget 2020.

- It says that all Indians who are working abroad and not paying any income tax in those countries would be liable to pay tax in India.
- **Existing law -** Two parameters determine whether India levies income tax on an individual.
- **Residency** - In India, residency requires a person to actually live in the country for a specified number of days in a year.
- **The Source of the Income** - It is the country where the income is being generated.
- For a resident Indian citizen, the income tax law applies to that person's worldwide income and such a resident Indian is required to pay tax on all of it.
- But for a non-resident Indian, the income tax law applies only to the income earned from within India.
- This difference between residents being taxed on their global income and non-residents being charged only on their Indian income lies at the heart of the confusion.
- **Proposed amendment** – The governmentsays it wants to catch tax evaders who game the residency provisions to evade all taxes.
- It says that the tax laws should not encourage a situation where a person is not liable to tax in any country.
- The amendment to the IT Act has three parts.
- **Number of Days** - The number of days that an Indian citizen can stay in India without becoming a resident is cut from 182 to 120.
- The Memorandum to the Budget said this provision was being misused.
- **NOR category** - The Memorandum has carved out the "Not Ordinarily Resident (NOR)" category.
- This status ensures that an individual who isn't ordinarily a resident isn't taxed as a resident, just because he spends more than specified number of days in India during a particular year.
- The amendment states that an NOR would be someone who has not been a resident of India for seven of the past 10 years.
- Under the existing law, it is nine out of the past 10 years.

- **The Confusion** - This amendment said that an Indian citizen who isn't liable to tax in any other country or territory shall be deemed to be resident in India.
- **Problems -** The amendment tries to tax non-residents as residents.
- This led to panic because, in the absence of clarifications, all non-residents working in tax-free jurisdictions concluded that all their income in there will now attract the Indian income tax rate.
- Apart from the likely harassment, this undermined the whole point of people leaving their homes in India to work in tax-free jurisdictions.

2.3 15th Finance Commission's Interim Report

The interim report of the 15th Finance Commission (FC) has been tabled in Parliament this budget session.

- **Devolution to the States -** The report has largely preserved the devolution mathematics of its predecessor, belying concerns of a sizeable cut in States' share.
- (Devolution - A process in which a central government of a country grants powers to sub-national governments).
- The report has recommended a **one percentage point reduction** in the vertical split of the divisible pool of tax revenues accruing to States to 41%.
- This follows the reorganisation of the erstwhile State of Jammu and Kashmir into the Union Territories of Jammu and Kashmir and Ladakh.
- The former State's notional share based on the parameters for horizontal devolution would have been about 0.85%.
- But, the FC has cited the security and other special needs of the two territories to enhance their aggregate share to 1%, which would be met by the Centre.
- As part of an effort to balance the principles of fiscal needs, the following have been changed,
    1. Equity and performance,
    2. The need to ensure stability and predictability in transfers,
    3. The criteria for the horizontal sharing of taxes among States.

Finance Commission?

- **Article 280** of the Constitution of India provides for a quasi-judicial body, the Finance Commission.
- It is constituted by the President of India every fifth year or at such earlier time as he considers necessary.
- The recommendations made by the Finance Commission are only advisory in nature and hence, not binding on the government.
- The 15th Finance commission makes recommendations for the period of 2020-2025 (5 years).

- **Devolution to the local bodies -** Urban local bodies, especially municipalities in cities with populations of more than one million, are set to get a larger share of the devolution.
- There has been an increase in the percentage of outcome-tied funds from 10% to 50%
- This could prove vexing to the last mile providers of basic services in India's federal and highly fragmented structure of governance.
- **New added parameter -** The **demographic performance** is the new crucial parameter that has been added to the mix.
- The mandate to adopt the population data from the 2011 Census is the reason why the FC has incorporated this additional criterion.
- This will ensure that the States which have done well on demographic management are not unfairly disadvantaged.
- The norm has been assigned a 12.5% weight, as it indirectly evaluates performance on the human capital outcomes of education and health.
- This should address the concerns voiced by several States over the switch to the 2011 Census from the 1971 data.
- **Tax system -** Among the States, with the exception of Tamil Nadu, all the other four southern States see a reduction in the recommended share of taxes for the year 2020-21.

- Notably, the suggested devolution to Odisha and Uttar Pradesh has also shrunk in percentage terms.
- Crucially, the FC has flagged the issues dogging the GST as indirect taxes constitute almost half the total tax revenues of the Union.
- The **new tax has yet to stabilise** which leaves a majority of the States dependent on compensation from the Centre.
- **Criticism** - The FC has also been justifiably critical of the Union and State governments' tendency to finance spending through off-budget borrowings and via parastatals.
- It has done well to ask that such extra-budgetary liabilities be clearly earmarked and eliminated in a time-bound manner.

2.4 Vivad se Vishwas Bill

Both Lok Sabha & Rajya Sabha has passed the Direct Tax Vivad se Vishwas Bill

- The Bill aims to resolve 4.83 lakh direct tax cases worth Rs 9.32 lakh crore that are currently locked up in various appellate forums such as Commissioner (Appeals), ITAT, High Courts, Supreme Court and Debt Recovery Tribunals.
- **Resolution mechanism -** The Bill proposes a resolution mechanism under which an appellant can file a declaration to the designated authority to initiate resolution of pending direct tax disputes.
- The last date to file such declaration will be notified by the central government.
- Based on the declaration, the designated authority will determine the amount payable by the appellant against the dispute and grant a certificate.
- The appellant must pay this amount within 15 days of the receipt of the certificate and inform the designated authority of such payment.
- Once the designated authority issues the certificate, appeals pending before the Income Tax Appellate Tribunals and the Commissioner (Appeals) will be deemed to be withdrawn.
- In case of appeals or petitions pending before the Supreme Court and High Courts, the appellant is required to withdraw the appeal or petition.
- **Immunity to appellant -** Once a dispute is resolved, the designated authority cannot levy interest or penalty in relation to that dispute.
- Further, no appellate forum can make a decision in relation to the matter of dispute once it is resolved.
- Such matters cannot be reopened in any proceeding under any law, including the IT Act.

2.5 Companies Fresh Start Scheme, 202

Ministry of Corporate Affairs has introduced the "Companies Fresh Start Scheme, 2020" and revised the "LLP Settlement Scheme, 2020"

- The Fresh Start scheme and modified LLP Settlement Scheme incentivise compliance and reduce compliance burden during the unprecedented public health situation caused by COVID-19.
- The USP of both the schemes is a one-time waiver of additional filing fees for delayed filings by the companies or LLPs with the Registrar of Companies from 1st April, 2020 to 30th September, 2020.
- It ives longer timelines for corporates to comply with various filing requirements under the Companies Act 2013 and LLP Act, 2008.
- It also significantly reduces the related financial burden on them, especially for those with long standing defaults, thereby giving them an opportunity to make a "fresh start".
- Both the Schemes also gives immunity from penalties for late submissions and also provide additional time for filing appeals.
- However, the immunity is only against delayed filings in MCA21 and not against any substantive violation of law.

2.6 Central Grants to Local Bodies

- Union government has released Rs 2,570 crore pending instalment of the grants to six states under the 14th Finance Commission that had been withheld pending local bodies elections.
- This aims to ensure that the basic services provided by local bodies are not affected amid coronavirus scare.
- The amounts to Andhra Pradesh, Arunachal Pradesh, Meghalaya, Nagaland, Odisha, Tamil Nadu have been released for urban and rural local bodies wherever applicable.
- The amount released totals Rs Rs 2,570.0813 crore, with Rs 940.8063 crore for rural local bodies and Rs 1,629.275 crore for urban local bodies.
- Tamil Nadu will be the biggest beneficiary as its urban local bodies will get Rs 987.85 crore followed by Andhra Pradesh which will get Rs 431 crore and Rs 186.58 crore for Odisha.
- Besides the taxes devolved to states, another source of transfers from the center to states is grants-in-aid.
- As per the recommendations of the 14th Finance Commission, grants-in-aid constitute 12% of the central transfers to states.
- The 14th Finance Commission had recommended grants to states for three purposes:
    1. Disaster relief,
    2. Local bodies,
    3. Revenue deficit.

2.7 Equalisation Levy

- It was introduced in 2016 to tax the income accrue to a foreign e-commerce company outside of India.
- According to the notification, Any person or entity that makes a payment exceeding Rs 1 lakh in a financial year to a non-resident technology company will need to withhold 6% tax on the gross amount being paid as an equalisation levy or Google tax.
- This tax, however, is only applicable when the payment has been made to avail certain B2B services from these technology companies.
- It is applicable only to advertising and related serives.
- **Recent Developments –** In the recent Finance Bill, equalisation levy of 2% will be applicable on sales made by foreign ecommerce companies operating in India.
- The scope of the levy has now been expanded to cover all sorts of digital ecommerce transactions into India, as well as those transactions that use Indian data.
- Apart from e-commerce companies, the new provision could apply to companies which have digital businesses in India such as travel, hotel room booking, gaming, etc
- It is is expected to hit all companies with sales of more than Rs 2 crore in the previous financial year.
- Technology, internet and Software-as-a-Service (SaaS) companies from Microsoft, Adobe and Google to Facebook, all of which offer services through their overseas arms, are likely to be impacted.

3. ECONOMIC SURVEY

3.1 Economic Survey

- The Economic Survey is a report the government presents on the state of the economy in the past one year, the key challenges it anticipates, and their possible solutions.
- The first Economic Survey was presented in 1950-51, Until 1964, the document would be presented along with the Budget.
- The document is prepared by the Economic Division of the Department of Economic Affairs (DEA) under the guidance of the Chief Economic Adviser (CEA).

- Once prepared, the Survey is approved by the Finance Minister.
- One day before the Union budget, the Chief Economic Adviser (CEA) of the country releases the Economic Survey.
- For the past few years, the Economic Survey has been presented in two volumes.
- For example, in 2018-19, while Volume 1 focused on research and analysis of the challenges facing the Indian economy, Volume 2 gave a more detailed review of the financial year, covering all the major sectors of the economy.
- The Economic Survey is a crucial document as it provides a detailed, official version of the government's take on the country's economic condition.
- The government is not constitutionally bound to present the Economic Survey or to follow the recommendations that are made in it.
- If the government so chooses, it can reject all suggestions laid out in the document.
- However, while the Centre is not obliged to present the Survey at all, it is tabled because of the significance it holds.

3.2 Gist of Economic Survey 2019-20

The Economic Survey 2019-20 was released by the Chief Economic Advisor (CEA) Krishnamurthy Subramanian.

- **Key features -** The central theme of the first volume of the survey is "Wealth creation".
- It states that to achieve the goal of becoming a $5-trillion economy, the "invisible hand of markets" will need the support of the trust-based ethical practices.
- This means that regulation and rules in the economy should be such that they make it easy to do business but not turn into crony capitalism.
- (Crony Capitalism = an economic system in which family and friends of government officials are given unfair advantages in the form of jobs, loans, etc)
- It makes several policy prescriptions. to ensure smoother functioning of markets as creators of wealth.
- It states that policies must empower transparency and effective enforcement using data and technology to enhance this public good.
- It acknowledged that 2019 was a difficult year for the global economy, including for trade and demand; and by extension a challenging period for the Indian economy as well.
- The stress in the non-bank financial industry and decline in credit growth are also reflected in the Survey.
- Interestingly, the survey recommends a dynamic health index that policymakers can use as an early warning system to avert incipient liquidity crises in this key credit providing sector.
- **Growth projection -** The Survey has forecasted that the GDP growth for FY21 will be at 6.0-6.5%
- It concedes that a sharp decline in fixed investment induced by a sluggish growth of real consumption has weighed down growth.
- In forecasting growth rebounding to a 6.0-6.5% range, the CEA reiterates an expectation from his previous survey: given the government's strong mandate, it ought to expedite reforms.
- The National Statistical Office now estimates the growth at 5% for the 12 months ending in March 2020.
- **Business policy** - The Survey states that the invisible hand (market forces) needs to be strengthened by **promoting pro-business policies** to
    1. Provide equal opportunities for new entrants, enable fair competition and ease doing business,
    2. Eliminate policies that unnecessarily undermine markets through government intervention,
    3. Enable trade for job creation, and
    4. Efficiently scale up the banking sector to be proportionate to the size of the Indian economy.

- **Food policy -** It uses principles of behavioural economics as instruments of economic policy to have insights about human behaviour.
- It presents "Thalinomics"- an attempt to relate economics to the common person using something that he or she encounters every day - a plate of food i.e. a Thali.
- It contends that government interventions hurt more than they help.
- So, it recommends scrapping the Essential Commodities Act, 1955 when famines and shortages were the concern.
- Similarly, it asserts that the Drug (Prices Control) Order of 2013 has failed to achieve its aim of making drugs affordable and needs to go.
- The CEA wants a complete review of the policy on food grains, which he argues has made the government the largest hoarder thereby distorting these markets.

Risks to next fiscal -

- Continuing global trade uncertainties.
- Escalation in West Asian geopolitical tensions.
- Slow pace of insolvency resolution and
- The possibility of further fiscal pressure crowding out private investment.
- However, the CEA says that these downside risks take a leap of faith.

3.3 High Allocation for Defence Pension

The Union Budget for 2020-21 has allocated Rs 1,33,825 crore to defence pensions which is up by 10½ times the allocation made in 2005-06.

- **Allocation** - This budgetary allocation is 4.4% of the total expenditure of the central government or 0.6% of GDP.
- Of the overall allocation made to the Defence Ministry, 28.4% goes towards pensions.
- The bill for defence pensions has gone upper than the Defence Ministry's total capital expenditure.
- It now nearly equals the salaries bill for Defence Ministry.
- The more the government spends on salaries and pensions, the less it can spend on modernizing the armed forces.
- **Comparison** - To compare it with other sectors, the government's rural employment scheme MGNREGA has an allocation of 46% of the bill for defence pensions.
- As per the Defence Ministry, there are about 26 lakh armed forces pensioners and family pensioners, and approximately 55,000 pensioners added every year.
- In 2015, government announced the OROP (One Rank, One Pension) scheme that cost it Rs 8,600 crore.
- The implementation of the 7th Pay Commission's recommendations in 2017 again increased the defence pensions bill.
- **Unique Defence Pension -** Defence personnel retire at a young age and thus continue to get pensions for a longer period than their civilian counterparts do.
    1. The current ratio of military pensioners to serving military personnel is 1.7 to 1
    2. The current ratio of civil pensioners to civil working personnel is 0.56 to 1.
- This ratio in defence is projected to further change as life expectancy in India goes up and retired personnel live far longer than earlier.
- All civilian employees in the government who joined service on or after 1 January 2004 do not get an assured pension but come under the ambit of the contributory National Pension Scheme (NPS).
- However, military personnel have been excluded from the ambit of the NPS because of their short service span.

- **Implication -** With economic growth stalling and competing requirement from development and infrastructure sectors, the government is being hard-pressed for the last rupee in its kitty.
- The defence services themselves need more funds to modernise themselves but are struggling with budgetary allocations.
- In such a scenario, attention is likely to come to the fast-rising defence pensions bill.

Other Possible solutions

- **Increasing the retirement age** - To keep the bill frozen at the same level, a short-term solution is to increase the retirement age of serving military personnel and stop the rise in number of pensioners.
- However, the country is facing an all-time high unemployment and stopping recruitment for a few years now will worsen the situation.
- **Sending to the paramilitary forces** - To send the retired military personnel to paramilitary forces is another soliution.
- But those forces too need to stay young and have not accepted the proposal.
- That would also pose the problem of recruitment in a time of high unemployment, as in the case of increase in retirement age of military personnel.
- Unless India's economy grows at a double-digit rate, it will not be possible to handle the challenge of the sharply rising defence pensions bill and still modernize the armed forces.
- There are no easy answers to the challenge, and the answer will have to come from the top political leadership.

4. BANKING

4.1 Change of Accounting Year

- After nearly eight decades, the Reserve Bank of India (RBI) has decided to change its accounting year from July-June to April- May.
- Accordingly, the next accounting year will be a nine-month period, which starts from July 2020 and ends on March 31, 2021.
- Thereafter, all the financial years will start from April every year, the RBI.
- The Bimal Jalan Committee on Economic Capital Framework (ECF) of the RBI had proposed a more transparent presentation of the RBI's annual accounts and change in its accounting year from July to June to April to March from the financial year 2020-21.
- The RBI would be able to provide better estimates of the projected surplus transfers to the government for the financial year for budgeting purposes.
- Through this move, RBI accounts will now be aligned with the central government accounts.
- This move is likely to obviate the RBI's need to transfer an interim dividend to the central government, a practice that has been adopted in the past few years.

4.2 Amendments to Banking Regulation Act

- In the wake of the recent Punjab & Maharashtra Cooperative (PMC) Bank crisis, the Union Cabinet approved amendments to the Banking Regulation Act.
- It aims to bring 1,540 cooperative banks under the Reserve Bank of India (RBI) regulation.
- Cooperative banks would be regulated under the RBI's banking guidelines and their auditing would also be done as per its norms.
- Qualifications would be laid down for appointments, including that of Chief Executive Officers.
- Prior permission from the RBI would be required for the appointment of key positions.
- The regulator would deal with issues such as loan waivers.

- The RBI would also have powers to supersede the board of any cooperative bank in financial distress.
- The proposed amendments, along with the government's decision to increase the insurance cover on bank deposits from ₹ 1 lakh to ₹ 5 lakh, have been brought to strengthen the financial stability of cooperative banks and boost public confidence in the banking system.

4.3 Basel III Norms

- After the global financial crisis in 2008, central banks got together and decided to formulate new rules called the Basel-III norms to make banks maintain stronger balance sheets.
- It aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.
- It limit the amount of debt a bank can owe even further, this is called the Leverage Ratio.
- This is especially applicable for banks that trade in high-risk assets like derivatives.
- Capital is money that is invested in assets like equity or government bonds.
- In India, one of the key new rules brought in was that banks must maintain capital at a minimum ratio of 11.5 per cent of their risk-weighted loans.
- Of this, 9.5% needs to be in Tier-1 capital and 2% in Tier-2.
- Tier-1 capital refers to equity and other forms of permanent capital that stays with the bank, as deposits and loans flow in and out.
- Tier 2 capital includes general loan-loss reserves,undisclosed reserves, revaluation reserves, hybrid capital instruments and subordinated term debt.
- Tier 2 capital is considered less reliable than Tier 1 capital because it is more difficult to accurately calculate and difficult to liquidate.
- In view of the coronavirus pandemic, the implementation of Basel-III norms for banking services has been deferred by a year till January 1, 2023.

4.4 Capital-to-risk Weighted Assets Ratio

- CRAR or Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.
- It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
- The Basel III norms stipulated a capital to risk weighted assets of 8%.
- However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CRAR of 9%.

4.5 Re-Capitalization of RRBs

- Recently, the Centre has approved a ₹ 1,340-crore recapitalization plan for Regional Rural Banks (RRBs).
- The move is crucial to ensure liquidity in rural areas during the lockdown due to the COVID-19 crisis.
- This recapitalization (a strategy of enhancing the financial base of an entity to overcome a rough financial situation) would improve their capital-to-risk weighted assets ratio (CRAR) and strengthen these institutions for providing credit in rural areas.
- The step will help those RRBs which are unable to maintain a minimum CRAR of 9%, as per the regulatory norms prescribed by the RBI.
- The recapitalization process of RRBs was approved by the cabinet in 2011 based on the recommendations of a committee set up under the **Chairmanship of K C Chakraborty**.
- NABARD identifies those RRBs, which require recapitalization assistance to maintain the mandatory CRAR of 9% based on the CRAR position of RRBs, as on 31st March of every year.
- The scheme for recapitalization of RRBs was extended up to 2019-20 in a phased manner post 2011.

Regional Rural Banks

- Regional Rural Banks (RRBs) are financial institutions which ensure adequate credit for agriculture and other rural sectors.
- RRBs were set up on the basis of the recommendations of the Narasimham Working Group (1975), and after the legislation of the Regional Rural Banks Act, 1976.
- The first Regional Rural Bank "Prathama Grameen Bank" was set up on 2nd October, 1975.
- The equity of a regional rural bank is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35.
- The RRBs combine the characteristics of a cooperative in terms of the familiarity of the rural problems and a commercial bank in terms of its professionalism and ability to mobilize financial resources.
- Each RRB operates within the local limits as notified by the Government.
- The main objectives of RRBs are
    i. To provide credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas.
    ii. To check the outflow of rural deposits to urban areas and reduce regional imbalances and increase rural employment generation.
- The RRBs are required to provide 75% of their total credit as priority sector lending.

4.6 CRR Exemption

RBI has exempted banks from maintaining CRR for loans to retail and MSMEs for five years.

- These apply to the loans that are extended between January 31 and July 31, 2020.
- It is aimed at revitalising the flow of bank credit to productive sectors having multiplier effects to support growth impulses.
- The move is expected to make loans cheaper to these particular segment.
- This exemption was available for incremental credit disbursed as retail loans to automobiles, residential housing, and loans to micro, small and medium enterprises (MSMEs).
- CRR is the proportion of deposits of deposits that a bank has to park with RBI in cash.
- At present, CRR is 4% of net demand and time liabilities.
- Banks do not earn any interest for maintaining CRR with the RBI.

4.7 National Strategy for Financial Inclusion

RBI has released the National Strategy for Financial Inclusion 2019-2024 on January 10, 2020.

- It sets forth the vision and objectives of financial inclusion policies in India.
- The report refers to financial inclusion as the process of ensuring access to financial services, and timely and adequate credit for vulnerable groups and low-income groups at an affordable cost.
- Financial inclusion has a multiplier effect in boosting overall economic output, reducing poverty and income inequality, and in promoting gender equality and women empowerment.
- **Lessons from other countries -** RBI observed that, as of mid-2018, more than 35 countries, including China have a national financial inclusion strategy. #
    i) Common themes among them are

ii) Following a target-based approach

    ii) Strengthening infrastructure of payment mechanisms
    iii) Strong regulatory framework
    iv) Focus on last-mile delivery and financial literacy

v) Use of Innovation & Technology etc

- **Steps taken -** RBI noted that several steps have been taken in India like,
  i) Pradhan Mantri Jan Dhan Yojana - bank accounts have been opened
  ii) Pradhan Mantri Suraksha Bima Yojana - to provide accidental death or disability
  iii) Atal Pension Yojana - to provide pension cover to subscribing bank account holders.
  iv) Issuance of differentiated banking licenses (small finance banks and payments banks) and the launch of Indian Post Payments Bank has helped bridge the gap in last mile connectivity.
- Critical Gaps
  i) inadequate infrastructure
  ii) Poor tele & internet connectivity in rural hinterland
  iii) socio-cultural barriers etc
- **Strategic objectives -** RBI identified six strategic objectives
  i) Universal access to financial services
  ii) Providing basic bouquet of financial services
  iii) Access to livelihood and skill development
  iv) Financial literacy and education
  v) Customer protection and grievance redressal
  vi) Effective coordination
- **Measurement -** RBI recommended that financial inclusion should be measured through parameters across three key indicators.
  i) Measure access, such as number of bank branches or atms for a specified population
  ii) Measure usage, such as percentage of adults with a saving account, insurance or pension policy &
  iii) Measure quality of services, such as grievance redressal (through number of complaints received and addressed).

4.8 Merger of 10 PSBs

The cabinet approved the consolidation of 10 public sector banks (PSBs) into four entities.

- Punjab National Bank (PNB), Oriental Bank of Commerce (OBC) and United Bank will be brought together to form the 2nd largest public sector bank in the country, after SBI.
- Canara Bank and Syndicate Bank will merge to become the 4th largest public sector lender.
- Union Bank of India will merge with Andhra Bank and Corporation Bank to build India's 5th largest lender.
- Indian Bank will merge with Allahabad Bank to make India's 7th largest PSB.
- The move is aimed at having fewer but stronger lenders in India.
- The amalgamation is being done so that customers are able to reap the benefit of larger banks being scaled up and more fund being available for credit.
- Businesses will benefit through increased lending capacity, with the regulatory ceiling for lending to individual borrowers increasing by more than ₹ 1,500 crore to ₹ 3,000 crore.
- For existing customers, this will increase access to banking services by about 3,000 branches or more.
- At present, India has 18 state-owned banks compared with 27 in 2017.
- After the merger, the number will further come down to 12.
- In April 2019, Bank of Baroda (BoB) became the country's third largest lender after its merger with Dena Bank and Vijaya Bank.
- In 2017, five associate banks and Bharatiya Mahila Bank had merged with SBI.

4.9 Group Insolvency

Insolvency and Bankruptcy Board of India (IBBI) constituted a Working Group to recommend facilitation of group insolvency and liquidation process.

- Group companies are a set of entities related by shared control or economic dependencies.
- At present, the Insolvency & Bankruptcy Code does not envisage a framework to harmonise corporate insolvency resolution process and liquidation proceedings of group companies.
- However, in Corporate Insolvency Resolution Process (CIRP) of various corporate debtors, the need of group insolvency arose due to interconnections within associated companies.
- This led to IBBI constituting a Working Group (WG).
- **Corporate Group -** The WG recommended an amendment to the Code to add a definition of "Corporate Group".
- It also recommended that this definition should be based on the criteria of 'control and ownership'.
- It recommended that the definition of Corporate Group should include associate, holding and subsidiary companies.
- If a company is not covered within the said definition and yet is intrinsically linked to a part of a group in a commercial understanding, the Adjudicating Authority may include such company in the group.
- **Recommendations -** It is a well-settled legal principle that subsidiaries are a separate legal entity and holding company does not own assets of its subsidiary.
- In this regard, the WG has recommended the mechanisms like Information Sharing, Group Coordination Proceedings, and Single Professional, Group CoC and Joint Applications.
- The WG has recommended that IPs, committee of creditors and adjudicating authorities should communicate insolvency proceedings information to reduce duplicating efforts.
- However, it has failed to device a mechanism for information sharing.
- One way is to upload the necessary information on information utilities to assess whether there is a need for initiating group insolvency proceedings for a particular company.
- The WG has suggested for appointment of a group coordinator to supervise valuation of total assets, common information memorandum, expression of interest, group CoC and resolution plan.
- However, the CoC of a group company, by a majority vote, may opt out of the insolvency proceeding, after assailing a reason for the same.
- The legislature should put a condition that no company shall be allowed to opt out after a certain stage, otherwise, it would derail the insolvency proceedings.
- Given that group company insolvency involves various complexities, the WG has suggested extending the time limit of CIRP to 420 days from 330 days by amending section 12 of the Code.
- The WG has recommended a **joint application** to commence CIRP for group companies provided all companies have committed a default as per the code.
- It has also recommended **administering insolvency proceedings** of group companies by a single adjudicating authority.
- It recommends vesting jurisdiction to the first adjudicating authority, where CIRP application has been filed by amending Section 60(1) of the Code.
- [At present, the jurisdiction is vested upon the adjudicating authority where the corporate debtor has its registered office.]
- The WG has recommended appointment of a **single Insolvency Professional** for group companies, unless, adjudicating authority is of the view that it may lead to conflict of interest.
- It recommends the constitution of group a **CoC**, the composition of which is to be decided by the CoC of each group company.

Challenges

- **Definition** - The term "commercial understanding" in the definition of Group Company, as recommended by the report, is vague.
- It may lead to an incongruous interpretation leading to flood gates of frivolous applications before the adjudicating authority, thereby delaying proceedings and clogging of judicial infrastructure.
- **Derogation** - Before initiating group insolvency proceedings, the adjudicating authority will have to satisfy itself of the inter-linkage between associate companies.
- Otherwise, if each company's CIRP can be dealt in segregation, it would result in reduction in the value of assets.
- This is in derogation of the principles of maximisation of assets envisaged in the preamble of the code.
- To avoid any hurdle, IBBI should frame a holistic definition of Group Company, to include all companies that are linked intrinsically either by horizontal or by vertical integration.
- Nonetheless, the time seems right to further fortify the code by adding provisions to aid group insolvency of companies.

4.10 RBI and COVID-19

RBI has taken some measures to safeguard the economy from impact of the COVID-19 pandemic.

- RBI has cut the Repo Rate by 75 basis points (bps) from 5.15% to 4.4%.
- Marginal Standing Facility (MSF) rate and Bank Rate has been reduced from 5.40% to 4.65%
- Reverse Repo Rate is reduced by 90 bps to 4%
- Cash Reserve Ratio (CRR) of banks to be reduced by 100 bps to 3%
- Banks are permitted to grant moratorium i.e. a temporary halt, on all term loans of 3-months of instalments.
- These measures will inject liquidity of Rs 3.74 lakh crore to the system.
- The cut in repo rate and CRR are the sharpest after the 2008 response to the global financial crisis.
- With a high 90 bps cut in the reverse repo rate, lenders are being nudged away from parking funds in RBI's reverse repo corridor.
- This rate cut and other liquidity facilities need to be enveloped in a package of macro and micro-prudential relaxations and regulatory forbearance.
- **3-months moratorium** - This is not a waiver, but only a deferment i.e. a borrower does not have to pay interest or repay the principal on a loan for 3 months.
- Since non-payment will not lead to non-performing asset classification by banks, there will be no impact on credit score of the borrowers.
- But, the payments will be cumulated and will need further spreading out over the next quarter.
- Help for MSMEs is provided by enhancing Working Capital draw limits, by reducing margins or extending the WC cycle.
- The moratorium will reduce anxiety among businesses and individuals who will see a fall in income/cash flows.
- The effectiveness also depends on stakeholders' perception of the credibility of the authorities' response functions.
- As the shock to an already weakened economic system was a public health crisis, the first task is to stabilise the economy.

4.11 RBI and Payment Aggregators

RBI has issued final guidelines for bringing payment aggregators (PAs) under its direct supervision.

- The 2019 RBI discussion paper proposed common regulatory framework for PAs and PGs without making any distinction in their roles.

- Contrary to these, the final guidelines distinguished a PG from PA as,
    1. Payment Gateways (PGs) - Merely provides technological infrastructure without any access to consumer funds.
    2. Payment Aggregators (PA) - Actually handles consumer funds.
- Accordingly, only PAs are mandated to comply with the regulatory requirements outlined in the guidelines.
- However, as a measure of good practice, PGs are recommended to adopt the baseline technology measures in the guidelines.
- The discussion paper suggested 3 ways to look into the issue - no regulation, light touch regulation or full regulation. The final guidelines seem to have favored the third alternative.
- The new guidelines say that a payment aggregator should be a company incorporated in India under the Companies Act, 1956 / 2013.
- It further says non-bank entities offering payment aggregator services will have to apply for authorization on or before June 30, 2021.
- E-commerce marketplaces, according to the guidelines, providing payment aggregator services will have to be separated from the marketplace business and they will have to apply for authorization on or before June 30, 2021.
- The biggest examples of this are PhonePe, a Flipkart company, and Paytm's payment aggregator business are already separate entities from the marketplace models.
- The discussion paper recommended a net-worth requirement of Rs 100 crore for PAs and PGs, which was heavily criticised by the industry.
- But, the final guidelines mandate PAs to have a net-worth of Rs 15 crore initially, and then Rs 25 crore by 2023.
- The guidelines require refunds to be made to the original method of payment, unless an alternate mode has been agreed to by the consumer.
- This may prohibit the practice of many e-commerce platforms to credit refunds automatically to a consumer's e-wallet created on the platform.
- This was a difficult practice for a consumer, as the amount in these wallets can only be used for transactions on that particular platform.
- Now, the e-commerce platforms have to credit the refunds to the account from where the amount was originally debited.
- **Significance** - Extending RBI's regulatory oversight is a welcome move.
- PAs (like Bill Desk, CCAvenue, etc.) facilitate online payments and they play a crucial role in the digital payments ecosystem.
- So, the RBI guidelines will be instrumental in ensuring that only serious players with robust governance framework remain in the market.

Issues

- **Account with only one SCB** - The guidelines require PGs to maintain an escrow account with only one State Cooperative Bank (SCB).
- It may be worthwhile to reconsider this provision and enable more than one account, in light of Yes Bank debacle.
- Due to restrictions imposed by the RBI on Yes Bank, the nodal accounts maintained by payment intermediaries with it could not be operated.
- This resulted in disruption of services by fintech companies, especially related to paying out merchants.
- **Background check** - In addition to undertaking KYC for on-boarding merchants, PAs have been mandated to undertake background and antecedent check of the merchants.
- This is to ensure that such merchants do not have any mala fide intention of duping consumers or selling counterfeit products.

- Mandating PAs to address the regulator's concern regarding the quality of the merchant and its goods appears to be an onerous burden for a PA.
- **Grievance redressal** - The PA is mandated to maintain customer grievance redressal mechanisms in line with RBI's prescriptions on turnaround time for resolution of failed transactions.
- Unlike the regulatory prescriptions for prepaid payment instrument issuers, there is no requirement for PAs to report about the receipt of complaints and action taken status thereon to the RBI.
- **Preparation of plans** - The impact of the Yes Bank moratorium on the fintech sector clearly indicates the relevance of business continuity plans.
- Accordingly, it may have been useful for guidelines to refer to preparation of plans by PAs.

4.12 Yes Bank Crisis

RBI has placed the financially troubled Yes Bank under a moratorium (temporary suspension).

- After placing this bank under a moratorium, the RBI announced a **draft 'Scheme of Reconstruction'**.
- This scheme entails the State Bank of India (SBI) investing capital to acquire a 49% stake in the restructured private lender.
- Yes Bank's stock tumbled that eroded shareholders' holdings and dragging the 10-bank S&P BSE Bankex down with it.
- This is an indicator of the contagion risk that a sudden bank resolution can pose to the financial system.
- So, the enthusiasm with which the bailout has been proposed is praiseworthy.

Reasons

- Yes Bank's problems with mounting bad and illegal loans reflect the underlying woes in the borrower industries.
- The continued inability of many corporate to repay their loans has resulted in many landing up in **insolvency proceedings**.
- This has meant that lenders have been the hardest hit.
- It has suffered a **doubling in gross non-performing assets** over the April-September period, even as it scrambled to raise capital to shore up its balance sheet.
- With the economy in the throes of a persistent slowdown, the prospects of banks' burden of bad loans easing soon are limited.
- The lender has been ended up at the resolution stage, without being placed under the Prompt Corrective Action (PCA) framework of the RBI.
- This raises a question over how and why the bank escaped the PCA that was a tailor-made solution to address weakness at banks.
- The lender's stated operational metrics had not breached the pre-set thresholds for triggering the PCA action.
- But, the central bank had flagged several concerns in recent years.
- This also includes the concern of the distinct divergence between the reported and RBI's own findings on the financials of the bank.
- This could be a good opportunity for the RBI to **review its PCA** guideposts and revise them to ensure that such a slipping under the radar does not recur.
- The choice of SBI as the investor to effect the bailout reflects the scarcity of options with the government.
- Several other public sector banks are also currently engaged in merging with weaker peers as part of the Centre's plan.

4.13 Fully Accessible Route

- It is a separate channel introduced by RBI to allow non-residents to invest in specified Government securities without any quantitative limit with effect from April 1, 2020.

- It will operate along with the 2 existing routes such as Medium Term Framework (MTF) and the Voluntary Retention Route (VRR).
- According to RBI, existing investments by eligible investors in specified securities should be reckoned under the FAR.
- FPIs, Non-Resident Indians (NRIs), Overseas Citizens of India (OCIs) and other entities permitted to invest in Government Securities under the Debt Regulations can invest under FAR route.
- Eligible investors, other than FPIs, NRIs, OCIs, etc, can invest through International Central Securities Depositories.
- It also specified that all new issuances of Government securities of 5-year, 10-year and 30-year tenors from the financial year 2020-21 will be eligible for investment under the FAR as 'specified securities'.
- It may add new tenors or change the tenors of new securities to be designated as 'specified securities' from time to time.
- It is in line with the budget announcement about certain specified categories of Government securities being opened fully for non-resident investors and increasing the limit for FPI in corporate bonds.
- The central bank also increased the limit for Foreign Portfolio Investment (FPI) investment in corporate bonds to 15 per cent of outstanding stock for FY 2020-21 from 9 per cent now.

4.14 MANI App

- RBI has launched a mobile app, MANI, Mobile Aided Note Identifier.
- It aims to help visually challenged people to identify denomination of currency notes.
- Through the downloaded app, users can scan the notes using the camera.
- The audio output will give the result in Hindi and English.
- The mobile application does not authenticate a note as being either genuine or counterfeit.

4.15 eBkray

- It is a platform launched by the Ministry of Finance.
- It enables online auction of assets attached by various state-run banks.
- It provides navigational links to all PSB e-auction sites, property search feature and presents single-window access to information on properties up for e-auction.
- It also provides facility for comparison of similar properties.
- It seeks to bring in transparency in the sale of properties.

5. FINANCIAL MARKET

5.1 AT-1 Bonds

- AT-1, short for Additional Tier-1 bonds, are a type of unsecured, perpetual bonds that banks issue to shore up their core capital base to meet the Basel-III norms.
- These bonds are perpetual and carry no maturity date.
- Instead, they carry call options that allow banks to redeem them after five or 10 years.
- But banks are not obliged to use this call option and can opt to pay only interest on these bonds for eternity.
- Banks issuing AT-1 bonds can skip interest payouts for a particular year or even reduce the bonds' face value without getting into hot water with their investors, provided their capital ratios fall below certain threshold levels, These thresholds are specified in their offer terms.
- If the RBI feels that a bank is tottering on the brink and needs a rescue, it can simply ask the bank to cancel its outstanding AT-1 bonds without consulting its investors.

- AT-1 bonds are complex hybrid instruments, ideally meant for institutions and smart investors who can decipher their terms and assess if their higher rates compensate for their higher risks.
- But in India, these bonds seem to have been sold to a fair number of retail investors as fixed deposit or NCD substitutes.
- AT-1 bonds carry a face value of ₹ 10 lakh per bond.
- There are two routes through which retailers have acquired these bonds
- Initial private placement offers of AT-1 bonds by banks seeking to raise money; or
- Secondary market buys of already-traded AT-1 bonds based on recommendations from brokers

5.2 Circuit Breakers

- Circuit breakers are triggered to prevent markets from crashing, which happens when market participants start to panic induced by fears that their stocks are overvalued and decide to sell their stocks.
- This index-based market-wide circuit breaker system applies at three stages of the index movement, at 10, 15 and 20 per cent.
- In June 2001, the Securities and Exchange Board of India (SEBI) implemented index-based market-wide circuit breakers.
- When triggered, these circuit breakers bring about a coordinated trading halt in all equity and equity derivative markets nationwide.
- For instance, if the S&P BSE Sensex were to fall more than 10 per cent before 1 pm on a given day, circuit breakers would be triggered for a period of 45 minutes; in case it fell more than 15 per cent on or after 2 pm, circuit breakers would be triggered for the remainder of the day and in case it fell more than 20 per cent at any time of the day, the trading would be halted for the remainder of the day.
- Since the indexes plunged more than 10 per cent each day earlier, a circuit breaker was triggered for the first time since 2009 halting trading for 45 minutes.
- Recently Bombay Stock Exchange (BSE) experienced the second biggest single-day fall in its history as it fell by 8.2 per cent, slightly lower than the 11 per cent fall it saw during the 2008 financial crisis.
- This fall began in January, when China started reporting a sharp increase in the number of COVID-19 cases.

5.3 Nidhi Companies

- Nidhi Company is a class of Non-Banking Financial Company(NBFC) and Reserve Bank of India(RBI) has powers to issue directives for them related to their deposit acceptance activities.
- However, since these Nidhis deal with their shareholder-members only, RBI has exempted them from the core provisions of the RBI Act and other directions applicable to NBFCs.
- Under Nidhi Rules, 2014, Nidhi is a company which has been incorporated as a Nidhi with the object of cultivating the habit of thrift and saving amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit.
- It is a company registered under the Companies Act, 2013.
- It works on the principle of mutual benefits that are regulated by the Ministry of Corporate Affairs.
- Recently, union government has amended the provisions related to Nidhi companies under the Companies Act, 2013 and the Rules.
- The amendments have been made to make the regulatory regime for Nidhi Companies more effective.
- This will accomplish the objectives of transparency & investor friendliness in the corporate environment of the country.

5.4 SEBI's Pragmatic Actions

SEBI has taken several measures to reduce volatility across markets.

- **Recent measures -** The regulator has raised margins for stocks, and lowered the market-wide position limit for stock futures to curb speculation.
- It has also set a limit of Rs 500 crore on index derivatives positions taken by mutual funds, financial institutions, and proprietary traders.
- It has imposed penalties at up to 10 times the prescribed minimum for non-compliance.
- These measures are broadly in line with actions taken by many overseas market regulators, which are all struggling to cope with the pandemic.
- **Investors -** While tighter controls might lead to less wild price fluctuations, the trend is likely to remain bearish.
- Even strong supportive action by the Federal Reserve and the European Central Bank has not reversed poor investor sentiment.
- Until the threat of the pandemic recedes, investors would avoid risk.
- They will seek the safety of hard currency instruments like US government bonds.
- This "risk-off" attitude has hit every emerging market hard.
- In March 2020, the Nifty has already dropped by over 21% in 3 weeks, which was caused due to the heavy selling by foreign investors.
- Consequently, the rupee has fallen to historic lows, breaching the Rs 75 barrier versus the US dollar.
- **Implications for the World -** There are uncertainties about how long the lockdown will last, and the full extent of the damage it will cause, both in terms of deaths and economic losses.
- COVID-19 is likely to have triggered a global recession.
- Right now, the world economy is struggling to contain a supply shock caused by lockdowns and cessations of normal economic activity.
- But it will soon become a demand issue as more and more people suffer income losses.
- **Implications for India -** Even before coronavirus surfaced, the Indian markets were perceived as overvalued, given the slower growth over the past seven quarters.
- The first six months of 2020 could be worse.
- Growth may slide further and the corporate results will be dismal.
- While sectors such as aviation, tourism, transport, etc., will be hit particularly hard, there will be losses and slowdowns across the board.
- **Significance -** Investors may find value in beaten-down stocks and a weaker rupee could help improve India's competitiveness.
- Another positive is low energy prices, which help the trade balance and assist in containing the fiscal deficit.
- **Problems -** The bottom line is the markets hate uncertainty and the pandemic is causing huge amounts of it.
- Until there is clarity on the pandemic front, and a promise that the disease can be contained, investors will continue their flight to safety.
- While SEBI's actions are pragmatic, at best, they will reduce volatility.
- But, the investors will wait for good news on the coronavirus front before they start buying emerging-market stocks again.

SEBI

- SEBI is a statutory regulatory body established under the SEBI Act, 1992.
- It monitors and regulates the Indian capital and securities market.
- It will protect the interests of the investors formulating regulations and guidelines to be adhered to.

5.5 Volatility Index

- VIX (Volatility index) is an index used to measure the near term volatility expectations of the markets.
- Volatility signifies the rate and magnitude of change in the stock price or index value.
- The movement in the VIX index reflects the overall market volatility expectations over the next 30 days.
- Given the nature of the index, it is also known as 'fear gauge' or 'fear index'.
- The VIX index was first created by the Chicago Board Options Exchange (CBOE) and introduced in 1993 based on the prices of S&P 500 index.
- The India VIX was launched by National Stock Exchange (NSE) in 2010 and is based on the computation methodology of CBOE though amended to align with the Indian markets.

National Stock Exchange of India Ltd. (NSE)

- NSE is the leading stock exchange of India, located in Mumbai.
- The NSE was established in 1992 as the first dematerialized electronic exchange in the country.

- India VIX indicates the Indian market's volatility from the investor's perception.
- Volatility and the value of India VIX move parallel. i.e a spike in the VIX value means the market is expecting higher volatility in the near future and vice versa.
- India VIX also has a strong negative correlation with Nifty. i.e every time India VIX falls, Nifty rises and when India VIX rises, Nifty falls.
- VIX value is among the important parameters that are taken into account for pricing of options contracts, which are one of the most popular derivative instruments.
- In the current calendar year, the India VIX index has jumped fivefold, from around 12 levels to the current 67 levels, which clearly hints that the market perceives that volatility will only increase in the coming days.
- Incidentally, the index is currently trading at record highs and on some days in the recent past, saw a surge of more than 20% in a single day.

6. EXTERNAL SECTOR

6.1 Relaxation of FDI norms in Defence Sector

- In May 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to 100% for Indian private sector participation, with Foreign Direct Investment (FDI) up to 26% both subject to licensing.
- FDI in defence industry sector is subject to industrial license under Industries (Development & Regulation) Act, 1951 and manufacturing of small arms and ammunition under the Arms Act, 1959.
- Further in 2016, Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry has allowed FDI under automatic route up to 49% and above 49% through government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.
- As per the data furnished by 79 companies in Defence and Aerospace sector, so far (i.e. till December, 2019), FDI inflows of over Rs. 3155 crores have been reported in Defence and Aerospace sectors.
- FDI inflows of over Rs. 1834 crores have been reported in Defence and Aerospace sector after 2014.

6.2 FDI in Insurance Sector

- The Department for Promotion of Industry and Internal Trade (DPIIT) notified 100 % foreign direct investment (FDI) in insurance intermediaries under automatic approval route.
- Intermediary services include insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third party administrators, surveyors and loss assessors.
- The FDI policy earlier allowed 49 per cent foreign investment in the insurance sector, which includes insurance intermediaries.

- Measures to be taken by Insurance intermediary that has major share holding of foreign investors –
  i. Incorporation as a limited company under the provisions of the Companies Act 2013
  ii. At least one from among the chairman of the board of directors or the CEO or principal officer or MD of the company shall be a resident Indian citizen,
  iii. Shall take permission of the IRDA for repatriating dividend, and shall not make payments to the foreign group or promoter or associate entities beyond what is necessary or permitted
- Representations were made to the government that these intermediary services should be treated at par with other financial services intermediaries, where 100 per cent foreign investment is permitted.

6.3 Countervailing duty

- Countervailing duty (CVD) is an import tax imposed on certain goods in order to prevent dumping or counter export subsidies.
- The preferential treatment with respect to CVDs investigations falls under the US' Generalized System of Preferences (GSP) scheme.
- Generalized System of Preferences (GSP) is an umbrella that comprises the bulk of preferential schemes granted by industrialized nations to developing countries.
- The office of the United States Trade Representative (USTR) has taken off India from the list of developing and least-developed countries that are eligible to claim benefits for preferential treatment with respect to countervailing duties (CVDs) investigations.
- Along with India, USTR has also eliminated other countries including Brazil, Indonesia, Hong Kong, South Africa, Malaysia, Thailand, Vietnam and Argentina from getting preferential treatment.
- The new lists consist of 36 developing countries and 44 least developed countries.
- The USA had come up with lists of countries classified as per their level of development to harmonize the USA preferential treatment laws with the World Trade Organization's (WTO) Subsidies and Countervailing Measures (SCM) Agreement in 1998.
- Thus, the country with per capita GNI above $12,375 or Rs 8.82 lakh, the share of more than 0.5% to the world trade and membership to the above-mentioned organizations is considered as a developed country by USTR.

7. GENERAL ECONOMY

7.1 NCLAT's Order - Reinstating Cyrus Mistry

The National Company Law Appellate Tribunal (NCLAT) reinstated Cyrus Mistry as Chairman of Tata Sons and Director of the Tata Group of companies for the remainder of his tenure.

- Cyrus Mistry, son of Pallonji Mistry, is the owner of Shapoorji Pallonji group and the biggest stakeholder in the Tata group.
- Mistry was the sixth chairman of Tata Sons and had taken over in 2012 after Ratan Tata.
- Relations were seen as amicable between Mistry and Tata.
- However, after differences of opinions with group patriarch Ratan Tata, Mistry was ousted as both Chairman and Director in October 2016.
- This was done in a surprise move by the Tata Sons board.
- Mistry later moved the National Company Law Tribunal (NCLT).
- The Mumbai bench had upheld Mistry's removal from

NCLAT

- The NCLAT was constituted under Section 410 of The Companies Act, 2013.
- It was tasked to hear appeals against the orders of the NCLT(s).
- It is also the appellate tribunal for orders passed by -
  1. the NCLT(s) under Section 61 of the Insolvency and Bankruptcy Code (IBC), 2016,
  2. the Insolvency and Bankruptcy Board of India (IBBI) under Sections 202 and 211 of the IBC

his positions at Tata Sons and other Group companies.

NCLAT's decision

- The appellate tribunal, NCLAT held Mistry's sacking and the subsequent appointment of N Chandrasekaran to the top post at Tata Sons illegal.
- The move to take Tata Sons private has also been declared illegal and reversed.
- NCLAT set aside the 2017 order by the Mumbai bench of the NCLT.
- The current NCLAT order included directions on several major questions of corporate governance.
- Article 75 of the Articles of Association of the Tata Group grants Tata Sons the right to transfer the 'ordinary shares' of any shareholder.
- This can be done bypassing a special resolution in the presence of nominated directors of Tata Trusts.
- The NCLAT has barred Tata Sons from taking any action against Mistry, Shapoorji Pallonji, Cyrus Investments, and other minority shareholders under this provision.
- It also directed Tata Sons to consult all its minority shareholders before making any appointments in the future.
- These include for the post of Executive Chairman, Independent Director, and Director on the boards of Group companies.
- **Benefits -** The NCLAT direction will empower the minority shareholders.
- Also, it will force Independent Directors to take their objections more seriously.
- One of the functions of Independent Directors is to safeguard the interests of all stakeholders, particularly the minority shareholders.
- The Code for Independent Directors, which is part of The Companies Act, 2013, specifies this.
- The directive will also give a boost to the Shapoorji Pallonji Group, which is owned by the Mistry's family.
- The group, although a minority shareholder (18%), is still the biggest outside shareholder in Tata Sons, the holding company of the Tata Group.
- **Implications -** The NCLAT decision will undoubtedly cause ripples of uncertainty through the Tata empire and the broader corporate sector.
- The decision will be implemented after 4 weeks, giving time to the Tata group to contest it. However, the charges are serious:
    i. oppression of minority shareholders (the Shapoorji Pallonji group is one of them)
    ii. mismanagement at Tata Sons
    iii. undue haste in removal of Mr Mistry as chairman
- If the NCLAT judgment is upheld by an appropriate forum, several critical decisions taken by the new management will come up for scrutiny.
- Although the NCLAT passed an order restoring Mistry to the top position, the execution of the order has been suspended for 4 weeks.
- This will allow the Tata Group to challenge the NCLAT decision before the Supreme Court.
- However, barring the direction to reinstate Mistry, the NCLAT has not stayed the execution of any of its other directions.
- This means Mistry will be immediately restored to his position as Director on the boards of at least three Tata Group companies.

7.2 Air India Disinvestment

The government has tweaked the terms of sale of Air India, and is now putting 100% of its equity in the airline on the block.

- The government is hopeful of attracting investors with the new sale criteria coupled with the main benefits of the airline.
- **New sale criteria** - The low-cost arm Air India Express and a 50% stake in ground handling firm Air India-SATS are up for sale.
- The government relaxed the minimum net worth criteria for potential bidders to Rs 3,500 crore from the Rs 5,000 crore in 2018.
- **Benefits** - The prime slots in capacity-constrained airports across the world, wide-bodied aircraft, and a 50.64% market share in international traffic among Indian carriers.
- Any potential investor is expected to look at the size of the airline's operations with reference to what those operations generate.
- The combined amount of debt and liabilities are at least Rs 32,058 crore.
- Therefore, in addition to valuing the airline and placing a bid for its equity, the new investor will need to invest in turning the airline around.
- Air India's slots and landing rights it holds at global airports could be helpful both to airlines looking to expand into international operations.
- Air India operates to 56 Indian cities and 42 international destinations.
- Several of Air India's routes are profit-generating, while a number of them are loss-making or witness low load factors.
- While the airline comes with 121 aircraft primed as domestic and international workhorses, 18 of them are grounded for lack of funds to make them airworthy.
- **Impact on consumers -** If Air India is taken over by a private entity or consortium, the first move could be pruning of operations to ensure profitability to the airline.
- This could cause Air India to cease operations on certain loss-making domestic and international routes — leading to a rise in fares.
- Cutting certain routes could also impact consumers in terms of the unique offerings by Air India.
- **Impact on Employees -** Air India's bloated staff strength was flagged by potential investors in the last disinvestment attempt.
- The airline has 9,617 are permanent staff, 36% of the permanent staff will retire in the next 5 years.
- Whether the employees will be retained by the new investor is unclear.
- The government is expected to provide more clarity on conditions for retaining staff in the request-for-proposal stage, which will come after expressions of interest are received.
- **Ground Reality -** Despite the strong political will to privatise the airline, the government has received opposition even from within.
- Employee unions have always opposed stake sale.
- However, the government has held extensive meetings with the unions, and tried to identify specific issues raised by them.
- A lot also depends on the global politico-economic scenario that enables bidders to show interest in acquiring the loss-making airline.
- If this second attempt too fails, the government will have no choice but to take a piecemeal approach at divesting the national carrier.

7.3 Assemble in India

There is a proposal to promote 'Assemble in India' as a ground for 'Make in India'.

- This move may revive Indian exports which have failed to compete in global markets, but widens the skills gap.
- **Assemble in India' proposal -** The Economic Survey 2019-20 proposed a scheme to **integrate 'Assemble in India' into 'Make in India'**.
- This will encourage Multinational enterprises to begin assembling the network products in India.
- The Economic Survey predicts that by this integration, 4 crore well-paid jobs can be created by 2025 and 8 crore by 2030.
- The estimate of creating 8 crore jobs is based on the premise that India can increase its world export share of network products from 0.6% currently to 6% by 2030.
- This is premised assuming that India can mimic China's export performance during the first decade of the China's export market entry in network products.
- If these estimates are believed to be true, then the country is heading towards a **widening skills gap**.
- A chunk of jobs created by India's export of network products has been for workers with above secondary education.
- This is in sharp contrast to the corresponding share in case of overall manufacturing exports.

Export status of India

- India has the lowest manufacturing share in gross exports in Asia.
- India is no longer the fastest growing economy in the region.
- It lags behind Bangladesh, Vietnam and Cambodia in terms of growth performance.
- Weakening of exports is a gloomy sign for India's already deteriorating GDP growth, which is estimated to decelerate to 5% in 2019-20.
- When the production process is getting fragmented globally, the idea to boost production alone does not go very far in alleviating exports.
- Nor does it help the 'Make in India' cause of the government.

- The **requirement for high-educated workers** is only going to **rise** at the cost of uneducated and less educated.
- This is so, as the transnational companies are the ones that largely control the production process of network products.
- Greater integration into Global Value Chains (GVCs) for network products will require India to close the quality gap faced among its peers, requiring its manufacturers to leapfrog to newer technologies.
- **Consequences -** A World Economic Forum study (2018) - The adoption of Industry 4.0 may impact low-skilled employees because of their vulnerability to automation.
- In the process, the less educated workers are likely to remain excluded.
- While integrating into GVCs seems the way forward, one must be mindful of the distributional consequences on the jobs so created.
- The employment and wage gains through GVC integration have been largely biased towards more skilled workers.
- Replicating China's export performance will be difficult unless India overcomes existing structural bottlenecks.
- 'Assemble in India' can be inefficient if the nation's skills do not match the requirements of the industry.
- Before inviting Multinational enterprises (MNEs) to begin assembling network products in India, policies to ensure that the gains from trade will be shared evenly are needed.
- To reduce workers' exposure to the risk of off-shoring, the government must invest in skill development.
- Education and training can also help firms increasingly and efficiently fragment their production processes globally.

7.4 "Developed" tag for India

The United States of America has removed India from its list of countries that are classified as "developing" economies for trade purposes.

- Apart from India, the US has also removed some other countries from the list.
- Now, these countries will be classified as "developed" economies, thus stripping them of various trade benefits.
- This move has led to doubts over the chances of a trade deal being signed between India and the US, during their President's visit to India in February 2020.
- **"Developing country" status -** The office of the United States Trade Representative maintains a list of countries that it classifies as developing, developed, and least developed.
- The "developing" countries are allowed to export certain goods to the US without being hit by punitive tariffs that are usually imposed on goods from "developed" countries.
- The "developing country" status owes its origin to the **US Trade Act of 1974**.
- This Act authorized the Generalized System of Preferences (GSP) to help poor countries develop faster.
- These benefits were extended further under the World Trade Organization, wherein rich countries grant trade benefits to countries that classified themselves as poor.
- About two-thirds of countries that are WTO members classify themselves as "developing" countries and avail benefits.
- **Reasons -** The US has repeatedly accused fast-growing countries such as India and China of wrongly claiming trade benefits that are reserved for truly "developing" countries.
- This, it believes, is enough reason to scale back the various trade benefits.
- It has further cited the share of global trade enjoyed by India and China and their membership in the G20 club to argue that they enjoy significant economic power.
- Therefore, it has sought to renegotiate trade deals with countries; essentially trying to make these deals more 'fair' to the US interests.
- **Impact on India -** India had been one of the largest beneficiaries under the GSP, with over 2,000 goods exempted from import tariffs.
- But, in 2019, the Trump administration stripped off this special benefit.
- With the current change in India's status under the USTR's classification, the task of reclaiming the lost GSP benefits now becomes even harder.
- **Impact on Global Trade** - Any move to end duty-free access for foreign goods into the US, will increase the overall tax burden on goods crossing international borders.
- This will add further pressure on the global economy, which has already witnessed a slowing of growth this year.
- The countries that are stripped of their "developing" status may retaliate by imposing tariffs on US import.
- If so, it could raise further the growth effects of a tariff war.
- Recently, India offered to scale back tariffs on American dairy and other products that are imported into India.
- This came after the US complained about the restricted access that its companies have to developing countries.
- If such trade tactics manage to bring down trade barriers on both sides, it can benefit the global economy.
- But, the US and its various warring trading partners look to protect their domestic producers rather than consumers.
- So, a general fall in tariffs across the board may seem unlikely.

7.5 TCEPF

- The Telecom Regulatory Authority of India (TRAI) announced that all telecom service providers would need to deposit all unclaimed money of consumers, including excess charges and security deposit, in the Telecommunication Consumers Education and Protection Fund (TCEPF).
- According to TRAI while some service providers were depositing money only because of excess billing revealed in the audit, others were depositing unclaimed money such as security deposits and plan charges of failed activations.
- It is prudent to deposit any such unclaimed / un-refundable amount belonging to consumers in the TCEP fund, as it will be utilized for the welfare measures of the consumers.
- An amendment in the TCEPF regulation may be carried out to remove any kind of ambiguity and facilitate deposit of any unclaimed money of the consumer such as excess charges, security deposit, plan charges of failed activations, etc.
- The TCEPF Regulations, 2007, which have now been amended, provide the basic framework for depositing unclaimed money of consumers by service providers, maintenance of the TCEPF and other related aspects.
- With this amendment, service providers will deposit any unclaimed consumer money of any form such as excess charges, security deposit, plan charges of failed activations, or any amount belonging to a consumer, which service providers are unable to refund to consumers, to the fund after providing time of 12 months or period of limitation specified under law whichever is later.

7.6 National Technical Textiles Mission

- The Cabinet Committee on Economic Affairs, has given its approval to set up a National Technical Textiles Mission with a total outlay of Rs 1480 Crore, with a view to position the country as a global leader in Technical Textiles.
- The Mission would have a four year implementation period from FY 2020-21 to 2023-24.
- Technical Textiles are futuristic and nice segment of textiles, which are used for various applications ranging from agriculture, roads, railway tracks, sportswear, health on one end to bullet proof jacket, fire proof jackets, high altitude combat gear and space applications on other end of spectrum.
- The Mission will have four components:
- Research, Innovation and Development - which promotes fundamental research at fiber level aiming at path breaking technological products in Carbon Fiber, Aramid Fiber, Nylon Fiber, and Composites
- The fundamental research will be conducted in various Centre for Scientific & Industrial Research (CSIR) laboratories, Indian Institute of Technology (IIT) and other scientific/industrial/academic laboratories of repute.
- Promotion and Market Development - Through market development, market promotion, international technical collaborations, investment promotions and 'Make in India' initiatives.
- Export Promotion - An Export Promotion Council for Technical Textiles will be set up for effective coordination and promotion activities in the segment.
- Education, Training, Skill Development - The Mission will promote technical education at higher engineering and technology levels related to technical textiles and its application areas.
- The Mission will focus on usage of technical textiles in various flagship missions, programmes of the country including strategic sectors.

Technical Textiles

- Technical textiles are textiles materials and products manufactured primarily for technical performance and functional properties rather than aesthetic characteristics.
- Technical Textiles products are divided into 12 broad categories (Agrotech, Buildtech, Clothtech, Geotech, Hometech, Indutech, Mobiltech, Meditech, Protech, Sportstech, Oekotech, Packtech) depending upon their application areas.
- India shares nearly 6% of world market size of 250 Billion USD.
- However, the annual average growth of the segment is 12%, as compared to 4% world average growth.

7.7 Essential Commodities Act

- Essential Commodities Act, 1955, intends to provide, in the interest of the general public, for the control of the production, supply and distribution of, and trade and commerce, in certain commodities.
- The act is regulated and administered by the Ministry of Consumer Affairs, Food and Public Distribution.
- Under the EC Act, the States and Union Territories can ensure that manufacturers enhance their production capacity so that masks and hand sanitizers are widely available to consumers.
- The invocation of EC Act has empowered the Centre as well as states to regulate the production, quality, distributions of masks and hand sanitizers.
- It will also help to smoothen the sale and availability of the above items and carry out operations against speculators.
- Consumer Affairs Ministry has also invoked the Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980 which would carry out action against those involved in overpricing and black marketing of the products.
- Recently, the central government has notified that masks (2 ply and 3 ply surgical masks, N95 masks) and hand sanitizers as essential commodities up to June 30, 2020, under the Essential Commodities Act, 1955 (EC Act).
- The invocation of the EC Act aims to ensure that these products, key for preventing the spread of Covid-19 infection, are available to people at the right price and of the right quality.

7.8 Virtual Currency

- Recently Supreme Court set aside a ban by theRBI on banks and financial institutions from dealing with virtual currency holders and exchanges.
- The court held that the ban did not pass the "proportionality" test.
- The test of proportionality of any action by the government, the court held, must pass the test of Article 19(1)(g), which states that all citizens of the country will have the right to practice any profession, or carry on any occupation or trade and business.
- In a circular in 2018, the RBI had banned banks from dealing with virtual currency exchanges and individual holders on the grounds that these currencies had no underlying fiat and that it was necessary in the larger public interest to stop banks from providing any services related to these.
- There is no globally accepted definition of what exactly is virtual currency.
- Some agencies have called it a method of exchange of value; others have labelled it a goods item, product or commodity.
- The underlying technology of virtual currencies are called blockchain, defined bitcoins as "a new electronic cash system that's fully peer-to-peer, with no trusted third party".
- This essentially meant there would be no central regulator for virtual currencies as they would be placed in a globally visible ledger, accessible to all the users of the technology.
- All users of such virtual currencies would be able to see and keep track of the transactions taking place.

Virtual Currencies Vs Crypto Currencies

- Virtual currency is the larger umbrella term for all forms of non-fiat currency being traded online.
- Virtual currencies are mostly created, distributed and accepted in local virtual networks.
- Cryptocurrencies, on the other hand, have an extra layer of security, in the form of encryption algorithms.
- Cryptographic methods are used to make the currency as well as the network on which they are being traded, secure.
- Most cryptocurrencies now operate on the block chain or distributed ledger technology, which allows everyone on the network to keep track of the transactions occurring globally.

- Organizations across the globe have called for caution while dealing with virtual currencies, while also warning that a blanket ban of any sort could push the entire system underground, which in turn would mean no regulation.

7.9 1st Global Consortium for Digital Currency

WEF announced the first global consortium focused on designing a framework for the governance of digital currencies.

- The Global Consortium for Digital Currency Governance will aim to increase access to the financial system through innovative policy solutions that are inclusive and interoperable
- Digital currencies are often cited as a tool for financial inclusion, but this opportunity can only be realized when paired with good governance.
- To tackle the challenge ahead, an international, multi-stakeholder approach with the public and private sectors working alongside civil society is needed.
- This consortium will focus on solutions for a fragmented regulatory system.

7.10 Bulk Drug Park

- Union cabinet approved the relaunch of a scheme to set up three bulk drug parks and four medical device parks for a total outlay of ₹ 3,400 crore over five years.
- This comes amid the coronavirus epidemic that hit supply of crucial pharmaceutical raw materials from China.
- Under the scheme, the Centre will give grants-in-aid to states with a maximum limit of ₹ 1,000 crore per bulk drug park, effectively up to ₹ 3,000 crore in total.
- The parks will have common facilities such as solvent recovery plant, distillation plant, power & steam units, and common effluent treatment plant.
- A similar scheme has been announced for medical devices, with the Centre providing a maximum grant-in aid of ₹ 100 crore per park.
- The government also announced a production-linked incentive scheme to promote domestic manufacturing of critical key starting materials (KSMs), drug intermediates and active pharmaceutical ingredients (APIs) in the country.
- Bulk drug and medical devices park schemes are not new and were first suggested in February 2015 by a committee headed by **V.M. Katoch**, the then secretary of department of health research.
- The committee had suggested setting up of six bulk drug parks, which was announced by the government later that year along with medical device parks.
- The plan was shelved a couple of years later due to lack of interest by pharmaceutical companies.

Bulk drugs (or) Active Pharmaceutical Ingredients

- A bulk drug also called active pharmaceutical ingredient (API), is the chemical molecule in a pharmaceutical product (medicines we buy from the chemist) that lends the product the claimed therapeutic effect.
- API (Active Pharmaceutical Ingredient) means the active ingredient which is contained in medicine.
- For example, an active ingredient to relieve pain is included in a painkiller.
- Raw material refers to chemical compounds that are used as a base to make an API.
- An API starting material (or) Key Starting Material is a raw material, intermediate or an API that is used in the production of an API.
- It is incorporated as a significant structural fragment into the structure of the API.

7.11 Modified Electronics Manufacturing Clusters

- Union Cabinet has approved financial assistance to the Modified Electronics Manufacturing Clusters (EMC2.0) Scheme for development of world class infrastructure along with common facilities and amenities through Electronics Manufacturing Clusters (EMCs).

- The Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme would support setting up of both Electronics Manufacturing Clusters (EMCs) and Common Facility Centers (CFCs).
- The Scheme will create a robust infrastructure base for electronic industry to attract flow of investment in ESDM sector and lead to greater employment opportunities.
- Following are the expected outputs/outcomes for the Scheme:
- Availability of ready infrastructure and Plug & Play facility for attracting investment in electronics sector:
    a. New investment in electronics sector
    b. Jobs created by the manufacturing units;
    c. Revenue in the form of taxes paid by the manufacturing units.
- India's share in global electronics manufacturing grew from 1.3% (2012) to 3.0% (2018), It accounts for 2.3% of India's GDP at present.

7.12 Business Immunity Platform

- Invest India, India's national Investment Promotion & Facilitation Agency, under the Ministry of Commerce and Industry has launched The Invest India Business Immunity Platform.
- The platform, hosted on the Invest India website, is designed as a comprehensive resource to help businesses and investors get real-time updates on India's active response to COVID-19 (Coronavirus).
- This dynamic and constantly updating platform keeps a regular track on developments with respect to the virus, provides latest information on various central and state government initiatives, gives access to special provisions, and answers and resolves queries through emails and on WhatsApp.
- The Business Immunity Platform (BIP) is the active platform for business issue redressal, operating 24/7, with a team of dedicated sector experts and responding to queries at the earliest. Invest India has also announced a partnership with SIDBI (Small Industries Development Bank of India) for responding and resolving queries for MSMEs.
- Realizing the uncertainty that the Corona crisis has caused among businesses, the platform was launched on 21st March, 2020.

7.13 SPICe+

- Ministry of Corporate Affairs deployed a new Web Form christened 'SPICe+', replacing the existing SPICe form.
- The initiative is a part of India's effort to improve Ease of Doing Business (EODB).
- SPICe+ would offer 10 services by 3 Central Govt Ministries & Departments. (Ministry of Corporate Affairs, Ministry of Labour & Department of Revenue in the Ministry of Finance) and One State Govt.(Maharashtra), thereby saving as many procedures, time and cost for Starting a Business in India.
- It would be applicable for all new company incorporations.
- It features are as follows
    i. It would be an integrated Web Form.
    ii. It would have two parts viz.: Part A-for Name reservation for new companies and Part B offering a bouquet of services.

8. INFRASTRUCTURE

8.1 National Infrastructure Pipeline

Recently, the Government has released a report of the task force on the National Infrastructure Pipeline for 2019-2025.

- Task Force was constituted to draw up the National Infrastructure Pipeline (NIP) for each of the years from financial years 2019-20 to 2024-25.

- NIP will enable a forward outlook on infrastructure projects, which will create jobs, improve ease of living, and provide equitable access to infrastructure for all, thereby making growth more inclusive.
- NIP includes economic and social infrastructure projects.
- It has outlined plans to invest more than ₹ 102 lakh crore on infrastructure projects by 2024-25, with the Centre, States and the private sector to share the capital expenditure in a 39:39:22 formula.
- Projects in **energy, roads, railways and urban infrastructure** have been identified by a task force.
- During the fiscals 2020 to 2025, sectors such as Energy (24%), Roads (19%), Urban (16%), and Railways (13%) amount to around 70% of the projected capital expenditure in infrastructure in India.
- About 42% of such identified projects are already under implementation, 19% are under development and 31% are at the conceptual stage.
- The NIP task force appears to have gone project-by-project, assessing each for viability and relevance in consultation with the States.
- Considering that the NIP will be like a window to the future, a constant review becomes paramount if this is not to degenerate into a mere collation and listing of projects.

Hurdles

- **Financialposition** - The financing plan assumes that the Centre and the States will fund 39% each while the private sector will chip in with 22% of the outlay.
- Going by the present fiscal situation, it will be a challenge for the Centre to raise Rs.39 lakh crore, even if it is over the next 5 years.
- The financial position of States is even more perilous.
- **Steep private investment** - The Rs.22 lakh crore expected from private investment also looks steep considering the lack of appetite for fresh investment by the private sector in the last few years.
- Given the scale of investment, debt will play an important role and it remains to be seen if banks have gotten over their apprehensions on infrastructure financing as a major part of their bad loans originated there.
- **States' cooperation** - The cooperation from States becomes very important in implementing infrastructure projects.
- The experience on this count has not been very happy till now.

8.2 Indian Railways' Corporate Train Model

The Kashi Mahakal Express is the country's third 'corporate' train after the two Tejas Express trains started over the past few months.

- **Corporate model -** This is a new model being actively pushed by Indian Railways.
- In this model, the running of regular passenger trains will be outsourced to the Indian Railway Catering and Tourism Corporation (IRCTC).
- Around 100 routes will be leased out to private players to run 150 trains, something that is in the works.
- This is the same model that was used in the two Tejas Express trains running between Delhi-Lucknow and Mumbai-Ahmedabad.
- In this model, the **corporation takes all the decisions** of running the service - fare, food, onboard facilities, complaints etc.
- Indian Railways is free from these encumbrances and gets to earn from IRCTC a pre-decided amount, being the owner of the network.
- This amount has three components- **haulage, lease and custody**.
- Working Model – The components such as lease, custody are carried out in the following ways.
- **Haulage** - The haulage charge is to be paid by IRCTC.
- This includes use of the fixed infrastructure like tracks, signalling, driver, traction and pretty much everything needed to physically move the rake.

- **Lease** - IRCTC has to pay the lease charges on the rake as Indian Railways coaches.
- This is so as the coaches are leased to its financing arm, the Indian Railway Finance Corporation (IRFC).
- **Custody** - There is a per-day custody charge, of keeping the rake safe and sound while it is in the custody of the PSU.
- IRCTC has to pay Indian Railways a sum total of these three charges for the trains' runs in a day and then factor in a profit over and above this.
- This money is payable even if the occupancy is below expectation and the train is not doing good business.
- **Powers of IRCTC -** Being a corporate entity, IRCTC insists that the coaches it gets from Railways are new and not in a run-down condition.
- The quality of the coaches has a direct bearing on its business.
- In this model, IRCTC has full flexibility to decide the service parameters and even alter them without having to go to Railway ministry.
- To that end, the business of running trains can be run with the independence needed to run a business with profit motive.
- This, policymakers believe creates the environment for enhanced service quality and user experience for the passengers.
- IRCTC gets the freedom to decide even the number of stoppages it wants to afford on a route, depending on the needs of its business model.
- Indian Railways doesn't have to suffer the losses associated with running these trains thanks to under-recovery of cost.
- This under-recovery is due to low fares and its own hefty overheads.
- The lease on its coaches is also taken care of.

Model for private train operators

- The model in which private train operators are sought to be engaged is different wherein along with haulage; the operator needs to agree to revenue sharing with Railways.
- The company willing to share the highest percentage of revenue will win the contract.
- Private players may not need to pay lease and custody charges.
- All this is because over the next 5 years, a lot of capacity will free up in the conventional railway lines for more passenger trains to run to cater to the demand.
- The government wants private players, its own PSU, along with Indian Railways, to share the load of pumping in more trains into the system.

8.3 Blue Dot Network

- Blue Dot networkwill **certify infrastructure and development projects**.
- It was jointly launched by the US (Development Finance Corporation), Japan (Japanese Bank for International Cooperation) and Australia (Department of Foreign Affairs and Trade).
- It is a multi-stakeholder initiative that was launched in November 2019 on the sidelines of the 35th ASEAN Summit (Thailand).
- It aims to promote high quality and trusted standards for global infrastructure development by bringing together the

BRI

- It is a programme that wants to connect Asia with Africa and Europe.
- It wants to connect them via land and maritime networks along six corridors with the aim of improving regional integration, increasing trade and stimulating economic growth.
- The name was coined in 2013 by China's President Xi Jinping.
- It consists of a belt of rail routes, highways, oil and gas pipelines and other infrastructure projects extending from Xian in Central China through Central Asia, Russia, West Asia and Europe.
- There is also a branch extending from Kashgar in Xinjiang to Gwadar in Balochistan via Pakistan occupied Kashmir (PoK).

governments, the private sector and civil society.

- The infrastructure projects will be vetted and approved by the network depending on standards, as per which, the projects should meet certain global infrastructure principles.
- The projects that are approved will get a "Blue Dot", thereby setting universal standards of excellence.
- This will attract private capital to projects in developing and emerging economies.
- The proposal for the Blue Dot network is part of the US's Indo-Pacific strategy which aims at countering China's Belt and Road Initiative (BRI).
- **Financing** - The BRI involves direct financing that will give countries in need of immediate short-term relief.
- But, the Blue Dot Network is not a direct financing initiative and therefore may not be what some developing countries need.
- The question is whether the Blue Dot is offering first-world solutions to third-world countries.
- **Coordination** - The Blue Dot will require coordination among multiple stakeholders when it comes to grading projects.
- Given the past experience of Quad, the countries involved in it are still struggling to put a viable bloc.
- Therefore, it remains to be seen how Blue Dot fares in the long run.
- [Quad - An informal strategic dialogue between the US, Japan, Australia and India.]

8.4 Restructuring Railways

The Cabinet has recently decided to merge all central service cadres of Railways officers into a single service.

- **Present system -** The Indian Railways is governed by a pool of officers, among whom engineers are recruited through the Indian Engineering Service Examination, and civil servants through the Civil Services Examination.
- The **civil servants** are in the Indian Railway Traffic Service (IRTS), Indian Railway Accounts Service (IRAS) and Indian Railway Personnel Service (IRPS).
- The **engineers** are in five technical service cadres: Indian Railway Services of Engineers (IRSE), Mechanical Engineers (IRSME), Electrical Engineers (IRSEE), and Signal Engineers (IRSSE); and the Indian Railway Stores Service (IRSS).
- **New Decision -** It has also approved the trimming of the Railway Board from a nine-member board to a five-member one.
- **IRMS** - All the central service cadres of Railways officers will be merged into a single Indian Railways Management Service (IRMS).
- Now, any eligible officer could occupy any post, irrespective of training and specialisation, since they all will belong to IRMS.
- **Board** - The five members of the Board, other than a Chairman-cum-CEO, will be the Members Infrastructure, Finance, Rolling Stock, Track, and Operations and Business Development.
- The Board will also have independent Members, who will be industry experts with at least 30 years of experience, but in non-executive roles, only attending Board meetings.
- The move has led to protests from serving civil servants, prompting the Railway Board to reach out to them to allay their concerns.
- The government wants **to end inter-departmental rivalries**, which it says have been hindering growth for decades.
- Several committees including the **Bibek Debroy committee** (2015) have noted that "departmentalism" is a major problem in the system.
- The Debroy report recommended merging of all services to create two distinct services: Technical and Logistics. But it did not say how to merge the existing officers.

- A separate exam under the Union Public Service Commission is proposed to be instituted in 2021 to induct IRMS officers.

Opposition

- It started with a proposal to merge officers in the eight services to prepare a common seniority list and a general pool of posts.
- Those protesting the government's decision say that the merger is unscientific and against established norms.
- They say that the proposal is trying to merge two fundamentally dissimilar entities, with multiple disparities.
- The civil servants come **from allwalks of life** after clearing the Civil Services Examination, not like the engineers who usually sit for the Engineering Service examination right after getting a degree.
- Various studies have noted that engineers join the Railways around the age of 22-23, while the civil servants join around 26, barring exceptions.
- The **age difference** starts to pinch at the later stages of their careers, when higher-grade posts are fewer.
- There are **more engineers** than civil servants.
- The Railways have legitimised a system wherein an officer with a certain number of years left in service will be considered eligible for **general-management higher posts**.
- The most important of these posts is the General Manager post, who heads zones and production units.
- An officer, irrespective of seniority in his batch and acumen, requires at least two years of service left for being eligible for GM.
- The civil servants have often found themselves at a disadvantage since they don't have the required service tenure left.
- In the fields where the Railways are actually operated, the share of civil servants in junior-to-middle levels is over 40%, but in higher management, it is around 16-17%

Changes in Structure -

- In inter-departmental seniority, problems arise when different services compete for posts that are open to all like those of Divisional Railway Managers (DRMs), GMs and the Chairman Railway Board.
- If all present cadres are merged and higher departmental posts become open to all, **engineers may end up occupying most posts**, if not all.
- Another aspect is the **suitability of jobs**.
- The move emerges from the belief that while non-technical specialists cannot do technical jobs, technocrats can do both.
- The **counter-argument** is that civil servants in government, by virtue of the screening process and subsequent training, possess acumen and skills that go beyond academic specialisation.

8.5 GATI Portal

- Recently Union Road Transport and Highways Ministry launched online web portal 'GATI' on the pattern of 'PRAGATI'portal.
- GATI Portal has been created by the National Highways Authority of India (NHAI).
- The portal 'GATI' can be accessed from NHAI's website, and contractors and concessionaires can raise any project-related issues on the platform.
- The issues raised on 'GATI' will be daily monitored by a team of NHAI officers and will be constantly reviewed by the senior officers of the National Highways Authority of India (NHAI) and the Ministry of Road Transport and Highways.

8.6 Mission Purvodaya

- Mission Purvodaya in steel sector envisions to create an integrated steel hub in Eastern India.
- With abundance of raw materials, strategic geographical location and strong and developing connectivity, Odisha is well poised to be the heart of this eastern steel hub.
- The Mission is rolled out by Union Petroleum and Natural Gas & Steel Ministry.
- More than 75% of India's envisioned incremental steel capacity will come from eastern India, with Odisha alone crossing 100 MTPA.
- In Odisha, Kalinganagar will be developed as the epicenter of Mission Purvodaya.
- There is immense scope for growth in high grade steel, downstream sector, ancillaries, capital goods and cluster development.
- Government of India is keen to have Japan to be partner country in Mission Purvodaya.
- Japanese technological expertise, investments will further strengthen the steel sector in Odisha and drive socio-economic growth.

India's Steel Production

- India becomes second largest steel producer of Crude Steel
- As per World Steel Association data, India became the second largest steel producer of crude steel after China in 2018 and 2019, by replacing Japan. The details of five leading crude steel producers in the world during 2018 and 2019 are listed below
    1. China
    2. India
    3. Japan
    4. USA
    5. Russia
- India's crude steel production in 2018 was at 109.3 MT, an increase of 7.7 per cent from 101.5 MT in 2017.
- Steel being a deregulated sector, the Government does not set any annual targets for steel production.
- Individual companies based on commercial considerations and market requirements take decision on quantity of steel production.

8.7 Integrated Steel Hub

- Ministry of steel in partnership with CII and JPC is organizing the launch of Purvodaya-Accelerated Development of Eastern Region through an Integrated Steel hub.
- The proposed Integrated Steel Hub, encompassing Odisha, Jharkhand, Chhattisgarh, West Bengal and Northern Andhra Pradesh, would serve as a torchbearer for socio-economic growth of Eastern India.
- The objective of this hub would be to enable swift capacity addition and improve overall competitiveness of steel producers in terms of both cost and quality.
- In addition to increased steel capacity, this hub would also help enhance best-in- class value addition capabilities.
- The Integrated Steel Hub would focus on 3 key elements:
- Capacity addition through easing the setup of greenfield steel plants
- Development of steel clusters near integrated steel plants as well as demand centres
- Transformation of logistics and utilities infrastructure which would change the socio-economic landscape in the East
- These elements would be supported through additional enablers such as ensured availability of raw materials, presence of supporting industries such as capital goods and well-established avenues for skill development.

- 12 major steel zones identified in the region are
  1. Kalinganagar - Odisha
  2. Angul – Odisha
  3. Rourkela – Odisha
  4. Jharsuguda – Odisha
  5. Nagarnar – Chhattisgarh
  6. Bhilai – Chhattisgarh
  7. Raipur – Chhattisgarh
  8. Jamshedpur – Jharkhand
  9. Bokaro – Jharkhand
  10. Durgapur- West Bengal
  11. Kolkata – West Bengal
  12. Vizag – Andhra Pradesh.
- These include major rail, road and port capacity expansion projects to debottleneck existing capacity and create world-class multimodal logistics infrastructure across these zones

8.8 Social and Infrastructure Development Fund

- Social and Infrastructure Development Fund (SIDF) was announced in 2008 to set apart a sum of Rs.500 crore (subsequently enhanced to Rs.586.20 crore in 2017) for North Eastern Region (NER).
- The fund will be especially used for Arunachal Pradesh and other border areas facing special problems that cannot be tackled through normal schemes.
- It is a one-time package that covers projects, prioritized by the State Governments as per their requirement, which, inter alia, include construction of new roads and bridges, re-establishment of new sub-stations/transmission lines, construction/upgradation of hospitals, establishment of schools, water supply projects etc.
- 37 projects have been approved against the funds available under SIDF.

8.9 Unified Vehicle Registration Card

- Ministry of Road Transport and Highways (MoRTH) had issued the guidelines to bring uniformity in driving licenses and vehicle registration cards across the country in 2019.
- These cards are being issued in compliance with these guidelines.
- The new cards will have more exhaustive information printed on both the sides of the cards.
- It will also bear a unique number recognized across the country.
- The unified smart cards for driving license and vehicle registration will each have a QR code that will help in verifying authenticity of the data printed on the cards.
- The unified driving license card will also have information about the ability of the driver to drive in hilly and dangerous areas and an emergency contact number.
- Recently Madhya Pradesh became first state to launch unified vehicle registration card and second state to launch the unified driving license after Uttar Pradesh.

8.10 Vizag-Chennai Industrial Corridor

- Asian Development Bank (ADB) had prepared Conceptual Development Plan (CDP) for Vizag-Chennai Industrial Corridor (VCIC).
- Four nodes were identified for development namely
  1. Visakhapatnam,

2. Machilipatnam,
3. Donakonda and
4. Chittoor.

- Amongst these nodes, the Government of Andhra Pradesh (GoAP) has prioritized Visakhapatnam and Chittoor.
- National Industrial Corridor Development and Implementation Trust (NICDIT) approved the development of Vishakhapatnam and Chittoor as priority nodes in phase-1 of VCIC.
- The loan has been agreed between State Government and Asian Development Bank (ADB).
- Grant of USD 5 million from the multi-donor Urban Climate Change Resilience Trust Fund (UCCRTF) to build climate change resilient infrastructure in Visakhapatnam.

8.11 Bhoomi Rashi Portal

- The Bhoomi Rashi Portal is an e-Governance initiative of the Ministry of Road Transport & Highways.
- The portal intends to expedite the process of land acquisition for National Highways.
- It has fully digitized and automated the entire process of land acquisition.
- It has helped to make land acquisition error-free & more transparent with notifications at every stage being processed on a real-time basis.
- Earlier, the acquisition of land for the purpose of National Highway projects, payment of compensation to the landowners etc. was done manually by physical movement of documents.
- It had some constraints viz. delay in issuing land acquisition notification, errors in the land/ area details etc.
- The portal is integrated with the Public Financial Management System (PFMS) for depositing the compensation in the account of affected/ interested persons on a real-time basis.

8.12 Infrastructure Investment Trust

The Cabinet has given its approval to NHAI to set up Infrastructure Investment Trust(s) (InvIT) as per InvIT Guidelines issued by SEBI.

- This will enable NHAI to monetize completed National Highways that have a toll collection track record of atleast one year.
- NHAI reserves the right to levy toll on the identified highway.
- InvIT as an instrument provides greater flexibility to investors and is expected to create the following opportunities:
  - i) Generation of specialized O&M Concessionaires.
  - ii) Attract patient capital (for say 20-30 years) to the Indian highway market.
  - iii) Retail domestic savings and corpus of special institutions (such as mutual funds, PFRDA, etc.) to be invested in infrastructure sector through InvIT.
- NHAI's InvIT will be a Trust established by NHAI under the Indian Trust Act, 1882 and Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014.
- The InvIT Trust will be formed with an objective of investment primarily in infrastructure projects.
- InvIT may hold assets either directly or through an SPV or a holding.

8.13 Viability Gap Funding

The Cabinet has given its approval to Viability Gap Funding to Indradhanush Gas Grid Limited for setting up the North East Natural Gas Pipeline Grid

- Viability Gap Funding means a grant one-time /deferred, provided to support infrastructure projects that are economically justified but fall short of financial viability.

- Viability Gap Funding/ Capital Grant will be at 60% of the estimated cost of Rs 9265 crore.
- Quantum of VGF would be capped at 60% of estimated project cost and would not be linked with upward capital cost variation.
- Total length of pipeline is 1656 KM.
- As per the plan, Gas Pipeline Grid would be developed in the eight states of the North-Eastern region i.e. Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.
- The Capital Grant will provide natural gas supplies to various types of consumers viz. Industrial, PNG (Domestic), CNG (Transport) etc.
- It would also immensely help in substituting the liquid fuels.
- The pipeline grid would ensure reliability and uninterrupted natural gas supplies to the consumers which otherwise gets severely affected due to various reasons in this part of the country.
- Indradhanush Gas Grid Limited (IGGL), a joint venture company of five CPSEs (IOCL, ONGC, GAIL, OIL and NRL)

AGRICULTURE

9.1 Cauvery delta as a Protected Special Agriculture Zone

The Government of Tamil Nadu has announced that the Cauvery delta region will be declared as 'Protected Special Agricultural Zone' (PSAZ).

- The Cauvery delta region is the rice bowl of Tamil Nadu that comprises eight districts.
- This region produces 33 lakh tonnes of grains in 28 lakh acres.
- This delta has seen multiple protests for a decade over methane, hydrocarbon, oil and natural gas projects, which required acquisition of fertile lands and well drilling.
- These proposals triggered fears of groundwater contamination.
- **Response** - In 2013, the then CM ordered suspension on coal bed methane exploration and production in Thanjavur and Tiruvarur and followed it up with a ban in 2015.
- But in 2017, the Centre signed contracts for hydrocarbon extraction from 31 areas of discovered small fields.
- Two years later it allowed Vedanta Limited to conduct tests for 274 hydrocarbon wells in Tamil Nadu and Puducherry.
- Over the frequent protests, state governmet has recognised farmer concerns about hydrocarbon exploration.
- It accorded primacy to food security by announcing it as a Protected Special Agriculture Zone.
- This decision comes weeks after the CM protested the Centre's unilateral amendment of the Environment Impact Assessment Notification 2006.
- [Amendment - Exempted prior environmental clearance and public consultations for oil and gas exploration.]
- **Other Zones -**Agricultural scientists have for long mooted such zones similar to special economic zones.
- Uttarakhand and Kerala already have them.
- Tamil Nadu now has to enact legislation to protect a vast region, largely in the coastal area, from industries that would affect farming.
- **Challenges -** In 2017, a government notification delineated 45 villages in Cuddalore and Nagapattinam districts in the delta, as a Petroleum, Chemical and Petrochemical Investment Region.
- This notification eyed on over ₹ 90,000 crore in investments.
- The proposed PSAZ raises a question on this ambitious scheme.
- The government may have to brave central pressure and litigation from companies which pumped in money for exploration.

- The latest decision may have implications for the State's investment climate, as it recently closed the Sterlite Copper plant.
- But the intent to prioritise farmer interests and food security is beyond reproach.

9.2 Market Intelligence and Early Warning System

- Union Ministry of Food Processing has launched Market Intelligence and Early Warning System (MIEWS) Portal for Monitoring prices of TOP Crops (Tomato, Onion and Potato).
- MIEWS portal would help in planning and timely intervention for price stabilization and generating alerts
- The MIEWS Dashboard and Portal is a 'first-of-its-kind' platform for 'real time monitoring' of prices of tomato, onion and potato (TOP) and for simultaneously generating alerts for intervention under the terms of the Operation Greens (OG) scheme.
- The portal would disseminate all relevant information related to TOP crops such as Prices and Arrivals, Area, Yield and Production, Imports and Exports, Crop Calendars, Crop Agronomy, etc in an easy to use visual format.
- A dashboard that would indicate low price and high price alerts as well as price forecasts for 3 month forward.
- Prices and arrivals of TOP crops across the country including interactive charts and comparisons with previous seasons
- This portal is a novel initiative of MoFPI leveraging IT tools and furthering the goals of Digital India.

9.3 Farmer Produce Organizations

- Producer Organisation is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen.
- FPO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members.
- Through formation of FPOs, farmers will have better collective strength for better access to quality input, technology, credit and better marketing access through economies of scale for better realization of income.
- Initially there will be three implementing Agencies to form and promote FPOs, namely

1. Small Farmers Agri-business Consortium (SFAC),
2. National Cooperative Development Corporation (NCDC)
3. National Bank for Agriculture and Rural Development (NABARD).

- States may also, if so desire, nominate their Implementing Agency in consultation with DAC&FW.
- DAC&FW will allocate Cluster/States to Implementing Agencies which in turn will form the Cluster-Based Business Organization in the States.
- FPOs will be formed and promoted through Cluster-Based Business Organizations (CBBOs) engaged at the State/Cluster level by implementing agencies.
- The CBBOs will have five categories of specialists from the domain of Crop husbandry, Agri marketing / Value addition and processing, Social mobilisation, Law & Accounts and IT/MIS.
- Initially the minimum number of members in FPO will be 300 in plain area and 100 in North East & hilly areas.
- However, DAC&FW may revise the minimum number of membership-based on experience/need with approval of Union Agriculture Minister.
- Priority will be given for formation of FPOs in aspirational districts in the country with at least one FPO in each block of aspirational districts.
- Recently Cabinet Committee on Economic Affairs has given its approval for 10,000 FPOs to be formed in five years period from 2019-20 to 2023-24 to ensure economies of scale for farmers.
- Support to each FPO be continued for 5 years from its year of inception.

9.4 Maharashtra Sugar Mills' Agreement with Farmers

- Maharashtra sugar mills have an unusual agreement with farmers for this sugarcane crushing season.

- It enables the former to pay the government-declared Fair and Remunerative Price (FRP) for cane purchased in three instalments.
- **Definition** - FRP is the minimum price at which sugarcane is to be purchased by sugar mills from farmers.
- On basis of recommendations of Commission for Agricultural Costs and Prices (CACP), the FRP is fixed by Union government.
- The season's FRP is declared before the start of the crushing season**.**
- **Factors** - The cost of production, demand-supply situation, domestic & international prices etc are the factors that are taken into account while recommending FRP.
- Sugarcane's FRP is determined under Sugarcane (Control) Order, 1966 which will be uniformly applicable all over country.
- **FRP is linked to recovery** - the amount of sugar produced by crushing 1 tonne cane, expressed as a percentage.
- The higher the recovery, the higher be the sugar produced, and thus the higher the FRP too.
- **1966 Order -** It mandates that mills pay the basic FRP within 14 days of purchase.
- If the mill fails to do so, they are to pay 15% per year interest.
- Sugar commissioners are empowered to recover pending dues by attaching properties of errant mills.
- The assured scheme of payment had over the years made cane a preferred crop among growers across the country.
- While the law mandates payment within 14 days, the payment schedule has not been rigorously followed generally.
- **Sugar Mills and Farmers -** At the start of crushing season, the farmers' union in its Cane Conclave used to make demands for payment, which was above FRP.
- Mills had to accede to the demand to prevent disruption in transportation of cane.
- The first instalment was always the full FRP, while later instalments covered demands made by the farmers.
- Sugar mills pledge their stock of sugar and avail of working capital from banks to pay their growers as well as to fund their operations.
- Based on the valuation of sugar, banks issue loans to the tune of 75% of the current valuation.
- **Case** - During the 2014-15's season, some mills in Maharashtra had defaulted on payment of basic FRP.
- A farmer leader approached the Bombay High Court with demands including payment of 15% interest on late payment of FRP.
- The court eventually asked the sugar commissioner to start the process of calculation of interest.
- The then sugar commissioner started the process in 2019 and appointed government auditors to calculate the interest.
- Given the financial implications, mills took the cue from the 1966 order and started making formal agreements with farmers for part-payment.
- **The cue** - The order mandates payment of FRP within 14 days of cane delivery if there is no agreement otherwise.
- This cue is being used by mills to get their farmers to sign agreements that would allow mills to pay 75% of the FRP as the first instalment and the rest in subsequent instalments.
- Of the 136 mills that have entered the crushing season in Maharashtra, 76 have got into such agreements.
- The payment clause was put in the cane registration forms that farmers sign and submit to the mills.
- **Consequences -** Many farmers' leaders claim the agreement would not stand the test of law as it leaves a farmer without the necessary standing to argue for a fair agreement.
- In this case, many have said the agreement clause was put in the forms farmers have not read properly.

- But mills have denied this and said it was only a small section of farmers who were insisting on full payment of FRP.
- Mills claim that the financial constrains make it is impossible for them to pay the full FRP at one go.
- Until these agreements are challenged in any court of law, mills in Maharashtra will continue to pay their growers as per these agreements.

9.5 Dairy Processing and Infrastructure Development Fund (DPID)

- Government of India had announced creation of Dairy Processing and Infrastructure Development Fund under NABARD with a total corpus of Rs. 8000 crore over a period of 3 years (i.e. 2017-18 to 2019-20), in the Union Budget of 2017-18.
- It aims to ensure that Dairy Cooperatives remain competitive for the sustained benefit of farmers.
- The Funding will be in the form of interest bearing loan, which will flow from National Bank for Agriculture and Rural Development (NABARD) to National Dairy Development Board (NDDB) / National Cooperative Development Corporation (NCDC) and in turn to eligible End Borrowers.
- The end borrowers will get the loan @ 6.5% per annum, the period of repayment will be 10 years with an initial two years moratorium.
- The scheme have been designed with the following objectives:
    1. To modernize the milk processing plants and machinery and to create additional infrastructure for processing more milk.
    2. To create additional milk processing capacity for increased value addition by producing more dairy products.
    3. To bring efficiency in dairy processing plants/producer owned and controlled dairy institutions, thereby enabling optimum value of milk to milk producer farmers and supply of quality milk to consumers.
    4. To help the producer owned and controlled institutions to increase their share of milk, thereby providing greater opportunities of ownership, management and market access to rural milk producers in the organized milk market.
    5. To help the producer owned and controlled institutions to consolidate their position as dominant player in the organised liquid milk market and to make increased price realisation to milk producers.
- **Recent Developments** - Recently union government under Dairy Processing and Infrastructure Development Fund (DIDF) announced Interest subvention up to 2.5% to NABARD from 2019-20 to 2030-31.
- The interest subvention scheme for farmers aims at providing short term credit to farmers at a subsidised interest rate.
- The interest subvention will be given to Public Sector Banks (PSBs), Private Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on use of own funds and to NABARD for refinancing to RRBs and Cooperative Banks.
- In India Interest Subvention Scheme is being implemented by NABARD and RBI.

9.6 Taskforce on Sustainable Public Procurement

- The taskforce on Sustainable Public Procurementhas been constituted by Department of Expenditure.
- Its objectives are
    i. Review international best practices in the area of Sustainable Public Procurement
    ii. Inventorise the current status of SPP in India across Government organizations
    iii. Prepare a draft Sustainable Procurement Action Plan
    iv. Recommend an initial set of product / service categories (along with their specifications) where SPP can be implemented.

9.7 Apiary on Wheels

- The Ministry of Micro, Small and Medium Enterprises has flagged off 'Apiary on Wheels'.
- 'Apiary on Wheels' is a unique concept designed by the Khadi and Village Industries Commission (KVIC) for the easy upkeep and migration of Bee Boxes having live Bee colonies.
- It is a holistic approach to address the challenges faced by the beekeepers.
- It is designed so as to reduce the labour and cost of maintaining and up keeping Bee Boxes and live bee colonies across India.
- Apiary on Wheels is a platform, which can carry 20 Bee Boxes from one place to another without any difficulty.
- It is like an attachment, which can be easily connected with a Tractor or a Trolley and may be pulled to any suitable destination.
- The KVIC launched Honey Mission in 2017 and has been training beekeepers, distributing Bee Boxes and helping rural, educated but unemployed youth to earn extra income through beekeeping activities, at their doorstep.

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