

GS MAINS CLASSES

BASIC TO ADVANCE

**ADVANCE
CLASS NOTES**

**INDIAN
ECONOMY**
PART-02

GS SCORE

An Institute for Civil Services

GYAN CAPSULES

YOUR BOOSTER DOSE

PRELIMS FACT FILE



**2+ YEARS PRELIMS
CURRENT AFFAIRS TESTS**



**ALL INDIA OPEN
MOCK TEST**



7+ YEARS UPSC PYQ



PIB COMPILATION



GS ANALYST:
Daily **CURRENT AFFAIRS**



NCERT REVISION TESTS



SCAN QR CODE TO REGISTER / DOWNLOAD



1B, Second Floor, Pusa Road, Karol Bagh,
New Delhi - 110005 (Beside Karol Bagh
Metro Station Gate No. 8)



8448496262



iasscore.in

Contents

1.	INDUSTRY & LABOUR	01-63
	❑ Fourth Industrial Revolution- Challenges & Opportunities.....	01
	❑ Hurdles for 'Make in India'	09
	❑ Ease of doing business- significance and challenges	17
	❑ National Capital Goods Policy 2016.....	18
	❑ Analysis of Competition Commission of India.....	20
	❑ Initiatives for Fund for Start-Ups	22
	❑ Critical Analysis of Stand up India Scheme	23
	❑ Is India's Growth Story Plateauing?	26
	❑ Major Hurdles Faced by MSMEs.....	31
	❑ Small Scale: Rumours and Reality.....	35
	❑ InitiativeS to Support MSME Sector	37
	❑ Why Manufacturing Sector is not able to Generate Jobs?.....	40
	❑ How Labour Regulations Affect Manufacturing?	43
	❑ Assemble in India-Need & challenges.....	46
	❑ PLI SCHEME-Objectives and problem	48
	❑ Labour reforms Issues	49
	❑ The Code on Wages, 2019.....	50
	❑ Employment Related Challenges	51
	❑ Government Limitations in Job Creation	54
	❑ Contract Worker: Issues and Steps Needed	57
	❑ 'Government plans to bring social security schemes under one umbrella'	59
	❑ IPR in India-Need & Issues	61
	❑ E-Commerce-Potential & challenges	62

2.	INFRASTRUCTURE.....	64-105
❑	Bharatmala Pariyojana: Revolution in Indian National Highways	64
❑	Transformation in Indian Railways	66
❑	Pros and Cons of Privatization of Indian Railway	70
❑	Inland Waterways in India-Opportunities & Challenges	72
❑	Objective evaluation of Sagarmala project	76
❑	Aviation Sector & Regional Connectivity Scheme: UDAN	81
❑	Connecting North East	86
❑	Multi-Modal Transport System- Issues and Challenges	88
❑	Hydro Carbon Exploration and Licensing Policy (HELP)	90
	-Benefits and challenges	
❑	Reliable and Affordable Energy.....	92
❑	Draft Energy Policy.....	95
❑	Mineral Auction Rules, 2015.....	98
❑	Need for Reform in Telecom Sector	100
3.	EXTERNAL SECTOR	106-135
❑	WTO needs to change how it designates developing countries: US	106
❑	H-1B Visa Rule Change & its Impact on IT Sector	109
❑	Permanent Residency Status for Foreign Investors	111
❑	WTO Reforms and India's Stance	112
❑	Dispute Settlement Mechanism at WTO	115
❑	Rising New Form of Protectionism.....	118
❑	Reforms in IMF Quota	120
❑	Benefits & Risk Associated With Capital Account Convertibility.....	122
❑	BIT Dispute Management Strategy.....	125
❑	Broad Based Trade and Investment Agreement (India-EU FTA Talks).....	126
❑	Evaluation of India's PPP Policy	129
4.	COMMITTEES	136-162
❑	Nachiket Mor Committee on financial Inclusion	136
❑	Parthasarathi Shome Committee on GAAR.....	137
❑	N K Singh Panel Report on FRBM Act	138
❑	Shanta Kumar Committee on FCI.....	141
❑	HR Khan Committee on Foreign Portfolio Investment.....	142
❑	Strategic Partnership Policy to Boost Defence Manufacturing:	144
	Dhirendra Singh Committee	

❑ Bibek Debroy Committee on Railway	146
❑ Urjit Patel Committee Report on Monetary Policy	147
❑ SEBI reforms on Corporate Governance – Uday Kotak Committee	148
❑ P. J. Nayak Committee on corporate governance	151
❑ Mahapatra Committee on NBFC Loan Restructuring	152
❑ Usha Thorat Committee (2012) on NBFC	153
❑ Vijay Kelkar Committee Report on Revisiting and Revitalising PPP Model	154
❑ Bimal Jalan Committee on Economic Capital Framework (ECF)	155
❑ Rajesh Pant Committee	157
❑ Ashok Dalwai Committee on Doubling Farmers' Income	158
❑ Swaminathan Committee on farmers:	159
❑ Justice MB Shah Committee on Black Money	160

5. MISCELLANEOUS 163-174

❑ Sustainable Development Goals	163
❑ Special Economic Zone- A Boon or Bane for Indian Economy?	168
❑ Feasibility of India to become a \$5 Trillion Economy	171

INDUSTRY & LABOUR

Fourth Industrial Revolution– Challenges & Opportunities

Components of Fourth Industrial Revolution

The Fourth Industrial Revolution consists of many components when looking closely into our society and current digital trends. To understand how extensive these components are, here are some contributing digital technologies as examples:

- ▣ Mobile devices
- ▣ Internet of things (IoT) platforms
- ▣ Big Data (information is power)
- ▣ Location detection technologies (electronic identification)
- ▣ Advanced human-machine interfaces
- ▣ Artificial intelligence
- ▣ Blockchain
- ▣ Authentication and fraud detection
- ▣ 3D printing
- ▣ Smart sensors
- ▣ Robotics & automated machines
- ▣ Big analytics and advanced processes
- ▣ Multilevel customer interaction and customer profiling
- ▣ Augmented reality/ wearables
- ▣ Virtual reality&immersive experiences.
- ▣ On-demand availability of computer system resources
- ▣ Data visualization and triggered “live” training

Challenges and opportunities of Fourth Industrial Revolution

- The Fourth Industrial Revolution represents a fundamental change in the way we live, work and relate to one another.
- It is a new chapter in human development, enabled by extraordinary technology advances commensurate with those of the first, second and third industrial revolutions.
- These advances are merging the physical, digital and biological worlds in ways that create both huge promise and potential peril.
- The Fourth Industrial Revolution is about more than just technology-driven change; it is an opportunity to help everyone, including leaders, policy-makers and people from all income groups and nations, to harness converging technologies in order to create an inclusive, human-centred future.
- Devices connected via mobile networks and cloud technology, smart factories, and wearable tech have already found their way into our everyday lives as the advent of Fourth Industrial Revolution

■ What is fourth Industrial revolution?

- The Fourth Industrial Revolution (or Industry 4.0) is the ongoing automation of traditional manufacturing and industrial practices, using modern smart technology. Large-scale machine-to-machine communication (M2M) and the internet of things (IoT) are integrated for increased automation, improved communication and self-monitoring, and production of smart machines that can analyze and diagnose issues without the need for human intervention

■ There are four design principles identified as integral to Industry 4.0:

- Interconnection — the ability of machines, devices, sensors, and people to connect and communicate with each other via the Internet of things, or the internet of people (IoP)
- Information transparency — the transparency afforded by Industry 4.0 technology provides operators with comprehensive information to make decisions. Inter-connectivity allows operators to collect immense amounts of data and information from all points in the manufacturing process, identify key areas that can benefit from improvement to increase functionality
- Technical assistance — the technological facility of systems to assist humans in decision-making and problem-solving, and the ability to help humans with difficult or unsafe tasks
- Decentralized decisions — the ability of cyber physical systems to make decisions on their own and to perform their tasks as autonomously as possible. Only in the case of exceptions, interference, or conflicting goals, are tasks delegated to a higher level

Fourth Industrial Revolution

We are currently implementing the Fourth Industrial Revolution. This is characterized by the application of information and communication technologies to industry and is also known as "Industry 4.0". It builds on the developments of the Third Industrial Revolution.

Other industrial revolutions]

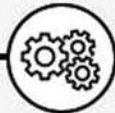
The First Industrial Revolution	began in the 18th century through the use of steam power and mechanization of production.
The Second Industrial Revolution	began in the 19th century through the discovery of electricity and assembly line production.
The Third Industrial Revolution	began in the '70s in the 20th century through partial automation using memory-programmable controls and computers.



Industrial revolutions throughout history

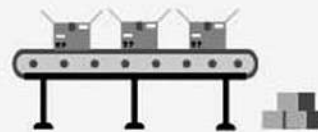


1784

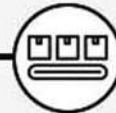


INDUSTRY 1.0

First mechanical loom.
Steam-based
mechanical production.



1870



INDUSTRY 2.0

First assembly line.
Electricity-based
mass production.

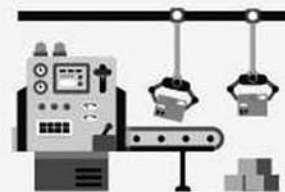


2014

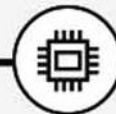


INDUSTRY 4.0

First online mass production
in a smart factory.
Ubiquitous production and control.



1969

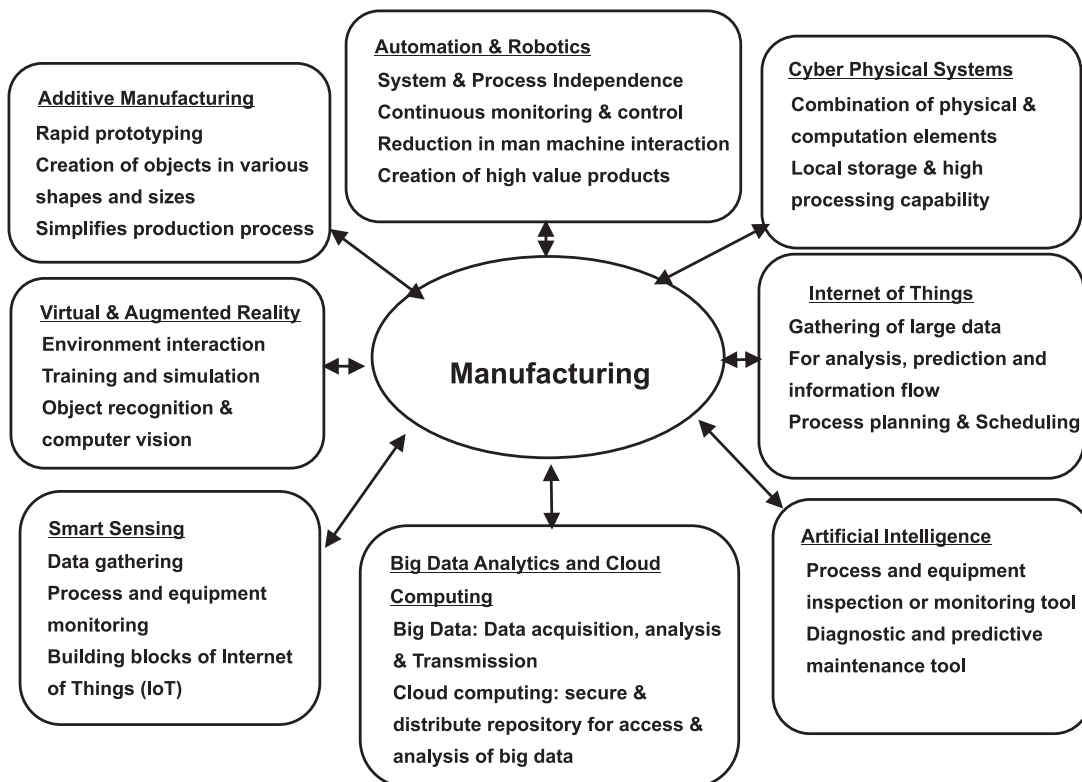


INDUSTRY 3.0

First programmable
controller.
Controller-based automation.

Source: Deloitte.

Plausible applications of Fourth Industrial Revolution



Above diagram shows IR 4.0 induced manufacturing

Higher productivity

- ▶ This happens with each industrial revolution and apparently productivity of each industrial era goes up 50 times over the preceding age. In the next 5-10 years, it's estimated that productivity will increase by 5-8%. This is mainly because of increased automation.

Improved quality of life

- ▶ Technology has made possible new products and services that increase the efficiency and pleasure of our personal lives. It has become just a click away thing to ordering a cab, booking a flight, buying a product, making a payment, listening to music, watching a film, playing a game and even controlling the lights and temperature in our homes can be done remotely.

Biotechnology

- ▶ Cellular and biomolecular processes are used in biotechnology to create new goods and technologies that may be used to create cleaner, more effective energy sources, new medications and materials, and more effective industrial production processes. Another illustration is how recent advances in low-cost genome sequencing and CRISPR technology have significantly increased our capacity to alter the building blocks of life.

New markets

- ▶ Klaus Schwab mentioned that “a fusion of technologies that is blurring the lines between physical, digital, and biological spheres” will create new markets and growth opportunities. It will blend

improvements from several fields that were often previously separated, to create a new product or a new service. Not only there will be more knowledge workers, but knowledge workers in new fields.

- **Lower barrier to entrepreneurship**

- ▶ With new technologies such as 3D printing for prototyping, the barriers between inventors and markets are reduced. Entrepreneurs can now establish their companies and test various products with lower start-up costs without the traditional time and cost constraints often encountered with traditional prototyping methods. The typical barriers to entry are removed from the entrepreneurship equation.

- **3D modelling**

- ▶ Manufacturing companies may produce their components with 3D printing more quickly, cheaply, and with less tooling than they could using conventional methods. For the best fit, designs can be altered. This will boost manufacturing in India and take manufacturing process to next level with immense ease.

- **Aerospace Industry**

- ▶ The aerospace industry has sometimes been characterized as “too low volume for extensive automation”; however, Industry 4.0 principles have been investigated by several aerospace companies, and technologies have been developed to improve productivity where the upfront cost of automation cannot be justified.

- **Internet of Things (IOT)**

- ▶ The increasing use of the Industrial Internet of Things is referred to as Industry 4.0. Applications include machines that can predict failures and trigger maintenance processes autonomously or self-organized coordination that react to unexpected changes in production.

- **Faster processing on the computer**

- ▶ Computers are becoming smarter because to new computing technologies that allow them to handle enormous volumes of data much more quickly than previously. Businesses may now store and access their data securely from any location with an internet connection thanks to the cloud. Computers will someday become millions of times more powerful thanks to quantum computing technology. These machines might improve AI, quickly build extremely complicated data models, and speed up the search for novel minerals.

- **Research and Development (R&D)**

- ▶ Industry 4.0 inspired Innovation 4.0, a move toward digitization for academia and research and development. Center for computer aided materials science, where robotic formulation, data capture and modeling are being integrated into development practices.

Challenges in implementation of Industry 4.0

- **Economic challenges**

- High economic costs
- Business model adaptation
- Unclear economic benefits/excessive investment

■ Social Challenges

- Privacy concerns
- Surveillance and distrust
- General reluctance to change by stakeholders
- Threat of redundancy of the corporate IT department
- Loss of many jobs to automatic processes and IT-controlled processes, especially for blue collar workers

■ Political

- Lack of regulation, standards and forms of certifications
- Unclear legal issues and data security

■ Organizational

- IT security issues, which are greatly aggravated by the inherent need to open up those previously closed production shops.
- Reliability and stability needed for critical machine-to-machine communication (M2M), including very short and stable latency times.
- Need to maintain the integrity of production processes.
- Need to avoid any IT snags, as those would cause expensive production outages
- Need to protect industrial know-how (contained also in the control files for the industrial automation gear)
- Lack of adequate skill-sets to expedite the transition towards a fourth industrial revolution
- Low top management commitment
- Insufficient qualification of employees

India and Fourth Industrial Revolution

- India is one of the fastest growing economies of the world. In terms of GDP based on PPP, it comes on the 3rd place after China and US. Indian economy has transitioned from an agriculture based economy to industrial and service sector based economy.
- Now the second and tertiary sector constitute about more than 85% of the economy. This transition has been possible by the developments and discoveries which took place in India and outside also. One of the major causes behind it could be attributed to the industrial revolution. Every nation passes through different stages of industrial revolution and India had also gone through equally.
- India had survived well during the three revolutions and now the question arises how well we are prepared for the next ones.

How can IR 4.0 help India?

- It has the potential to significantly reduce poverty.
- Implementing tailored treatment, early detection of dangerous pandemics, AI-driven diagnostics, and imaging diagnostics, among other things, can result in better and more affordable healthcare.
- Increasing farmers' income by giving them access to the most recent technologies, enhancing agricultural yields through real-time advice, detecting pest assaults in advance, and forecasting crop prices to guide sowing procedures.

- ❑ It will boost communication and strengthen infrastructure all the way to the final settlement.
- ❑ People with special needs can be empowered and enabled with the use of artificial intelligence.
- ❑ By utilising smart technologies, it will make living and conducting business easier.
- ❑ The recent announcement of India's drone strategy, which will be crucial to security, What India has done so far?

- ❑ With the government's growing interest around AI applications in India, the NITI Aayog has also published a strategy for AI. But, India is still in naïve state to adopt fourth and fifth revolution.
- ❑ A study released by industry association ASSOCHAM states that 'Robotics are a settled necessity for taking Indian industry globally competitive and the making country attractive for outside entrepreneurs for the "Make in India" drive.
- ❑ Around 3,412 new industrial robots were installed in India in 2017, an increase of 30% over the 2,626 units that were installed in 2016.
- ❑ Manav, India's first 3D-printed humanoid robot, Mitra, the first indigenously built humanoid robot, Robocop, KEMPA are some of the robots of India.

NITI Aayog's strategy for AI

- NITI Aayog has decided to focus on five sectors that are envisioned to benefit the most from AI in solving societal needs:
- **Healthcare:** Increased access and affordability of quality healthcare
- **Agriculture:** Enhanced farmers' income, increased farm productivity and reduction of wastage
- **Education:** Improved access and quality of education
- **Smart Cities and Infrastructure:** Efficient and connectivity for the burgeoning urban population
- **Smart Mobility and Transportation:** Smarter and safer modes of transportation and better traffic and congestion problems.

What could be the negative impacts of industrial revolution 4.0?

- ❑ **Social Inequality:** As the 4th IR increases automation, the inequalities created by these new systems will worsen. There have been well-documented correlations drawn between socio-economic imbalance and violence. If left unchecked, these issues could continue to grow exponentially. Many remote regions across the globe are still experiencing their digital revolution
- ❑ **Inequality among nations:** Due to technological difference among developing countries and developed nations there are technological and infrastructure challenges and skill challenges that are not easy to overcome.
- ❑ **Cyber security risk:** The risk of hacking data and tampering with it or using it for malicious intent is now more widespread. It's more and more frequent that we hear a new data security breach. Not to mention that it challenges the very nature of identity and privacy, especially with the increased use of data analytics and machine learning.
- ❑ **Core industries disruptions:** Taxis are competing against Uber and Lyft, Traditional television and cinema compete with Netflix and YouTube, the hotel industry with AirBnB and any store is competing against Amazon. This has impacts in the type of services being offered and the model through which they are offered as well as the jobs associated with them.
- ❑ **Ethical issues:** With improved AI, genetic engineering, and increased automation, there are new ethical concerns and questions of morality that already differ greatly from individual to individual.

With access to more data about an individual and a group of individuals, the risk of using it for personal gain and manipulation is even greater.

Other adverse impacts

- ❑ Continual monitoring of systems and the massive data generated sucks up bandwidth, potentially in places without much
- ❑ IoT requires energy even if it doesn't have much value; it costs energy in the hope you can save money with faster repairs and greater optimization of operations
- ❑ The likely erosion of privacy through more detailed monitoring
- ❑ Every connection point to the network is another point that can be hacked and compromised; think Stuxnet to attack a company's manufacturing systems because a rival or hacker group wants to
- ❑ Companies using your data for their profit, whether displaying location based ads in yourself driving car as you drive past near your dinnertime to having smart appliances re-order specific expensive brands of parts and service as a "convenience"

What the developed nations are doing to harness its potential?

- ❑ Countries around the world are becoming increasingly relied on the economic and social benefits of developing and applying AI.
- ❑ For example, China and U.K. estimate that 26% and 10% of their GDPs respectively in 2030 will be sourced from AI-related activities and businesses.
- ❑ Developed nations are investing on the creation of "data trusts", rolling out of digital connectivity infrastructure such as 5G / full fiber networks, common supercomputing facilities, fiscal incentives and creation of open source software libraries are some of the focus areas of various governments as committed in their strategy papers.
- ❑ For building the future workforce for AI, countries are also significantly increasing the allocation of resources for Science, Technology, Engineering and Maths (STEM) talent development through investment in universities, new courses, and offering schemes to retrain people.
- ❑ So far, the US and China lead in publications and patents. They also have the largest digital platforms, half the world's hyperscale data centres, the highest rates of 5G adoption, 94% of all funding of AI start-ups in the past five years, and 70% of the world's top AI researchers
- ❑ In India, Prime Minister gave an institutional shape to the expression by launching the Centre for Fourth Industrial Revolution in India. The centre would be based in Maharashtra. Drones, artificial intelligence and blockchain have been selected as the first three project areas.
- ❑ It is an initiative of the World Economic Forum and, India becomes the fourth country to have such a centre after US, Japan, and China. The Fourth Industrial Revolution, in short, describes the huge changes brought about by smart technologies.

Suggestive measures

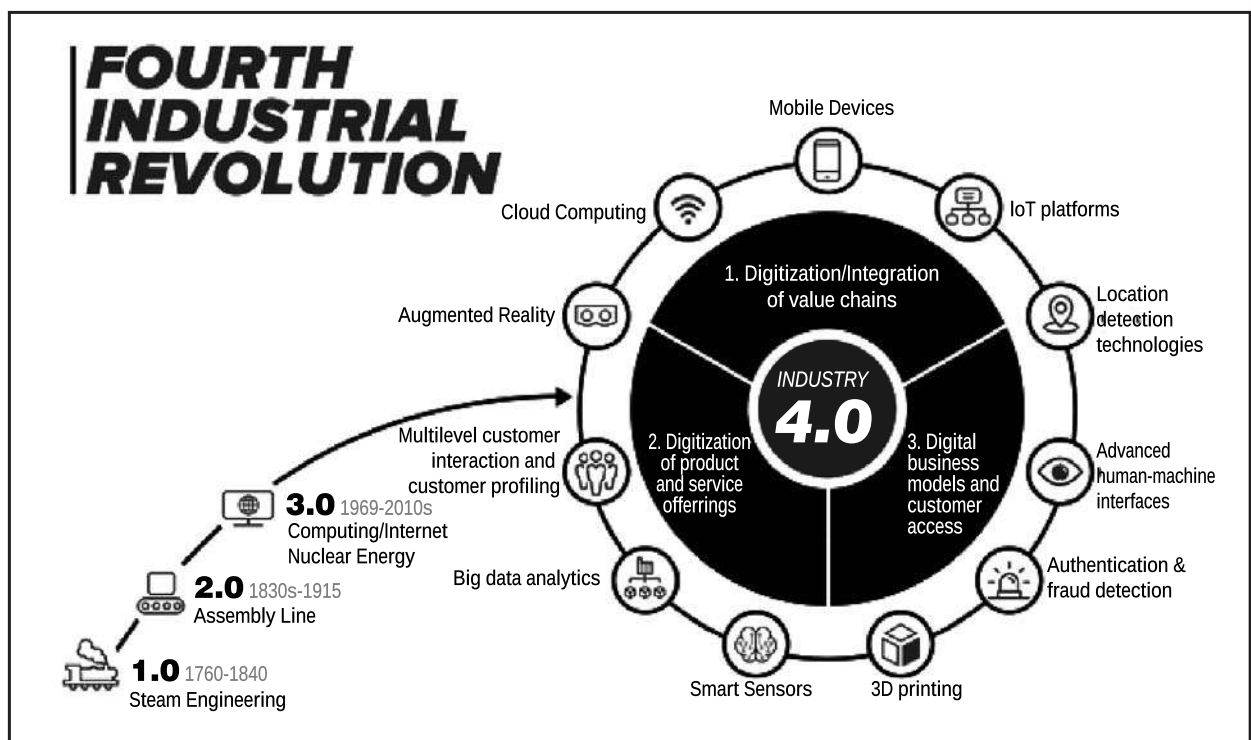
- ❑ **Essential part of daily life:** As manual labour becomes obsolete and technology becomes essential, we may start viewing technology as an integral part of human life by integrating it this with India's peculiar social and economic culture.
- ❑ **New Education Programme:** New education programmes need to be installed in schools to prepare the workforce of tomorrow, and displaced workers will need retraining. For those still left behind, affluent societies will begin entertaining ideas like universal basic income.
- ❑ **Innovation:** To adopt these revolutions, it requires adaptability and agility across industries, labour

and capital augmentation, innovation diffusion i.e. propelling innovations as it diffuses through the economy.

- ❑ **Privacy and Security:** The absence of collaborative effort between various stakeholders, relevant data is unavailable, concerns on privacy and security of data, including lack of formal regulation around anonymisation of data. Unclear privacy, security and ethical regulations, High resource cost and low awareness for adopting AI in business processes, Unattractive Intellectual Property regime are some of the challenges India is facing in adoption of this revolution. Also, Govt withdrawing Data Protection Bill, 2021 to present a new legislation should not be a delay in success
- ❑ **Job Security:** Concerns are raised over job losses, so the investment should be done in those fields which are still unexplored much such as tourism and data analysis.
- ❑ **Skilling the manpower:** Lack of enabling data ecosystems, inadequate availability of AI expertise, manpower and skilling opportunities, lack of R&D facilities are some of the issues which need to be tackled.

Conclusion

To harness the best potential of these very promising revolution, India needs to be more agile towards its adaptability and have to work towards it swiftly. The speed and agility of these revolutions matters which can push India way behind, if we don't comply and act on time.



Hurdles for 'Make in India'

- ❑ **Problems Faced by Manufacturing Sector**
 - The manufacturing industry faces numerous challenges in today's marketplace. The most significant challenges are dealing with intense global competition, finding and keeping skilled labor, handling cost pressures, and adapting to different consumer needs.

• Dealing with intense global competition

- ▶ Globalization has allowed the manufacturers increasing access to developing markets. Companies can move production anywhere in the world in search of materials, expertise, and low labour costs. The result has been the globalization of supply chains, as firms around the world compete for business. American and European firms have benefited from this arrangement because they are able to purchase materials and labour at lower prices. But it has also opened them to fierce competition.
- ▶ In the past few decades, this sector has underperformed when compared to other nations, with a meagre share of 16-17% of the GDP. This is much lesser than that of China and Korea, whose manufacturing accounts for 29% of the GDP and 27% in Thailand
- ▶ Two major factors have reshaped competition in the manufacturing industry. The **first** is the revolution in technology, which has raised productivity and reduced costs worldwide. The **second** is the significant reduction in barriers to trade, particularly with respect to manufactured goods.
- ▶ Competing in global markets has advantages and disadvantages for global manufacturers. At the same time as emerging markets are offering global manufacturing companies opportunities for investment, these countries are making great strides in developing their own domestic industries. Developing nations are investing in technological advances and in modern equipment and plants to manufacture cutting-edge products. There is also a considerable investment in skills development, a shift that is particularly evident in the developing economies.

• Research and development

- ▶ In recent years, manufacturers have decreased investment in R&D. Although they realize that R&D is needed to provide breakthrough in both production technology and products, these initiatives have been scaled back so that companies can keep prices low and remain competitive. The erosion of investment in R&D has had the most direct effect on manufacturers' efforts to recruit and fund high-caliber scientists, engineers, researchers, and other staff. In turn, this affects the amount of time it takes a product to move from R&D to commercial release, or "time-to-market."
- ▶ India's net imports have also been going up in some key sectors like Industrial Machinery & Equipment and Telecommunication equipment which indicates a lack of depth in these industries. Furthermore, share of Capital goods in Manufacturing, which is an indicator of the overall depth of technology and value addition in the Manufacturing sector, is relatively low in India.
- ▶ There are only 26 Indian companies in the list of the top 2,500 global R&D spenders in the world. Compared to this, 301 Chinese companies are among the top 2,500 global R&D spenders. Moreover, 19 out of these 26 companies from India hail from just three sectors—pharmaceuticals, automobiles, and software.

• Revenue growth

- ▶ Manufacturing companies are increasingly concerned about their top line (revenue). Expansion into the global marketplace has increased faster than the market for goods, resulting in more competition for business. Revenue growth has reduced as manufacturers compete for a shrinking market share.

• Maintaining profits

- ▶ Manufacturers are also concerned with their bottom line (profits). Emerging markets have recognized the benefits of pursuing higher-valued manufacturing endeavors, and have adopted the efficiencies and techniques that, historically, have allowed manufacturers in traditional markets to dominate high-end product markets. Profits have therefore diminished as these manufacturers are forced to keep product prices in line with low-priced imports, both at home and in overseas markets.

- **Finding and keeping skilled labour**

- ▶ The manufacturing industry has a problem locating, and retaining, skilled employees. There are three main reasons for this problem:
 - **Employability:** Work ethic, attendance, and reliability are basic requirements, but they're lacking in many applicants. When you consider that a modern manufacturing plant is also looking for employees who can work as part of a team, multi-task, and work through minor problems, the absence of even the most basic skills is cause of concern. Only 3 per cent have suitable skills to be employed in software or product market, and only 7 per cent can handle core engineering tasks. According to a survey by NASSCOM in 2019, India produces 15 lakh engineering graduates every year, but only 2.5 lakh of them succeed in getting jobs in the core engineering industry. In another survey by Aspiring Minds, 80 percent of Indian engineers were unemployed in 2019.
 - **Industry image:** The image many people have of manufacturing is one of toil in a dark, often dirty and potentially dangerous environment. Other assumptions are that the pay is low and that job security is non-existent. What people may not realize is that many of the layoffs in recent years have been the result of companies reducing the number of unskilled workers in favor of lower numbers of skilled employees, combined with computerized machines, to complete the same amount of work.
 - **Training gaps:** In addition to the difficulties involved with attracting skilled labour, the manufacturing industry has also been struggling with training the employees it already has. Getting employees to enroll in, and complete, job skill training has proven difficult. In 2020, Indian companies had identified skill gaps as their greatest barrier, representing 34 percent of the challenges they experienced. In 2022, this has risen to 60 percent.

- **Handling cost pressures**

- ▶ There is an increasing range of forces making it more expensive to do business in traditional markets. Manufacturers are under intense pressure perform, to do it quickly, and to do it for and with less, costs/prices. Over the years, some of the major costs in the manufacturing industry have increased. In order to sustain a competitive advantage, manufacturers are scrutinizing these cost pressures. The major cost categories in manufacturing are
 - **Energy:** Surges in energy costs have had a massive impact on the industry. The high cost of oil has had an impact on transportation costs. Although energy costs have always been subject to some fluctuation, in the demand-driven manufacturing environment, companies don't have the luxury of waiting out price spikes. Manufacturers have coped with rising energy costs in different ways as India imports 85% of its oil and 45% of its Natural Gas. For some have moved operations to countries where the power supply is cheaper. Others have concentrated on maximizing efficiencies in their operations and seeking out alternate sources of power.
 - **Raw materials:** Traditionally, manufacturers could forecast what their costs would be with reasonable accuracy, and calculate both expenses and prices accordingly. Many manufacturers are caught between rising costs and consumers who reject higher product prices and shop the global marketplace to find the best deal for goods. There are a number of reasons for the volatility of the price of raw materials. Emerging economies are consuming vast amounts of steel, copper, and other metals. New technologies in sectors like aerospace are increasing the demand for rarer and more specialized materials but India lacks in strategic minerals especially rare earth metals.
 - **Taxes:** Taxes influence every aspect of doing business, as manufacturers grapple with corporate income tax, property taxes, sales and excise taxes paid by the business, various licensing taxes, unemployment insurance, and workers' compensation taxes. The complicated nature of most tax systems also results in high indirect expenses for bookkeeping, accounting,

archiving, and record keeping. Many countries are lowering corporate income taxes to lure business investments.

❑ Institutional drawback

The issues are:

● Weak institutional architecture for business regulations in the country

- ▶ Despite of the high priority of the business regulatory reform agenda in the country, there is no dedicated authority that can guide the whole process of reform in a structured, planned, cogent and systematic manner, which could mandate the respective departments of the Union, State and Local governments to comply in a timely, result oriented and predictable way.

● Ambiguous nature and vast scope of business regulations

- ▶ There are vast numbers of business regulations at different levels of government are in existence in the country.
- ▶ There are instances of contradictory as well as overlapping business regulations on account of these being administered by the different tiers as well as layers of government.

● Absence of national repository of business regulations

- ▶ Despite the advancements in Information and Communication Technology (ICT) and its ever-growing applications and usage, there is no dedicated online repository to track all the business regulations and procedures. It hurts the ease of doing business which is important for India.

● Lack of coherence in business regulatory governance across country

- ▶ Business facilitation is very much in the agenda at the national as well as state levels. But there is lack of coherence in all such efforts. There are wide variations in government-business transactions taking place in different locations of the country. It has also been found that there is a lack of predictability and standardization in terms of timelines as well as process adopted by different state governments when it comes to facilitating business.

● Lack of defined mechanism for consultation between government and industry

- ▶ The interface between government and the industry is not well defined. There are definitely periodic consultations among various industry collectives and specific government departments located at different levels, but such consultations are not structured well enough to be guided by a defined and outcome-oriented process.

● Inherent limitations of regulatory system in country

- ▶ Lack of periodic review clauses in regulations
- ▶ Lack of Regulatory Impact Analysis (RIA)
- ▶ Lack of sun-set clause in regulations

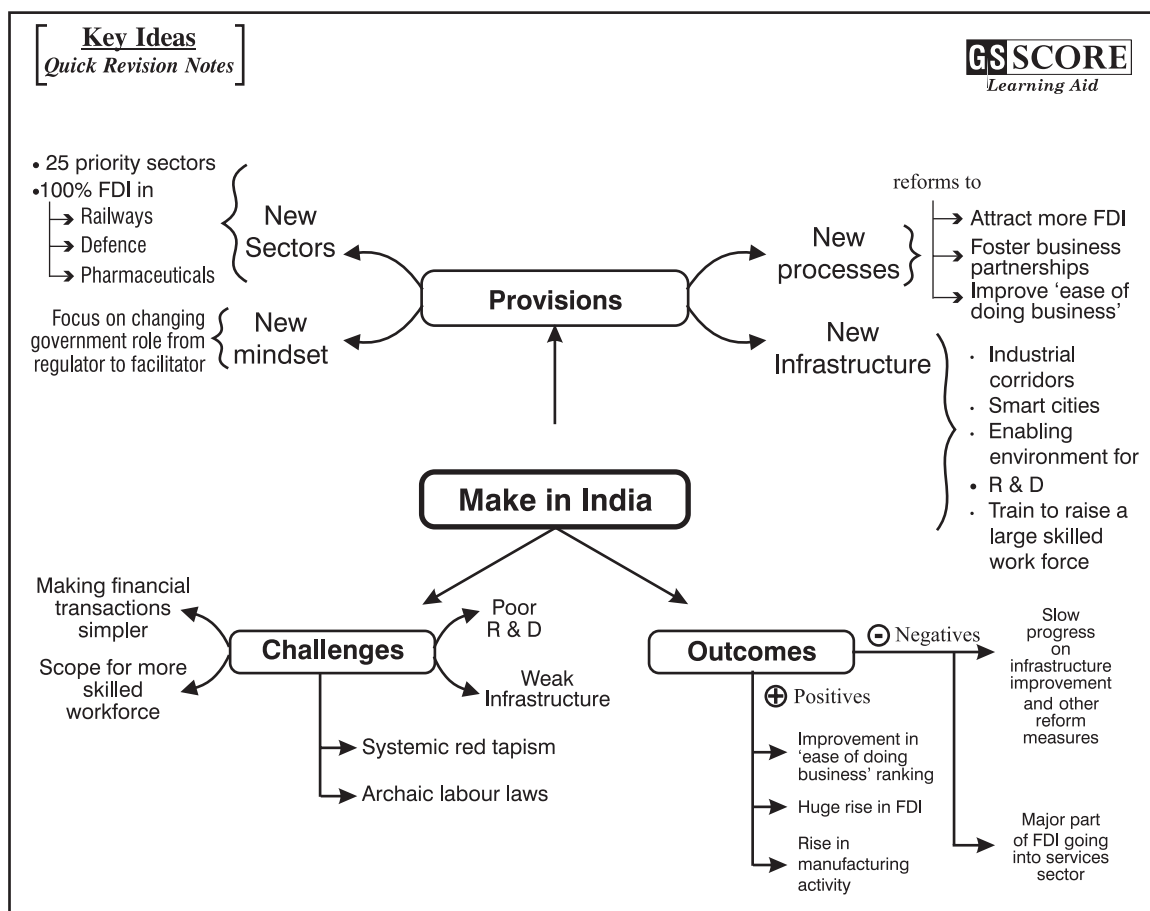
❑ Land Issue

- India has sufficient land i.e. 3.287 million km² for all uses – agriculture, industry, human dwelling, infrastructure and other uses – as long as it is used with prudence and productivity. Currently, the industry utilizes only about 2-4% of all land in India. Even at heightened industrial activity in the future, it is expected that there would be sufficient land for all users, including industry. However, there are some critical issues that need resolution in order, for land to become a well-managed resource, especially from the point of view of Industry.

- Land is inherently an imperfect market, because land is an immobile asset. Hence, no two pieces of land are alike, and can be differentiated. This gives rise to a monopolistic power with the landowners. Furthermore, the value of a piece of land effectively changes when we change its usage and due to development of surrounding areas. In addition, the owner is often emotionally attached to his land. In India, land is considered a very important asset from an emotional perspective.
- A major characteristic of land ownership in India is that the land holdings are typically small. Typical industrial usage requires development of large tracts of land. Consequently, industrial development has as a prerequisite need to acquire land from a large number of owners in order to develop a contiguous piece of land for industrial use.
- Another problem in the land market is the incomplete, outdated, and inaccurate land records, which gives rise to disputes and litigation. Since industrial projects require large amount of land and land holding in India is fragmented, industrialists have to deal with a large number of landowners and consequently face substantial risk of litigation.
- In addition, there are some restrictions on usage of agricultural land for non-agricultural purposes. Non-Agricultural Use Clearance (NAC) from the local/state government is necessary before agricultural land can be considered for other uses.

Hurdles for 'Make in India'

- India's excessive bureaucracy, decrepit and often non-existent infrastructure, as well as power and water shortages, have hampered the manufacturing sector so far.



- Creating ecosystems:** Manufacturing is all about hubs that are ecosystems for innovation, specialised skills and supply chains. Where will India's hubs be for pharma, defence, electronics, machinery and construction equipment? How do we catalyse these hubs by creating world-class academic institutions

and skills training institutes? Pune, Chennai, Bengaluru and Delhi are already emergent hubs but what will enable them to scale up to compete with Shenzhen and Tianjin?

- ❑ In addition, India's land acquisition laws and labour rules like the Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LARR Act, 2013) have ensured that manufacturing has been capital-intensive, not labour-intensive, and is often aimed at land acquisition as an asset. All this must change, and change fast.
- ❑ **Competitive environment:** The best way to ensure that foreign investment is of a high quality and yields value to the country is to have a policy framework that requires it to operate in an unprotected, open and competitive environment, and not behind high tariff walls or import restrictions, nor with the aid of subsidies or other giveaways.

Challenges

- ❑ Increasing the investor confidence is one important area in which government of India should focus by bridging the gaps in infrastructure and their by making way for proper utilization of capital.
- ❑ Adequate measures are needed to address red tapism by complete overhauling of government management system.
- ❑ India's supply chain and logistics costs currently account for 14 per cent of the country's GDP at a massive \$400 billion, compared to global average of approximately 8 per cent.
- ❑ Investor confidence is directly proportional to presence of world class infrastructure. It is very difficult to gain business confidence unless there is enough gaps in infrastructure. According to IMF estimates, with better management of public wealth globally it is possible to accrue enough funds to develop world class infrastructure globally. So, it is essential that a proper mechanism is put in place for better management of public wealth in India.
- ❑ **Labour Laws:** The biggest challenge for Make in India is to create better opportunity for roughly 16 million masses that enter labour markets every year.
- ❑ Our investments in R&D need to scale new level as we are spending only 0.8 percent of our GDP. With greater emphasis on research it is possible to scale up investments domestically and also from outside.
- ❑ The high cost of financial transactions is another issue that is hugely reported, so it is time to have better reforms in financial sector to make transactions more easy and simple.

Analysis of Make in India till now

- ❑ The "Make in India" project, which aims to promote manufacturing in India and energise the economy through targeted investments in both manufacturing and services, was unveiled by the Indian government on September 25, 2014.
- ❑ India then overtook China and the United States to become the top country for foreign direct investment. Additionally, the States also started their own projects in accordance with the national agenda. The industrial industry, in particular, stands on a precipice even after five years.
- ❑ The goal of Make in India is to transform India into a major global manufacturing hub by facilitating investment, fostering innovation, safeguarding intellectual property, and building best-in-class manufacturing infrastructure. Targets and policies were set in order to accomplish this goal.
- ❑ To increase the manufacturing sector's growth rate to 12-14% per annum in order to increase the sector's share in the economy.
- ❑ To create 100 million additional manufacturing jobs in the economy by 2022.
- ❑ To ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 15-16%.

- ❑ The goal of Make in India's policy changes was to spur development in the manufacturing sector's three most important metrics: investments, output, and employment growth. Therefore, these 3 criteria can be used to assess Make in India's success.
- ❑ Investment: The economy's investment has grown slowly during the past five years. The manufacturing industry's capital investment slowdown was more pronounced.
- ❑ Gross fixed capital formation, a gauge of total investment in the private sector, fell from 31.3% of GDP in 2013–14 to 28.6% of GDP in 2017–18, according to Economic Survey 2018–19.
- ❑ Production: From April 2012 to November 2019, the monthly index of manufacturing-related industrial production just twice had double-digit growth rates.
 - Employment: A government survey indicates that India's jobless rate is at its highest level in 45 years. Additionally, the rate of new labour market entrants has not kept up with the growth in industrial employment.

Reasons for Failure

- ❑ Make in India placed an undue reliance on international markets for both produce and investment funds. Because domestic production had to be planned in accordance with global demand and supply dynamics, this introduced inherent uncertainty.
- ❑ It incorporated too many sectors, which caused it to lose emphasis on policy. Furthermore, the vast majority of industries with an emphasis on domestic production do not benefit from any comparative advantages.
- ❑ The fiscal and current account deficits were of greater concern to policymakers. They failed to address the economy's third deficit, the Implementation Deficit.
- ❑ Due to this, the ranking for the "ease of doing business" has increased dramatically, although investments have not yet started to flow in.
- ❑ The reduction in the economy's savings rate and the NPA problem in the banking industry are both contributing factors to the investment bottleneck.
- ❑ Further, the industrial sector in India cannot sustain a growth rate of 12–14% annually.
- ❑ India has not historically experienced this rate of industrial expansion, therefore expecting to develop capacities for such a quantum leap may be greatly overestimating the ability of Indian firms to integrate new technologies.
- ❑ Additionally, the success of Make in India is threatened by the unpredictability of the global economy and the rise of trade protectionism.
- ❑ India is one of the top FDI destinations in the world, receiving inflows of \$49 billion in 2019, however FDI inflows are mostly focused on the capital markets. FDI in manufacturing was only approx \$8 Billion.

What should be done?

- ❑ To become a manufacturing powerhouse, India needs a manufacturing strategy, i.e. to update its Industrial Policy of 1991. The idea of an industrial policy is out of vogue these days. It is seen as ineffective at best and even retrograde, running contrary to the idea of free trade.
- ❑ Japan, Korea, China, Germany have all prospered by having a clear industrial policy and vigorously implementing it. The U.S., the United Kingdom, France and Italy have seen themselves deindustrialise by not having a clear industrial policy and are trying hard to course-correct this mistake.
- ❑ India's industrial policy must recognise where we have important competitive advantages. India is quite uncompetitive at low skill manufacturing.

- ❑ **MSME:** The strengthening of MSMEs (micro, small and medium enterprises) is vital for the 'Make in India' programme to become a success. There is a need to handhold MSMEs as they have the potential to create large number of jobs.

Case Study: There is a successful precedent even in India; our success in IT services was not an accident. It was the result of clear-eyed policies driven by the Department of Electronics, which included reducing import tariffs on hardware and software to zero, setting up software technology parks with tax incentives, and improving connectivity. Policy has always mattered and when it comes to manufacturing competitiveness, India must have a clear industrial policy that spells out priority sectors and how we will build competitive advantage in a way that would be consistent with our obligations to the World Trade Organization (WTO).

- ❑ India must also encourage high-tech imports, research and development (R&D) to upgrade 'Make in India' give edge-to-edge competition to the Chinese counterpart's campaign. To do so, India has to be better prepared and motivated to do world class R&D. The government must ensure that it provides platform for such research and development.
- ❑ The government needs to move forward on reforming labour laws in addition to finding ways to ensure regular supply of power and water and improving infrastructure.
- ❑ To capitalise on the success of Make in India, the government must now show sustained improvement on the ease of doing business and create a transparent and stable tax environment to prove that it is capable of delivering its intent.
- ❑ The 'Make in India' initiative has also recognised and sought to mitigate certain inherent tax disadvantages for manufacturers in India. Such disadvantage has been most pronounced in the context of goods not attracting any basic customs duty on imports into India (eg, information technology hardware). With traders eligible for importing personal electronic gadgets at a 4 per cent duty advantage (as compared to a manufacturer importing components for manufacture), manufacturing was never a viable option for this sector.
- ❑ Apart from addressing an "inverted duty structure" for manufacturers in rolling out attractive duty schemes for manufacturers of mobile phones and tablet computers, this initiative, has in a single stroke, incentivised manufacturing. According to reports, apart from the government receiving over Rs1.20 lakh crore (\$18 billion) worth of proposals from companies interested in manufacturing electronics in India, between September 2014 and November 2015, this has translated into an enhancement in domestic production of smartphones. It appears that import substitution has come to play and stay in the supply of smartphones in India.

Way Forward

- ❑ We must focus on building competitive advantage and global scale in sectors where we have a large domestic market and certain inherent capabilities.
- ❑ It is of paramount importance that the foreign investment, foreign trade and intellectual property rights (IPR) policies are viewed in a holistic manner to ensure that they mutually reinforce each other in achieving the policy objective of world-class domestic manufacturing.
- ❑ To improve the ease of doing business in India, we need to stop tax terrorism, improve infrastructure, reform labour laws, invest in skills development, make it easier to acquire land, implement Goods and Services Tax (GST) and fast track approvals.

Conclusion

- ❑ The government has launched a variety of initiatives in the previous two years, including "Make in India," "Start-up India," "Skill India," and "Digital India," among others, with the goal of elevating

India to the top spot in the world for FDI and enhancing the “Ease of Doing Business” there. Grand efforts, like “Make in India,” typically take a long time to develop, so making quick judgments about them can be premature.

- In this framework, structural reforms like facilitating land acquisition, revising labour regulations, etc. are necessary to support Make in India. The first step in this direction can be to address the implementation deficit.

Ease of doing business– significance and challenges

■ Significance of the ranking

- As the World Bank ranks 190 countries, investors have a comparable template to make cross-border investment decisions. The ranking provides a significant input to their decision-making process.
- As the World Bank points out, economies with better business regulations are the ones that create more job opportunities and the countries with more transparent and accessible information have lower levels of corruption.
- Removing systemic constraints would help business and industry become more competitive.

● Limitations of Ease of Doing Business Report

- ▶ EoDB does not measure macro stability policies and development of the financial sector.
- ▶ While the report talks about the business climate in a country, it merely focuses into business regulations. In India’s case, the business environment in **only Delhi and Mumbai** are used to compile the national ranking.
- ▶ **It undermines the focus on other aspects of development** as manifested through scores of indices on malnutrition, hunger, education, workers rights, inequality etc.
- ▶ The atmosphere of easing regulations for businesses has resulted in a tendency to issue **easy environmental clearances**. The changes in the draft Coastal Regulation Zone Notification 2018 proposes fast tracked single clearance systems, which may be in line with easing doing business but could result in projects that have adverse social and environmental consequences on an ecosystem, already vulnerable to climate change.

■ Bottlenecks to catch up with top performing economies on EoDB

- World Bank factors in cost of starting a business as a percentage of income per capita. India’s low income per capita makes the cost look higher therefore reduces its ranking.
- In enforcing contracts, the country’s score has barely moved in the latest ranking. The delays in judicial process and court verdicts related to businesses are still slow compare to other countries.
- The reforms like IBC is being neutralised by extending the process of resolution beyond the 270 day deadline in several cases, undermining a key tenet of the reform.
- Financial services firms fall outside the ambit of the IBC, and so a separate mechanism remains to be created for bankruptcy procedures involving banks, in particular.
- One of the factors that have been causing India to historically lag is the tricky question of enforceability of contracts. This is one index on which India has performed extremely poorly over the years.
- The cumbersome laws regarding labour are hurting the business sentiment in many parts of the country.

- Centralisation of authority as for each permission, the project proponent is forced to come to the authority at the Centre or State.
- More than 98% of Indian employers stay dwarf with no access to institutional capital, talent, technology and supply chains

■ Measures to be taken to improve the ranking

- Commercial courts should dispose of cases faster than at current pace. According to Economic Survey 2018, litigations involving government in tax related issues should be above certain threshold to reduce the burden of case on the courts and save time.
- Ownership and titles need to be online which comes under the local government.
- Collaboration between States and Centre in areas such as construction permits and registering property which generally come under local government.
- Both the central and state governments need to cut the bureaucratic delays and resulting corruption in granting permission to start a business.
- With e-governance, a single window concept can be introduced where companies can file their application online for permission to acquire land, register property, and to get a construction clearance.
- States should include the permissions for construction and registering a property under the Public Service Delivery Guarantee Act.
- The powers must be devolved to decentralise the system for faster decision-making in granting permission, register property etc.
- Consolidation of rules which implies, combining different regulations that serve the same purpose e.g. integrated environment clearance/permission system.
- There is an urgent need to reimagine the current system and replace it with a consolidated, risk-based and digital system with built-in self-certification.
- A mechanism must be formulated to ensure exemptions are given based on the risk involved.
- A credible & independent third-party mechanism should be introduced under each rule and act to provide simpler compliance process for setting up and operating a business.
- Codification of labour laws that will remove the multiplicity of definitions and authorities, leading to ease of compliance without compromising wage security and social security to workers

National Capital Goods Policy 2016

■ Objectives of the Policy

The objectives of the National Capital Goods Policy are to:

- Increase total production: To create an ecosystem for a globally competitive capital goods sector to achieve total production in excess of Rs.7,50,000 Cr by 2025 from the current Rs. 230,000 Cr.
- Increase employment: Raising direct and indirect employment from the current 8.4 million to ~30 million by 2025.
- Increase domestic market share: To increase the share of domestic production in India's capital goods demand from 60% to 80% by 2025 and in the process improve domestic capacity utilization to 80-90%.

- Increase exports: To increase exports to 40% of total production (from Rs 61,000 Cr to Rs 300,000 Cr) by 2025 from current 27%, enabling India's share of global exports in capital goods to increase to 2.5% and making India a net exporter of capital goods.
- The policy also aims to facilitate improvement in technology depth across sub-sectors (increasing research intensity in India from 0.9% to at least 2.8% of GDP), increase skill availability (training 50 lakh people by 2025), ensure mandatory standards and promote growth and capacity building of MSMEs.

■ Issues & Challenges of Indian Capital Goods Industry:

- A wide range of issues has negatively impacted the growth of capital goods production in India. Major issues & challenges are described below:
- **Issues affecting domestic demand creation:** The lack of positive bias towards domestic value addition in public procurement policies, difficult contract conditions, high inflation and low employment rates, persistent dependency on imports and use of second-hand machinery with no incentive for replacement, stagnant productivity, zero duty import under 'Project Imports' and delays in project implementation are the key factors limiting domestic demand.
- **Issues affecting exports:** Key challenges include the inadequate availability of competitive short and long-term financing, non-tariff barriers in export markets denying market access and limited understanding of international market requirements especially by smaller players. India also needs to align its trade policy to the shift in India's export map towards developing regions. India needs to diversify its export basket and export destination as EU and USA account for less than one-fourth of the export destination. More trade agreements are needed with developing countries where India has a comparative advantage.
- **Issues affecting technology depth:** Significant challenges and gaps exist in high-end, heavy-duty, high-productivity and high precision technologies across sub-sectors. Contributors to these gaps include low end user acceptance of new Indian technology, lack of skill availability, weak support infrastructure and low Indian participation in developing international standards. Further, patent processing takes very long and fiscal incentives for R&D are still inadequate. National Intellectual Property Rights (IPR) Policy 2016 needs amendments to further promote it.
- **Issues affecting cost competitiveness:** Indian manufacturers are still challenged with respect to cost competitiveness compared to their global peers due to a skewed and state-wise variation in tax and duty structure, prevalence of inverted duty structure for several products and high infrastructure and logistics cost (14% compared to 8% in developed nations)
- **Issues related to SMEs:** SMEs still face challenges in developing new products and processes due to their smaller scale and inadequate institutional mechanisms, limited access to capital, high competition from MNCs, low skill set of hired labour, and low awareness and compliance with international standards.
- In addition, there are several sub-sector specific challenges. Achieving high growth would need focused collective efforts by all concerned stakeholders - government, industry, end user segments alike; supported by an enabling policy for the capital goods industry.

■ Key Policy Recommendations & Way Forward

- To integrate major capital goods sub-sectors like machine tools, textile machinery, earth-moving and mining machinery, heavy electrical equipment, food processing machinery, etc. as priority sectors under 'Make in India' initiative for targeted intervention to reach target of 80% by 2025 and in the process improve domestic capacity utilization of 80-90%.
- To create an enabling scheme as a pilot for 'Heavy Industry Export & Market Development Assistance Scheme (HIEMDA)' with a view to enhance the export of Indian made capital goods.
- Strengthen existing capital goods scheme through increasing the budgetary allocation & increasing scope of the present 'Scheme on Enhancement of Competitiveness of Capital Goods' which include

setting up of Centers of Excellence, Common Engineering Facility Centers, Integrated Industrial Infrastructure Park and Technology Acquisition Fund Programme, by adding a set of components including technology, skills & capacity building, user promotional activities, green engineering and energy, advanced manufacturing and cluster development.

- To launch a Technology Development Fund under PPP model to fund technology acquisition, transfer of technology, purchase of IPRs, designs & drawings as well as for commercialization of such technologies of capital goods.
- To create a 'Start-up Center for Capital Goods Sector' shared by Department of Heavy Industry (DHI) and Capital Goods Industry (CGI) association in 80:20 ratio to provide an array of technical, business and financial support resources and services to promising start-ups in both the manufacturing and services space. These services should focus on Pre-incubation, Incubation and Post-Incubation phases of a start-up's growth to ensure that a robust foundation is established.
- Mandatory Standardization which includes, inter alia, defining minimum acceptable standards for the industry and adoption of International Organization for Standardization (ISO) standards in the absence of other standards, to institute formal development program for promoting and framing Standards with Standards Developing Organizations (SDOs) including Bureau of Indian Standards (BIS), international standard bodies, test/research institutions and concerned industry associations.
- To upgrade development, testing and certification infrastructure such as Central Power Research Institute (CPRI), and set up 10 more CMTI like institutes to meet the requirements of all sub-sectors of capital goods.
- To develop a comprehensive skill development plan/scheme with Capital Goods Skill Council and to upgrade existing training centers and set up 5 regional State-of-the-Art Greenfield Centers of Excellence for skill development of CG sector.
- To provide schemes for enhancing competitiveness through a cluster approach, especially for CG manufacturing SMEs. Thrust to be on critical components of competitiveness such as Quality management, Plant maintenance management, Energy management, Cost management, Human Resource management and prevention of corrosion with the Government support to the extent of 80% of the cost.
- The National Capital Goods Policy is a major step to unleash the potential of this promising sector and is envisaged to contribute significantly to achieving the overall vision for manufacturing and Make in India. The smooth implementation and effectiveness of the policy will require alignment and joint action of several ministries and departments and have implications on multiple stakeholders and user industries.

Analysis of Competition Commission of India

Analysis of Working of CCI

- The Competition Commission of India (CCI) was duly established in March 2009 and serves as a statutory authority of the Indian government charged with upholding the Competition Act, 2002.
- On the advice of the Raghavan Committee, the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act) was abolished and replaced by the Competition Act, 2002.
- The Indian Competition Commission seeks to provide a healthy environment for competition:
 - by proactive interaction with all parties involved, such as customers, businesses, governments, and international organisations.
 - by having a high degree of competency and a knowledge-intensive company.

- ❑ by prudence in enforcement, professionalism, openness, and resolve.
- ❑ The objective of CCI is to play an overarching role as a market regulator across all sectors with the focus on anti-competitive behaviour of enterprises that may distort competition.
- ❑ Sector rules and regulations are framed ex-ante (laying down performance criterion) after consultation with industry and consumers, and reviewed from time to time for correction, whereas the market regulator, CCI, performs mostly ex-post functions only to curb concentration in the market (laying down criterion for fair play).
- ❑ Here, lies the essential difference in their approaches as anti-competitive activities or any conduct that may harm competition usually involve collusion/cartelization or strategies to concentrate in a particular market. Legislation with regard to sectors neither defines cartels or abuse of dominance nor provides the investigative mechanism to establish such economic irregularities. Therefore, the Competition Act, 2002, has overriding effect and envisages that it shall have jurisdiction in addition to and not in derogation of other laws.
- ❑ The idea to oversee deals ex-ante before they are executed is to pre-empt combinations that could potentially have an adverse impact on competition in the relevant market. The analysis of competition concerns in any market invariably require an assessment of market power to see if the market dynamics would allow the parties to concentrate and deny market access to new entrants. Competition authorities intervene only for prevention of market failures, restriction or removal of anti-competitive practices, and promotion of public interest.
- ❑ While the market dynamics keep changing with additional players and varied spectrum of services, how can the sector regulators gauge the impact of harm or benefit of consolidation in the market until the terms of a deal are assessed with the market structure at that time?
- ❑ On the other hand, mergers and acquisitions control by CCI is based on size of business test (as opposed to market share). On triggering of the thresholds specified under the Competition Act, CCI will look at the terms of the deal and impact on market from prevailing circumstances.
- ❑ On perceived conflict between CCI and sectoral regulators, the market regulator is a generalist while the sector regulator is a specialist. It is a misconception that when there are sector regulators, there isn't the need for another (market) regulator. While both competition authorities and sector regulators share the common goal of protecting public interest and play complementary roles in fostering competitive markets and safeguarding consumer welfare, they employ different approaches and have different perspectives on competition matters.
- ❑ The starting point, however, is for both to try and appreciate the difference between the technical domain of the sector regulators and anti-competitive behaviour within the domain of competition authorities. This would help in delineating the roles of the two regulatory bodies. The success of the competition regime lies in the benefit reaching the common man.
- ❑ The shift from the previous competition regime to the current one is from structure to conduct and from rule of law to rule of reason. To enable this task, robust powers are granted to CCI in terms of enhanced authority, penalizing provisions, and a dedicated appellate authority. A competition law expert can test all haphazard ways of commercial life to iron out distortions and market strategies that are not desirable for healthy competition. CCI is a new paradigm. No wonder the cartels in the cement industry and bid rigging in government procurements by liquid petroleum gas cylinder manufacturers and explosive manufacturers had not been brought to book till now.
- ❑ Regulatory bodies are institutionalized for independent management of the sector. The Supreme Court has recently enunciated the important role of a regulator while considering the powers/competence of the Telecom Regulatory Authority of India. However, several high courts are failing to appreciate the role of regulators, particularly CCI. Its jurisdiction is still questioned and high courts are brisk in stalling investigations initiated by them.

Recent Judgements of CCI

- ❑ In June 2012, CCI fined 11 cement businesses a total of 63.07 billion (US\$910 million) for cartelization. It was alleged that regular meetings between cement businesses to set prices, manage market share, and restrict supplies resulted in illicit profits.
- ❑ The Board of Control for Cricket in India (BCCI) was fined ₹ 522 million (US\$7.6 million) by CCI in 2013 for abusing its dominating position.
- ❑ The CCI concluded that the terms of the IPL franchise agreements were biased in favour of BCCI and that franchises had no input into the contract's provisions, making it unfair and discriminatory.
- ❑ For failing to follow the instructions given by the CCI, Google was fined \$10 million in 2014.
- ❑ Three Airlines was hit with a 258 crore punishment by CCI in 2015.
- ❑ The three airlines were fined by the Competition Commission of India (CCI) for engaging in cartel behaviour when setting the fuel surcharge for air freight.
- ❑ Following a complaint by Reliance Jio on the cartelization by its rivals Bharti Airtel, Vodafone India, and Idea cellular, the CCI ordered an investigation into the operation of the Cellular Operators Association of India (COAI).
- ❑ In order to prevent market competitors from competing, Google was forced to submit to an antitrust investigation by the commission. Based on an examination of a comparable case in the EU where Google was found guilty and penalised, this investigation was commissioned.

Initiatives for Fund for Start-Ups

- ❑ Accelerating innovation driven entrepreneurship and business creation through Start-ups is crucial for large-scale employment generation. An expert committee on Venture Capital (VC) has opined that "India has the potential to build about 2500 highly scalable businesses in the next 10 years, and given the probability of entrepreneurial success that means 10,000 Start ups will need to be spawned to get 2500 large scale businesses.
- ❑ Start-ups need funds because for entrepreneurs in the early stages of an enterprise's growth, easy access to cash is essential.
- ❑ Financing is only given by angel investors and venture capital firms after a proof of concept has been shown. Similarly, banks only lend money to applicants who can vouch for their assets.
- ❑ In order for start-ups with creative ideas to execute proof of concept tests, seed money is required.
- ❑ Also, Start-ups face several challenges-limited availability of domestic risk capital, constraints of conventional bank finance, information asymmetry and lack of hand holding support from credible agencies. A large majority of the successful Start-ups have been funded by foreign venture funds and many of them are locating outside the country to receive such funding.
- ❑ A dedicated fund for carrying out Fund of Funds operations would address these issues and enable flow of assistance to innovative Start-ups through their journey to become fully fledged business entities. This would encompass support at seed stage, early stage and growth stage. Government contribution to the target corpus of the individual Fund as an investor would encourage greater participation of private capital and thus help leverage mobilization of larger resources.
- ❑ **Start Up India Initiative**
 - Start-up India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Start-ups to grow through innovation and design.

- In order to meet the objectives of the initiative, Government of India announced the Action Plan that addresses all aspects of the Start-up ecosystem in 2016. With this Action Plan, the Government hopes to accelerate spreading of the Start-up movement. The Action Plan is based on the following three pillars:
 - ▶ Simplification and Handholding
 - ▶ Funding Support and Incentives
 - ▶ Industry-Academia Partnership and Incubation

■ Fund of Funds for Start Ups

- “Fund of Funds for Start-ups” (FFS) at Small Industries Development Bank of India (SIDBI) has been established for contribution to various Alternative Investment Funds (AIF), registered with Securities and Exchange Board of India (SEBI) which would extend funding support to Start-ups.
- The corpus of FFS is Rs.10,000 crore which shall be built up over the 14th and 15th Finance Commission cycles subject to progress of the scheme and availability of funds.
- Further provisions will be made as grant assistance through Gross Budgetary Support by Department of Industrial Policy and Promotion (DIPP) which will monitor and review performance in line with the Start-up India Action Plan.
- The FFS emanates from the Start up India Action Plan, an initiative of Department of Industrial Policy & Promotion (DIPP). The expertise of SIDBI would be utilized to manage the day to day operations of the FFS. The monitoring and review of performance would be linked to the implementation of the Start Up Action Plan to enable execution as per timelines and milestones.
- A corpus of Rs.10,000 crore could potentially be the nucleus for catalyzing Rs.60,000 crore of equity investment and twice as much debt investment. This would provide a stable and predictable source of funding for Start-up enterprises and thereby facilitate large scale job creation.

Start-up India Seed Fund Scheme

- It has been created by the Department for Promotion of Industry and Internal Trade (DPIIT).
- Objective: It aims to provide financial assistance to start-ups for proof of concept, prototype development, product trials, market entry and commercialisation.
- Funding: A sum of Rs. 945 crore has been allocated for the fund over the next four years for providing seed funding to eligible start-ups.
- Grants of up to Rs. 5 crore shall be provided to eligible incubators selected by an expert committee.
- They shall be offered grants of up to Rs. 20 lakh for validation of proof of concept, prototype development or product trials.
- Furthermore, investments of up to Rs. 50 lakh shall be provided to start-ups for market entry, commercialization or scaling up through convertible debentures or debt-linked instruments.

Critical Analysis of Stand up India Scheme

- The “Stand up India Scheme” launched to promote entrepreneurship among Scheduled Caste/Schedule Tribe and Women for loans in the range of Rs. 10 lakhs to Rs. 100 lakhs.
- The PM, at the Start-up India’s international summit, ‘Prarambh’, highlighted that the government is trying to create a startup system, which is based on the mantra ‘of the youth, by the youth, for the youth’.

■ The key features of the scheme:

- Composite loan between Rs. 10 lakh and upto Rs.100 lakh, inclusive of working capital component for setting up any new enterprise.
- Debit Card (RuPay) for drawal of working capital.
- Credit history of borrower to be developed.
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs.10,000 crore.
- Creation of a corpus of Rs. 5,000 crore for credit guarantee through NCGTC.
- Handholding support for borrowers with comprehensive support for pre loan training needs, facilitating loan, factoring, marketing etc.
- Web Portal for online registration and support services.
- The overall intent of the proposal is to leverage the institutional credit structure to reach out to these underserved sectors of the population by facilitating bank loans in the non-farm sector set up by such SC, ST and Women borrowers. The initiative will also develop synergies with ongoing schemes of other Departments.
- The process would be led by SIDBI with involvement of Dalit Indian Chamber of Commerce and Industry (DICC) and various sector-specific institutions all over the country. The offices of SIDBI and National Bank for Agriculture and Rural Development (NABARD) shall be designated Stand Up Connect Centres (SUCC).
- Every bank has been told that it will be responsibility to ensure that wherever one have a branch, have to give loans to two persons in the area — a youth who is a Dalit or an Adivasi, and a woman — to help them start a new enterprise, new business.

■ Benefits of Stand Up India Scheme

- Capital Access to Female entrepreneurs made easier.
- The government has initiated refinancing options under the scheme through SIDBI with an amount of Rs 10,000 crore. A corpus of Rs 5,000 crore will also be created for ensuring credit guarantee through NCGTC (National Credit Guarantee Trustee Company Ltd). The borrowers will also be given debit cards.
- Under the scheme, there are provisions for providing support to women as well as SC/ST borrowers through all stages, right from the loan application stage to business operations. They will be trained to familiarise them with guidelines and terminologies of banks, how to register online and use e-markets, and other relevant entrepreneurial practices. All the scheme related information will be brought together on the web portal of Stand Up India.
- The participation of women in entrepreneurship still remains low in numbers. There could be many reasons for it including access to capital, lack of training and knowledge, lack of confidence, etc. Through this scheme, every bank branch will start minimum two entrepreneurial projects. This initiative will significantly increase the number of women entrepreneurs in the country. As it is expected that the Stand Up India scheme will benefit more than 250,000 potential borrowers, the participation of female entrepreneurs is also expected to rise.

Current Status & Success of Start-up India:

- In the nation, there are approximately 41,000 start-ups, and 44% of these businesses have received official recognition.
- Information technology (IT) has more than 5,700 start-ups, healthcare has over 3,600, and agricultural has more than 1,700.

- ❑ The demographic makeup of business is shifting as a result of these enterprises. India is currently one of the largest countries in the start-up ecosystem.
- ❑ Despite the disruption caused by the epidemic, more than 100 firms became unicorns till 2022, and more than 70 of them are now valued at more than USD 1 billion.

Challenges

❑ Losses incurred for banks:

- The scheme provides much lower interest rates than the market rate. This low rate of interest is for the poor people. It definitely incurs huge losses for the PSU banks. On the other, it will be like investing more and more in non-performing assets.
- According to the scheme there will be creation of jobs, encouraging new talents but also there will be a flood of loans that must be fulfilled by the PSU banks which is definitely not very good news for any of the banks.

❑ Delays:

- The criterion for this scheme says that the company needs to be innovative. Judging whether a product is innovative or not is left to the discretion of the DIPP. This may lead to delays and also potentially good entrepreneurial ventures may be lost in the process.

❑ Lack of awareness:

- The education of the people about the socio-economic dimensions of Dalit entrepreneurship and women entrepreneurship has not been paid much attention. If this is not done, the Stand up India scheme may not be very effective.
- The SC/ST's and women have not been fully and meaningfully empowered in terms of technological knowhow, access to skilled labour, knowledge about the sectors and so on.

❑ Weak infrastructure:

- Instead of financing business or self-employed programs, government should have invested in basic amenities like electricity, road developments, basic education and such things.
- A major part of the nation is still not receiving these basic amenities due to weak infrastructure. GOI must work on these areas first before financing small start-ups which are still a wild dream for mass Indians.

❑ Lack of institutional bank linkages:

- The banking sector has not yet penetrated to the hinterlands in a meaningful manner. Therefore, the challenges of lack of institutional bank linkages, awareness among the people, digital divide and many other technological challenges can be obstacles to bank account linkages despite the success of Pradhan Mantri Jan Dhan Yojana.

❑ Technological dependency:

- In India, there are several places where latest technologies haven't reached yet. At the same time, poor people, backward classes, dalits and other applicants, who fall under such scheme, are also not aware of technology evolution till today. It looks little difficult for lot of people to compete in long run.

❑ Inadequate fund:

- The funding support of about 10 lakhs to 1 crore is inadequate for manufacturing sector.

Further Steps taken to promote start-ups in India:

- **Atmanirbhar Bharat:** Digital India Innovation Contest for Atmanirbhar Bharat Apps.
- **Make in India:** Promotion of locally produced goods and services is part of the strategy.
- **Start-up India Digital Platform:** The largest virtual incubator in the world, the, with over 300,000 registered start-ups and would-be business owners.
- **Start-up Grand Challenge:** It focuses the entrepreneurial potential of Korean and Indian start-ups to collaborate and develop solutions for global concerns.
- **Atal Innovation Mission (AIM):** Launched by NITI Aayog as a flagship programme, it aims to promote a culture of innovation and entrepreneurship in India. Some initiatives of AIM are **AIM iCREST** and **Mentors of Change**.
- **Project Chunauti:** It is a start-up challenge under the Next Generation Incubation Scheme (NGIS) initiative. Selected start-ups are provided human resources, legal, intellectual property rights (IPR) and Patent matters guidance as well as other incubation and mentorship facilities.
- **National Initiative for Developing and Harnessing Innovations (NIDHI):** It is an umbrella programme for nurturing ideas and innovations (knowledge-based and technology-driven) into successful start-ups.

Way Forward

- ❑ India has a high percentage of people who are unable to start their own business because of the capital shortage. This leads to death of several innovations and hence in the end economy suffers. By implementing such schemes, the government is providing an opportunity to the people to grow and innovate. The scheme would also help in reducing the unemployment rate which in turn also helps in increasing the GDP and the national income.
- ❑ The need of the hour is to create awareness about this, and various other schemes for women entrepreneurs in India. The SC/ST population needs to be educated and socio-politically empowered further to reap the benefits of this scheme meaningfully. If implemented with the adequate ecosystem support, this scheme can indeed transform the socio-economic architecture of rural and urban India.

Is India's Growth Story Plateauing?

Context:

Global rating agency Fitch has lowered India's economic growth forecast for fiscal 2022-23 (FY23) as measured by gross domestic product (GDP) to 7 per cent from its June 2022 estimate of 7.8 per cent. Fitch cuts India FY23 GDP growth forecast to 7%; world GDP growth at 2.4%

Analysis

- ❑ The last ten years have shown that half-baked, ill-thought-out measures produce uncertain results.
- ❑ Be it the land acquisition law, the national food security law, demonetization or GST, the big bang economic reforms agenda has plateaued.
- ❑ India must rebuild consensus for a steady stream of reforms and revive the spirit of 1991.

- **Is India shining?**

- ▶ The renewed plan to make India shine had the same blind spot — the farm sector, employer to the bulk of India's poor, and in desperate need of structure reforms, received inadequate attention.

- **Is there a policy paralysis here?**

- ▶ There is no policy paralysis. On the contrary, decision making was speedy. But it was poor of quality.
- ▶ The ill-informed idea of demonetization and the half-baked GST roll out demonstrated the growing disconnect between policy tools and objectives.
- ▶ The economy could have recovered and returned to the high-growth path with bold reforms, but the policy response was feeble.

- **What has been, and can be, the RBI's monetary policy in aiding growth story**

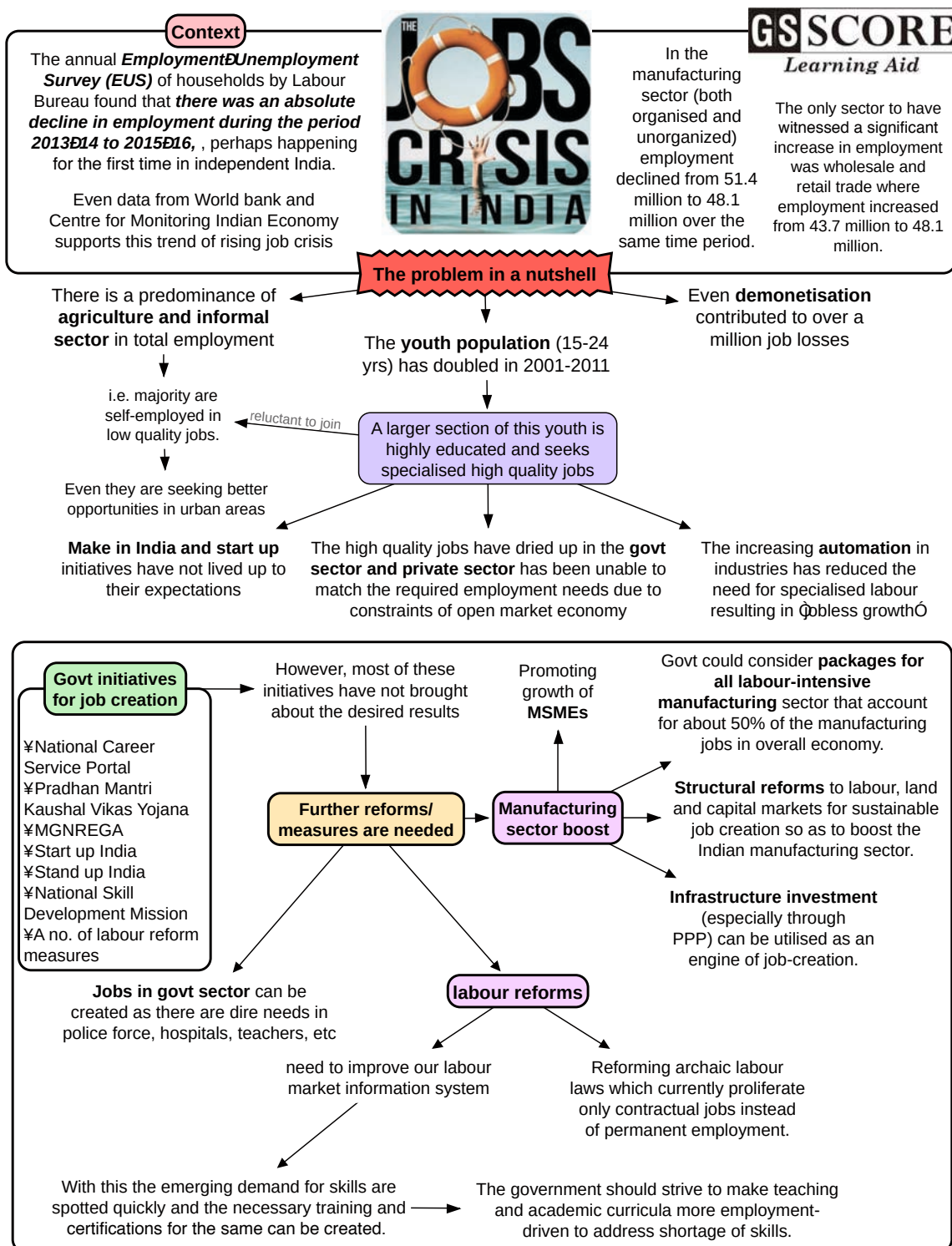
- ▶ India has reported top gross domestic product (GDP) growth rates across the world. It is also known as one of the four most powerful emerging market countries, collectively part of the BRICs which contain Brazil, Russia, India, and China.
- The International Monetary Fund (IMF) and World Bank have highlighted India in several reports showing its high rate of growth.
- The Indian GDP grew 4.1% year-on-year in the first three months of 2022, slightly higher than market forecasts of 4%, but the least in a year, due to rising Omicron infections, elevated energy prices, and ongoing supply chain constraints. A slowdown was seen in mining and quarrying (6.7%)
- Both projections have India with the highest expected GDP growth in the world over the next two years.
- These growth rates make the role of the Reserve Bank of India increasingly important as the country's total GDP moves higher.

- **RBI's Role**

- As with all economies, the central bank plays a key role in managing and monitoring the monetary policies affecting both commercial and personal finance as well as the banking system.
- As GDP moves higher on the world rankings the RBI's actions will become increasingly important.
- Prior to April 2019, credit rates in the country have remained relatively high, despite the central bank's positioning, which has been limiting borrowing across the economy.
- As one of the fastest growing emerging market countries in the world, India and its central bank have several unique challenges ahead that will require nimble navigation from the RBI.
- With the Indian economy steadily accounting for a greater share of the global economy, it is expected that the RBI will gain greater attention from world leaders while also growing in stature as one of the world's most-watched central banks.

- **On Fiscal fronts – is there a job deficit orientation on policy matters?**

- According to a research, the main reason for the worsening correlation between growth and jobs was a mismatch between skills and good jobs.
- The share of the so-called goods jobs that broadly includes formal employment with regular pay accounted for only 17 per cent of the country's 467 million workforce.
- The World Bank, in its publication South Asia Economic Focus, Spring 2018: Jobless Growth?, says that over the long-term, India has been creating 7,50,000 new jobs for every one per cent rise in gross domestic product (GDP); at an average of 7% growth, India should be creating at least 5.25 million jobs.



Bottomline

The issue of job creation is a complex and multi pronged one. Accordingly, no single policy initiative can bring about the necessary changes. So, multiple interventions are needed at different levels. Job-creation needs to be an essential axis along which economic and social policies should be formulated.

- Assessing real job trends cannot be done with point-to-point data of the type the government puts out once in a while, for the choice of base year matters.
- The Census, which is the gold standard in job counts, happens once in 10 years; the National Sample Survey Office's surveys happen once in five years, and the Labour Bureau's employment surveys, which use methodologies similar to CMIE's, also happen with large time lags.
- This brings us to the conclusion: if we want to fix our jobs problem, we must first get our hands on the right high-frequency data. Without this, we can't even define the nature of our jobs problem.

■ Link between growth and jobs

- In the 1990s, the employment elasticity in India was nearly 0.4. This number measures how much a given rise in growth impacts jobs. At 0.4, a one per cent rise in GDP growth gives us a 0.4% rise in employment; 5% growth gives jobs a 2% boost.
- Now, this elasticity is down to 0.2 or lower. This means, for every percentage rise in growth, we get only a 0.2% impact on employment.
- Secondly, this falling employment elasticity is partly the result of large-scale substitution of labour with capital and automation. This is easy in a world with surplus capital, and especially in a country with restrictive labour laws.

■ The remedies

- Improvement in labour market information system. This way, emerging demand for skills are spotted quickly and the necessary training and certifications for the same are created quickly.
- This calls for an agile public-private partnership in capturing demand for skills and following through with quick investments in skill-building to match demand with supply.
- India need labour market reforms. Some good moves have been seen over the last few years, with the **Apprentices Act** being modified to make it more attractive for employers to hire young workers, and the extension of fixed-term labour contracts from textiles to all industries in the last budget.
- This is good, but not good enough. The “regulatory cholesterol”, is still too high.
- The key to employment growth is not the big company or factory that employs thousands of workers, but medium-scale units.
- The enterprises-to-jobs multiple is highest for medium-scale units. India needs to nurture and expand its equivalent of the German Mittelstand. This can't happen without deep changes to labour laws and access to credit.
- There may still be jobs in light manufacturing (apparel, leather, cell phone assembling, et al.), but manufacturing as a whole is automating in a big way, and won't directly create jobs.
- Smart urbanization is key. The link between good urbanization and jobs growth is positive, and unless India's urbanization is concentrated in narrower areas and serviced by good infrastructure, job creation will be sub-optimal.

Job Creation and India:

- The Government of India has recently announced its plans to create 10 lakh new government jobs.
- 22% of the approximately 40 lakh sanctioned positions are currently unfilled, and the government will do so in 18 months.
- Although the news has been hailed by several top government officials as a “historic move in the interest of the youth” and as “creating a fresh hope and confidence among youth,” the scheme contains many flaws.

India's unemployment is caused by:

- ❑ Social Factors: The caste system is widely used in India. In some places, people of certain castes are not allowed to work. There will be a large number of people in large joint families with significant businesses who do not work and are dependent on the combined income of the family.
- ❑ Rapid Population Growth: In India, the ongoing population growth has been a major issue. It is a significant contributor to unemployment.
- ❑ Agriculture still accounts for a large portion of employment in India, at close to 50%. However, India's agricultural sector remains undeveloped. Additionally, it offers temporary work.
- ❑ Fall of Cottage and Small Industries: Cottage and Small Industries were negatively impacted by industrial expansion. Many craftspeople lost their jobs as cottage industries' output started to decline.
- ❑ Labor Immobility: India has a low rate of labour mobility. People don't travel far for employment since they are attached to their families. Low mobility is also caused by elements like language, religion, and climate.
- ❑ Education System Defects: In the capitalist world, employment are becoming increasingly specialised, but India's education system does not offer the appropriate training or expertise required for these professions. As a result, a lot of people who want to work but lack the necessary abilities end up unemployed.

Recent job creation worries:

- ❑ Staff shortage: According to the Minister of State for Personnel, Public Grievances and Pensions, there are up to 72 lakh open vacancies across the Central Government. Since sanctioned roles serve as a general guide for the number of positions needed to operate a government, it looks that there may be a major staffing shortfall in the government, which might be contributing to lengthy delays in work, corruption, and perhaps other inefficiencies.
- ❑ The standard of the jobs created: From 11.11 lakh in 2017 to 13.25 lakh in 2020 and 24.31 lakh in 2021, the proportion of contract employees in the overall government workforce has been rising quickly in recent years.
- ❑ Jobs that are considered honorary include those held by certified social health activists (ASHA), Anganvadi workers, and their assistants. These government workers are paid less (consolidated pay) and do not have the right to "decent work" conditions, which include a minimal level of social security, as recommended by the International Labour Organization.
- ❑ Producing only 10 lakh employment is insufficient: The current young unemployment rate is at 20%, with a 42.13% labour force participation rate (Centre for Monitoring Indian Economy Pvt Ltd.).
- ❑ The size of India's unemployment problem today is enormous, with a backlog of around 30 million jobless people and an annual addition of 50 lakh to 70 lakh employees (World Bank). 10 lakh employment will only be created in the next 18 months.
- ❑ Poor Private Sector Performance: The private sector continues to perform poorly in terms of generating employment chances. Final consumer spending in the private sector has not risen above its pre-pandemic level, and businesses are reportedly preserving their profit margins by reducing expenses (in the form of rationalising wage bills).

Government Initiatives:

- ❑ Aatmanirbhar Bharat Rojgar Yojana (ABRY)
- ❑ Support for Marginalized Individuals for Livelihood and Enterprise (SMILE)
- ❑ PM-DAKSH (Pradhan Mantri Dakshta Aur Kushalta Sampann Hitgrahi)
- ❑ Recent Initiatives by Government

- ❑ Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
- ❑ Pradhan Mantri Kaushal Vikas Yojana (PMKVY)
- ❑ Start up India Scheme

Further steps required are:

- ❑ **Basic requirements of the underprivileged:** Without privatisation, the government must better directly address the underprivileged's demands for basic infrastructure, human growth, and resource development.
- ❑ **Industrialization strategy reorientation:** By ensuring better technology and higher productivity, providing funds (including working capital), and encouraging further cluster development for all industries that have the potential, it is important to concentrate on sectors of the economy that require a lot of labour and to promote Micro, Small, and Medium Enterprises (MSMEs) and informal production.
- ❑ **Programs that guarantee work in cities:** To provide adequate urban work opportunities for urban kids, well-crafted urban employment guarantee programmes would be ideal.
- ❑ **The urban programme ought to consist of:**
 - ❑ Basic urban services, where young people would receive specialised training in order to integrate into the mainstream economy
 - ❑ Day-care facilities were created to provide childcare so that mothers might minimise their unpaid labour while still providing children with high-quality care.
 - ❑ Under construction infrastructure gaps were bridged to enable high-quality urban living.
- ❑ **Quality employment standards:** The government must guarantee that the jobs created as a result of its strategy will be of a high calibre.
- ❑ **Training programmes:** We need to coach women to take advantage of employment possibilities in growing areas and provide them with training programmes with clearly defined goals for women's access to the internet.

Major Hurdles Faced by MSMEs

The various constraints and problems faced by small scale industries are as under:

❑ Finance:

- ❖ Finance is one of the most important problem confronting small scale industries. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.
- ❖ **Firstly**, adequate funds are not available as most of the MSMEs are in rural and semi-urban areas where access to credit is extremely limited. Also, they are vulnerable to predators moneylenders and often fall into a cycle of debt and **secondly**, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they neither are having their own resources nor are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.
- ❖ After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate the working, adequate credit on easier terms and conditions must be provided to them.

- Under Severe Debt: Due to difficulties faced in seeking loans and working capital from banks and delays in receiving government payments and tax refunds, most of the MSMEs are under severe debt.

■ Entrepreneurial:

- Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. **Competence of the entrepreneur is vital for success of any venture.** An entrepreneur is a pivot around whom the entire enterprise revolves.
- Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.
- The small scale entrepreneurs have to encounter numerous problems relating to over dependence on institutional agencies for funds and consultancy services, lack of credit-worth, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

■ Small size of the majority of firms:

- More these 80 percent of these MSMEs are in the micro and small category and are depending on informal sources of credit.
- The usefulness of the government's emergency line credit stressed asset relief, equity participation and fund of funds operation make very little meaning and contribution to the sector.

■ Skilled Manpower:

- A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.
- Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike, etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

■ Technology:

- Technological Disruption: India's MSME sector is based on obsolete technology, which hampers its production efficiency.
- The emergence of new technologies like Artificial Intelligence, Data Analytics, Robotics, and related technologies (collectively called as Industry Revolution 4.0) is a bigger challenge for MSMEs than for organized large-scale manufacturing.
- Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at a higher cost. They are in no position to compete with better equipped rivals operating modern large scale units.

■ Marketing & Branding:

- These small scale units are also exposed to marketing problems. They are **not in a position to get first hand information about the market i.e.** about the competition, taste, liking, disliking of the consumers and prevalent fashion.

- With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.
- Lack of paperwork or digital footprint for small MSMEs, a factor that holds them back from being integrated into the formal economy, digital marketing and deprives the MSMEs to take its advantage.
- **In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector.** Various government agencies like **Trade Fair Authority of India, State Trading Corporation** and the **National Small Industries Corporation** are extending helping hand to small scale sector in selling its products both in domestic and export markets.

■ Infrastructure:

- Infrastructure aspects adversely affect the functioning of small scale units. There is **inadequate availability of transportation, communication, power and other facilities in the backward areas.** Entrepreneurs are faced with the problem of getting power connections, and even when they are lucky enough to get these, they are exposed to unscheduled long power cuts.
- Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus, their operations will become uneconomical and unviable.

■ Under Utilisation of Capacity:

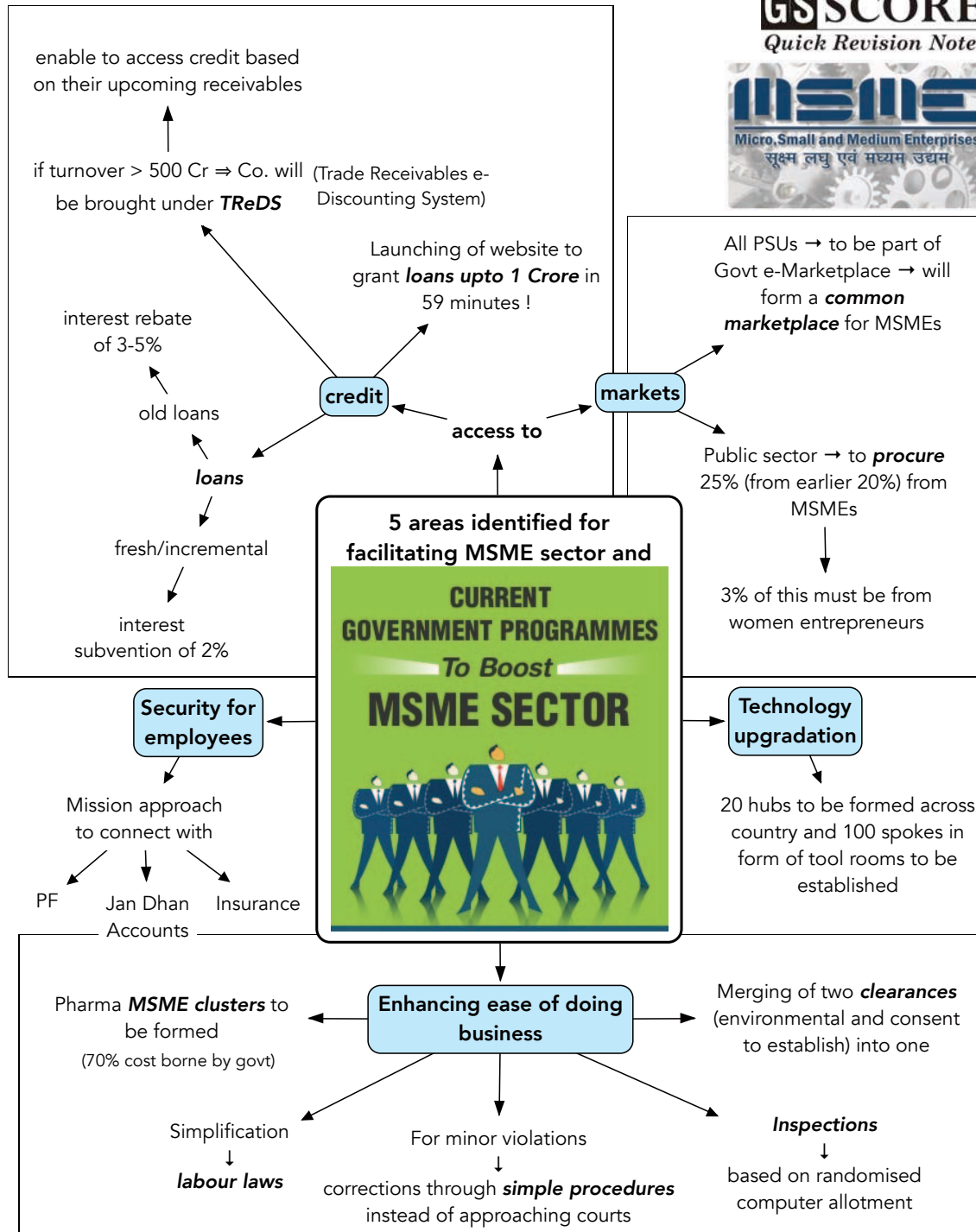
- Most of the small-scale units are working below full potential or there is gross underutilization of capacities. Large scale units are working for 24 hours a day, i.e, in three shifts of 8 hours each, and are thus making best possible use of their machinery and equipments.

■ Legal hurdles

- Getting statutory clearances related to power, environment, labour are major hurdles.
- Laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are difficult.
- On the other hand, small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

■ Project Planning:

- Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies, i.e, both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.
- They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weightage.
- Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.
- Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.



Raw Material:

- Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on a regular basis. All these factors adversely affect the functioning of these units.
- Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the

open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

So, Solution lies in:

- ❑ In order for businesses to go forward with providing creative solutions, they must embrace best practises and adhere to international standards.
- ❑ The dissemination of knowledge and the development of technical proficiency should be the main priorities.
- ❑ For any business to operate properly, infrastructural utilities (such water, power, and roads/rails) urgently need to be upgraded.
- ❑ Entrepreneurs must cultivate mindsets focused on quality that are ingrained in organisational culture.
- ❑ The necessity of the hour is to sensibelize and support MSMEs at various and improved certification levels.

Small Scale: Rumours and Reality

- ❑ Small-scale industries are those in which the processes of production, manufacturing, and service are carried out on a modest scale.
- ❑ The overall investment in such enterprises does not exceed one crore, and it is often made as a one-time investment in equipment and machinery.
- ❑ Smaller machinery and extremely constrained people are used in small scale enterprises to produce items and provide services.
- ❑ Small scale enterprises, also known as SSIs, are regarded as the backbone of an economy, which is crucial for a nation like India. It greatly aids in providing work possibilities for the country's inhabitants because it is a labor-intensive business.

❑ Small-scale industry characteristics:

- The traits of small-scale industries in India include the following:
- Small businesses often only have one owner, which implies they are either partnerships or sole proprietorships.
- Owners of small-scale businesses are responsible for managing them, thus they actively participate in the day-to-day operations of the company.
- Due to their high labour requirements, small-scale companies seldom employ technology.
- Contrary to huge businesses, small scale industries are flexible and adaptive to a changing business environment.
- Small-scale businesses operate in a constrained space, enabling them to satisfy local and regional needs.
- Small-scale businesses benefit from the utilisation of locally sourced and easily accessible materials.

❑ Current Scenerio:

- Small enterprises are of critical importance to the functioning of an economy, and thus economic development. **In developed OECD economies, about 60 percent of GDP is generated by small enterprises, i.e., enterprises with a maximum of 50 employees.** It is easy to understand why this is the case. A modern market economy consists of thousands of markets, which requires millions of enterprises to be reasonably competitive and efficient. A large number of small enterprises guarantees a high degree of competition, and the variety of economic activities is so great that as many enterprises as possible are needed in a modern economy.

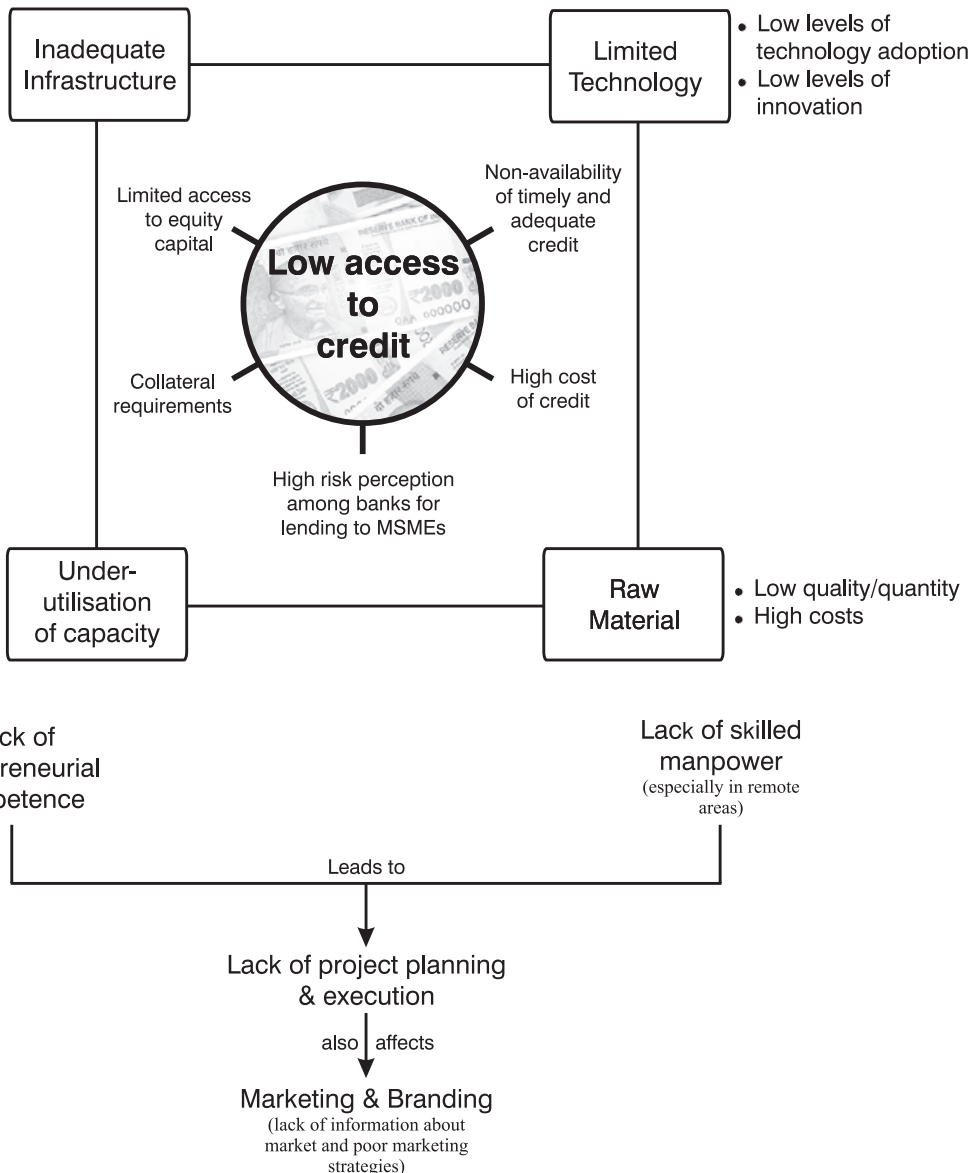
- There are however some arguments made in favor of small units which need to be briefly examined before studying the sector in Indian context.
- Growth:** Small firms are often said to **grow faster than large firms**, thus making the size distribution shift in favor of small firms would **allow the economy as a whole to grow faster**. However, empirically what one sees is that though some small firms may have high growth rates, they as a group have a high death rate, that is, many firms do not last very long.
- Employment:** Small firms and enterprises are an important source of employment in many developing nations, often employing a sizeable share of the labour force. However, it is often suggested that **small firms are more labour intensive**, and therefore should be encouraged as a way of generating employment. Empirical data however seems to suggest that **small firms may be more capital intensive than large firms in the same industry**. Employment growth has also been seen as something which small firms can aid in. Here again, the evidence is mixed: if viewed in net

Key Ideas
Quick Revision Notes

Challenges for MSMEs

GSSCORE
Learning Aid

- Lack of transport, power, communication (especially in backward areas)



terms (job creation job destruction), it is difficult to conclude that small firms do any better than large firms, since small firms exhibit high birth rates and high death rates, and many small firms fail to grow.

- **Efficiency: Productivity** is often said to be the **highest in small firms**. This however varies greatly, both within and across industries. Studies also seem to suggest that it is not small firms which are **more efficient**; in fact they are less, but medium-scale firms. Small and medium scale firms however have the advantage of being **more dynamic and flexible than larger firms**, thus giving them the **ability to offer more customized products to their customers**.
- Intervention by the state is often argued on the grounds that small firms are more efficient, they contribute to more equitable distribution of income, and generate employment. Empirical data however, does not always support these claims. It is undeniable that the small scale sector is a very sizeable sector, often employing large proportions of the work force. This in itself should give the state a reason to be concerned with the sector. Its interventions however should be aimed at correcting market inefficiencies and failures rather than a paternalistic approach of protection, which often results in actually stunting the growth of sector. The affects of this 'paternalistic' approach are further analyzed in Indian context, where the small scale industry has been and still is largely protected.

Initiatives to Support MSME Sector

- MSMEs are recognised on a global scale as the driving force behind economic expansion and for advancing equitable development.
- They account for more than 90% of all businesses in the majority of economies, and they are recognised with creating the fastest rates of job creation.
- Small and medium-sized enterprises (SMEs) have the potential to take India to new heights due to their minimal capital requirements, operational flexibility, and ability to create the necessary indigenous technology. As a result, it appears that MSMEs are driving a quiet revolution in India.
- Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs form a major part of manufacturing sector and give employment to a large number of people. MSME also play an important role in making India a hub for start-ups. Start-ups generate employment, bringing innovation, quality manufacturing and inclusive growth and play a key role in the development of the country.
- Recently, government has announced setting up of the National SC/ST Hub under the MSME Ministry to support SC/ST entrepreneurs. Further, Prime Minister has also launched the Zero Defect, Zero Effect (ZED) scheme for MSMEs. Government is aiming to strengthen MSME sector to match global quality control standards.
- **Significance of MSME Sector**
 - **Resilience to Global Economic Crisis:** The MSME sector in India continues to demonstrate remarkable resilience in the face of trailing global and domestic economic circumstances.
 - **High Growth Rate:** The sector has sustained an annual growth rate of over 10% for the past few years.
 - **Innovation and Adaptability:** With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive economic shocks, even of the gravest nature. It gives aspiring business owners the chance to develop innovative goods, fostering commercial competitiveness and driving growth.
 - **Employment generation:** After agriculture, it is the sector that generates the second-highest number of jobs. About 120 million people in India are employed as a result.
 - **Low Investment:** Low capital and Technology requirement, promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products.

- Rural Industrialisation: It also helps in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.
- Complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.
- Contribution to GDP: With over 36.1 million units spread across the whole nation, MSMEs account for about 6.11% of the GDP from manufacturing and 24.63% of the GDP from services. The MSME Ministry has set a goal to increase its GDP contribution to 50% by 2025 as India's economy grows to \$5 trillion.
- Exports: It alone accounts for about 45% of all Indian exports.
- Inclusive Growth driver: The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth.
- Legacy of MSME Sector: Khadi and Village Industries (KVI), Coir Industry as agro-based traditional industry
- Performance of MSME sector: According to the Govt estimates, the sector generates around:
 - ▶ 100 million jobs through over 46 million units situated throughout the geographical expanse of the country.
 - ▶ With 38% contribution to the nation's GDP and 40% and 45% share of the overall exports and manufacturing output, respectively, it is easy to comprehend the salience of the role they play in social and economic restructuring of India.
 - ▶ The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country.

■ Supportive Role of Government of India (Recent Initiatives)

- Recognizing the potential of this sector for the nation's development, the Government of India, through its various agencies, has taken many key steps:
- MSME Sambandh: To oversee how Central Public Sector Enterprises are implementing public procurement from MSMEs.
- SIDBI launched the Udyami Mitra Portal to increase MSMEs' access to financing and support services.
- Micro and small business owners across the nation will be able to immediately submit their claims pertaining to delayed payments by central ministries, departments, CPSEs, and state governments via MSME Samadhaan, the MSME Delayed Payment Portal.
- Digital MSME Program: It makes use of cloud computing, allowing MSMEs to access both generic and customised IT infrastructure through the internet.
- Employment Generation Program of the Prime Minister: It falls under the Ministry of MSME's credit-linked subsidy scheme.
- The updated Fund for the Regeneration of Traditional Industries (SFURTI) Scheme clusters traditional businesses and craftspeople to increase their competitiveness and marketability.
- ASPIRE: supports creative business solutions, encourages entrepreneurship culture, and produces new jobs while lowering unemployment.
- National Manufacturing Competitiveness Programme (NMCP): To increase Indian MSMEs' access to markets while also enhancing their processes, designs, and technological capabilities.
- The Micro & Small Enterprises Cluster Development Programme (MSE-CDP) uses a cluster development method to improve MSEs' productivity, competitiveness, and capacity.
- The Credit Linked Capital Subsidy Scheme (CLCSS) is in existence to help MSMEs upgrade their technologies.

- ▶ **STAND UP INDIA SCHEME:** The Stand Up India Scheme is being launched to promote entrepreneurship among people from schedule caste/schedule tribe and woman who will be provided loans starting from Rs.10 lakhs to Rs.100 lakhs.
- ▶ The Scheme which is an upgraded version of 'Start up India Scheme' is expected to benefit entrepreneurs in large numbers. Through this scheme, Government intend to facilitate at least two such projects per bank branch (Scheduled Commercial Bank) on an average one for each category of entrepreneur.
- **The broad feature of "Stand up India Scheme" is as follows:**
 - ▶ Composite loan between Rs.10 lakhs and upto Rs 1 crore will be provided to entrepreneurs for setting up new enterprise.
 - ▶ Debit Card (RuPay) for withdrawal of working capital.
 - ▶ Credit history of borrower to be developed.
 - ▶ Refinancing window through Small Industries Development Bank of India (SIDBI) with an amount of Rs 10,000 crore.
 - ▶ Support for borrowers looking for pre loan training needs, facilitating loan, factoring, marketing, etc.
 - ▶ Online support services, online registration and web portal.
- The overall intention is to leverage government's credit structure and to reach out to underserved sectors. The launch will also include distribution of 5100 e-Rickshaws by Bhartiya Micro Credit (BMC) under the Pradhan Mantri Mudra Yojana Scheme.
- ▶ **HUB for SC/ST Entrepreneurs:** A national hub in the Ministry of Micro Small and Medium Enterprises (MSME) is set up in Ludhiana to provide professional support to scheduled caste/scheduled tribes (SC/ST) entrepreneurs.
- ▶ SC and ST entrepreneurs are beginning to show considerable promise in starting and running businesses. Stand Up India scheme aimed at promoting entrepreneurship among ST/SCs and women and for that Rs.500 crore has been provided.
- ▶ This hub will provide a professional support to SC/ST entrepreneurs to fulfil the obligations under the Central government procurement policy adopted best practices and leverage the Stand-up initiative. The scheme for welfare and skill development of minorities such as multi sectoral development and USTAD shall be implemented effectively.

Procurement Target of Government

- It will also enable central public sector enterprises to fulfil the procurement target set by the government. The Public Procurement Policy 2012 stipulates that 4 per cent of procurement done by ministries, departments and CPSEs will have to be from enterprises owned by SC/ST entrepreneurs.
- **ZED SCHEME (ZERO DEFECT, ZERO EFFECT):** The scheme envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification. It aims to place industry to a position of eminence in the global marketplace and leverage India's emergence as the world's supplier through the 'Made in India' mark.
- To develop and implement a 'ZED' culture in India based on the principles of:
 - **Zero Defect (focus on customer)**
 - ▶ Zero non-conformance/non-compliance
 - ▶ Zero waste
 - **Zero Effect (focus on society)**
 - ▶ Zero air pollution/liquid discharge (ZLD)/solid waste
 - ▶ Zero wastage of natural resources

■ Benefits of ZED

- Credible recognition of the industry for international customers seeking investment in India.
- Streamlined operations and lower costs.
- Superior quality, reduced rejection and higher revenues.
- Increased environmental & social benefits.
- Additional employment generation.
- Other benefits as announced by the Government from time to time.
- The Indian MSME sector is poised for rapid growth and integration with major global value chains. Timely policy intervention and due support have promptly resulted in rendering the Indian MSMEs globally competitive.

Further Steps

- UK Sinha Committee: In order to aid small firms hit by demonetisation, GST, and a current liquidity crisis, a Rs 5,000 crore stressed asset fund for the MSME sector was proposed by an RBI committee led by former SEBI Chairman UK Sinha in June 2019. It recommended:
 - Create a stressed asset fund for MSMEs in the amount of Rs. 5,000 crore to support units that have become sick owing to changes in external causes like the plastic ban, which has led to a significant number of these organisations being non-performing.
 - The RBI should raise the cap on unsecured loans to 20 lakh.
 - Additionally, it recommended raising the Finance Ministry's MUDRA loan ceiling from 10 lakh to 20 lakh.
 - The sub-targets for agricultural loans under the priority sector lender might be waived for banks that want to focus on MSME lending, and in their place, a target could be set for loans to the SME sector. The objectives might be 80% for small financing banks and 50% of net bank credit for universal banks.
 - Additionally, it has suggested increasing the limit on collateral-free loans for borrowers covered by the Mudra scheme, self-help organisations, and MSMEs from the existing Rs 10 lakh to Rs 20 lakh.
 - The MSME Ministry said in June 2019 that it will eliminate the restriction on corporate and private companies entering the MSME sector in order to create 700 clusters and lessen reliance on imports while also creating jobs.
 - Additionally, the MSME Ministry intends to establish company facilitation centres around the nation.

■ A Look at International Story

- The World Bank estimates that formal SMEs in emerging economies account for up to 60% of all employment and up to 40% of GDP.
- In order to accommodate the expanding global workforce, 600 million jobs will be required over the next 15 years, mostly in Asia and Sub-Saharan Africa. The majority of formal employment in developing economies is produced by SMEs, who also create four out of every five new jobs.

Why Manufacturing Sector is not able to Generate Jobs?

Introduction

- In order to attain a 25% share of the GDP by 2025, the manufacturing sector in India would need to grow at a rate of 2-4% higher than the GDP.

- The challenge of creating jobs has moved to the centre of the political stage all over the world, and India is no exception.
- Currently, about one million people in India are adding to the workforce every month. Till 2030, the country would need to create additional nine crore non-farm jobs to absorb the new workers who will be entering the workforce based on current demographics.
- “For gainful and productive employment growth of this magnitude, India’s GDP will need to grow by 8-8.5 per cent annually over 2023-30, after the Covid-driven dip and recovery. In this high-growth path, manufacturing and construction sectors would need to amplify the most, while knowledge and labour-intensive services continue their momentum. Hence, to create jobs at that rate, the manufacturing sector in India must grow rapidly.
 - Agriculture cannot be expected to provide more jobs. On the contrary, it should be releasing labour that has low productivity in agriculture to be absorbed in other sectors.
 - While the services sector has been growing fast, it alone cannot absorb the 250 million additional income seekers that are expected to join the workforce in the next 15 years. Currently, manufacturing in India provides only 12% of jobs, and this share is significantly less than that of other countries. According to the Centre for Monitoring Indian Economy (CMIE), only 40 million people were employed in the manufacturing sector as against 140 million in agriculture. Unless manufacturing becomes an engine of growth, providing at least 100 million additional decent jobs, it will be difficult for India’s growth to be inclusive.
 - The world’s fifth-largest economy is expected to witness the entry of six crore new workers as well as the movement of three crore workers from farm to non-farm jobs.
 - A strong focus on improving the “depth” in Indian manufacturing is essential. “Depth” can be defined as the capability and expertise in all aspects of a product value chain. Achieving a greater depth in manufacturing entails ensuring a higher level of value addition within the country. This requires focus on a few key areas like the heavily import-skewed capital goods sector, technological advancements in nearly all manufacturing sectors, and a focus on improved domestic research and development.
 - Thus, industrial growth is the need of the hour, and we must also ensure that this growth happens in a sustainable manner, especially with regard to the environment.

■ **Reasons for Less Job Creation in Manufacturing Sector:**

- Productivity of the manufacturing sector is low: The productivity of India’s manufacturing sector is lower than the other emerging economies, and also lower than the service sector. Productivity of manufacturing in China and Brazil is 1.6 and 2.9 times higher than in India.
- India lacks in specialization in this sector: The OECD data on trade in value-added show that India has fewer manufacturing sub-sectors with a revealed comparative advantage (RCA) than other emerging economies.
- In rural areas, there has been stagnation in manufacturing establishments and employment, with both indicators barely witnessing any growth. In fact, the number of rural establishments with at least one hired worker actually declined and so did the number of workers employed in these. There has been a shift towards more household units in villages.
- The manufacturing sector suffers most from the complexity of indirect taxes and from tax cascading since the production process tends to involve more inputs and transactions than services and the taxation of services is thus much less fragmented in practice. Tax cascading encourages manufacturers to integrate vertically, thus partly explaining why some firms in India are very large.
- Most of the increase that has taken place in manufacturing employment in urban areas is due to increase in enterprises without hired workers, again indicating proliferation of tiny units. Such enterprises went up from 1.5 million to 2.8 million while the number of establishments with hired workers rose by just 0.5 million.

- In India, majority of the workforce is semi-skilled or unskilled. Due to lack of skilled workforce. The manufacturing is based on automation.
- The multitude of labour laws, not all of them being consistent, creates confusion and uncertainty, and raise labour costs. Stringent labour laws are often blamed for the poor performance of labour intensive manufacturing industries and sluggish job creation, despite relatively low wages.

■ How to Increase Jobs in Manufacturing Sector

- **Government Initiatives:** In recent years the manufacturing sector has been the major focus for the government of India. Realizing the importance of manufacturing sector and the amount of employment it can generate, many initiatives are being taken up by the current government to foster the growth of this sector.
- **National Manufacturing Policy:** It aims to promote job creation in manufacturing with a target of 100 million additional jobs by 2022 and to create appropriate skills among the rural migrants and urban poor to make growth inclusive.
 - ▶ **Make in India:** It is a campaign to promote the manufacturing sector and spur job creation. Through this policy the government will provide effective and easy governance to help India become a global manufacturing hub.
 - ▶ **Real Estate Sector reforms:** The construction sector can add 25 million non-farm jobs and the manufacturing sector can add one-fifth of the incremental GDP by 2030
 - ▶ **Special Economic Zones (SEZs):** With the objective of generating additional economic activity, exports, investment and employment, SEZs provide an important platform for development in India.
 - ▶ **Start up and Stand up India:** Start-ups are a new phenomenon and India has made a good beginning in this area. Technically skilled and business-oriented youth should be encouraged to explore the entrepreneurship option, and create jobs, rather than looking for secure wage employment.
 - ▶ **Implementation of GST:** The imminent introduction of GST will help by providing a level playing field for domestic producers competing with imports in the domestic market. This is because the same tax will also be levied on all imports, which is not the case today because imports escape state indirect taxes. Any additional support needed for competitiveness can come from a judicious use of exchange rate policy.

Way Forward

■ A Four pillars Strategy:

- Building frontier enterprises that are 2.5 times more productive than conventional company models and are able to produce \$2.5 trillion in economic value by 2030 constitutes the first pillar.
- Global manufacturing centres for electronics, medicines, automobiles and auto parts, next-generation financial services, contemporary retail and e-commerce, and resilient, productive communities are some of these.
- The second pillar calls for Indian enterprises to move up the scale, i.e., for small businesses to become mid-sized and for mid-sized businesses to become larger.
- Mid-size businesses, known as the “missing middle” in India, can develop into fierce competitors of their larger counterparts. India needs to increase the number of major enterprises from the present 600+ to over 1800+. This requires 10,000+ small enterprises to become mid-size and 1000+ major mid-size firms. Better financing availability and access, as well as easier company operations, would be necessary for this.

- The third pillar calls for speeding up six real-sector reforms, including sector-specific pro-growth policies to boost productivity, unlocking land supply through land market reforms, creating flexible labour markets, enabling efficient power distribution to lower power tariffs by 20–25%, monetising government-owned assets and extensive privatisation, as well as enhancing ease and lowering the cost of doing business.
- In order to finance growth, the fourth pillar calls for generating \$2.4 trillion in capital by 2030 and boosting investment as a share of GDP by 5 percentage points via banking sector reforms.
- While the central government's pro-growth goal is important, over 60% of the real and financial sector changes must be spearheaded by the states, and all demand the business sector's active engagement.
- Policy reforms announced by the Central Government in the post-pandemic period included initiatives like the production linked incentive (PLI) scheme for the manufacturing sector, prioritising privatisation of public sector enterprises (PSEs) and the monetization of assets like roads, and the proposal to establish a bad bank to lower the non-performing assets (NPAs) of public sector lenders.
- Thus, the nation might achieve its dual objectives of job creation and GDP growth through the fusion of pro-growth initiatives, projects, and policy measures at the state level.
- The biggest opportunity for generating more employment in manufacturing lies in exporting simpler consumer goods to the world market. In this area, China has long dominated, but which it is now likely to exit, as its wages rise.
- How well we can do depends upon our ability to compete with others countries such as Bangladesh and Vietnam. Paradoxically, becoming competitive would involve faster modernization of these industries, which will involve a shift away from labour intensity, but if it allows an increase in the scale of operations, total employment could increase.
- The structural change needed is to reduce the expectation from manufacturing as a provider of non-agricultural jobs. Faster growth in manufacturing has long been central to our economic strategy and must remain so. However, we have to recognize that technological change is likely to make manufacturing less employment generating than in the past.
- Even if Artificial Intelligence and 3D printing are distant developments in India, there can be no doubt that any successful manufacturing strategy will involve application of capital-intensive techniques, especially if we propose to integrate more fully with the world and global supply chains.

Conclusion

- Already showing tremendous progress in the service sector, now India's manufacturing sector is also gathering pace. With the 'Make in India' campaign, India plans to be the leader of the manufacturing sector in the world.
- A greater focus on strengthening small enterprises is suggested, along with measures to help enterprises to grow. Creating formal jobs on a large scale is required to get workers to shift out of tiny, unproductive household units which they may have set up in the absence of better job opportunities.

How Labour Regulations Affect Manufacturing?

Introduction

- It is imperative for India to step up its GDP growth significantly in order to eradicate poverty and raise the standard of living of its people to a decent level. Since, the poor rate of manufacturing growth is dragging down our, GDP growth, the revival of this sector has to be on the top of India's economic policy agenda.

- ❑ But today we have about 200 labour laws, with over a fourth being central laws.
- ❑ Because of these restrictive labour regulations India is unable to grasp its natural comparative advantage in labour-intensive products.
- ❑ The Industrial Disputes Act (IDA) requires firms with 100 or more workers to seek government permission to retrench or lay off any worker. This permission is rarely granted.
- ❑ The Industrial Employment (Standing Orders) Act, 1946 requires employers in firms with 100 or more workers to seek permission even for reassigning a worker from one task to another.
- ❑ Trade Unions Act allows any seven employees to form a union, thereby using up a large proportion of the firm's managerial resources in dealing with several unions within itself.
- ❑ Through this regulation, unions have the right to strike and represent workers in legal disputes with employers.
- ❑ The Contract Labour (Regulation and Abolition) Act, 1970 restricts, and even prohibits, the use of contract workers for certain tasks.
- ❑ Thus, these labour regulations effectively prevent firms from using labour-intensive methods of production.
- ❑ Since these laws hold above certain threshold employment levels, firms remain small and informal.

About the Laws

❑ Contract Labour (Regulation and Abolition) Act, 1979

- The Contract Labour Act seeks to abolish contractual employment in activities and processes which are identified as core or perennial activities of the concerns.
- This provision can prevent outsourcing which is becoming an increasingly common practice. An option would be to define the concept of core activities more narrowly and simultaneously to improve the working conditions of contract employees.
- In 1972, the Supreme Court ruled that if work performed by contract labour was essential to the main activity of the industry, contract labour should be abolished. Work should be done by regular workmen and contract labour should be absorbed by the principal employer.
- The Apprentices Act, 1961
 - The Apprentices Act is an innovation and stands in the intersection of education and employability.
 - Currently, the apprenticeship regime is tightly regulated- limited number of activities is covered under it and non-compliance with law attracts severe punishment.

❑ Industrial Dispute Act 1947

- Obliges any company with over 100 workers to get permission from the government before retrenching.
- In Bangladesh, a worker can be retrenched after giving one month's notice to the worker. This helps explain how Bangladesh, once a negligible exporter of garments, has now overtaken India as a garment exporter.
- It may be possible to segregate the layoff, retrenchment and closure provisions, providing some flexibility. The IDA was tightened over a period of time and its tightening offers insights into how it can be progressively relaxed too.

❑ Reasons: Why Labour Market is Hindering Manufacturing Growth

- Labour regulations in India are seen to be complex, rigid, time-consuming, and one of the main impediments to job growth in the organized sector.

- Most labour regulations are seen to stifle job growth in the manufacturing sector. The services sector has largely escaped stringent government, administrative requirements.
- Labour laws also create segmentation in the labour force. The labour provisions meant to safeguard worker interests are applicable only to the much smaller organized labour force, which is about 16% of total. Thus, majority of the workers in India are not covered by regulations that are needed to protect their interests.
- Labour law is a concurrent subject under the Indian Constitution, which implies that both the central government and state governments have the right to formulate laws on the subject. This has resulted in multiplicity of laws, at times with overlapping jurisdictions. Currently, there are 44 central laws and about 160 state laws on the subject (ILO, 2013). Many of the laws are archaic, dating to pre-independence.
- Multiple laws governing a single area. For instance, there are 19 laws governing conditions of work and industrial relations, 14 laws on social security and labour welfare, etc. Here, we have only mentioned the central laws applicable to these areas.
- Industries faces problem of trade unions that are associated with/backed by different political parties, leading to politicization of trade unions and making it difficult for employers and employees to resolve the issues.
- Under Indian law, there is scope for multiple trade unions in a single factory – e.g., a company with 700 workers can have 70 trade unions. In most other countries, the requirements for minimum membership for trade unions to be recognized are higher than those in India, reducing the scope for multiplicity of unions.
- Multiplicity of labour laws and the difficulty in their compliance has always been cited as an impediment to the industrial development.

■ Measures Taken

● Law Reforms

- ▶ Indian policy makers are slowly paying attention to the fact that tight labour market regulations are having a negative impact, especially on manufacturing sector job growth.
- ▶ **The Amendment to the Industrial Dispute Act:** It will allow companies to retrench up to 300 employees without seeking government permission. Earlier, it was restricted to 100. It has also introduced a time limit of three years for raising industrial disputes. The modifications also make it tougher to register labour unions—instead of 15% of workers, now 30% of workers in a factory need to join hands to form a union.
- ▶ **The Apprentices Act:** It is largely focused on the manufacturing sector and most of the service sector is out of its ambit. The State would like the Act to apply to both manufacturing and services sectors. The Apprentices Act will address the skill gap that characterizes the labour market in India. The Apprentices Act is an innovation and stands in the intersection of education and employability.
- ▶ **Changes in the Contract Labour Act:** It will now apply to establishments in which fifty or more workmen are employed against twenty earlier. “Because of threshold limit, employers while hiring personnel or procuring commodities from small entrepreneurs and petty contractors found it difficult to execute contracts, as the small units faced hardship in ensuring formalities under the Act.
- ▶ **Amendments in the Factories Act:** Amendments were made in the definition of ‘factory’ which will now apply to those companies (run with aid of power) where 20 people are employed instead of 10. For companies running without power, the number has been increased to 40 from 20. The state government reasoned that because of the limit, small units were also covered under the

definition of 'factory' requiring several compliances while hurting their expansion and growth. For speedy disposal of offences and minimizing number of litigations, a new provision has been added for compounding of offences which was absent in the previous Act.

• Government Initiatives

- ▶ Pandit Deendayal Upadhyay Shramev Jayate Karyakram: Dedication of Shram Suvidha Portal and Labour Inspection Scheme in Central Sphere.
- ▶ **4 main features of the Shram Suvidha:**
 - Unique labour identification number (LIN) will be allotted to Units to facilitate online registration.
 - Filing of self-certified and simplified Single Online Return by the industry. Now, units will only file a single consolidated Return online instead of filing 16 separate Returns.
 - Mandatory uploading of inspection Reports within 72 hours by the Labour inspectors.
 - Timely redressal of grievances will be ensured with the help of the portal.
- ▶ **Labour Inspection Scheme:** So far the units for inspection were selected locally without any objective criteria. To bring in transparency in labour inspection, a transparent Labour Inspection scheme is being developed. **The four features of the inspection scheme are:**
 - Serious matters are to be covered under the mandatory inspection list.
 - A computerized list of inspections will be generated randomly based on pre-determined objective criteria.
 - Complaints based inspections will also be determined centrally after examination based on data and evidence.
 - There will be provision of Emergency List for inspection of serious cases in specific circumstances.
 - A transparent Inspection Scheme will provide a check on the arbitrariness in compliance mechanism. Immediately on inauguration, sms/email was sent to 1,800 Labour inspectors of these enforcement agencies on behalf of the Prime Minister.
 - All India Skill Competition: The Ministry of Labour conducts competitions to foster the healthy spirit of competitiveness among the trainee Craftsmen/ Apprentices. Winning spirit brings pride to world of skills, improves changing work habits, to be more organized, goal setting to achieve goals, and simply performing higher quality work.

Conclusion

A radical legislative intervention in labour market will be impossible without developing a broad-based and holistic national labour policy. Hence, the government of India should first focus on developing a consensus on national policy framework on labour issues rather than continuing with an adhoc approach to amend a few provisions of labour laws to please the industry. Since a lot of studies, consultations, and reforms have been done during last twenty years, it will be easier to draft national labour policy accommodating concerns of all the stakeholders.

Assemble in India–Need & challenges

- According to the Economic Survey 2019–20, India should learn from China's export success and begin an initiative called "Assemble in India for the World" that would generate 80 million well-paying jobs in the following ten years.

- ❑ The survey recommended that India shall take action to grasp chances in export manufacturing and create well-paying jobs as tensions with China reaches new heights like labour cost and weaponization of supply-chain.
- ❑ Adopting such a measure will also aid India in achieving its goal of having an economy of \$5 trillion.
- ❑ This action perhaps reviving Indian exporters that have struggled to compete on international markets.

Need for Assemble in India

- ❑ Asia's lowest manufacturing export proportion is from India.
- ❑ The region's fastest expanding economy is no longer India.
- ❑ It does worse than Bangladesh, Vietnam, and Cambodia in terms of growth.
- ❑ The idea of increasing production on its own does not do much to help exports when the production process is becoming more fragmented globally.

Advantages of Assemble in India

- ❑ The Economic Survey 2019–20 put up a plan to integrate “Assemble in India” into “Make in India”
- ❑ As a result, multinational corporations will be encouraged to start assembling network products in India.
- ❑ The assumption behind the estimation of 8 crore jobs is that India can grow its network product export market share from 0.6% to 6% by 2030.
- ❑ This is based on the presumption that India will be able to replicate China's export performance during the first ten years of China's entry into the export market for network products.

Challenges being faced by Assemble in India:

- ❑ According to a 2018 World Economic Forum research, low-skilled workers may be negatively impacted by the implementation of Industry 4.0 because of their susceptibility to automation.
- ❑ The less educated workers are likely to be left out of the process.
- ❑ Although integrating into GVCs appears to be the way to go, one must be aware of the distributional effects on the jobs that will be produced as a result.
- ❑ India lacks comparative advantages in comparison to China's domestic economy.
- ❑ The fiscal and current account deficits were of greater concern to policymakers. They failed to address the economy's third deficit, the Implementation Deficit.
- ❑ India saw quantum leap in the rankings for “ease of doing business,” but investments are still missing.

Suggestions to encourage Assemble in India:

- ❑ India won't be able to replicate China's export performance unless it fixes its structural problems.
- ❑ If the nation's talents do not correspond with the demands of the sector, “Assemble in India” may not be as effective as it may be.
- ❑ Prior to extending an invitation to multinational corporations (MNCs) to start assembling network products in India, measures to guarantee that the benefits of trade will be distributed fairly are required.
- ❑ The government must make skill development investments to lessen the danger of off-shoring to which workers are exposed.

- Additionally, education and training can aid businesses in effectively and increasingly dispersing their production operations across the globe.

PLI SCHEME–Objectives and problem

What is the PLI Scheme?

- The PLI scheme was designed to increase domestic manufacturing capacity, together with increased import substitution and job creation.
- The programme, which was introduced in March 2020, initially focused on three industries: Manufacturing of mobile and related components, electrical components, and medical devices
- The government had allocated Rs. 1.97 lakh crore under the PLI schemes for various industries. Moreover, Budget (2022–2023) included an extra allocation of Rs. 19,500Cr. for PLI for solar PV modules.

Incentives under the Scheme:

- The incentives, calculated on the **basis of incremental sales**, range from as low as **1% for the electronics and technology products** to as high as **20%** for the manufacturing of critical key starting drugs and certain drug intermediaries.
- In some sectors such as **advanced chemistry cell batteries, textile products and the drone industry**, the incentive to be given will be **calculated on the basis of sales, performance and local value addition done** over the period of five years.

Sectors for which PLI Scheme has been announced:

- So far, the government has announced PLI schemes for 14 sectors including automobile and auto components, electronics and IT hardware, telecom, pharmaceuticals, solar modules, metals and mining, textiles and apparel, white goods, drones, and advanced chemistry cell batteries.

Objectives of PLI Scheme:

- The Government introduced this scheme to **reduce India's dependence on China and other foreign countries**.
- It supports the **labour-intensive sectors** and aims to increase the employment ratio in India.
- This scheme works to **reduce down the import bills and boost up domestic production**. However, PLI Yojana invites foreign companies to set up their units in India and encourages domestic enterprises to expand their production units.

Problems with the PLI Scheme?

- **No Uniform Set of Parameters:** To comprehend the value addition by enterprises that have received or are anticipated to earn incentives under the PLI system, there was no common set of parameters.
- **Different Ministries:** There is no way to compare two separate PLI schemes at this time because different ministries each keep track of the value addition of their own programmes.
- **No centralised database:** There is no centralised database to track all the deliverables, including the number of jobs created, the increase in exports, and the improvement in quality.
- **Companies to Target for Too Steep Incentives:** Departments and ministries that work with

businesses in their industry confront their own unique problems. For instance, the objective for businesses to be eligible for incentives are too steep

- ❑ **Only One or Two Supply Chains:** Most local enterprises, unlike multinational corporations, relied on one or two supply chains that have been badly disrupted. As a result, and through no fault of their own, many businesses will not be eligible for the incentive.
- ❑ **Additional sales thresholds:** Out of the fourteen companies that had been approved, only three to four were able to meet the additional sales thresholds necessary to be eligible for the PLI scheme by the end of the previous fiscal year.

So, we need to overcome these challenges to make in Hub of Manufacturing and achieving \$ 5Trillion economy.

Labour reforms Issues

- ❑ Labour reforms have often been viewed as changes in the labour laws to make it easy for the entrepreneurs and industrialists to run their businesses without the pain of compliance and fear of punitive action by the state. However, this has limited appeal as labour reforms essentially call for overhaul of labour market rather than making piecemeal changes in the labour laws or expanding the social security measures in a sporadic manner. Interestingly, it is the most opportune time for labour reforms in India for two reasons: first, China is fast losing its advantage as manufacturing hub as labour cost has trebled there in last one decade and second the Government of India is truly committed to 'Make in India' and attracting the investors and large businesses to set up their manufacturing bases in the country. Success of 'Make in India' will depend on how soon and fast labour reforms are taken further.
- ❑ Broadly speaking, labour reforms are linked to competitiveness by augmenting labour productivity. Unfortunately, attempts at reforming Indian labour market have been rather slow. Even the globalization and liberalization process that began in India in 1991 impacted labour market in limited manner. No wonder, India missed the opportunity of being manufacturing hub of the world due to rigidities in labour market, archaic labour laws and glaring skill deficit. In last twenty-five years, the government of India has tried to bring in sporadic changes in labour laws aimed at labour flexibility.
- ❑ It's been 68 years since independence and still many aspects of our life have hints of colonial hangover. So it doesn't come as a surprise that free India's policies in its early years were influenced by 250 years of colonial rule.
- ❑ India's labour laws are over-protective of the workers is anybody's wisdom. However, it finds its genesis in the fact that labour rights and trade unions were all suppressed under the British rule. Hence, as we got independence in 1947, India's labour law went under a major update correcting the wrongs of centuries. A series of fundamental labour rights were embedded in our Constitution in 1950.
- ❑ The ambit of our labour laws is from regulating the height of urinals in workers' washrooms to how often a work space must be lime-washed.
- ❑ The ill of such overreach by the State was well illustrated in Bharat Forge Co Ltd v Uttam Manohar Nakate: In UttamNakate case, the Bombay High Court held that dismissing an employee for repeated

Why India Needs a Wage Code

62%

of the workforce is made up of casual workers who need a right to minimum wage

Present minimum wage sytem is complex with states fixing rates for 1.709 scheduled employments, and Centre for 45

33%

of wage workers were paid les than the indicative mium wage in 2009-10, according to labour ministry

sleeping on the factory floor was illegal – a decision which was overturned by the Supreme Court of India. Moreover, it took two decades (1984-2005) to complete the legal process.

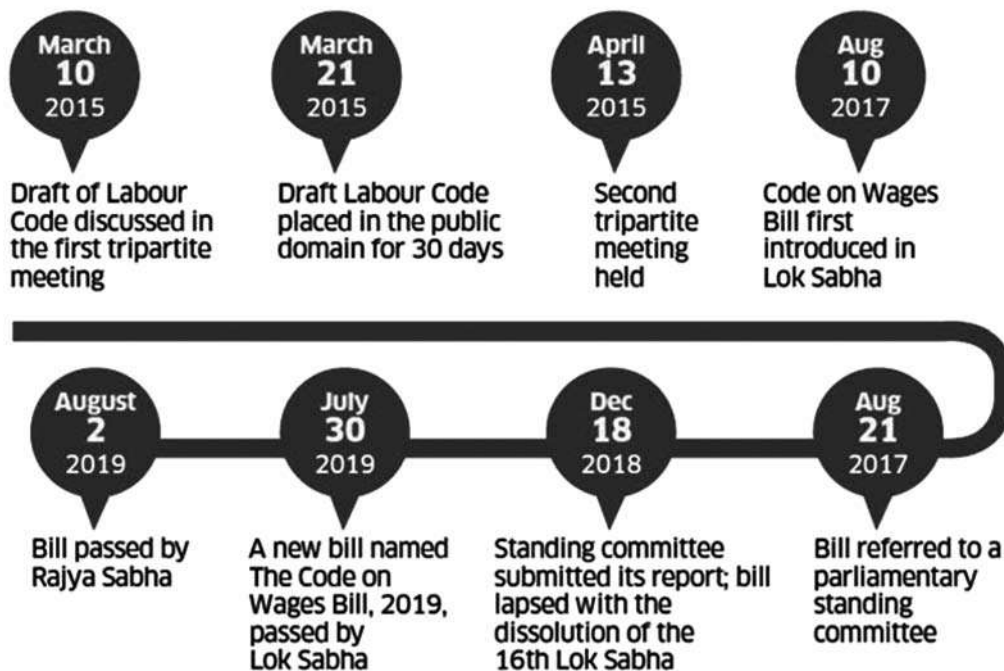
The Code on Wages, 2019

- The Code on Wages, 2019 seeks to regulate wage and bonus payments in all employments where any industry, trade, business, or manufacture is carried out. The Code replaces the following four laws: (i) the Payment of Wages Act, 1936, (ii) the Minimum Wages Act, 1948, (iii) the Payment of Bonus Act, 1965, and (iv) the Equal Remuneration Act, 1976.
- The current national minimum wage, which is not legally binding, is Rs 176 a day. Under the Code on Wages, the minimum wages in the states and the Centre cannot be below the floor rate.
- According to the Code, the central government will fix a floor wage, taking into account the living standards of workers. Further, it may set different floor wages for different geographical areas. Before fixing the floor wage, the central government may obtain the advice of the Central Advisory Board and may consult with state governments.
- The Code prohibits employers from paying wages less than the minimum wages. Minimum wages will be notified by the central or state governments. This will be based on time, or a number of pieces produced. The minimum wages will be revised and reviewed by the central or state governments at an interval of not more than five years.
- The Code prohibits gender discrimination in matters related to wages and recruitment of employees for the same work or work of similar nature. Work of a similar nature is defined as work for which the skill, effort, experience, and responsibility required are the same.
 - **Offences:** The Code specifies penalties for offences committed by an employer, such as (i) paying less than the due wages, or (ii) for contravening any provision of the Code

■ Key Issues:

- States have to ensure that minimum wages set by them are not lower than the national minimum wage. If existing minimum wages set by states are higher than the national minimum wage, they cannot reduce the minimum wages. This may affect the ability of states to reduce their minimum wages if the national minimum wage is lowered.
- The time period for revising minimum wages will be set at five years. Currently, state governments have flexibility in revising minimum wages, as long as it is not more than five years. It is unclear why this flexibility has been removed, and five years has been set for revision.
- The Equal Remuneration Act, 1976, prohibits employers from discriminating in wage payments as well as recruitment of employees based on gender. While the Code prohibits gender discrimination on wage-related matters, it does not include provisions regarding discrimination during recruitment.
 - ▶ One argument for a national minimum wage is to ensure a uniform standard of living across the country. At present, there are differences in minimum wages across states and regions. Such differences are attributed to the fact that both the central and state governments set, revise and enforce minimum wages for the employments covered by them. The introduction of a national minimum wage may help reduce these differences and provide a basic standard of living for all employees across the country.

Brief History of the Code Bill



Employment Related Challenges

■ Employment status in the Economy

- Job creation is a gradual and involved process. It is a culmination of the right economic setting, capital inflows, capital allocation, skilling and most importantly, the right policy. However, the unfurling of today's economic nightmare that is reminiscent of an era gone by, has been a tortuous process where market forces have to cover and adapt to policymakers who have been absent for the most part and worse, whose excesses have led to disastrous consequences both on the fiscal front and on job creation. While there are differences on whether the method of collecting employment statistics accurately captures the full measure of employment in India, what cannot be disputed is the disturbing trends in employment based on available data.
- The growing Indian economy has long provided a fertile setting for movement of people from agriculture into manufacturing and construction. A combination of rising productivity in an extremely backward agricultural sector and rising aspirations will naturally push people from agriculture into industry. While this exodus is visible in the drop of 14 million agricultural jobs between 2005 and 2010, the troublesome reality has been that India's manufacturing sector too has lost 5 million jobs in this period.
- In effect, manufacturing has become more capital intensive and productive. This is the backdrop for possibly one of the most glaring shortcomings of the India growth story - the virtual absence of large-scale labour intensive manufacturing.
- This absence can be mostly explained by India's archaic and rigid labour laws, something that is in dire need of reform. Creaking infrastructure, poor power supply and land availability issues are other commonly cited reasons for the fact that India has seen no addition of labour intensive

manufacturing units. India's labour laws make an employment contract the equivalent of marriage without divorce. There are many obvious steps to making India a better habitat for job creation - infrastructure, lower regulatory cholesterol, more credit flow to Small and Medium Enterprises, etc.

- The growth in construction employment has been guided by an increase in infrastructure investment during the 11th Five Year Plan (2007-12) from 4 per cent of GDP to 7.5 per cent of GDP in 2012. This pull of construction growth in rural and urban areas has been the silver lining to an otherwise disastrous employment scorecard. But even here, growth has come at the expense of some dangerous economic policies.

■ Jobless Growth

- Jobless growth has emerged as a global phenomenon. More than 200 million people are jobless across the world. According to a recent report of World Economic Forum, income inequality and jobless growth are two of the most significant challenges facing the world today. Deepening income inequality and jobless growth head the top 10 trends for 2015.
- The term "jobless growth" refers to the phenomenon in which economies' existing recession demonstrates economic growth while merely maintaining or, in some cases, decreasing their level of employment. In a jobless growth economy, unemployment remains stubbornly high even as the economy grows. This tends to happen when a relatively large number of people have lost their jobs and the ensuing recovery is insufficient to absorb the unemployed, under-employed and new members entering the work force.
- India's unemployment experiences are different from the structural transformations and job displacements associated with faster technological progress happening in the developed countries. Except during the Great Depression of 1930s countries like the USA never experienced mass unemployment.
- India's remarkable economic growth rate of 8.7 per cent per annum between 2004-05 and 2009-10 has had little impact on job generation. The share of agriculture in total employment shrank from 57 per cent to 53 per cent over this period, with 15 million workers migrating to towns and cities for work. The manufacturing and services sectors failed to absorb them fully. Most of these migrants joined the informal sector. In organised industries, the jobs have shifted from regular to contract work resulting in casualization of labour. Manufacturing shed five million jobs, while services employed only 3.5 million workers during this period.
- Forty percent of the graduating students from engineering colleges in the country run the risk of being unemployed. Others will take jobs well below their technical qualifications in a market where there are few jobs for India's overflowing technical talent pool.
- With the adoption of neo-liberal policies labour-intensive sectors were relegated to the background and capital-intensive labour displacing sectors were encouraged. There has been acceleration in capital intensification at the expense of creating employment. A good part of the resultant increase in labour productivity was retained by the employers as the product wage did not increase in proportion to output growth. The workers as a class thus lost in terms of both additional employment and real wages in organised manufacturing sector." Neo-liberal policies resulted in a drop in the rate of labour absorption and rapid growth of the FIRE (Finance, Insurance, and Real Estate sector) economy. FIRE economies generated job opportunities only for skilled labour to make deals and securing agreements. The much-hyped IT and ITES sectors employed very small percentage of the force.
- The economic and social strains of jobless growth are quite serious. The basic economic cost of unemployment is foregone output. In the absence of jobs and income, domestic consumption expenditure will fall and it will have an investment depressing impact.
- Each day without work is a day without income, a drain on savings, and an increased chance of default on debts. Severe unemployment is a social catastrophe. Idleness means loss of skills, loss of self-respect, plummeting of morale, family disintegration and socio-political unrest. At the

individual level, research links increases in suicide, homicide, cardiovascular mortality and mental illness to high unemployment.

- The answer to jobless growth lies in policy initiatives that will promote manufacturing and services sector. Manufacturing and services must become the engine of employment growth. Reforms in labour laws, provision of infrastructure, encouragement of small scale industries and promotion of export-oriented light industries that are manpower intensive are some of the policy initiatives that are required. The experiences of developed countries have demonstrated that the growth of smaller businesses can drive employment generation.
- Reforms in the education sector too are required to launch schemes to improve workforce skills. Addressing skill shortages by revisiting policies on apprenticeships and creating more retraining opportunities can reduce skill deficits. Education system should provide individuals with skills in demand. More women should be brought to the workforce. It is also important to increase access to quality education, training and skills development.

■ Labour Issues

- The issues
 - ▶ How to control rising cost of raw materials in manufacturing?
 - ▶ How to control rising wages?
 - ▶ How to balance policy on contract labour vs full time jobs?
 - ▶ How to address the exit policy for the manufacturing sector?
 - ▶ How to create new jobs across segments?
- India has to create jobs and that can only happen with investment. Investment will not happen if the above issues are not addressed. For long, India has pursued pro-labour policies and has stunted growth and held back our economy. More jobs mean more wages which in turn boosts spending which helps create more jobs. Along this path, there will be those jobs which are not efficient, these need to shut. So unless there is a workable Exit policy that gives non-competitive industries the option to shut, we will continue to hold back job creation.
- A large part of India is below the poverty line and there is an urgent need to provide social protection through minimum wage guarantees. This segment desperately needs minimum assured days of work in a year. Here, schemes like MNREGA can be a catalyst to the economy, if properly implemented. The question is will the next government continue to support MNREGA and further improve its delivery mechanisms by plugging in the loop holes?

■ Public sector

- The last six decades has seen the government take up the mantle of a job provider. This has to go. The investment guzzling Air India is a case in point. There is absolutely no purpose served with the government keeping an inefficient and over subsidized organization like Air India alive. Let the market forces determine which airlines remain and which survive. However, several public sector companies are efficient and these must be corporatized and encouraged to grow. Its time all public sector employees came under the 'perform and reward' or 'fail and perish' parameters of business. The Indian public sector has the opportunity of becoming a role model for developing countries to emulate, if only they become competitive and efficient.
- **Scale-up progress on the industry and labour reforms announced by the new government till date**
 - ▶ There is an opportunity for the new government to present the blue print of sustainable growth over the next decade and share plans on how the reform programs such as 'Digital India', 'Smart Cities' and 'Skill India' unveiled in the last 8 months will start showing some tangible outcomes.

- ▶ The government should also focus on reforming the labour market through simplification of labour laws and introduction of e-governance, facilitating the growth of the organised labour force, which will bring back capital into the system.
- **Boost to the Manufacturing sectors**
 - ▶ In line with the Government's 'Make in India' initiative, providing impetus to the manufacturing sector by introducing manufacturing corridors is important. It is imperative that projects of national importance that are already cleared or which can be fast tracked - such as the DMIC (Delhi Mumbai Industrial Corridor) and DFC (Dedicated Freight Corridor) - are monitored effectively for faster implementation. These projects will have a multiplier impact on the economy, while creating millions of direct and indirect jobs across sectors.
- **Increased focus on Skill Development**
 - ▶ It is important to create human asset through skill development. A program like MNREGA has been exceptionally successful in few states but in many states the program was not that successful due to many factors. Given that the skill gap is a perennial issue in India, the government should be creating initiatives that will overcome the issue of widening skills chasm, promote capability development and foster higher education and research under one large umbrella program. The need of the hour is to integrate all small and big schemes of skill development mission.
 - ▶ On the positive side, it is evident from the large number of schemes pertaining to vocational skilling, that the government is taking it very seriously. We can expect a continued patronage to the sector, in the upcoming budget in form of increased expenditure and higher involvement of Public-Private- Partnership. Hopefully, initiatives like Skill India will succeed in penetrating the urban youth to reach rural and semi-urban population where majority of population still resides. Involving private sectors for funds and infrastructure and NGOs for their reach in such communities can help to make this happen.
- **Reviving Employment Exchanges across states**
 - ▶ Connecting job seekers to jobs is as important as building skills and job opportunities. Government funded employment exchanges were to bridge this gap and generate employment for local and unemployed youths, but the program has been failing across most states. The government should look at giving further boost to entrepreneurship and provide additional support to scale the start-ups. ITIR was a welcome move; the industry would look forward to more such initiatives.
- **Education**
 - ▶ Government should consider opening doors for foreign education institutes to operate in India by easing regulatory barriers, this will boost the quality of talent and training in the country thereby increasing the country's capabilities to service multi-national companies seeing India as their next growth market.
- **Ease of doing business in India**
 - ▶ Business must be easy to do and further rules and regulations should be made based on mutual trust between the government, the private sector and the citizen. A progressive, predictable and consistent tax regime is a pre-requisite.

Government Limitations in Job Creation

■ What is the issue?

- India's unemployment rate grew from 6.8 per cent in 2001 to 9.6 per cent in 2011, according to Census 2011 data. Every month, a million Indians become age-eligible to join the workforce, but the

growth in jobs has not kept pace with the rising number of aspirants. The result: unemployment has been on the rise, despite India supposedly being one of the brighter spots in a slowing global economy.

- Around 950,000 jobs annually are also inadequate given that there are 12 million new entrants in the workforce every year. Granted, the QES data does not include informal sector jobs—but employment in the formal and informal sectors is unlikely to be moving in vastly different directions which does not count as a sustainable solution.

■ Initiative undertaken by the Government

- The government, on its part, seems to have grasped this change: new ‘thrust areas’ - such as Digital India, Skill India, Start UP India and Make in India - all focus on creating an ecosystem that will generate jobs.
- The exercise for setting up coastal employment zones the first two of which would come up in Gujarat and Andhra Pradesh. This will have excellent infrastructure and enabling environment and will open up manufacturing jobs and serves as an example.
- Besides, it has identified labour intensive sectors where employment generation could be incant.
- Institutional reforms could see rebuilding of institutes like UGC, AICTE and the Medical Council of India — the process for which has already been started by NITI Aayog.
- Policy moves are accelerating the five labour market transitions that are journeys to higher productivity-farm to non-farm, rural to urban, subsistence self-employment to decent wage employment, informal to formal, and school to work.
- Government has challenged that, Green sectors such as solar energy and wind, besides defence and aerospace industry, construction, education and healthcare will be the new job creators.
- Some recent initiatives that aim to enhance access, equality, quality and innovation in the area of higher and vocational education are the Rashtriya Uchchatar Shiksha Abhiyan, Technical Education Quality Improvement Programme, and National Skill Qualification Framework. A dedicated Department of Skill Development and Entrepreneurship has been created under the Ministry of Skill Development, Entrepreneurship, Youth Affairs and Sports to accord focused attention in this area. The Deen Dayal Upadhyaya Grameen Koushalya Yojana for poor rural youth and Nai Manzil for education and skill development of minority dropouts have also been set up.

■ What effect can the government actually have on job creation?

- Estimating Employment Elasticity of Growth for the Indian Economy threw up some interesting facts about India’s employment elasticity—the percentage change in employment associated with a one percentage point change in economic growth.
 - ▶ Firstly, elasticity has been on the decline since the 1970s and 1980s.
 - ▶ Secondly, overall employment elasticity is low.
 - ▶ Thirdly, in manufacturing, elasticity is higher in the organized sector than in the unorganized sector.
 - ▶ And fourthly, certain sectors in manufacturing, such as motor vehicles, electrical equipment, and apparel, have relatively higher elasticity.
- Proper utilisation of FDI inflows: FDI inflows have increased substantially as result to make better FDI destination- better business environment and warm invitation to foreign investors to ‘come and Make in India’. India recently beat China as the best FDI destination in the world, but most of the FDI equity flow is going into the services sector and not the manufacturing sector.
- Government may create job through various programmes such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). However, it could be a palliative measures, not perennial ones.

- Increasing public investment to crowd in private investment: This will help to boost job creation—has been much talked about in the current scenario where the twin balance-sheet problem has rendered the latter anaemic.
- Elasticity in available actions: Schemes like Make in India and Start-up India generate labour reforms that enable enterprises in the informal sector which responsible for the bulk of manufacturing employment generation to scale up or enterprises with greater elasticity in the formal sector to quick respond which have the more sustainable effects.
- Controlling population: A large part of country's wealth is spent on maintenance of the existing population and rapidly increasing population create extra burden every year. In case of India every year 12 million join labour forces. It is a challenge to ensure job to all. The very first solution for the unemployment is to control the rising population of our country. Government should motivate people to have small families. The Indian government has started initiatives to control the population with little effect.
- Reforms in labour market: A greater emphasis on labour intensive industries such as textiles are needed to boost formal employment and sustain urban demand growth. "The skilling challenge is tough to access, nearly 50 per cent of India's labour force on farms needs to transition to non-farm jobs, but often does not have the skills.

Way Forward

However the steps which government takes to initiate job creation is limited as it depends on many other factors. Thus for better job creation following steps are needed:

- ❑ **Growth Promotion:** Promote the growth of stronger clusters and networks of small enterprises: India has a surfeit of small and micro enterprises. Small and micro enterprises are desirable because they create more employment per unit of capital, they enable citizens to create jobs for themselves and earn incomes with less state expenditure, and their growth can be widespread in all regions and in many sectors thereby making growth more inclusive.
- ❑ **Focus more on the SMSE:** Small and micro enterprises can overcome limitations in accessing markets, in obtaining resources, and in developing their capabilities by organising into effective clusters (geographic and virtual), and also by connecting on technology enabled platforms.
- ❑ **Quality Improvement:** The quality of clusters and cooperative associations of enterprises in India is much weaker than in other countries where small enterprises have provided the backbone of their faster industrial growth. Digital technology platforms and communication networks are becoming further accelerators for the empowerment of small and micro enterprises. In many cases, large firms can be strong catalytic nodes in the networks.
- ❑ **Promote the growth of a 'life-long learning' system:** The content of work is changing dynamically in many industries with new technologies and new forms of enterprises. The numbers of jobs of any type that will be available in the future are very difficult to predict. It is also difficult to reform formal education quickly (which is a challenge for all countries).
- ❑ **Skill training:** Even mass skilling systems to produce large numbers of skilled persons risk turning out skilled yet unemployed people. (Such gaps are emerging in India).
- ❑ The formal education system must be supplemented with affordable and accessible, 'just-in-time, needs aligned' learning modules.
- ❑ **Promote the rapid use of technology as an enabler:** Digital technologies can provide more reach to small enterprises and increase their productivity, too. They can enable the formation of platforms of enterprises including large ones; they can facilitate the development and delivery of 'just-in-time, needs aligned' learning modules; they can enable micro enterprises to access the formal financial system; and they can also enable delivery of better social security services.

- ❑ **Promote agriculture based industries:** Government should encourage and develop the agriculture based industries in rural areas so that the rural people don't migrate to the urban areas. More employment should be generated in rural areas for the seasonal unemployment people.

Conclusion

- ❑ A 'whole of government' approach is necessary to create jobs: Jobs cannot be sprinkled into the economy by the government. Jobs will emerge from interactions of many drivers in the economy — the growth of enterprises, life-long learning systems and social security, as well as the quality of physical infrastructure and the ease of doing business. Silo approaches will not produce the rapid change necessary in the jobs ecosystem. They can also back-fire, e.g. turning out many skill-certified persons who cannot find jobs; or concessions for flexibility to enterprises without providing social security which will lead to social and political complications.
- ❑ Therefore, job creation policies must be coordinated at the top of the system, at the level of the PMO at the centre and chief ministers in the States.

Contract Worker: Issues and Steps Needed

❑ Current Scenario of Contract Workers

- Recently, the Union government's move to allow industries to hire contract workers in ancillary businesses and non-core activity has not found takers among both employers and trade unions.
- The government's proposal is based on the recommendations of the Second National Commission on Labour in 2002. It recommends that the Contract labour shall not be engaged for core production, services or activities. However, for sporadic seasonal demand, the employer may engage temporary labour for core production or service activity.
- Contract Labour (Regulation and Abolition) Act, 1970 is to regulate the employment of contract labour in certain establishments and to provide for its abolition in certain circumstances. The present law suggests a firm cannot hire contract workers in jobs perennial in nature or round-the-clock.
- It discourages hiring of contract workers in "core activity" of businesses and allows hiring contract workers for 'non-core' activities such as housekeeping, gardening, security, catering and maintenance of establishment.
- The trade unions arguing that these are activities in which an establishment requires workers throughout the year.
- Industry hires a significant proportion of contract workers in its core businesses, too. In an automobile company, nearly one-third of the workers are on its payroll and the rest are contract workers.
- Indian economy (service sector) has revolutionized the way services are delivered and received around the world.
- It is a trend that is gathering momentum in India as big software companies like Wipro and Infosys hire gig workers on a project-to-project basis. Companies like Uber, Ola, Deliveroo have made a huge success with this concept. It is leading towards a 'gig economy'.
- The relationship of a temporary worker with his employer is driven entirely by the contract, unless the contract states that gig workers have the freedom to work as per their convenience, with no fixed working hours or employment policies to bog them down. Add to that the flexibility to pick and choose the kind of work they wish to participate in.
- In the traditional employer-employee set-up, the employee is required to work on whatever the employer asks of him.

Reasons for Hiring Contract Labour

- Businesses fail sometimes and entrepreneurs should not become risk averse for fear of being saddled with a redundant workforce.
- Vast population of India still falls under the category of semi-skilled and un-skilled workers.
- It saves hassle and costs for the employer, the gig workers miss out on statutory safeguards with respect to unfair termination, minimum wages, paid leave, etc.
- Jump from agriculture sector to service sector, bypassing the manufacturing sector which has great potential to acquire the large workforce.
- In an era where companies frequently terminate even a permanent worker for engaging in union mobilisation, the stakes are too high for contract workers, who could be summarily dismissed, without any consequences, by the management.
- Using loopholes in laws there is classification of workers (as unskilled, semi-skilled and skilled), doing the same work, into different categories, for payment of wages at different rates.
- Contract workers constitute to majority of the workforce but with very little or no bargaining power or job security.
- As per the Trade Unions Act, 1926, any worker who works in a factory can join a union of that factory. But typically trade unions only have permanent workers as members. The reason cited is that contract workers are not employees of the employer in question and so should not find representation in a union body formed for the purpose of negotiating with the said employer.
- Supreme Court Judgment in Jagjit Singh Case: Contract Workers vs. Permanent Workers.
 - ▶ The constitutional principle of ‘**equal pay for equal work**’ has been upheld by the SC with respect to temporary employees’ vis-à-vis permanent employees in the government sector.
 - ▶ It held that denial of equal pay for equal work to daily wagers, temporary, casual and contractual employees amounted to “exploitative enslavement, emerging out of a domineering position”.
 - ▶ The court also made the philosophical point that denial of the principle of equal pay for equal work is a violation of human dignity.

Important Observations Made by the Court:

- Not paying the same wages, despite the work being the same, violates Article 145 of the Constitution of India and amounts to exploitation in a welfare state committed to a socialist pattern of society.
- The claim for equal wages would be sustainable where an employee is required to discharge similar duties and responsibilities as permanent employees and the concerned employee possesses the qualifications prescribed for the particular post.
- If daily-wage employees can establish that they are performing equal work of equal quality, and that all the other relevant factors are fulfilled, a direction by a court to pay such employees equal wages (from the date of filing the writ petition), would be justified.

Way Ahead

- SC judgment in the Jagjit Singh case represents a very small step forward in a narrow area of law that has not reached its full potential in ensuring social welfare of all workers due to the lack of legislative action and the absence of judicial imagination.
- Labour welfare schemes should introduce to secure fair employment terms and we cannot let technology run roughshod over it.
 - The basic labour protection like minimum wages, paid leave provisions and maternity benefits should be available to gig workers as well.

- o In a bid to strike a balance between the contrasting demands of employers and unions over contract workers, the government should amend CL Act that deals with abolishing of contract workers as and when demanded by the workers.

‘Government plans to bring social security schemes under one umbrella’

Context

The government proposes to bring at least half a dozen social security schemes, including old age pension and insurance, under the ambit of the proposed social security code.

About

- The move is aimed at universalisation by bringing all existing schemes under one umbrella without any additional cost to the exchequer and is expected to cover more than 20% of the bottom of the population.
- The labour ministry will shortly finalise a list of the existing social security schemes that can be brought under the social security code once the code is approved by Parliament and notified.
- The move is aimed at consolidating millions of beneficiaries of the existing social security schemes under one administration for effective implementation and to avoid duplication.
- The schemes expected to immediately come under the code are the PM Shram Yogi Maandhan scheme, the PM Laghu Vyapari Maandhan Yojana and the Atal Pension Yojana.
- All these are voluntary contribution pension schemes in which contribution is made by the subscriber and matched by the Centre, making the beneficiary eligible for Rs 1,000-5,000 per month pension after attaining the age of 60.
- Schemes completely funded by the Centre such as the old-age pension scheme and the health insurance schemes, including the Pradhan Mantri Jeevan Jyoti Bima Yojana under which individuals contribute a miniscule amount year after year for availing health insurance, could be brought in next.
- Section 13 of the proposed social security code provides for bringing all existing social security schemes under the code through notification. Notwithstanding anything contained in this code, the central government may, by notification, assign additional functions to a social security organisation including administration of any other Act or scheme relating to social security subject to such provisions as may be specified in this behalf in the notification.

How effective are social security and welfare in India?

- India spends 1.4 percent of its GDP on social protection, among the lowest in Asia, far lower than China, Sri Lanka, Thailand, and even Nepal.
- India's growth story of the last two decades has had one recurring theme: that the pattern of economic growth is accentuating insecurities. Yet, there continues to be a deep divide over whether the gains from growth ought to be ploughed back to achieve social security for everyone.
- Social security has come to be linked to job benefits, tying it to one's status as a worker in the formal or the informal economy when, fundamentally, it originates from the notion of ensuring everyone protection against vulnerability and deprivation.

- ❑ **Constitutional provision:** In the Constitution, Article 41 of Directive Principles asks the state to “within the limits of its economic capacity and development,” make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want.” Article 42 says the state shall make provisions for securing just and humane conditions of work and for maternity benefits.
- ❑ **Recognition of minimum social security cover:** India does not yet explicitly recognise a national minimum social security cover. In recent years, including with an intervention by the Supreme Court in the Right to Food case, the government has moved forward to providing nutrition and employment support with a legal guarantee through the MGNREGA.
- ❑ **Economists Amartya Sen and Jean Dreze** distinguish two aspects of social security — “protection” and “promotion.” While the former denotes protection against a fall in living standards and living conditions through ill health, accidents, the latter focuses on enhanced living conditions, helping everyone overcome persistent capabilities deprivation.
- ❑ A close look at India’s record in providing social security shows that while only a fraction of citizens enjoy any “protection” at all, these are being further eroded with the current pattern of economic growth.
- ❑ The government launched the first pensions programme for the poor, the National Social Assistance Programme, starting with a pension of Rs. 75 per month, in 1995. Under the Indira Gandhi Old Age Pension Scheme and Widow Pension Scheme, the Central government contributes Rs. 200 and Rs. 300 per month respectively. Several States, Himachal Pradesh, Rajasthan, and Bihar provide between Rs. 400-300 per month, while Tamil Nadu provides Rs. 1000 per month.
- ❑ Atal Pension Yojna was announced in Budget 2015-16 as an upgrade to the Swavalamban scheme, which folds into the new defined benefit pension scheme for the poor.

A universal social security

- ❑ The biggest gap, and one which may only widen, is in social protection for the working poor. The UPA government appointed the National Commission for Enterprises in the Unorganised Sector (NCEUS) in 2004 to look into livelihood conditions and social security for unorganised workers — employed in the unorganised sector and those in the formal sector without any social protection. It found that only those in the formal sector, 8 per cent of India’s workforce, enjoys social security. Over 91 percent of workers, over 39.5 crore workers, are in the informal sector.
- ❑ The Commission highlighted that there had been almost no growth in formal employment since early 1990s and almost all growth in employment was in the unorganised sector. NCEUS’ finding that 79 percent of workers in the unorganised sector lived on an income of less than Rs. 20 a day made it evident that the gains of growth were bypassing the majority of the working population.
- ❑ The NCEUS proposed legislation for a national minimum security package for unorganised sector workers, social insurance, social assistance for life and health cover, old age benefits to all workers within a period of five years financed by the Centre and state governments, employers (where identifiable) and workers at a cost of less than 0.5 percent of Gross Domestic Product after five years. The government discarded the Commission’s recommendations for statutory backing to social protection.

Conclusion:

Social Security in any country is to the interest of all other countries, since it contributes to political stability, economic well-being, and is the embodiment of belief in the innate dignity and worth of the common man. The introduction of this new section will make it easy for the government to consolidate all schemes under the proposed Social Security Organisation without having to go to Parliament for bringing all such schemes under one roof as they are currently being administered by different ministries including the finance ministry and the rural development ministry.

IPR in India–Need & Issues

What are Intellectual Property Rights

- ❑ IPRs are the legal rights given to persons over the creations of their minds, including inventions, literary and artistic works, symbols, names and images used in commerce to give the creator an exclusive right over the use of their creation for a certain period of time.

Need for Intellectual Property Rights

- ❑ Attracts FDI and boosts research and development as well as innovation, thus improving ease of doing business.
- ❑ Forbid the competitors or anybody for exploiting or misuse the property without the permission of the creator.
- ❑ To promote consumer trust and protection against counterfeit and pirated goods,
- ❑ Enable to make an educated choice about the safety, reliability and effectiveness of their purchases.

Issues associated with Intellectual Property Rights in India

- ❑ Traditional knowledge, especially in the field of medicine, have been kept out the reach of patents due to lack of awareness and non-synchronization of laws.
- ❑ Weak enforcement of IPR fails to provide relief against imitators and free riders, thereby acting as a major barrier to trade, investment in R&D and overall growth of a country's economy.
- ❑ Product patent can lead to monopoly. India being a party to TRIPS has to shift from process to product patent, however, it has a huge bearing on poor strata of society.
- ❑ Compulsory Licensing (CL): Sometimes organizations misuse CL. For instance, Indonesia gave CL for 9 patented drugs without any attempt to engage with patent holders.

What is Compulsory Licensing?

- It's a process when a government allows someone else to produce a patented product or process without the consent of the patent owner or plans to use the patent-protected invention itself.

Measures taken to improve IPRs in India

- ❑ **National IPR Policy, 2016:** It aims to create and exploit synergies between all forms of IP concerned statutes and agencies.
- ❑ **Cell for IPR Promotion and Management (CIPAM):** It was created in 2016 under the aegis of the DPIIT to take forward the implementation of the National IPR Policy.
- ❑ **Traditional Knowledge Digital Library (TKDL):** It was created to protect Indian traditional medicinal knowledge and prevent its misappropriation at International Patent Offices.
- ❑ **India's Patents Act of 1970, 2003 Patent Rules and the 2016 Patent Amendment Rules** set out the law concerning patents.

Way forward to develop ecosystem for Intellectual Property Rights in India

- ❑ **Legislative Framework:** There is need to have strong and effective IPR laws, which balance the interests of rights' owners with larger public interest.

- ❑ **Human Capital Development:** There is need to strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRS.
- ❑ **Awareness:** It is important to create public awareness about the economic, social and cultural benefits of IPRs among all sections of society.
- ❑ **IPR Facilitation Centers** should be established in the country with a focus on enhancing the awareness Of MSMEs, small businessmen and traders.
- ❑ **Participation of State Governments:** State should actively participate in evolving policies that focus on sensitizing people on significance of IPRs, encouraging innovation in educational institutions and establishing State level Innovation Councils, enforcement Of IPR laws and curbing IP crimes.

E-Commerce-Potential & challenges

Key Objectives of E-Commerce in India

- ❑ Ending Digital Monopolies and have a more inclusive e-commerce industry.
- ❑ Bring Transparency in pricing for easy price comparisons.
- ❑ Access to Indian and Global markets for small enterprises.
- ❑ Help in promotion of Digital payments, growth in logistics sector or supporting new innovations across digital space like payments, service delivery etc.
- ❑ Better deals and offers for customers, genuine reviews etc.

❑ Potential of E-Commerce in India

- 8th largest e-commerce market globally.
- A sunrise sector with 10-15% share in India's retail market.
- US\$ 55.6 Billion was generated by the industry in 2021 and expected to reach US\$ 111 billion by 2024; US\$ 350 billion by 2030.
- 3rd largest online shopper base of 140 million in 2020.
- 10 million internet users are added monthly (majorly from tier-II cities) due to increasing internet and Smartphone penetration.

Challenges faced by E-Commerce in India:

- ❑ Infrastructural problems such as availability of internet, power, devices, etc.
- ❑ Absence of data protection law with outdated framework of Cyber Laws.
- ❑ Privacy and Security Concerns
- ❑ Payment and Tax Related Issues
- ❑ Digital Illiteracy.
- ❑ Evolving regulatory framework of e-commerce industry with issues of fake reviews, predatory pricing, misuse of data, digital monopolies etc.

Steps taken for development of E-Commerce in India:

- ❑ Consumer Protection (E-commerce) Rules, 2020 to protect consumer interest and encourage free and fair competition.

- ❑ Open Network for Digital Commerce (ONDC) to control digital monopolies by setting protocols for cataloguing, vendor discovery and price discovery.
- ❑ Government e-Marketplace (GeM) portal with 45 lakh registered small businesses.
- ❑ Prioritizing Technology under Digital India through initiatives like Umang, Start Up, BHIM, BharatNet etc.
- ❑ Equalisation Levy Rules, 2016 and its amendment in 2020.
- ❑ 100% FDI allowed in B2B E-commerce and in e-commerce marketplace model.

INFRASTRUCTURE

Bharatmala Pariyojana: Revolution in Indian National Highways

- The first major policy push to widen the National Highways was made in 1998 during Atal Bihari Vajpayee government by launching the National Highways Development programme (NHDP). This project had two major components of Golden Quadrilateral (GQ) connecting the four metro cities of Delhi, Mumbai, Chennai and Kolkata and Kanyakumari and Silchar to Porbandar. These networks are known as North-South and East-West corridors.
- The second big revolutionary decision to upgrade NHs was taken in October 2017 when the Central government approved the phase-I of Bharatmala Pariyojana.
- **Components of Bharatmala Pariyojana:**
 - **Economic Corridors:**
 - ▶ The origin-destination study which was commissioned with the aim of improving logistics efficiency identified 44 new Economic Corridors.
 - ▶ As per the plan, these corridors along with national corridors (the golden Quadrilateral and North-South and East-West) would form India's new Highway Grid.
 - ▶ As per estimates, the National and Economic Corridors along with their inter-corridors and feeder routes would be able to carry 80 per cent of our freight traffic.
 - **Inter Corridor and Feeder Routes:**
 - ▶ The effectiveness of the corridors can be improved by development of the feeder routes.
 - **Improvement in Efficiency of National Corridors:**
 - ▶ In the past few years, these National Corridors have also developed choke points impacting logistics efficiency. So, to decongest and do away with these choke points, new Ring Roads and bypasses/elevated corridors will be built.
 - ▶ In addition, multimodal logistics parks will be developed at critical economic nodes along GQ and North South and East West corridors to enable efficient modal transfers, freight aggregation and disaggregation.

- **Development of Border and International Connectivity Roads:**

- ▶ Around 3,300 kilometres of border roads have been identified to be built and widened along the international border for their strategic importance.

- **Development of Coastal and Port Connectivity Roads:**

- ▶ Under Bharatmala programme, about 2,100 kilometers of coastal roads have been identified to be built along the coast.
- ▶ These roads would boost both tourism and industrial development of the coastal region.
- ▶ A major focus will be to improve linkage to state government owned and private ports.

- **Development of Green-field Expressways:**

- ▶ NHAI Board is an inter-ministerial entity, which has representation from Highways and Finance Ministries, Niti Aayog and the Highway Authority.

- **Balance NHDP Works** – Under the last segment, the project will see construction and maintenance of about 10,000kms of new roads.

- **Funding for Programme:**

- For Bharatmala, the government will raise funds through four main ways:
 - ▶ Market borrowings
 - ▶ Central road fund
 - ▶ Monetizing government-owned road assets
 - ▶ Budgetary allocation
- Of the total, Rs. 2 lakh crore will be raised via market borrowings as debt, while Rs. 1lakh crore would be derived from toll revenue collected by the NHAI and accumulated funds in the Central Road Fund.
- About one-third of the fund will come other from fuel cess and will come as budgetary support.
- This scheme is known as Toll Operate Transfer (TOT), which means completed stretches are bid out to private players make upfront payment to NHAI to get these works. They are responsible for maintenance of the highway stretches as well.

- **Details:**

- The massive highway development programme has many firsts to its credit.
- Starting from preparation of the plan to identifying the highway stretches and the new approach of building roads on new alignment. The Road Transport and Highways Ministry has termed as “crow flight” alignments.
- Improved logistics movement has a force multiplier effect on the economy.
- Moreover, to cater to the need for infrastructure development in the border and coastal areas to India’s Export-Import (EXIM) trade, the highway development programme has provisioned for improving border roads based on strategic importance, particularly the ones connecting to trading points with India’s neighbours-Nepal, Bangladesh and Bhutan.
- The coastal road development and port-connectivity roads enhancement have been synergized with the Sagarmala programme.

- **Major Features:**

- The major objective was to raise road standards in order to spur growth across the nation.
- Another crucial aspect of the announcement for this plan is the building of new roadways.

- Within a five-year timeframe, the government intends to complete the building of all the roads included in this programme.
- The Ministry depends on a number of different sources to complete this project since the money allocated by the Government may not be enough to build roads.
- The project seeks to build a number of roads, and the Ministry has chosen to divide the project into several categories for effective road building in order to ensure proper project implementation.

■ **Benefits:**

- Bharatmala Pariyojana once implemented will enable improvement in efficiency of freight and passenger movement of NHs.
- The Network as identified under the Bharatmala network will cater to 80 per cent of the inter-district freight movement in the country.
- The development of economic corridors and the associated inter corridor and feeder routes will enable improvement in average speeds.
- Improvement in average speed of the freight vehicles will, in turn, have three major benefits; improved vehicle utilization resulting in faster breakeven and hence lower freight cost per tonne per km; improvement in fuel efficiency of the vehicles due to lower idling time, resulting in lower freight cost and faster and reliable freight transit, leading to a reduction in average inventory carried in freight.
- In addition up gradation of NH Network in the first phase is expected to generate employment during the construction phase driven by increased level of economic activities due to development of the Economic Corridor network.

Challenges for Bharatmala Project

- The completion date for the Bharatmala project, which was announced in 2017, was 2022. The most recent reports, however, indicate that the project is now far from finished due to the rising cost of the land and the project's planned budget.
- The Central Government is now seeking for more investments from cash obtained from the market as well as any other private investment. The government plans to put finished roadway projects up for auction or possibly go into international debt and bond markets if the projected budget is not fulfilled.

Transformation in Indian Railways

- Indian railway system is the main artery of the country's inland transport
- Indian Railways, the third largest railway network in the world, has, in the past few years, undergone transformational changes to expand its reach to every corner of the country at a remarkable speed, and to provide passenger and freight services with safety and punctuality. Indian Railways is the largest government undertaking in the country.
- The length of the Indian Railways network was 67,956 km (Railway yearbook 2019-20).

■ **Connecting the Seven Sisters:**

- In the North-East, rail connectivity has come to all the Seven Sister States of Assam, Meghalaya, Nagaland, Tripura, Mizoram, Manipur and Arunachal Pradesh.
- The North-East is witnessing historic changes. The Bogibeel Bridge, the longest Rail-cum-Road Bridge of the country running across river Brahmaputra near Dibrugarh in Assam has been commissioned, connecting Assam and Arunachal Pradesh.

- India's tallest bridge with pier height of 141 m is being constructed on Irang River at Noney in Tamenglong district, Manipur as part of the Jiribam-Tupul-Imphal new line, a marvel of railway engineering.

▣ Capacity Augmentation:

- Capacity augmentation was essential on the Indian Railways, and the railways launched two Dedicated Freight Corridor (DFCs) projects: Eastern and Western Dedicated Freight Corridors (EDFC and WDFC), for the purpose.
- When the two freight corridors operate, the railways freight operation will see a fundamental change brought about by reduction in unit cost of transportation, smaller organisation and management cost, with higher efficiency and lower energy consumption.
- To overcome the problem of congestion and over-saturation of routes, doubling of tracks and laying of additional lines has been going on.
- Based on physical progress of projects, last mile connectivity projects for projects decongesting the existing routes, sufficient funds are being allotted to each project.

▣ National Rail Plan (NRP):

- By 2030, capacity should be built ahead of demand in order to meet future demand increases through 2050.
- as part of a national goal to decrease carbon emissions and maintain them, to raise the modal share of railroads in freight from 27% at present to 45% by 2030.
- A nationwide study was done across a hundred sample sites over the course of a year to determine the real demand in the freight and passenger sectors.
- Forecasted rise in passenger and freight traffic from now until 2030 and from a decadal perspective until 2050.
- Develop methods to boost the railways' modal share of freight to 45% based on operational capabilities and commercial policy objectives.
- By raising the average freight train speed from the current 22 Kmph to 50 Kmph, you may significantly shorten the time that freight needs to travel.
- Reduce the entire cost of rail transportation by about 30% and provide the customers the advantages.
- In order to expedite the completion of a number of important projects by 2024, such as:
 - complete electrification (100%)
 - Multitracking of crowded routes.
 - Increasing the speed limit on the Delhi-Howrah and Delhi-Mumbai routes to 160 kph.
 - On all other Golden Quadrilateral-Golden Diagonal (GQ/GD) roads, the speed limit has been increased to 130kmph.
 - Removal of all Level Crossings along the whole GQ/GD route

▣ Speeding up Electrification:

- To reduce dependence on imported diesel fuel and carbon emission, Indian Railways have embarked upon a major programme to speed up electrification of railway lines.
- Currently, around two thirds of freight and more than half of passenger traffic in Indian Railways moves on electric traction.
- Electric traction accounts for just 37 per cent of the total energy expenses of Indian Railways. Due to this advantage, through electrification, Indian Railways is likely to save Rs.13,510 crore per annum in fuel bills and the same will improve its finances.

- During the period of construction, the electrification projects will generate direct employment of crores of man-days.
- Electrification will reduce the use of imported fossil thereby improving energy security to the nation. Consumption of high speed diesel oil will be reduced and there will be a reduction in greenhouse gas emissions. This will also reduce environmental impact of Railways.
- Hundred per cent electrification will provide seamless train operation by eliminating detention of trains due to change in traction from diesel to electric and vice versa.
- It will help Railways in enhancing line capacity due to higher speed and higher haulage capacity of electric locomotives. There will be improves signalling systems, which will lead to enhanced safety in train operations.

■ Ensuring Safety:

- To ensure connectivity with safety, the railways created the Rashtriya Rail SanrakshaKosh (RRSK), a dedicated fund for safety projects during 2017-18, with a corpus of Rs 1 lakh crores over a period of five years, specially for clearing the backlog of critical safety related works.
- This includes track renewals and safety, strengthening of bridges, elimination of unmanned level crossings, upgradation of maintenance facilities, signalling improvement and complete switchover to shock-resistant Linke Hofmann Busch (LHB) coaches with greater safety features, along with retro fitment of ICF coaches.
- Apart from elimination of unmanned Level Crossing on all busy routes and shift to production of safer LHB coaches, there is focus on track renewal with the highest outlay ever.
- Addressing the issue of unsafe crossing on a war footing, 5,479 Unmanned Level Crossing have been eliminated in the last four years. Safety posts running into over a lakh are also being filled-up.
- It had been decided to completely stop the manufacture ICF Coaches from 1st April, 2018 and shift to safer LHB design coaches having anti-climbing features.
- The railways signalling system is being completely modernized and included in the works programme of 2018-19 for the renewal programme on the complete 60,000 Route Kilometers (RKMs) of the Broad Gauge (BG) network of Indian Railways.

■ Offering Better Services:

- To make the railways smart, for punctuality, instead of the station master recording the time, data loggers have been put at interchange points which would be computer generated.
- Indian Railways is working on putting a GPS device on every locomotive so that every train can be tracked on mobile phones knowing exactly where they are.
- Railways are reviewing to engage itself with artificial intelligence.
- The Railways believe that there is a lot which can be done with data being put to use with predictive maintenance, better monitoring and utilization of assets and better monitoring and utilization of assets and better passenger service.
- A 'New Online Vendor Registration System' has been launched by the Research Designs & Standards Organisation (RDSO), the research arm of Indian Railways, to have digital and transparent systems and procedures.
- Railways is improving passenger services including a complete makeover of stations by installing modern facilities including escalators, lifts, free wifi, etc, while instilling local art and culture in the design.
- 'Make in India' has been given a boost by indigenous manufacturing of Semi High Speed (160 kmph) self-propelled Train 18.
- Work has started on Mumbai-Ahmedabad Bullet train project on Japanese model.

- Catering has also been a focus area with compulsory printing of MRP on all food items started on more than 300 trains, and use of artificial intelligence to monitor food production in base kitchens for improving quality and hygiene.
- To make rail transportation attractive to its customers various initiatives were taken in 2017-18 which includes tariff rationalisation, classification of new commodities, expansion of freight basket through containerisation, new delivery models like RO-RO services, Long Term Tariff Contract policy with key customers, Station to Station rate, Double Stack Dwarf Container (DSDC), customer friendly rationalization of weightment policy, Electronic Registration for Demand of Wagons (e-RD), etc.
- Decision has been taken to transport empty containers and empty flat wagons for private container and empty flat wagons for private container rakes at a discount of 25%. The move is likely to give a thrust to movement of empty containers by rail towards ports to return as loaded, thus profiting Indian Railway with higher container share.

Indian Railway Innovation Policy

- The Minister of Railways has unveiled the “StartUps for Railways” Indian Railway Innovation Policy.

■ Features:

- Provide innovators with a **grant of up to Rs. 1.5 Crore** on an equal share basis with the option of milestone payments.
- Through ensure transparency and objectivity, the entire process—from posing the issue statement to developing the prototype—is done online.
- Prototypes will undergo tests in the railroads.
- Increased money will be given to scale up deployment following the success of prototypes.
- An online site that was launched by the Minister of Railways & will be used for the fair and transparent selection of innovators.
- Intellectual property rights (IPR) that have been developed will exclusively belong to inventors.
- To prevent delays, the whole product development process should be decentralised at the divisional level.

■ Issues observed:

- Out of the more than 100 issue statements submitted from various divisions, field offices, or zones of Indian Railways, eleven have been taken up for this program’s phase 1 including rail fracture, headway reduction, etc.

■ Expected advantages:

- Through the involvement of a very sizable and underutilised startup ecosystem, this strategy will increase scale and efficiency in the fields of operation, maintenance, and infrastructure development.
- Additionally, it intends to increase the operational effectiveness and safety of Indian Railways by utilising cutting-edge technology created by Indian startups, MSMEs, innovators, and entrepreneurs.
- It will support the nation’s “Innovation Culture” to foster co-creation and co-innovation in the railroad industry.

Pros and Cons of Privatization of Indian Railway

	Privatisation	Nationalisation
Ownership	Firm owned by private sector	Firm owned and managed by government
Incentives	Profit motive acts as incentive for owners and managers	Workers may feel motivated if they feel company belongs to them.
Externalities	Profit firm may ignore external costs (pollution) and external benefits	Government can put social benefits above profit motive.
Efficiency	Incentive to introduce new technology and increase labour productivity	Nationalised firms may find it hard to sack surplus workers.
Knowledge	Private firms employ managers with best skills.	Politicians may interfere based on political motives
Natural Monopolies	Private monopolies, eg. water/trains may charge high prices.	Government can set prices based on social factors.
Depends on Industry	Worked well for BT, BA	Natural monopolies, like trains/water. Non profit services like health care.

Arguments in favour:

■ Better Infrastructure

- The Niti Aayog's vision for New India @75 includes several objectives for railway infrastructure, including 100% electrification of broad gauge track by 2022–2023 and an increase in infrastructure construction speed from the current 7 km/hour to 19 km/hour
- Given this, a compelling case for privatisation is that it will result in better infrastructure, which will then increase safety, reduce travel time, etc.

■ Higher level of Service quality

- Lack of timeliness, poor management in the form of foul restrooms, a lack of water supplies, and unclean platforms all detract from the quality of Indian Railway services.
- These problems may be resolved by privatisation since it would encourage competition, which would raise service quality generally.

■ Infusion of technology

- Incorporating the most recent technologies into railroad carriages will also improve safety and the travelling experience. As a result, it may assist Indian Railways in developing into a top-tier network.

■ Other advantages:

- It will also keep corruption in public sector under check and thus improve overall productivity.
- Indian Railways is unable to meet the everincreasing passenger demand, thus not really enjoying benefits of being a natural monopoly. Private sector entry into operations will increase efficiency.

- Rail engines used to run the train are old and outdated. Obsolete machinery has no proper returns due to high maintenance cost.
- For consumers, there will be better facilities available both at station and in trains like better cleanliness, more safe and secure journey, almost no-delay in train arrival and overall a better travelling experience.
- One of the private enterprises in railways in the non-core sector is IRCTC (**Indian Railway Catering and Tourism Corporation**) which takes care of online railway reservation, food stalls at stations and packed mineral water on trains. No doubt it has been successful in its business.

■ Arguments against:

- Coverage Is Strictly for Profitable Sectors
 - ▶ The fact that Indian Railways is government-owned and offers nationwide connection to spur regional development is a benefit.
 - ▶ With privatisation, this would not be viable since less-traveled routes may be overlooked, harming connection.
 - ▶ Additionally, it can make some areas of the nation essentially inaccessible and exclude them from the development process. For instance, places like the Himalayan states and the North Eastern states, which have harsh terrain and low population densities
- **Fare Increases**
 - ▶ Given that a private company operates on profit, it seems to reason that increasing tariffs would be the simplest method for Indian Railways to increase earnings.
 - ▶ As a result, lower income groups would no longer be able to use the programme.
 - ▶ Additionally, this would go against the intent of the Indian Railways, which is to serve the whole nation's people, regardless of money.
- **Cross-Subsidization Problem**
 - ▶ Indian Railways frequently use freight earnings to cross-subsidize passenger rates.
 - ▶ Private players will find it challenging to compete at these prices, which are below cost.
- **Competing Interests**
 - ▶ The Ministry of Railways now acts as the industry's policy maker, regulator, and service provider.
 - ▶ This is a blatant conflict of interest that, as the Bibek Debroy committee noted, would jeopardise fair competition between private and public railroad operations and obstruct Indian Railways' effective privatisation process.
- **Concerns regarding Social Welfare**
 - ▶ Due to its crucial role in the nation's logistics, the Indian Railways offers low-cost shipping for a variety of final and intermediate commodities.
 - ▶ As a result, the privatisation of the system, which is driven by financial gain, will cause inflation and hence have an impact on the general populace.
- **Other concerns:**
 - ▶ The workers cannot be expected to be loyal to a company and hence to Railways which might result in low productivity during exigencies.
 - ▶ Depending on private sector for movement of arms and ammunition for the armed forces and safe keeping of the weapons is critical and cannot be entrusted to the private sector.

- ▶ By privatizing, we are essentially letting demand and supply dynamics take precedence and prices set by market forces become the norm. This at a time of natural calamity would wreak havoc on movement of critical supplies.
- ▶ Privatization without competition will degenerate into an oligopoly.
- ▶ It is not about change of ownership alone, unlike many other sectors. The bureaucratic state will be replaced by the contract state. Effective regulation becomes critical and so also the speedy resolution of disputes that are bound to arise from time to time as seen in the projects in PPP mode.

■ **Suggestions:**

- Sustainable Pricing: In order to make the passenger and freight divisions of Indian Railways sustainable, it is necessary to review the pricing model. The tariffs must be affordable compared to the price of travelling by car.
- Independent Regulator: For there to be a fair playing field for private players, it will be essential to establish an independent regulator. As the Rail Development Authority has already been approved by the government, there is a need to move the process of forming it forward in this endeavour.
- **Modernization of Railways: by adopting Bibek Debroy's recommendations,** the following can be considered:
 - Railway should hive off all non-core activities - RPF, School, Hospital.
 - Scrapping of Railway Budget - Need to depoliticize all the policies for Railways.
 - Privatization of Parcel Services.
 - PPP for Port Project.
 - Investment in modernization - Need to reduce head count.
 - Developing competition among Railway PSUs and zone.

Inland Waterways in India–Opportunities & Challenges

- Inland Waterways are economically most viable sector. It is widely recognized as a cost effective, fuel efficient, and environment friendly mode of transport and is also the most suitable mode for transportation of bulk cargo, over dimensional Cargo and hazardous goods.
- The Government of India is aggressively pushing for the development of inland waterway routes as part of an integrated transport network strategy. 106 new national waterways were announced under the National Waterways Act, 2016. With the five existing National Waterways (NW), the addition of the new ones takes the total number to 111 in the country.
- National waterways act 2016 was to make provision for existing waterways and to provide for the declaration of certain inland waterways as national waterways and also to provide rules and development of the waterways.
- Shipping and navigation on national waterways comes under entry 24 of union list under the seventh schedule of the constitution. The Central Government can make laws regarding inland waterways which are classified as national waterways.
- A developed IWT will not only augment the overall transport capacity of the country, but will also help correct the transport modal mix that impose huge logistics costs on the Indian economy.

- Lack of funds.
- Insufficient depth throughout the stretch of navigable waters.
- Non availability of low draft high technology vessels.
 - ▶ Non availability of navigational aids resulted in restricted sailing over a long period.
 - ▶ Most of the large rivers of the country enter the sea through shallow sand choked delta channels. Thus navigation is hampered unless dredging is done.

❑ **Benefits of Inland Waterways**

● **Cost savings:**

- ▶ 1 HP moves 150 kg on road, 500 kg on rail and 4000 kg on water.
- ▶ Low fuel cost -1 litre fuel can move 105 tonne- km by IWT, 85 tonne – km by Rail and 24 tonne – km of freight by Road.
- ▶ Cost of developing waterways is much lower than rail & road.
- ▶ IWT can provide optimal modal mix by integrating river transport with other modes thereby reducing total logistics cost.
- ▶ Reduces transportation and transition losses.

● **Environment friendly:**

- ▶ Low energy consumption -1 HP can carry 4000 kg load in Water, 500 kg by Rail and 150 kg on Road.
- ▶ CO₂ emission is 50 percent that of trucks.
- ▶ Negligible land requirement.
- ▶ Safe mode for hazardous and over dimensional cargo.

● **Supplementary mode:**

- ▶ Reduces pressure on road and rail.

❑ **Reduces congestion and accidents on road.**

● **Business Opportunities:**

- ▶ The development works being undertaken by IWAI provide business opportunities to players involved in waterways in the fields of:
 - Cargo Movement, Dredging Works, Construction, Operation and Maintenance of Terminals, Barge Construction and Operations, Navigation Aids, Hydrographic Surveys, Manpower Supply for Vessels and Terminals, Training of Vessel Crews, Stevedoring and Forwarding, Cruise Operations.
 - Consultancy Services for Techno-Economics Feasibility, Environmental and Social Impact and Market Analysis Studies, Preparation of DPRs, Project Management Consultancy, Construction Supervision, Proof Checking of Design, Model Studies.
 - Recently, a MoU between Tripura Government and IWAI has been signed to set up Inland Waterways Terminal at Srimantapur to boost Indo-Bangla Trade and connectivity .(It will help Tripura export goods such as rubber,tea,bamboo,pineapple)

● **Problems of Inland Water Transport:**

- ▶ Because of their slow transmission speeds, inland rivers are unsuitable for situations when timing is crucial.
- ▶ Its operational range is constrained by the availability of infrastructure and the depth of the waterways.

- ▶ Door-to-door goods delivery by inland water transport (IWT) is only sometimes possible.
- ▶ Weather-related operational interruptions are a significant disadvantage.
- ▶ There is a seasonal fall in water level in rivers especially in the Rain-fed Rivers of the peninsula which become nearly dry during summer.
- ▶ Reduced flow due to diversion of water for irrigation, for instance, in the Ganga which makes it difficult even for steamers to ply.
- ▶ There is reduced navigability due to siltation, as in the Bhagirathi-Hooghly and in the Buckingham Canal.
- ▶ There are problems in smooth navigation because of waterfalls and cataracts, as in Narmada and Tapi.
- Salinity, especially in the coastal stretches, affects navigation.
- Inland water ways may have acute and long term impacts on the riverine ecosystem. NW1 on Ganga River is habitat to the Gangetic Dolphin which can be affected by the noise of the big vessels and availability of food may get affected.
- Lack of inadequate terminal facilities at loading and unloading points.
- Diversion of water for irrigation, industrial, and other needs reducing the flow of water, resulting in reduction in depth and shoal formation.
- **Promoting River Tourism:**
 - ▶ International publication 'Condé Nast Traveller' listed Ganga cruise as one of the 'six river cruises to take in 2017'.
 - In addition to becoming one of the principal cargo movement routes in India, this stretch on NW-1 has good potential for river cruise tourism.
 - This will create a logistic supply chain with intermodal (Rail, Road and Waterways) connectivity. It would positively contribute to the GDP by opening up business opportunities in the area of dredging, barge construction, barge operation, barge repair facilities, terminal construction, terminal operation, storage facilities, providing modern aids to day and night navigation, tourist cruise, consultancy, training of manpower for manning barges, hydrographic survey, etc. Investment in all these business areas will create numerous opportunities for employment and economic development and reduce pressure from the already over-loaded, congested and costlier other surface modes of transport.
 - ▶ Legal and Policy regime for Inland Waterways in India
 - ▶ The Inland Waterways Authority of India Act, 1985
 - ▶ Indian Vessels Act of 1917 (amended in 2007)
 - ▶ Inland Water Transport Policy 2001

■ Detailed analysis of Government Initiatives

- **Passage of the National Waterways Act, 2016**
 - ▶ The enactment of this Act (Central legislation) will pave way for the inclusion of 106 additional inland waterways. Thus the total number of national waterways numbers will go up to 111 from existing five national waterways.
 - ▶ Declaration of these National Waterways would enable Inland Waterways Authority of India (IWAI) to develop the feasible stretches or Shipping and Navigation.
 - ▶ The Act repeals the five Acts that declare the existing national waterways. These five national waterways are now covered under this.
 - ▶ The Inland water ports will be developed in line of Airports.
 - ▶ A river traffic control system has been introduced in line of air traffic control system.

- **Jal Marg Vikas Project (National Waterway-1, River Ganga):**

- ▶ Jal Marg Vikas Project (JMVP) is being implemented for capacity augmentation on Haldia-Varanasi stretch with technical and financial assistance from the World Bank.
- ▶ NW-1, along with the proposed Eastern Dedicated Freight Corridor and NH-2, constitute the Eastern Transport Corridor of India connecting the National Capital Region (NCR) with the eastern and North-eastern states.
- ▶ This will function as a link to Bangladesh, Myanmar, Thailand, Nepal and other east and Southeast Asian countries through the Kolkata Port and Indo-Bangladesh Protocol Route.
- ▶ Inland Waterways Authority of India (IWAI), the nodal agency under the Ministry of Shipping is mandated to make National Waterways commercially navigable.
- ▶ IWAI aims to increase the cargo transportation through IWT on National Waterways in the country.
- ▶ According to a World Bank economic analysis, approximately 1.5 lakh direct and indirect employment opportunities will be created due to interventions under the Jal Marg Vikas Project.
- ▶ JMVP is a wholly inclusive, economic and environment friendly game changer intervention on river Ganga. Along with giving a fillip to trade and commerce, it will help rejuvenate the river. The project not only creates an alternative, cost effective mode of transport but will create 'Room for River' which has proved to be an effective flood mitigating and river conservancy measure internationally, especially in low lying Netherlands.

Objective evaluation of Sagarmala project

- Ports act as the source of socio-economic development. Investments in seaport have impact on urban development with increment in employment and infrastructures opportunities, migration, land valuation, technology developments, economic growth, etc.
- India is one of the fastest growing large economies in the world and ports play an important role in the overall economic development of the country.
- Sagarmala Project is one of the ambitious projects of the government which aims at port development. It is a step change in India's logistics sector performance, by unlocking the full potential of India's coastline and waterways. It also includes establishment of rail / road linkages with the port terminals, thus providing last mile connectivity to ports; development of linkages with new regions, enhanced multi-modal connectivity including rail, inland water, coastal and road services.

Economic impacts of the seaport

- The globalization of world economy has brought about tremendous increase in exchanges of goods across the world. The world trade also accelerated as cost of shipping has decreased due to the introduction of economy of scale and the development of technology in shipping.
- A seaport is the compulsory transit point for the bulk of this trade, permitting the import of goods, which the country does not itself produce in sufficient quantity and the export of items which the country has a surplus or has a competitive edge to produce, contributing to the development of its economy. Besides, a port is also a place for the provision of further services, which add value to the products transported and thus helps the increasing demand of trade.
- Thus the economic impacts of the seaport can be classified in 4 different ways:
- Direct impact is the employment and income generated by the direct construction and operation of the port.
- Indirect impact is the employment and income generated by the chain of suppliers of goods and services.
- Induced impact is the employment and income generated by the spending of incomes by employees created by the direct and indirect effects.

- ❑ The catalytic impact is the employment and income generated by the role of the port as a driver of productivity growth and then as an attractor of new firms.
- ❑ In addition, Sagarmala aspires to reduce carbon emissions from transportation sector by 12.5 MT/ annum
- ❑ The seaports have an important role in both trade and economy.

Inefficiencies in present Indian port infrastructure

- ❑ The main factors that have led to inefficiencies in the Indian ports are:
- ❑ **High ship turnaround-time:**
 - India's ports experience high ship turnaround times. For instance, the typical ship turnaround time at Singapore is under a day.
 - However, it takes more than two days in India.
- ❑ **Port Congestion:**
 - Lack of handling equipment, and ineffective operations all contribute to port congestion, which is a serious issue. For instance, the port of Nhava Sheva
- ❑ **Mixture of suboptimal transport modes:**
 - Transport modal mix is not optimum since the necessary infrastructure for evacuation from large and minor ports is lacking.
- ❑ **Limited Hinterland Linkages:**
 - Due to limited hinterland connection by rail, road, motorways, coastal shipping, and inland waterways, there is inefficiency.
 - As a result, moving goods and paying for transportation become more expensive.
- ❑ **Inspections and scrutiny** continue to be drawn out for cargo and other shipping activities, despite the fact that India's customs processes are quickly growing paperless and becoming digital.
- ❑ **Technology and inadequate infrastructural problems:**
 - Lack of suitable length, berth count, and berthing facilities for proper berthing of the vessels in the Non-Major Ports.
 - Most Non-Major Ports do not have sufficient material handling equipment in place which may assist a speedy turnaround.
 - absence of huge volume handling equipment lack of suitable facilities, IT systems, and navigational aids
- ❑ **Problems with the PPP Model:**
 - The majority of port PPPs include severe restrictions on what private operators are able to do, often in the form of the sorts of cargo they are permitted to handle.
 - Up until recently, there were still issues with tariff control and the lack of a dispute settlement process.
- ❑ **Environmental impact:**
 - Due to lax enforcement of environmental regulations and standards, spills or leaks from the loading and unloading of goods as well as oil pollution are frequent during port operations.

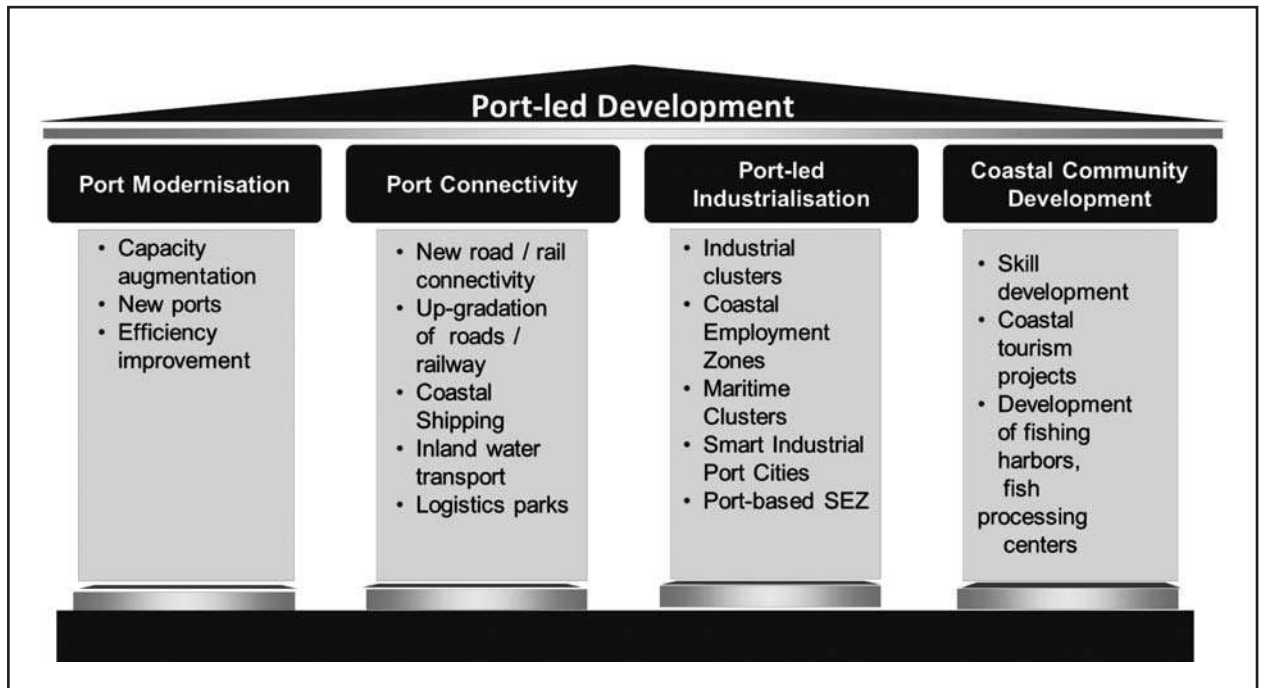
- ▶ Marine habitats are at risk from the release of ballast water and water used for ship cleaning.
- ▶ Increased sedimentation brought on by dredging has an adverse effect on local water productivity and fisheries.
- Most major ports were originally designed to handle specific categories of cargo which have declined in time while other types of cargoes gained importance. The ports have not been able to adjust to the categories of cargo which grew the most. There are thus several berths for traditional cargo, which are under-utilized, and only a few for new cargo, which are over-utilized.
 - ▶ Equipment utilization is very poor both because equipment is obsolete and poorly maintained.
- Over staffing at Indian ports remains rampant and productivity indicators in respect of cargo and equipment handling continue to be poor.
- Documentary procedures relating to cargo handling such as customs clearance requirements are unduly complicated and time consuming. Electronic document processing is still to be introduced in all the ports.
- Port access facilities and arrangements for moving inbound and outbound cargo are inadequate and unsatisfactory.
- Absence of inter-port and intra-port competition which have been conducive to substantial productivity increases in other countries is absent in India due to poor inland connectivity and a policy regime that protected domestic ports against competitive pressures.
- The consequences of these various shortcomings for the Indian economy are severe. Few large liner ships are willing to call on Indian ports as they cannot afford to accept the long waiting times. Indian container cargo is transhipped in Colombo, Dubai or Singapore resulting in additional costs and transit times.
- As a result, the Indian exporter is not in a position to avail fixed-day-of-the week services offered by the liner industry at a time when manufacturing and trading companies abroad are increasingly selling and buying on a just-in-time basis. Indian exporters are, therefore, operating on the basis of substantial buffer stocks which also make them less competitive.
- It has been estimated that the annual incidence of these various factors such as demurrage charges, transshipment costs, pre-berthing delays and vessel turnaround time could be as high as US\$ 1.5 billion per annum. These costs have ultimately to borne by the end user, raising the costs of India's exports in international markets and the prices of imports for the Indian economy.

About Project Sagarmala

- The Sagarmala is a series of projects to boost the country's coastline and inland waterways to drive industrial development. It was originally mooted by the then Prime Minister Atal Bihari Vajpayee in 2003 as the waterways equivalent of the Golden Quadrilateral. Sagarmala, integrated with the development of inland waterways, is expected to reduce cost and time for transporting goods, benefiting industries and export/import trade.
- The project is mammoth with 150 initiatives with a total outlay of rupees 4 lakh crore, spread across four broad areas.
- Modernize port infrastructure, add up to six new ports and enhance capacity.
- As a part of Sagarmala Programme, more than 574 projects have been identified for implementation, during 2015-2035 across the areas of port modernization and port development and port connectivity.
- Improve port connectivity through rail corridors, freight-friendly expressways and inland waterways.
- Create 14 coastal economic zones or CEZs and a special economic zone at Jawaharlal Nehru Port Trust in Mumbai with manufacturing clusters to enable port-led industrialization.
- Develop skills of fishermen and other coastal and island communities.

Four Pillar of Sagarmala:

- ❑ Port Modernisation
- ❑ Port Connectivity.
- ❑ Port led Industrialisation
- ❑ Coastal community development



❑ Activities undergo with Sagarmala project:

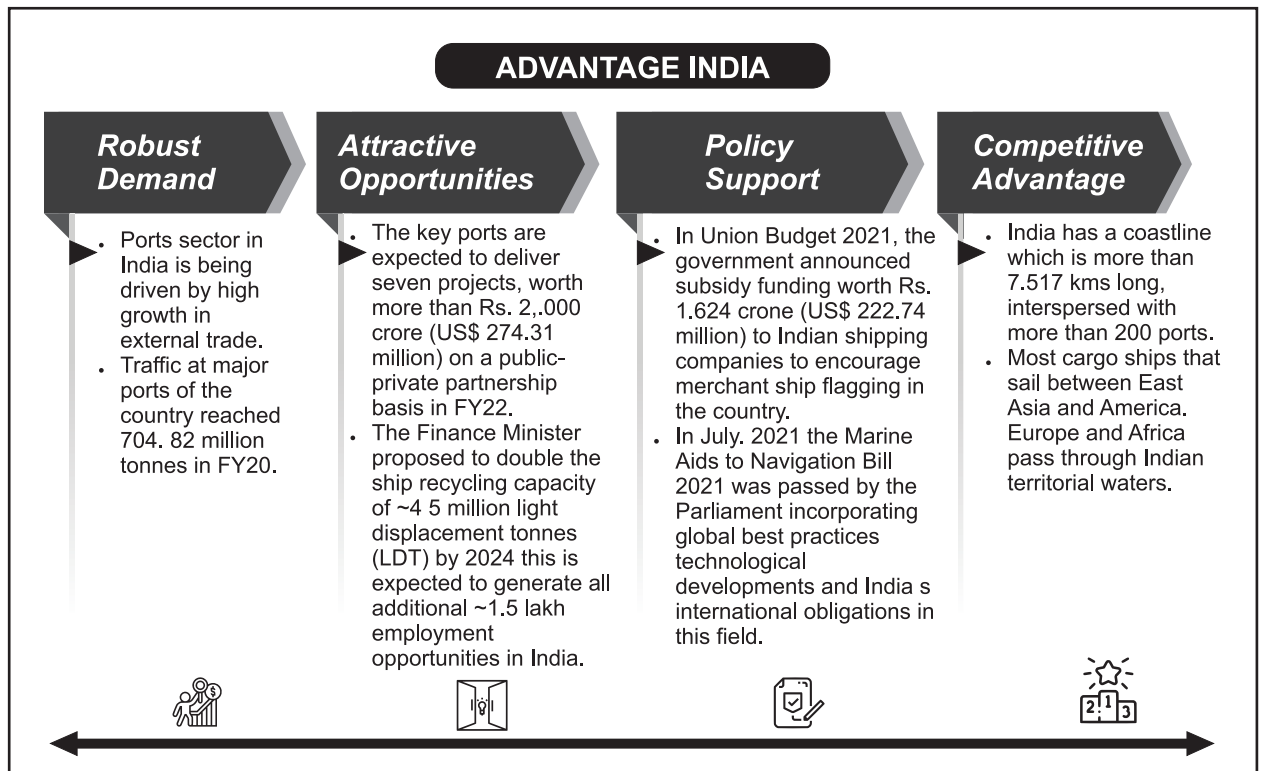
- ❖ Port-led industrialization Industrial clusters, Coastal Employment Zone, Port based SEZ
- ❖ Port based urbanization
- ❖ Port based coastal tourism and recreational activities
- ❖ Development of fishing harbour, fish processing centres
- ❖ Short-sea shipping coastal shipping and Inland Waterways Transportation
- ❖ Ship building, ship repair and ship recycling
- ❖ Logistics parks, warehousing, maritime zones/services
- ❖ Integration with hinterland hubs
- ❖ Coastal Shipping
- ❖ Offshore storage, drilling platforms
- ❖ Specialization of ports in certain economic activities such as energy, containers, chemicals, coal, Agro products, etc.
- ❖ Offshore Renewable Energy Projects with base ports for installations
- ❖ Modernizing the existing ports and development of new ports.
- ❖ This strategy incorporates both aspects of port-led development viz. port-led direct development and port-led indirect development.

I N D I A SAGARMALA NETWORK MAP



- ❑ **Environment concerns:** The environmental impact assessment (EIA) for a large port development project in Mundra, Kutch, described the lands on which the SEZ was to be set up as “non-agricultural, waste, barren or weed infested land.” But that was far from the truth. These statements have been contested by local residents through endless administrative complaints and court cases. The local residents allege land grabbing and ecosystem destruction.
- **Livelihood destruction of fishing community :** India’s coastline currently has about 3200 marine fishing villages. Nearly half of this population (over 1.6 million people) is engaged in active fishing and fishery-related activities. Port expansions involve massive dredging into the sea that destroys large stretches of fertile fishing grounds and destabilizes jetties.
- **Cost of transportation of bulk materials like coal to the market has reduced, owing to development of inland waterways which connects major ports.**

- Improving export competitiveness by developing port proximate discrete manufacturing cluster
- Reducing cost of transporting domestic cargo through optimizing modal mix
- Lowering logistic cost of bulk commodities by locating future industrial capacities near the coast



Conclusion

- ❑ Sagarmala project aims at holistic port infrastructure development along the 7,500-km-long coastline through modernisation, mechanisation and computerization as change the way logistics evacuation happens in India, save logistics costs nationwide for cargo handled and evacuated through seaports, boost overall economic development through ports and empower coastal communities.
- ❑ Sagarmala is also now developing to establish an innovation and entrepreneurship ecosystem for maritime sector through Sagarmala Start-up and Innovation Initiative called as S2I2
- ❑ Under this port-led development framework government hopes to increase its cargo traffic three-fold in next 5 years. It will benefit around 14 per cent of country's overall population from at least 13 States and Union Territories. If inland waterways programme is included in it will benefit at least 55 per cent of all population.

Aviation Sector & Regional Connectivity Scheme: UDAN

Introduction

- ❑ The Ministry of Civil Aviation took a major step towards making flying a reality for the small town common man by launching the much awaited Regional Connectivity Scheme "UDAN".

- ❑ Objective is to fulfil the aspirations of the common citizen by following the vision of 'UdeDesh ka Aam Nagrik', with an enhanced aviation infrastructure and air connectivity in tier II and tier III cities.
- ❑ UDAN is an innovative scheme to develop the regional aviation market. It is a market-based mechanism in which airlines bid for seat subsidies.
- ❑ This first-of-its-kind scheme, will create affordable yet economically viable and profitable flights on regional routes so that flying becomes affordable to the common man even in small towns. The scheme had been prepared after a lot of stakeholder consultation and called for support from all players to make it a success.
- ❑ Since the last 10 years, air traffic has grown three folds in India and it has the potential to be among the global top three nations in terms of domestic and international passenger traffic.
- ❑ In 2016 Government of India launched National Civil Aviation Policy (NCAP) to provide an ecosystem for the harmonized growth of various aviation subsectors like airlines, airports, cargo, etc, and the scheme is a component part of it.
- ❑ Udan Scheme (udedesh ka aamnaagrik) has completed its 5 year success since the launch of its first flight by Prime Minister on 27th April 2017.
- ❑ Number of operational airports has been increased from 74 to 141 since 2014.
- ❑ The policy envisions creating an ecosystem to make flying affordable for the masses and to enable 30 crore domestic ticketing by 2022 and 50 crore by 2027, and international ticketing to increase to 20 crores by 2027.
- ❑ 220 destinations (airports/heliports/water aerodromes) under UDAN are targeted to be completed by 2026 with 1000 routes to provide air connectivity to unconnected destinations in the country.

❑ Snapshot of India's Aviation Sector

● Aviation Market

- Ninth largest civil aviation market in the world, with a size of around \$16 billion.
- India is projected to be the third largest aviation market by 2020.
- Domestic traffic makes up 69% of the total airline traffic in South Asia.
- India's airport capacity is expected to handle 1 billion trips annually by 2023

❑ Passenger Traffic

- In FY22, airports in India pegged the domestic passenger traffic to be 166.8 million
- Its a 58.5% annual increase
- Whereas international passenger traffic to be 22.1 million, a 118% YoY increase, as compared to FY 2020-21.

❑ Freight Traffic

- Freight traffic on airports in India has the potential to reach 17 MT by FY40.
- In FY22, number of aircraft movements stood at 1,757,112.

❑ Airline Operators

- Three international carriers have stakes in Indian airlines - Singapore Airlines in Tata-promoted Vistara, AirAsia in Tata-promoted AirAsia India and Etihad in Jet Airways.

❑ Airport and Airstrips

- Only 75 out of 476 airports and airstrips have scheduled operations
- Total airports in public-private partnership: Five
- India has air service pacts with 109 countries on of flights, seats, landing points and code-share

■ Aircrafts

- Total numbers of civilian aircraft: 1,216
- India's airport capacity is expected to handle 1 billion trips annually by 2023
- UDAN addresses the challenges relating to the issue of lack of infrastructure and affordability by upgrading the airports and cutting down on the cost of operations by extending various incentives to airlines and thus making air tickets affordable.
- The scheme provides for revival and upgradation of existing airstrips in small cities where UDAN operations would happen. To reduce the costs of operations for airlines, concessions from Centre, States and airport operators are extended.

■ Salient Features:

- UdeDesh Ka Aam Naagrik (UDAN) was launched as a Regional Connectivity Scheme (RCS) under the Ministry of Civil Aviation in 2016.
- The UDAN scheme aims to stimulate regional connectivity with flights covering distances up to 800 km through a market-based mechanism.
- 43 cities are expected to be mainstreamed on India's flight connectivity grid. A dozen airports where limited but irregular flights operate will be connected. As many as 31 destinations that are not operational despite the existence of airports will become active.
- Air India is the first airline to start operating flights between Delhi and Shimla under the Regional Connectivity Scheme (RCS).
- Due to the short runway length, height and temperature restrictions, the aircraft will not be able to fly the total capacity of 48 passengers. In the Delhi-Shimla leg, the flight will carry 35 passengers while on the return only 15 passengers will be able to fly. The government is expected to compensate for the loss with a **Viability Gap Funding (VGF)** of about Rs. 3,000 per seat.
- The VGF will be used to bridge the gap between the cost of airline operations and expected revenue. Airline operators would be extended VGF estimated to be around Rs 205 crore per annum for the operators chosen in the first round of bidding. So far, 19 States and three union territories have signed a MoU for this purpose.
- Among the commitments of the States are those to make sufficient land available; ensure adequate security; and provide essential services at concessional rates for the airports or air strips. The Centre would like the States to provide minimum land, free of cost, for development of the RCS airports. More importantly, the States will have to bear 20% towards VGF. The share will be 10% for North Eastern States and Union Territories.
- Five Airlines - Alliance Air, Spice Jet, Turbo Megha, Air Odisha and Air Deccan - were awarded 128 routes under the scheme after a bidding process.
- The government aims at making flying affordable by capping fares at Rs. 2500 per seat per hour. "Airfare for a 1-hour journey of approximately 500 km on a fixed wing aircraft or for 30 minute journey on a helicopter would be capped at Rs. 2,500,".

■ Regional Connectivity Fund (RCF)

- The **RCF is estimated to collect around Rs 500 cr** (or US\$ 75 mn), which will be roughly one fourth the size of the US\$ 290 mn that the US government would spend in promoting its Essential Air Service (EAS) in 2016. According to analyst reports, the aviation industry in India is expected to record revenues of Rs 0.7 lakh crores on domestic travel in this year - this levy could amount to only 0.6% of the total domestic revenues of the industry.

- Amount collected as Regional Connectivity Fund (RCF) will be used to provide financial support to airlines in the form of Viability Gap Funding (VGF) for operations under the Scheme.
- As per the directions of MoCA, RCF will be funded by a small levy per departure on all domestic flights other than the ones on Category II / Category IIA routes under RDG, RCS Routes and aircraft having maximum certified takeoff mass not exceeding 40,000 kg.
- The RCF would channel funds generated from the sector to stimulate further growth and development of the sector itself. A part of the fund will also be contributed to by the states that have signed the UDAN MoU: as of date, 19 states have either signed or given their consent.
- RCS-UDAN was awarded the Prime Minister's Award for Excellence in Public Administration under Innovation Category for the year 2020.

Phases of Development:

- **UDAN 1.0**
 - ▶ Under this phase, 5 airlines companies were awarded 128 flight routes to 70 airports (including 36 newly made operational airports).
- **UDAN 2.0**
 - ▶ In 2018, the Ministry of Civil Aviation announced 73 underserved and unserved airports.
 - ▶ For the first time, helipads were also connected under phase 2 of the UDAN scheme.
- **UDAN 3.0**
 - ▶ Inclusion of Tourism Routes under UDAN 3 in coordination with the Ministry of Tourism.
 - ▶ Inclusion of Seaplanes for connecting Water Aerodromes.
 - ▶ Bringing in a number of routes in the North-East Region under the ambit of UDAN.
- **UDAN 4.0**
 - ▶ In 2020, 78 new routes were approved under the 4th round of RCS-UDAN to further enhance the connectivity to remote & regional areas of the country.
 - ▶ Kavaratti, Agatti, and Minicoy islands of Lakshadweep will be connected by the new routes of UDAN 4.0.
- **UDAN 4.1**
 - ▶ The UDAN 4.1 focuses on connecting smaller airports, along with special helicopter and seaplane routes.
 - ▶ Some new routes have been proposed under the Sagarmala Seaplane Services. It is an ambitious project under the Ministry of Ports, Shipping and Waterways with potential airline operators.
- **KRISHI UDAN**
 - ▶ It was launched by the Ministry of Civil Aviation in August 2020, on international and national routes to assist farmers in transporting agricultural products so that it improves their value realisation.
- **International UDAN**
 - ▶ Under International UDAN, the plan is to connect India's smaller cities directly to some key foreign destinations in the neighbourhood.

Challenges:

- **Infrastructure:**

- ▶ Constructing a greenfield airport alone won't be sufficient if planes can't take off and land.
- ▶ On the majority of days, bad weather makes it challenging for planes to land at airports situated in hilly areas.
- ▶ Additionally, the absence of instrument landing systems (ILS) results in flight cancellations, and the frequent cancellations make it challenging to sustainably increase traffic on the route.

- **Traffic route:**

- ▶ While the infrastructure issue may be simpler to resolve, implementing a perfect network architecture will be more difficult.
- ▶ Finding routes with consistent traffic throughout the year rather than only during a few select months is therefore crucial.
- ▶ Instead of providing a point-to-point service, linking the major metro airports to the new Udan lines should be done using a hub and spoke system to create consistent, predictable traffic.

- **Capacity:**

- ▶ In terms of landing and parking slots, India's metro airports are already at maximum capacity due to heavy traffic.
- ▶ Additionally, these airports continue to see a roaring 18–20% annual growth in passenger volume.
- ▶ The current airlines have ordered aircraft that, if delivered in another three years, could virtually treble the current fleet's capacity in order to manage this traffic.
- ▶ The capacity of India's metro airports would be further strained as a result.
- ▶ Even though the Udan routes were designed to assist regulate the flow of traffic from metro lines, they are more affected by the increase in air traffic.
- ▶ This is because more airlines are anticipated to fly on these routes as airport operators are anticipated to waive off landing and parking fees on these routes.

- **Time periods:**

- ▶ Finding appropriate time windows for each route will thus be a logistical problem.
- ▶ This is due to the fact that the number of runways in airports with heavy passenger traffic is not growing, and airport capacity is growing more slowly than passenger volume.
- ▶ Since they lack pre-existing slots in them, the new regional airlines in particular have had a difficult time linking the metro airports to the new Udan routes.
- ▶ These regional operators have found it challenging to launch their businesses for more than a year as a result, and their licences have subsequently been revoked.
- ▶ Since controlling air traffic is a difficult challenge to tackle, UDAN still has a ways to go before ensuring continuous connectivity in India.

- Availability of qualified crew is also a major challenges for airlines and significant efforts are needed to create a pool of skilled professionals.
- Safety and security are paramount and the operations have to comply with required regulations. To address these challenges, the implementation mechanism needs to be strengthened. Airport Authority of India (AAI) is providing necessary support to State Governments in developing the airports, documentation for licensing, etc.

- UDAN may act as a game change as Aviation has a multiplier effect on the economy. It takes about two years to develop a route. UDAN is an exercise that is being translated from the wish list to the work list. UDAN will positively impact the local economy.
- Capping an all-inclusive airfare at Rs.2,500 for a one-hour flight on RCS routes will give a huge boost to domestic travel. It will also see a lot of traction towards air travel from tier II and III cities as regional connectivity will strengthen and will also help small and medium enterprises in these segments to grow. However, the cap on the airfares will be applicable only to a limited number of seats in an aircraft and the passengers will be eligible for subsidized fare on a first-come-first served basis. The airlines will be mandated to fly at least three flights every week on such regional routes and the subsidy will be provided for maximum seven flights per week.
- Connectivity to more destinations is the key to an airport facilitating trade, investment and growth. The scheme will enhance the flow of tourism towards cities such as Gaya, Ujjain, Surat, Varanasi and Bhubaneswar as connectivity to these places will become better.
- Further regional airport such as Dugrapur, Nanded, Ludhiana, and Rourkela among others would benefit by acting as feeder to hub airports and thereby boost international travel.

■ Road Ahead

- India's aviation industry is largely untapped with huge growth opportunities, considering that air transport is still expensive for majority of the country's population, of which nearly 40 per cent is the upwardly mobile middle class.
- The industry stakeholders should engage and collaborate with policy makers to implement efficient and rational decisions that would boost India's civil aviation industry. With the right policies and relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third-largest aviation market by 2020 and the largest by 2030.
- Requests from few state governments including north eastern region, would be considered to cover specific pre-determined routes under the special round of the UDAN scheme. This is expected to help in connecting remote areas which have not been connected yet.

Connecting North East

The vastly unexplored slice of paradise – North East, connected to the rest of the country through Siliguri Corridor, popularly known as the chicken neck area in North West Bengal flanked by Nepal and Bangladesh, is on a resurgent path as far as road connectivity is concerned.

■ The North Eastern Region (NER)

- The North Eastern Region (NER) Consists of eight states, namely Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.
- The region accounts for 3.78 per cent of India's population and covers 7.98 per cent of its total geographical area. Its contribution to national GDP is 2.5 per cent.
- The region is strategically important for India both for its geographical location and its resources and shares about 5,437 km of international boundaries with Bangladesh, Bhutan, China, Myanmar and Nepal.
- Government of India has recognised the need to augment infrastructure in the region.

■ Accelerating Infrastructure Development:

- The projects are being executed by National Highways & Infrastructure Development Corporation (NHIDCL) cover 10,892 km of roads in all the eight NE states.

- The implementation of multiple rail, road, and aviation connectivity projects in the northeast, totalling Rs. 1,34,200 crore, was recently announced by India's finance minister.
- These initiatives will facilitate tighter ties between the North-East and the rest of India.
- The focus will also continue to be on connectivity with Southeast Asian nations.

■ Significant Infra Projects:

● Waterways connectivity:

- ▶ Better connection is being provided through the building of national waterways on the Ganges, Brahmaputra, and Barak rivers (National Waterways (NW)-1 on the Ganges, NW-2 on the Brahmaputra, and NW-16 on the Barak).
- ▶ The riverine systems of India and Bangladesh may be used for all forms of transportation as travelling by water is the least expensive option compared to air, road, and rail networks.
- ▶ There are now 10 "Indo-Bangladesh Protocol Routes," up from 8 before.
- ▶ For better connectivity, Assam is now developing the whole region between Sadiya and Dhubri along the Brahmaputra River.
- ▶ Guwahati is now building a multimodal centre that will feature a ship repair port at Pandu, four tourist jetties, and 11 floating terminals on the Brahmaputra.

● Eastern Waterways Connectivity Transport Grid:

- ▶ It will connect the northeast with the rest of India by providing 5,000 km of navigable waterways.

● Rail, Road & Air connectivity:

- ▶ There are plans for 4,000 km of highways, 20 railway projects covering 2,011 km, and 15 air connectivity projects.

◦ North Eastern Region Power System Improvement Project (NERPSIP):

- (NERPSIP) is a major step towards economic development of the North Eastern Region through strengthening of Intra - State Transmission and Distribution systems.
- Government is also emphasizing on projects related to power transmission and distribution, mobile networks, 4G, and broadband connectivity.

● Prime Minister's Development Initiative for North East (PM-DevINE):

- ▶ It was announced in Union Budget 2022-23.
- ▶ This will fund infrastructure in the spirit of PM Gati Shakti, and social development projects based on felt needs of the North-East.
- ▶ M-DevINE will enable livelihood activities for youth and women by filling the gaps in various sectors, but it will not be a substitute for existing Central or State schemes.
- ▶ An initial allocation of Rs.1,500 crore has been made, as per Budget speech for 2022-23.
- ▶ To accelerate the sluggish pace of implementation of infrastructure projects in hilly and tough terrains like NER, NHIDCL was incorporated in 2014 as a public sector undertaking under the Ministry of Road Transport and Highways and has bolstered highways construction as a specialised agency.
- ▶ Special Accelerated Road Development Programme for the North-Eastern region (SARDP-NE) is another initiative of the government to fast-track infrastructure projects in the region.

▣ Indo Myanmar Connectivity:

- India and Myanmar are keen on bus service after operationalizing the Land Border Crossing Agreement, which allows nationals from the two countries holding valid passport and visa to cross over without requiring special permission.

▣ Bharatmala Project:

- The Government's focus on the North East could also be understood from the fact that it plans 28 Ring Roads under Bharatmala project in the region.
- Bharatmala project is an umbrella programme for roads under which highways will be constructed.

▣ North East Special Infrastructure Development Scheme (NESIDS):

- In addition to other programmes, the Centre has approved a scheme named North East Special Infrastructure Development Scheme (NESIDS).
- It is a 100% Central Sector Scheme to be implemented till March 2020.
- The Prime Minister has stressed that North East's links with Southeast Asia will accelerate its progress. "In turn, a connected Northeast will be a bridge to ASEAN-India ties of our dreams," he has said.
 - In order to promote employment in the North East States, the Government is incentivizing primarily the MSME Sector through this scheme.

▣ The National Bamboo Mission has a special significance for the Northeast.

- **North Eastern Region Vision 2020:** The document provides an overarching framework for the development of the North-East region to bring it at par with other developed regions under which different Ministries, including the Ministry of DoNER have undertaken various initiatives.
- **Digital North East Vision 2022:** It emphasises leveraging digital technologies to transform lives of people of the north east and enhance the ease of living.

▣ Way to go:

- In addition to creating jobs, infrastructure investment would significantly hinder separatist activities in the North-East area.
- National and international infrastructure development would be the greatest option for inclusive development in India's Northeast because it is bordered by national and international boundaries.

Multi-Modal Transport System- Issues and Challenges

Multi-modal Transport is essentially the use of more than one mode of the four modes of transport to carry goods from Point A to Point B. A vast and geographically diversified country like India offers an excellent opportunity to practice the concept of Multimodal Transport in its true form. India has a coast line of approx. 7,517 kilometers which is serviced by 13 major ports (12 government and 1 corporate) and 187 notified minor and intermediate ports. The latest addition to major ports is Port Blair in June 2010, the 13th major port in the country. Interestingly, major ports and minor ports have nothing to do with the volumes handled, except that Major Ports are under the Central government administration whereas minor ports are governed by the state governments. This arrangement is due to the federal structure of the Indian polity.

■ **Multimodal transport arising from some typical issues being faced by the transport sector across the globe with respect to:**

- Increasing Fuel Price
- Congestion on Highways
- Working Time Directive
- Driver Shortages

Aim is to centralize freight consolidation and reduce logistics cost from 14% to less than 10% of GDP at par with International Standards. Lots of raw material and finished goods will have to move by means of Multimodal transport and this is a strong reason to attract infrastructure investment in this sector, which will have to be complemented by a strong regulatory framework to address the issues arising out of increased business activity.

■ **Issues and Challenges**

- India has witnessed growth in Multimodal transport in recent times and the sector is still evolving. The advent of containerization along with initiatives from the Government such as passing Multimodal Transport Act in the Parliament in 1993 to the recent implementation of Goods and Services Tax have helped the country to progress towards an integrated transport system. The Association of Multimodal Transport Operators of India (AMTOI) represents the interests of the MTOs in India and ensures that there is a constructive dialogue between the authorities and the MTOs to further evolve Multimodal Transportation in India. It has been estimated that Indian Logistics sector will generate revenues amounting USD 200 billion by the year 2020. In order to realize this potential, the country will need to make effective use of its strengths in IT and look out for collaborations with experts in this field. It is essential for economic development but is plagued by high logistics costs and contributes to rising CO₂ emissions and air pollution in cities.

■ **Integrated, Multi-Modal Logistics and Transport Policy**

- Government is ready to bring in Integrated, Multi-Modal Logistics and Transport Policy.
- The Minister of Road Transport & Highways and Shipping has said that the government is working towards formulating an integrated, multi modal logistics and transport policy which will reduce logistics costs in the country by nearly half, making Indian products more competitive.
- The strategy would be to adopt a “hub and spoke” model for the logistics sector in place of the present “point-to-point” model.
- The integrated policy would include construction of 50 Economic Corridors and upgrading key feeder and inter corridor routes to improve overall efficiency of freight movement. The plan also includes developing 35 multimodal logistics parks to serve as centres for freight aggregation and distribution, multimodal transportation, storage and warehousing and value added services.
- In addition, there are also plans to construct 10 Inter-Modal Stations which integrate various transportation modes like rail, road, mass rapid transit system, Bus Rapid Transit (BRT), auto-rickshaw, taxi and private vehicles.
- An overall network of about 56,000 km has been identified including existing national corridors (Golden Quadrilateral and NS-EW Corridor), proposed economic corridors, inter corridor routes and feeder routes.
- In addition to this, 191 towns/ cities have been identified on these routes where steps will be taken to reduce congestion. Inter-state border movement related documentation and procedure will also be simplified. These interventions will enable a reduction of 5 - 6% in the overall supply chain costs in the economy.

- Logistics Parks will help reduce transportation cost for the top 15 nodes by about 10 percent, besides reducing pollution, congestion and warehousing costs. Chennai and Vijayawada have already identified land parcels for development of logistics parks. Pre-feasibility study will be initiated in these two cities on immediate basis.
- This is the first time ever that the development of the transport sector is being done in such an integrated manner. The plan would serve to make the economy competitive by reducing logistics costs, bring down pollution levels by reducing congestion on roads, give a boost to industry and create employment.
- Transformation of the logistics sector is only possible through an integrated system based approach that cuts across modes of transport, administrative geographies, and integrates capital investment with regulatory and policy development.

Multi Modal Logistics Park under Bharatmala Project

- ▣ Recently, a tripartite MoU was signed for swift development of modern Multi Modal Logistics Park (MMLP) under Bharatmala Pariyojna.
- ▣ The tripartite agreement was signed by National Highways Logistics Management Limited (NHLML), Inland Waterways Authority of India (IWAI) and Rail Vikas Nigam Limited (RVNL).
- ▣ The NHLML is a Special Purpose Vehicle (SPV) of National Highway Authority (NHAI) of Ministry of Road Transport & Highways while IWAI is a statutory authority under Ministry of Ports, Shipping & Waterways.
 - As India's freight activity grows five-fold by 2050 and about 400 million citizens move to cities, a whole system transformation can help uplift the freight sector.
 - This transformation will be defined by tapping into opportunities such as efficient rail-based transport, the optimisation of logistics and supply chains, and shift to electric and other clean-fuel vehicles.
 - These solutions can help India save Rs. 311 lakh crore cumulatively over the next three decades.

Significance

- ▣ There will be a smooth modal change as a result. Cargo swapping/shifting from and to waterways, dedicated freight corridors, and road transport will be made sure of by MMLPs.
- ▣ Through PM Gati Shakti, it will stimulate and revitalise economies of scale.
- ▣ MMLPs are made to unravel the web of logistics movement and animate the logistics industry so that the economy may expand quickly.

Hydro Carbon Exploration and Licensing Policy (HELP)–Benefits and challenges

The Government approved the Hydro carbon Exploration and Licensing Policy (HELP) replacing the New Exploration Licensing Policy (NELP).

Background:

- ▣ India is the world's third-largest user of petroleum products and crude oil. Given that almost 80% of India's crude consumption is met by imports, the country is prone to fluctuations in the price of oil on the world market.

- In March 2016, the government adopted HELP to replace the New Exploration Licensing Policy (NELP).
- The new policy, which is a part of the government's plan to quadruple oil and gas production by 2022–2033, offers less complicated restrictions, tax benefits, and freedom in pricing and marketing.

- **Four main facets of this policy are:**

- ▶ Uniform license for exploration and production of all forms of hydrocarbon;
- ▶ An open acreage policy;
- ▶ Easy to administer revenue sharing model; and
- ▶ Marketing and pricing freedom for the crude oil and natural gas produced.

- **Uniform Licensing:**

- ▶ HELP calls for a standard licencing scheme that will apply to all hydrocarbons, including coal bed methane, gas, and oil.
- ▶ Separate permits were awarded under the NELP for the exploration of various types of hydrocarbons. This results in extra expenditures since if a different type of hydrocarbon is discovered while researching a certain type, a second licence is needed.

- **Revenue Sharing Model:**

- ▶ Under the revenue sharing model specified in HELP, the government will get a portion of the total proceeds from the sale of oil, gas, and other commodities without regard to the costs incurred.
- ▶ The NELP was a profit-sharing concept in which, upon cost recovery, earnings are split between the government and the contractor. It became essential for the Government under.

- **Pricing:**

- ▶ Marketing and pricing decisions are up to HELP. Prior to HELP, contracts relied on production-sharing arrangements with the potential to “gold plate” (incorporate expensive and pointless features) the investment and harm the government by “manipulating earnings.” It was modified to revenue sharing to simplify contract management.
- ▶ A graded system of royalty rates will be implemented under the new system. From shallow to deep to ultra-deep water zones, the royalty rates will fall under this approach.

- **Open Area Licensing :**

- ▶ Under this Open Area Licensing (OAL) framework, oil corporations can choose the blocks of their choosing under HELP. Previously, the government chose the blocks where oil prospecting might take place. It will make it possible for the geographical region to be covered more quickly.
- ▶ Hydrocarbon exploration was only permitted in the blocks that the government had put up for bids under the NELP.

- **National Data Repository:**

- ▶ The National Data Repository (NDR) is an integrated data repository for the Indian sedimentary basins' exploration and production data.
- ▶ NDR will be a valuable data source. in keeping with the aim for a digital India.
- ▶ The current approach does not differentiate between shallow water areas (where exploration costs and risks are lower) and deep water fields for determining royalties (where cost and risks are higher).
- ▶ After reviewing the data via NDR, a bidder (an Indian or foreign corporation) may submit an Expression of Interest (EOI) at any time during the year in two windows without having to wait for the notification of bids.

- **Benefits of the project:**

- ▶ The selling of the natural gas and crude oil generated by these blocks is allowed by HELP. This aligns with the government's "Minimum Government - Maximum Governance" strategy.
- ▶ The former profit sharing system (NELP) required the government to review the cost information of private participants, which resulted in numerous delays and disagreements. HELP supports the government's initiatives to encourage "Ease of Doing Business."
- ▶ Additionally, the policy aims to increase accountability and lessen administrative discretion.
- ▶ In India, HELP represents the most significant shift from a period of government control to government backing for upstream E&P. By granting businesses the information and the freedom to explore whatever region they want, OALP eliminates constraints on exploration.

Challenges:

- ❑ Major companies in the industry have shown little interest in the new regulation. Only Reliance Industries has made an Expression of Interest among the industry's main players (EOI). Relevantly, no foreign business has offered an EOI.
- ❑ The OALP grants the Directorate General of Hydrocarbons (DGH) discretionary authority to accept the area for which an EOI has been submitted or to change/modify the area after proper consideration.
- ❑ If the deviation in the area that DGH has decided to put up for auction is greater than 50% of the region for which EOI is submitted, EOI applicants will still be required to participate in the future bidding notwithstanding this adjustment.

Conclusion:

- ❑ NELP failed to draw major E&P businesses like Exxon Mobil, Chevron Corp., British Petroleum, and Shell, among others, due to the inherent complexity of the profit-sharing concept.
- ❑ In keeping with the government of India's objective of "Minimum government, Maximum governance, and Ease of doing business," the notion of revenue sharing as well as the flexibility of marketing and pricing under HELP have been introduced.
- ❑ Additionally, HELP aims to lessen GOI discretion in decision-making, decrease administrative delays, and settle disputes in order to encourage the expansion of India's oil and gas industry.
- ❑ Additionally, when NDR is properly updated, necessary technical knowledge will be easily accessible at a cheap cost, aiding in the promotion of wholesome E&P activity.

Reliable and Affordable Energy

Access to reliable and affordable energy increases the ease of living and generates employment. It powers the development of the country. It is a prerequisite to digital connectivity in rural India. The huge addition in the consumer base at the rate of one lakh households per day, coupled with growth in the economy has meant that our electricity demand has been growing at the rate of more than 10 per cent in the past months.

- ❑ **Challenges faced in ensuring power for all:**

- Most of these villages were located in remote inaccessible areas with difficult terrain in hilly areas, forest areas severely affected with Left Wing Extremism activities etc. and transportation of material / equipment and mobilization of manpower for execution works required determination and perseverance.

- About 350 villages located in remote and difficult terrains in Arunachal Pradesh, J & K, Meghalaya and Manipur required head loading of materials and trekking up to 10 Days.
- Materials in some villages of J & K and Arunachal Pradesh had to be transported by helicopter.
- In many villages, extending grid network was not feasible due to remote and inaccessible locations; solar based standalone systems were provided.
- Enormous challenges were confronted in electrification of Left Wing Extremism affected villages in Bihar, Jharkhand, Chhattisgarh, Madhya Pradesh and Odisha.

■ **Steps taken by the government:**

- To achieve this feat, extensive infrastructure was created under DeenDayal Upadhyaya Gram Jyoti Yojana (DDUGJY).
- Special focus was on feeder separation (rural households and agricultural) and strengthening of sub-transmission and distribution infrastructure including metering at all levels in rural areas.
- The electrification of these remaining villages has paved the path for their socio-economic growth. This program has also set an example of effective cooperative federalism wherein Union Government, State Governments, Distribution Companies and administration synergized their efforts for common goal.
- The International Energy Agency called India's electrification Journey as one of the greatest success stories of the Year- 2018.
- In addition to providing mile connectivity in rural areas, the Government launched Integrated power Development Scheme (IPDS) with an aim to strengthen power infrastructure in urban areas. Focus areas of IPDDS are:
 - Strengthening of sub-transmission and distribution network in urban areas.
 - Metering of distribution transformers / feeders / consumers in the urban areas.
 - IT enablement and automation of distribution sector.
- **Affordable LEDs for All's (UJALA) Unnat Jyoti:** The largest residential lighting initiative in the world is UJALA. The success of UJALA resides in its unique strategic approach to energy efficiency. It was created to solve India's high cost of electricity and excessive emissions from inefficient lighting. India is in a better position than other countries to combat climate change while also expanding and improving its access to electricity and illumination. Both of these conditions are met by high-quality, energy-efficient appliances, but India has been slow to embrace them because of lack of knowledge and cost. Faced with these obstacles, EESL (Energy Efficiency Services Limited) launched a demand-aggregation, widespread education, and bulk-purchasing approach in an effort to win over utility corporations, state governments, and the budget-conscious Indian people.
- **UDAY, the Ujwal DISCOM Assurance Yojana:** The financial stability of the utilities that distribute power is essential for the success of various plans to offer electricity to everyone. The Indian government introduced UDAY in 2015 to enhance the DISCOMs' operational effectiveness and financial health. Under this plan, DISCOMs are permitted to convert their debt into state government bonds under certain guidelines.
- **URJA (Urban Jyoti Abhiyaan):** An app-based digital project called URJA was established to review the performance of DISCOMs in IT-enabled cities. Its goal is to incite healthy competition among the stakeholders and encourage everyone involved to perform better across all consumer-centric metrics.
- **Power System Development Fund (PSDF) operationalization:** PSDF will be used for projects proposed by distribution utilities to build strategically important transmission networks, install shunt capacitors and other devices to improve grid voltage profiles, implement standard and unique protection plans, and renovate and modernise transmission and distribution networks to relieve congestion, among other things.

Other Developments:

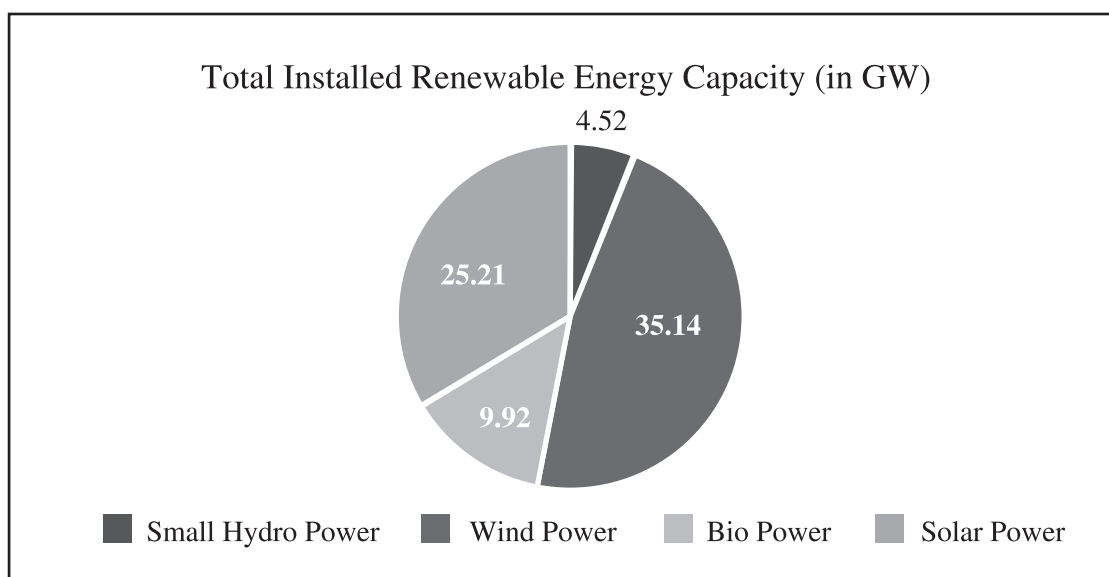
- Over the years there has been a transformational change in the Power Sector. Regulatory frame work is being reformed with a new Tariff Policy and amendments to the Electricity Act. In sum, the Indian Power sector has undergone a paradigm change.
- More than one lakh megawatts of new generation capacity has been added.
- Energy deficit has been brought down from 4.2 per cent to almost zero.
- India has become an exporter of electricity exporting electricity to Nepal and Bangladesh.
- One lakh circuit kilometres to the inter-state transmission capacity-connecting the entire nation to one grid.
- Now, for the first time we have One nation- One Grid –the entire network operating on one frequency. Power can be transferred seamlessly from one corner of the country to another.
- A major landmark to universal access to electricity was crossed when our country achieved 100% village electrification on 28th April, 2018.

Saubhagya:

- The 'Pradhan Mantri Sahaj Bijli Har Ghar Yojana' – Saubhagya was launched in 2017 with the aim to achieve universal household electrification.
- As the name of the scheme itself suggests, it has inherent features of 'Sahaj', i.e., Simple / Easy / Effortless and 'Har Ghar', i.e., inclusive universal household electrification.
- A targeted program of such a scale has never been attempted in the world. The progress is again exemplary in terms of speed and innovation.

Renewable Energy:

- India is in the process of changing its energy mix.
- The Panch Amrit Target To make our electricity clean and green, India adopted the target of establishing 500 GW of renewable energy capacity by 2030, and 50% power from non-fossil fuel sources in its commitments to the United Nations Framework Convention on Climate Change (UNFCCC).



- The overall installed capacity of Renewable Energy has been more than doubled in the last four and a half years – from 34,000 MW to 75,000 MW.

- Solar capacity increased 8 times in last 4 years. Today, India stands at 5th position in the world in installed wind capacity and at 5th position in overall renewable energy.

■ Promoting Energy Efficiency:

- Households LED bulb distribution program UJALA and SLNP (Streetlight National Project) for replacing conventional streetlights with smart and energy efficient LED street lights have saved billions of unit electricity per year.
- Star Labelling program, Energy Conservation Building Code and energy efficiency measures through Perform, Achieve and Trade (PAT) are also important initiatives in the field of energy efficiency.

Way Forward:

- A new Tariff Policy is being finalized. It contains several consumer friendly provisions to ensure reliable and 24×7 supply of power. This policy makes it mandatory to provide reliable and 24×7 power supply for all from 1st April, 2019. If a power outage occurs without a valid reason the concerned power distribution company (DISCOM) will face penalties. This would effectively put an end to gratuitous load shedding by DISCOMs.
- Another futuristic area we are working on is – Smart Electricity Meters. Smart Meter National Programme aims to replace 25 crore conventional meters with smart meters in India. Smart meters are connected through a web-based monitoring system which will help to reduce commercial losses of utilities, enhance revenues and serve as an important tool in power sector reforms. This will revolutionise the power sector by way of reduced AT&C losses, better health of DISCOMs, incentivisation of energy conservation and ease of bill payments etc., Further, it will generate skilled employment for the month.
- Electrical vehicles (EVs) are another major emerging area we are focusing on. The Government has launched the National E-Mobility programme to promote electric vehicles in a big way. Creation of extensive charging infrastructure is a prerequisite for large scale adoption of EVs. The Ministry of Power is creating an enabling regulatory framework for rapid expansion of charging and storage infrastructure.
- Our country jumped to 24th rank in 2018 on World Bank's Ease of Getting Electricity in the world as against 111th rank in 2014. This is a quantum leap.

Conclusion:

- The main force behind India's development is electricity. The government must concentrate on developing reliable and cutting-edge technologies to assess and monitor the progress on a multidimensional level, rather than merely counting the number of connections, as it rushes to reach the 2019 aim to electrify all houses. Additionally, we must prioritise access to power for livelihoods and community services like education and healthcare. Only with such a thorough effort would it be possible to guarantee that India's rural areas gain socioeconomically from power.
- Last but not least, the new India should adopt a new power system based on intelligent technology and decentralised strategies that give resilience, flexibility, and most importantly, inclusion.

Draft Energy Policy

In relation to its population, India is poorly endowed with energy resources. Its share in the world population is 17% but the shares in the world gas, oil and coal reserves are only 0.6%, 0.4% and 7%, respectively. This has meant heavy dependence on imports even at a rather low level of energy consumption. It is surprising that despite this severe supply constraint, only recently have we begun to pay serious attention to demand-

side interventions that would help economize on the use of energy. The idea behind energy policy of India is to increase energy in India and reduce energy poverty, with more focus on developing alternative sources of energy, particularly nuclear, solar and wind energy. India attained 63% overall energy self-sufficiency in 2017 itself. The National Energy Policy (NEP) aims to chart the way forward to meet the Government's bold announcements in the energy domain.

■ Four key objectives of National Energy Policy:

- Access at affordable prices: Considering poverty and deprivation in India, access to energy for all at affordable prices is of utmost importance. We are yet to provide electricity to nearly 304 million people, and clean cooking fuel to nearly 500 million people, which still depend on Biomass. The policy aims to ensure that electricity reaches every household by 2022 as promised in the Budget 2015-16 and proposes to provide clean cooking fuel to all within a reasonable time. While it is envisaged that financial support will be extended to ensure merit consumption to the vulnerable sections, competitive prices will drive affordability to meet the above aims.
- Improved security and Independence: Improved energy security, normally associated with reduced import dependence, is also an important goal of the policy. Today, India is heavily dependent on oil and gas imports while also importing coal. In so far as imports may be disrupted, they undermine energy security of the country. Energy security may be enhanced through both diversification of the sources of imports and increased domestic production and reduced requirement of energy. Given the availability of domestic reserves of oil, coal and gas and the prospects of their exploitation at competitive prices, there is a strong case for reduced dependence on imports. In due course, we may also consider building strategic reserves as insurance against imported supplies.
- Greater Sustainability: The goal of sustainability acquires added importance and urgency in view of the threat of catastrophic effects of climate change as well as the detrimental effects of fossil fuel usage on local air quality. In India, sustainability is also closely linked with energy security. Our fossil fuel requirements, which comprise nearly 90% of our commercial primary energy supply, are increasingly being met by imports. This means that cutting fossil fuel consumption would promote the twin goals of sustainability and security. Hence the policy lays heavy emphasis on de-carbonisation through the twin interventions of energy efficiency and renewable energy.
- Economic Growth: The energy policy must also support the goal of rapid economic growth. Efficient energy supplies promote growth in two ways. First, energy is the lifeblood of the economy. It is an important enabling factor of growth and its availability at competitive prices is critical to the competitiveness of energy-intensive sectors. Second, being a vast sector in itself, its growth can directly influence the overall growth in the economy. For example, petroleum products have been an important direct contributor to our growth in recent years by attracting large investments in refining/distribution, and also fuelling economic activity.

■ Criticism of Draft Energy Policy

- Lack of emphasis on public health: An important aspect that the draft policy ignores is public health, especially in the context of the energy mix envisaged under the NITI Ambition Scenario. The Ambition Scenario is a tool to arrive at a range of possible energy futures for the energy sector till 2040.
- Vision documents like the National Energy Policy should strive to minimise the unavoidable health impacts of energy production, and their associated health costs, especially given the policy's stated objectives of sustainability and economic growth. The policy should include a health impact assessment framework to weigh the health hazards and health costs associated with the entire life cycle of existing and future energy projects and technologies. For instance, there is no method under the current policy regime, as proposed by the NITI Aayog, to evaluate the health impacts of coal's contribution to mercury and fine particulate pollution, or the risk of radiation with envisaged increase in nuclear power, or the occupational exposures to silica and cadmium during photovoltaic panel manufacturing.

- High emphasis on thermal power: NEP's focus on utilising coal powered thermal plants for securing the base load requirement to meet rising energy demand. The NEP's reliance on thermal power fuels scepticism about India's commitment to clean energy, and could distort investor confidence in the renewable sector. India is the second largest producer of coal, with reserves that could last up to 100 years.
- The domestic production of coal stagnated between FY18 and FY21, but revived in FY22.
- From both an air quality and a climate leadership perspective, it would not be ideal for India to stress on expanding its thermal power capacity to 441 GW in 2040 from 125 GW in 2012, as proposed in the NEP, without having adequate technology in place for improving the efficiency and reducing the emissions from these plants when more than half of them require urgent shut down or overhaul due to ageing.
- Low emphasis on electric vehicles: The DNEP fails to highlight the gradual substitution of internal combustion engines with electric vehicles. Several European nations have announced their plans to go for 100% electric vehicles in the next two decades. This transformation in the automobile sector could be accompanied by grid and consumer-level electricity storage at homes, offices and factories.
- Meet the energy demand: There are at least two demand-side interventions that can help cut energy usage: behavioural change that results in reducing the demand for energy-based service and the introduction of alternatives that maintain the level of service but reduce the energy required for its provision. The former is called energy conservation and the latter greater energy efficiency.
- To meet this end four components include: clear policy objectives, regulatory and statutory mechanisms, right intervention tools and programme and a robust institutional mechanism for evaluating, monitoring and promoting energy efficiency programme.
- Lack of trust amongst citizens with respect to public service delivery is one amongst the major concerns of our democracy. Thus, measures to instill greater trust amongst citizens through a participatory and inclusive approach to policy formulation and execution is the need of the hour. The objective should be to build a greater sense of ownership amongst citizens.
- Institutional arrangements: The DNEP refers to making institutional arrangements on following grounds: greater involvement of State Governments and state nodal agencies; raising resource allocation for agencies; institutional capacity building; better data acquisition and monitoring; creating a dedicated research body on energy efficiency; increasing R&D support and funding and increasing state competitiveness.
- But for a holistic approach to setting up institutional mechanisms for evaluating, monitoring and promoting energy efficiency programme, there is a need for greater convergence amongst the related Ministries/Departments at the Central as well as State level respectively. Such an approach will help in creating co-benefits of energy efficiency measures across various sectors as well as allow for efficient resource mobilisation. This could be practiced through greater convergence in fund channelizing, setting policy targets, policy decision making, and human resource deployment amongst related ministries. Further, past experiences (such as inability of states to fulfil RPOs) suggest that, policy making needs to be made more inclusive, especially while setting policy targets for States. Thus, it is important to make sure that policy targets are not imposed on states but rather localized on state to state basis, taking into consideration the topography, resource availability and cultural dynamics amongst others.
- Acquiring Technology: The NEP makes broad recommendations on how India should work towards developing and acquiring technology needed for the energy sector. However, it does not recommend consistent and strong policy and budgetary support for technology development.
- Direct Benefit Transfer for electricity consumers: The DNEP proposes using the Direct Benefit Transfer (DBT) mechanism to provide subsidy on electricity tariff to needy consumers, while opening up the coal and power sectors. While this is perhaps sound in theory, it must be ensured that it also works in practice since this will effectively transfer all the risks of price variation on to consumers.

Thus, if DBT does not work effectively for vulnerable consumers, through either exclusion errors or technology access challenges, the risks would be transferred from coal companies and power companies to vulnerable consumers.

Conclusion

A realistic energy policy cannot be purely top-down or “national” but must also incorporate multiple smaller policies, e.g., one meant to stimulate domestic oil and gas production, which the ambitious scenario represents. Such coordination is the need of the hour.

Mineral Auction Rules, 2015

Mineral (Auction) Rules, 2015

- Following the successful initiation of auctioning coal blocks, the Central Government of India has framed the Mineral (Auction) Rules, 2015 for auctioning other minerals. However, unlike coal, the mineral auctions will be conducted under the ambit of State Governments.
- Under the rules, through auctions the State Governments will grant the leases in two forms – Mining Lease where evidence of mineral contents is established and Composite Lease, a combination of a prospecting licence (PL) and a mining lease (ML), where there is inadequate evidence of mineral contents.
- The rules will be applicable to all minerals, except (a) coal & lignite, (b) atomic minerals like uranium, lithium, zirconium, titanium, etc., and (c) minor minerals like building stones, gravel, ordinary clay, ordinary sand, etc.

■ Salient Features of the Rules

- According to the rules, the Government will initiate an auction process for grant of a mining lease with respect to an area within the State. It will issue a notice inviting tender (NIT) with respect to mineral auction, identify and demarcate the area where a mining lease is proposed to be granted through auction by using total station and differential global positioning system. It is also required to classify the area so demarcated into forests land, land owned by the State Government and land not owned by the State Government.
- The eligibility conditions for participating in the auction has been simplified and categorized according to the Value of Estimated Resources (VER) which is defined as the product of:
 - the estimated quantity of mineral resources for which the mineral block is being auctioned, expressed in metric tonne; and
 - the average price per metric tonne of such mineral as published by Indian Bureau of Mines for the relevant State for a period of twelve months immediately preceding the month of computation of the Value of Estimated Resources.
- The auction will be conducted electronically. The bidding will be done in two rounds. In the first round, the bidders will be required to furnish the technical details and the “Initial Offer” which has to be equal to or greater than the “reserve price” mentioned by the Government. In the tender document, the Government will specify a “Reserve Price” which will be the minimum percentage of the value of mineral despatched.
- The highest initial offer in the first round will be considered as the floor price in the second round where the technically qualified bidders will be required to bid for the final offer for the lease area in terms of percentage of the value of mineral dispatched which the bidder will like to pay to the State Government.

- It mentions that the State Government will obtain the conditional forest clearance and wildlife clearance or any other law so as to enable commencement of operations. It was also supposed to obtain all necessary permissions from the owners of the land and those having occupation rights.

■ Amendments proposed

- The amendments (in mineral auction rules) are aimed at ironing out some of the practical difficulties faced by the governments on past auctions.
- The government is trying to encourage the smaller players with such steps. Earlier, if the VER of an iron ore mine was Rs 450 crore, the company — participating in auction — would need a net worth of minimum Rs 18 crore. If the proposed amendments to the mineral auction rules are adopted, any company with a net worth of more than Rs 4.5 crore can bid for this iron ore mine,” said a former Union mines secretary.
- The draft rules also plan to permit state governments to proceed with auctions if — even in the second attempt — the number of technically qualified bidders for a mine remain less than three.
- The amendments — which are at a draft stage currently — will also prevent the company that has won the bid from “squatting” on the mine and adopting “delaying tactics”. Moreover, it will allow the state government to use the “all-India average sale price by Indian Bureau of Mines (IBM)” as a benchmark for auctions if the state’s average sale price is not available.
- Rule number 10 (6) currently states that the mining lease/licence shall be “executed by the state government within thirty days of the date of completion of the conditions” by the company that has won the bid. Through the amendment, the government has proposed adding one clause to this rule, which states that if a time period of three years has passed “from the date of (granting) the letter of intent”, no mining lease deed shall be executed and the “letter of intent will be invalidated leading to annulment of the entire process of auction and the state government may grant the mineral block only through a fresh auction process”.
- According to the Central government’s explanatory note, this particular amendment “will prevent squatting and adoption of delaying tactics that a successful bidder may adopt for some reasons; and will ensure commencement of mining at the earliest”.

Recent Amendment to Minerals Rules

- The Minerals (Auction) Fourth Amendment Rules, 2021 and the Minerals (Evidence of Mineral Contents) Second Amendment Rules, 2021 have just been rolled out.
- The Minerals (Evidence of Mineral Contents) Regulations, 2015 [MEMC Rules] and the Mineral (Auction) Rules, 2015 [Auction Rules] will be modified by these two rules, respectively.
- Earlier, the Mines and Minerals (Development and Regulation) (MMDR) Amendment Bill, 2021, was approved by both the Lok Sabha and the Rajya Sabha.

■ Minerals (Evidence of Mineral Contents) 2021 Second Amendment Regulations:

- Anybody who wants to participate in the auction will be able to suggest eligible blocks for the sale of a composite licence provided the blocks’ mineral potential has been determined using the geoscience data that is already available.
- A committee established by the State Government will evaluate the blocks’ potential for minerals and suggest selling the block at auction.

■ Fourth Amendment Mineral (Auction) Rules, 2021:

- It would provide that, in the event that any person’s blocks are put up for auction, he or she would be given the incentive to participate in the sale of those blocks by putting only half of the bid security amount down.

- It has allowed the partial surrender of a mining lease area in all cases.
- Additionally, provisions have been included to enable for the disposal of overburden, waste rock, and minerals produced during mining or mineral beneficiation that are below the threshold value.
- There is now a 4 ha (hectare) minimum area requirement instead of the previous 5 ha. 2 hectares. must be given as a minimum for certain specified deposits.

■ Goal:

- To find more mineral blocks for auction, which will speed up exploration and production and boost the country's supply of minerals.

■ Significance:

- It will boost competitiveness and encourage more people to participate in auctions.
- It will make it easier for State governments to choose additional blocks for the composite licence auction.

■ Other Initiatives Related to Mining:

- The National Mineral Policy 2019 : Initiatives are being taken to ensure early operationalisation of auctioned Greenfield mineral blocks. Rationalisation of taxes in the mining sector is also being considered.
- Under the Atmanirbhar Bharat scheme, enhancing private investments in the mineral sector and bringing in other reforms has been announced.
- District Mineral Foundation Funds have been established.

Conclusion

From lowering net worth cap for firms to permitting states to proceed with auction even if qualified bidders are less than three, Centre's draft amendments to Mineral Auction Rules, 2015, hopes to attract a larger set of bidders and make the mining sector transparent and efficient.

Need for Reform in Telecom Sector

In the last 2 years, Telecom sector lost over 100,000 employees because of financial turmoil and consolidation of various telecom companies.

■ Why this recent step of hiring?

- Earlier, an intense competition forced some operators to exit as they became defunct, resulting in the number shrinking to three companies: Bharti Airtel, Vodafone Idea, Reliance Jio Info communications and even the towers industry has seen consolidation.
- While some senior level hiring took place at salary levels upward of Rs.1 crore in the past few years, recruitment has started for other grades as well.
- Advent of 5G is one of the main reasons why the industry, including handset makers, original equipment makers (OEMs), etc, will hire people. 5G will not only improve network performance and productivity, but eventually it will create more high-skilled job opportunities.
- Even the field positions, which at times have an attrition rate of 30%, are also opening up. A specialist staffing company that deals with a telecom company, junior posts for engineering graduates are also opening up "but the main demand is for IT, digital marketing, innovation and R&D".

- Industry revenue is expected to rise in FY20 and recruiters say that hiring will happen across all levels like digital marketing, machine-to-machine (M2M), internet of things (IoT), artificial intelligence (AI), etc.

■ Current Scenario of Telecom Industry in India

- India is the world's second-largest telecommunications market, with around 1.2 billion subscribers as of September 2018.
- This sector has contributed around 6% to the GDP of India and it is expected to increase to an even more significant level.
- The year 2018 saw the consolidation of the Indian mobile telecommunications market into three large private players, Reliance Jio, Bharti Airtel and Vodafone Idea, accounting for more than 90% of revenue and 80% of spectrum holding.
- Government's ambitious plans like Digital India and Smart-cities are dependent on this sector and its sound financial health.
- Foreign Direct Investment (FDI) cap in the telecom sector has been increased to 100% from 74%. Out of 100 per cent, 49 per cent will be done through automatic route and the rest will be done through the FIPB approval route.
- Growth in the wireless sector (technology getting upgraded from 1G to 4G) has resulted in a significant boom in the data usability space, providing users with mobile broadband and fast speed data services.
- While Telecom sector is witnessing spectacular growth, it is also facing some major hurdles both in the area of government regulations as also consistent demand from customers to enhance customer service.
- There is a cumulative debt of around Rs.5 lakh crore in the telecom sector. In rural areas, the tele-density is far lower (56.9%) than that in urban India (171.1%). Also, the revenues are constantly falling down, further worsening the debt crisis.
- Telecom service providers pay as much as 30% of their revenues in taxes and levies for spectrum and operating licences. The increased 18% under the GST regime has made the services more expensive at a time when it should have been reduced.
- The bidding Process of 5g spectrum has been completed and soon 5g will be rolled out in 13 cities in first phase(Delhi, Gurugram, Chandigarh, Kolkata etc).
- Department of telecommunication (DoT) is planning for Private 5g i.e captive non public networks and issuing its guidelines.

■ Strength of Telecom sector in India

- Telecommunication falls under entry 31 of union list under 7th schedule
- Strong demand: World's second largest in terms of telecom network (a subscriber base of 119.1 crore), internet subscribers (internet users of 51.2 crore) as well as app downloads
- By June 2021, there were 768 million mobile broadband subscribers, almost double the number of subscribers three years ago
- Every 10% increase in investment in telecom, for example, leads to a 3.2% increase in GDP growth for India.
- Mobile data traffic increased at a Compound Annual Growth Rate (CAGR) of 44% during 2018-21.
- Increasing data usage: India is also one of the largest data consumers (an average 1 GB data per day per user) globally. Data prices in India have historically been lower than global benchmarks, given the sheer number of service providers. The entry of Jio has only made competition fiercer, forcing telecom companies to bring down tariffs.

- Good telecom infrastructure: Large telecom companies have been investing on network infrastructure to improve customer experience for last few years. Over the past couple of years, the Indian telecom industry has been going through a paradigm shift from a voice-centric market to a data-centric market.
- Fast-tracked reforms provide room for growth: National digital communications policy, 2018 aims to attract \$100 billion worth of investments in the sector by 2022 and it is both customer-focussed and application-driven, given the pace of global transformation in the sector, particularly, in emerging technologies such as 5G, IoT (internet of things) and M2M (machine to machine) communications.

▢ Key Challenges Faced by the Telecom Industry in India

• Telecom Policy:

- ▶ In India, reforms almost always come after a crisis. The telecom industry is no different in this regard.
- ▶ Although digital investments have positively impacted inclusiveness and growth, they have done so in sporadic spurts that resembles waves.
- ▶ If the telecom policy had been more stable and predictable, the benefits of digitalization may have been considerably greater and more broad.

• Inefficiency in Technology

- ▶ The mobile operators need a spectrum to provide access to enhance performance but it is a scarce resource. As compared to other countries, in India, the amount of spectrum available for commercial use is quite low.
- ▶ The practice of the government to auction spectrum at an exorbitant cost makes it difficult for mobile operators to provide services at a lower price and at reasonable speeds. This discourages adoption and usage. However, the launch of Jio has helped to some extent to overcome this challenge. But there is a long way to go.

• Lack of Telecom Infrastructure in Semi-rural and Rural areas

- ▶ Service providers have to incur huge initial fixed cost to enter semi-rural and rural areas. Key reasons behind these costs are lack of basic infrastructure like power and roads, resulting in delays in rolling out the infrastructure. Lack of trained personnel to operate and maintain the cellular infrastructure is another challenge. Lack of automation
 - Sales teams in the telecom industry in India continue to rely on largely manual processes to collect intelligence on prospects. This process needs automation since it'll provide intelligence in real time.
 - Without this information, teams may expand sales and resources in competitive markets where termination would not be effective, locations where serviceability is not aligned, or may not participate in the market until it is too late.

• Possibility of duopoly:

- ▶ Over the past 20 years, the telecom industry has served as a graveyard for over two dozen enterprises, which has caused a significant degradation of value for stakeholders.
- ▶ India's telecom sector is at the edge of becoming a duopoly with two of four important providers fighting to stay afloat.

• Lack of fixed line penetration

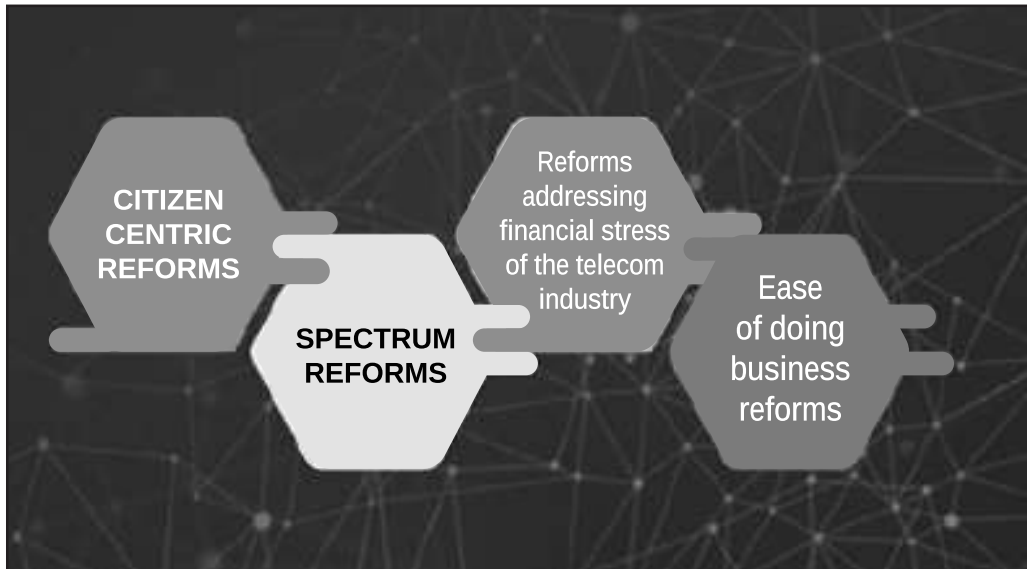
- ▶ India has very little penetration of fixed line in its network whereas, most of the developed countries have a very high penetration of fixed lines (telephone line that travelled through a metal wire or optical fibre as part of a nationwide telephone network).

- ▶ Though India has almost 1.2 billion connections, the fixed line is only around 18 million. Broadband Connectivity on fixed line is also poor.
- ▶ 5G Network requires towers to be connected to with very high-speed systems. Those high speeds are not possible on the present radio systems. But are possible on fibre system.
- **High Right-of-Way (ROW) cost**
 - ▶ Sometimes, states governments charge a huge amount for permitting the laying of fibre etc. A right of way is a type of easement that allows a person to pass through another's land.
 - ▶ It takes a long time to get right-of-way permissions, and thus India is yet not able to exploit the full potential of 4G networks.
- **Current System of Tariffs**
 - ▶ Major telecom Operators are reporting losses and financial stress. This shows that the current tariff system is not financially viable for telecoms.
- **Content constraints**
 - ▶ Today, mostly the content that is available on the Internet is in English, which is still spoken by a small fraction of the people in India. There is a need to make more and more content available in all the regional languages. Additionally, the content should be focused on addressing local problems.
 - ▶ The experience of using the internet or browsing is not a pleasant one on the small screens of a mobile phone. So, mostly the usage is restricted to chatting on applications such as WhatsApp and playing games. However, reading documents on mobile phones is still difficult.
- **Threats**
 - ▶ Interconnection charges: Interconnection charges will be zero effective Jan 1, 2020 from current rate of 6 paisa/min. This would impact the revenues of incumbents.
 - ▶ Spectrum auctions: Government of India has kept a high reserve price for spectrum auction. Given ongoing pressure on ARPU and margins, purchasing the spectrum at a high price (in circles like Mumbai) put further stress on the balance sheet.
 - ▶ External Sources: There is a potential threat by induction of Chinese Telecom Equipment or from any other source. So far, no specific issue has arisen due to equipment originating from any specific country. However, as and when any specific issue arises or a report is received, the regime can be further tightened for the equipments coming from a specific country or source or group of countries or companies.

Reform Needed in Telecom Sector

- ❑ Telecom sector require continuous cash flow and investment. To minimize the financial burden and to boost the telecom sector further reforms are much needed.
- ❑ The telecom sector has a multiplier effect on various sectors of the economy. These reform will enable large scale transformation in the telecom sector. This will lead to growth in all the sectors riding the telecom connectivity.
- ❑ **Pool of Funds to Buy the Spectrum:** The government might create a pool of capital to lease back the spectrum to telcos for brief periods in exchange for a portion of their earnings, alleviating them of the pressure of paying fees for the spectrum.
- ❑ **Special Zero-Coupon Bonds:** Based on the equivalent sovereign bond rate at the time of issuance, the government shall accept special zero-coupon bonds for the full amount due from telecom companies who have AGR financing concerns at a discount to face value.

- The absence of immediate interest payments under the zero-coupon structure would relieve pressure on cash flows without requiring tariff rises.



▪ Initiatives by Government

- The Government of India launched a new National Telecom Policy 2018 in lieu of rapid technological advancement in the sector over the past few years. The policy has envisaged attracting investments worth US\$ 100 billion in the sector by 2022.
- National Broadband Mission to bridge the digital divide for digital empowerment and inclusion, provide affordable and universal access of broadband for all.
- The Department of Information Technology intends to set up over 1 million internet-enabled common service centres across India as per the National e-Governance Plan.
- FDI cap in the telecom sector has been increased to 100% from 74%; out of 100%, 49% will be done through automatic route and the rest will be done through the FIPB approval route.
- FDI of upto 100% is permitted for infrastructure providers offering dark fibre, electronic mail and voice mail.
- The Government of India has introduced Digital India programme under which all the sectors such as healthcare, retail, etc. will be connected through internet

▪ Recent Government Initiatives

- Department of Telecommunication launched 'Tarang Sanchar', a web portal sharing information on mobile towers and EMF Emission Compliances.
- Six-fold increase in Government spending on telecommunications infrastructure and services in the country
- Over 75% increase in internet coverage
- Country-wide Optical Fibre Cable (OFC) coverage doubled
- Five-fold jump in FDI inflows in the Telecom Sector

Way Forward

- Future of Telecom Sector is very bright as its role will be seen in almost everything, from networking of CCTV Cameras to the safety and security of people to providing education in remote places. A long

term vision plan should be made accordingly. For the time being, the government needs to provide an easy and soothing environment for telecom operators.

- ❑ The government should increase the network area through optical fibre instead of copper which is expensive. This is necessary to ensure last mile connectivity.
- ❑ The government needs to prepare a ground for easy right-of-way permissions and lower cost of right-of-ways.
- ❑ It is time to go for a generational shift to ensure that current tariff is financially viable for service providers.
- ❑ Telecom Operators should move towards future technologies, should add new services for which consumer will pay and will keep the telecom companies doing well.
- ❑ Telecom Operators should leverage on the talent pool in the country which is bringing in a lot of new innovations in AI, block-chain technology, etc.
- ❑ Creation of digital communications infrastructure requires coordination and alignment of work of multiple stakeholders and agencies (Central ministries, state ,departments)
- ❑ New Infrastructure on sharable basis just like the way telecom service providers share the cost of towers is need of the hour. Every establishment requires a cable for one reason or other and roads cannot dig every day. Ducts should be constructed in each and every town so that there is a provision for simply pulling a cable through it as and when required and hence costs can be shared.
- ❑ The government should spend large on R&D and create an environment that makes India capable of manufacturing and even exporting hardware components like mobile handsets, CCTV Cameras, touch screen monitors, etc.
- ❑ The reform in telecom sector is watershed moment which would play a critical role in connecting and empowering our nation.

EXTERNAL SECTOR

WTO needs to change how it designates developing countries: US

Context:

The United States is asserting pressure on the World Trade Organization to change how it designates developing countries, singling out China for unfairly getting preferential treatment.

Background:

- ❑ The United States, Europe and China have clashed over trade policy for several years and tensions could continue for decades without serious reform.
- ❑ One of the most contentious points is the future of the World Trade Organization (WTO) — an intergovernmental institution that regulates international trade practices.
- ❑ The United States has called the WTO “broken,” saying countries such as China have taken advantage of it.
- ❑ According to it, the WTO “has been very unfair to the United States for many, many years.
- ❑ And without it, China wouldn’t be China, and China wouldn’t be where they are right now.”
- ❑ The WTO needs to be updated, changed and reformed.

Analysis:

- ❑ Definition of developing countries:
- ❑ There are no WTO definitions of “developed” and “developing” countries.
- ❑ Members announce for themselves whether they are “developed” or “developing” countries.
- ❑ However, other members can challenge the decision of a member to make use of provisions available to developing countries.
- ❑ A developing country is also known as a low and middle income country (LMIC).

- ❑ It is less developed than countries classified as “developed countries” but these nations are ranked higher than “less economically developed countries.”
- ❑ These countries are characterized by:
 - being less developed industrially
 - widespread poverty
 - low education and literacy levels
 - government corruption
 - a lower Human Development Index when compared to other countries
 - health risks such as having low access to safe water, as well as sanitation and hygiene problems
- ❑ However, developing countries do have the potential for high growth and security when evaluating factors including the standard of living, gross domestic product and per capita income.
- ❑ The term refers to the current state of a nation and is not used to determine changing dynamics or future progress.

WTO & Developing nations:

- ❑ About two thirds of the WTO's around 150 members are developing countries.
- ❑ They play an increasingly important and active role in the WTO because of their numbers, because they are becoming more important in the global economy, and because they increasingly look to trade as a vital tool in their development efforts.
- ❑ Developing countries are a highly diverse group often with very different views and concerns.
- ❑ Developing country status in the WTO brings certain rights. Developing country status ensures special and differential treatment (S&DT) or provisions which allow them more time to implement agreements and commitments, include measures to increase trading opportunities, safeguard their trade interests, and support to build capacity to handle disputes and implement technical standards.
- ❑ What does special and differential treatment (S&DT) imply:
 - ❑ longer time frames for carrying out obligations and agreements.
 - ❑ measures to broaden developing nations' access to the global market.
 - ❑ provisions requiring all WTO participants to protect developing nations' trade interests.
- ❑ Assistance in assisting developing nations to enhance their capacity to carry out WTO operations, resolve conflicts, and adopt technical standards.
- ❑ provisions pertaining to members from least developed countries (LDCs).
- ❑ The idea of non-reciprocal preferential treatment for developing nations states that developed nations shouldn't anticipate receiving reciprocal offers from developing nations when they provide trade concessions to them.
 - The WTO deals with the special needs of developing countries in three ways:
 - the WTO agreements contain special provisions on developing countries
 - the Committee on Trade and Development is the main body focusing on work in this area in the WTO, with some others dealing with specific topics such as trade and debt, and technology transfer
 - the WTO Secretariat provides technical assistance (mainly training of various kinds) for developing countries

What does 'developing' actually mean?

- ❑ In the WTO, developing countries are entitled to “special and differential treatment” set out in 155 rules.

- ❑ However, none of those rules define what a “developing country” is. Instead, each member is able to “self-designate”, subject to challenges from other members.
 - ❖ Being recognised as a developing country was one of the three key principles China insisted on when negotiating to join the WTO in 2001.
 - ❖ It faced resistance. Several members cited “the significant size, rapid growth and transitional nature of the Chinese economy”.
 - ❖ In response the WTO took what it called a “pragmatic approach,” meaning that China got hardly any of the special treatment that would normally be accorded to a developing country.
 - ❖ Moreover, concerns have been raised over the ‘least developed country’ (LDC) status, with Bangladesh potentially losing this tag after surpassing India in terms of GDP per capita.

About WTO:

- ❑ The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
- ❑ The WTO was born out of GATT, an international trade agreement signed by 23 countries in 1947.
- ❑ At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations and ratified in their parliaments.
- ❑ The goal is to help producers of goods and services, exporters, and importers conduct their business.
- ❑ The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva).

Is it about more than benefits for China?

- ❑ After its accession, China acted as a member of the developing country group and pushed hard for its interests.
- ❑ In 2003 it joined India and Brazil in pushing developed countries to reform their agricultural trade policies while retaining flexibility for developing countries, a push that has yet to achieve success.
- ❑ In the meantime, it enjoys little preferential treatment for itself:
 - ❑ partly because it has eschewed special benefits, partly because most of the transition benefits that were available to it have expired
 - ❑ partly because some of the provisions available to it are essentially voluntary on the part of the country offering them
 - ❑ partly because many of the benefits available to developing countries are not available to developing countries with large export shares
- ❑ At times it has actively forgone important benefits, such as by not invoking its right to receive technical assistance under WTO’s Trade Facilitation Agreement.
- ❑ However, on some other issues, the sheer size of China has made it difficult to accommodate China’s claim for developing country treatment.

What does the US say?

- ❑ Since joining the WTO in 2001, China has continued to insist that it is a developing country and thus has the right to avail itself of flexibilities under any new WTO rules.
- ❑ The United States has never accepted China’s claim to developing-country status, and virtually every current economic indicator belies China’s claim.

- ❑ After years of explosive growth, China has the second largest Gross Domestic Product in the world, behind only the United States.
- ❑ China accounted for over 18 percent of the global economy in 2021, rising from 11.4 percent in 2012, while its global share of such exports jumped five-fold between 1995 and 2017. It has been the largest global exporter of goods each year since 2009.
- ❑ China has both cemented and improved its status as the world's second-largest economy over the past decade with the country's gross domestic product (GDP) topped 114 trillion yuan (about \$16.94 trillion) in 2021, and per capita GDP reached \$12,500, close to the threshold for high-income economies
- ❑ Further, China's preeminent status in exports is not limited to goods from low-wage manufacturing sectors.
- ❑ China currently ranks first in the world for exports of high-technology products, with such exports alone increasing by 3,800 percent between 1995 and 2016.

Conclusion:

China says it "will never agree to be deprived of its entitlement to special and differential treatment as a developing member". At the same time, it says it "is willing to take up commitments commensurate with its level of development and economic capability". It remains far less developed than traditionally developed countries. In purchasing power terms, its standard of living is about one-third that of the United States. Although not practically important in terms of its obligations under the WTO, its developing country status is useful to it in other ways, giving it the opportunity to gain meaningful advantages in other international organisations such as the Universal Postal Union. It costs the rest of the world little to accommodate China's wish to be described as a developing country.

H-1B Visa Rule Change & its Impact on IT Sector

- ❑ With the proposed executive order of President Donald Trump and three bills being introduced in Congress, the H1-B visa regime in the US is going to change drastically. This will have significant impact on foreign nationals working in the US as well as the companies hiring them in terms of their profitability and quality of employees.
- ❑ India's Information Technology (IT) sector will face temporary setback regarding moving workers from India to the US.

❑ What is H-1B visa?

- ❖ The H-1B is a non-immigrant visa in the United States under the Immigration and Nationality Act, Section 101(a) (15) (H). It allows U.S. employers to temporarily employ foreign workers in specialty occupations. The act prescribes the duration of stay under H1-B visa for three years, extendable to six years in US. It also limits to 65,000 the number of foreign nationals who may be issued a visa or otherwise provided H-1B status each fiscal year (FY).
- ❖ Indian IT companies have significantly benefitted from this liberal visa regime so far, which has helped them into hiring skilled labour at lower costs from developing countries including India thereby controlling their wage bills, bringing efficiency and cost competitiveness in their operation and earning higher profit margins on their product. Further, outsourcing from US MNCs has emerged as one of biggest business opportunities for Indian IT companies due to its various advantages such as English speaking skilled labour, cost competitiveness and technological prowess. A large part of (almost 2/3rd) revenue of Indian IT companies comes from outsourcing thereby making them to rely on US.

- Companies such as Tata Consultancy Services (TCS), Infosys, and Wipro, which get over 60% of their revenue from the US, have been bracing themselves for such tightening of laws. And in recent years, these efforts have intensified significantly.

■ Significant modifications to the H1B visa:

- The US claims that only the highest-paid or most talented international applicants will be granted H1B visas.
- The power to reject H1B applications that are filed without the requisite information was given by USCIS adjudicators in July 2018.
- The United States starts deporting H1B visa holders in October 2018.
- The US proposed changing the definition of “specialty jobs” for the H1B visa in October 2018.
- The USCIS states that starting in January 2019, petitioners wishing to submit H1B cap-subject petitions must first register electronically with USCIS.

■ Impact on Indian IT companies

- With the proposed legislations and executive order the \$150 billion IT Industry will come under tremendous pressure.
- Tighter visa regime: The executive order seeks to introduce tighter visa regime in US. It seeks to better compliance and regulations of the law. With close scrutiny and compliance, the number of H1-B visa issuance will come down compared to actual figures thereby affecting the employment opportunities of high skilled engineering graduates.
- Expensive hiring: The three bills being introduced in the Congress have made provision for increasing the H1-B minimum wage to \$130,000 from the current wage of \$60,000 thereby making it difficult for IT companies to hire foreign workers.
- Profitability erosion of companies: Increasing wage bill will have significantly make erosion in the net profitability of the companies. According to an estimate of the tech industry, this could add \$3.5-4 billion to the tech industry’s wage bill leading to 30-40 % erosion in their net profit. For tier II companies, the short-term blow could be harder as they don’t have much onsite resources and bank on labour arbitrage to sell services.
- Pressure for onsite hiring: New Bills being introduced by the Trump administration in the US Congress seek to make outsourcing not only tougher but more expensive. This comes at a time when protectionist sentiments that call for onsite hiring of locals are spreading globally. This move will pose a serious of challenges to Indian IT companies. Further, Indian Companies hire employees from different nationalities. For example, Mindtree employees 16,100 people of 55 nationalities and Infosys has 129 nationalities among its nearly 2 lakh-strong workforce.
- Skill Gap: The pressure of local hiring will further create mismatch in demand for digital skills. More worrisome is a shortage of program management skills, architecture and design skills at local level. Further, the US has a huge shortage of local students enrolled in STEM (Science, Technology, Engineering, and Mathematics) Courses. Industry body Nasscom reckons a demand supply gap of as high as 80 million over the next decade for digital skills. Unfilled jobs in the US will be 2.4 million by 2018 which will significantly affect the quality of employees in companies, thereby innovation and competitiveness of Industry will get affected. And Indian IT industry will not be isolated from this process.

■ Arguments in favour of Bill

- Though tech firms claim they use the H1B visas to hire highly skilled workers in areas that lack top talent, the fact that a majority of the visas are awarded to outsourcing firms from India has drawn criticism from US politicians.

- They claim that companies such as TCS and Infosys misuse the work visa program to bring low-level IT workers into the US.
- Around 70% of H1B visas were given to workers from India.
- If implemented, the reforms may force Indian companies to make fundamental changes in their business strategies, including hiring more American workers and raising salaries they pay to employees working on client sites in the US.
- The changes will mean that there are fewer H1B visas to go around, and companies will end up paying more for the people they send to the US on H1B visas which would make things worse.

Conclusion

Such visa restriction will be catastrophic for the US and it will significantly loose not only workforce but also investment from tech companies. However, the Indian IT industry should learn to adapt the new normal as India's former Chief Economic Advisor, Arvind Subramanian has rightly pointed out that the medium-term political outlook for globalisation and in particular for the world's "political carrying capacity for globalisation" may have changed in the wake of recent developments. In the short run, a strong dollar and declining competitiveness might exacerbate the lure of protectionist policies. Therefore, the Indian IT industry should prepare itself to cope up with higher wage bills and reduced net profits.

Permanent Residency Status for Foreign Investors

- The scheme for grant of Permanent Residency Status (PRS) to foreign investors with permanent residence status and to provide financial support to domestic industry for trade with south-east Asian nations Cambodia, Laos, Myanmar and Vietnam which is considered as the gateway for market access to China and Europe.
- The scheme is in line with similar incentives offered by jurisdictions such as Hong Kong and Singapore, which are among the top investment destinations in the world.
- **Present mechanism:**
 - According to existing rules, all foreigners (including those of Indian origin) visiting on a long term (more than 180 days) student visa, medical visa, research visa or employment visa are required to book with the Foreigners Registration Office concerned, having jurisdiction over the place the person intends to stay, within 14 days of arrival. However, Pakistani nationals have to register within 24 hours of arrival.
- **Provisions of the New Scheme:**
 - It will be granted for a period of 10 years with multiple entries. This can be reviewed for another 10 years if the PRS holder has not come to adverse notice. The scheme will be applicable only to foreign investors fulfilling the prescribed eligibility conditions, his/her spouse and dependents.
 - In order to avail this scheme, the foreign investor will have to invest a minimum of Rs.10 crores to be brought within 18 months or Rs.25 crores to be brought within 36 months.
 - Further, the foreign investment should result in generating employment to at least 20 resident Indians every financial year.
 - PRS will serve as a multiple entry visa without any stay stipulation and PRS holders will be exempted from the registration requirements.

- PRS holders will be allowed to purchase one residential property for dwelling purpose.
- The spouse/dependents of the PRS holder will be allowed to take up employment in private sector (in relaxation to salary stipulations for Employment Visa) and undertake studies in India.

■ **Benefits:**

- The scheme is expected to encourage foreign investment in India and facilitate the 'Make in India' programme.
- Total foreign direct investment inflow was \$36 billion in 2013-14, rose to \$44.2 billion in 2014-15 and \$55.4 bn in 2015-16, the highest so far in a year. This initiative will further increase the FDI.
- Employment generation is major dividend of this scheme as it clearly lays down employment generation norm as one of the precondition for citizenship.
- Tax revenues of the government will increase. The property and investment will be subject to taxation policies of the government of India.
- This is another avenue for FDI inflow in India. FDI has been a vital non-debt financial force behind the economic upsurge in India.
- This will also encourage 'Start up' environment as these high net worth individuals may act as angel investors.

WTO Reforms and India's Stance

Context:

- Recently, WTO director general Ngozi Okonjo-Iweala, along with the Chiefs of the World Bank and the IMF, issued a report, 'Reinvigorating Trade and Inclusive Growth' at the IMF meeting in Bali, Indonesia.
- The report mentions about proposed WTO reforms like discontinuing the consensus principle to arrive at a conclusion and replace it with plurilateral negotiations among member nations in new issues such as electronic commerce, investment facilitation, and disciplines for micro, and small and medium enterprises.
- In a more recently conducted informal Trade Negotiations Committee (TNC), India has opposed and criticized the reforms.

About:

- The World Trade Organization is an intergovernmental organization that regulates international trade. WTO aims at making global trade smooth, predictable and free.
- The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 124 nations, replacing the General Agreement on Tariffs and Trade, which commenced in 1948.
- WTO currently functions as per the consensus principle under which multilateral trade negotiations are conducted called as the Single Undertaking framework.
- Under it, all major decisions are made by the membership as a whole, either by ministers (who meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva).
- On the other hand, plurilateral agreements are deals negotiated among a group of like-minded members that are limited to certain sectors of goods or services.

- ❑ WTO is a global body, mandated to make world trade fair and free. Plurilateral negotiations can potentially encourage regional groupings, allaying the scope of global trade. It can also harm smaller and least developed countries, giving undue advantage to developed nations and powerful trade blocs.

Background:

- ❑ The proposal for replacing multilateral negotiations with plurilateral ones have been supported by major industrialized countries, such as the United States, the European Union, Japan, Canada, and Australia. According to them, the consensus principle often leads to delaying in decision making and deadlock over contentious issues.
- ❑ India and WTO have locked horns in the past owing to various international trade issues like agricultural subsidies, solar panel content, etc.
- ❑ India along with other developing nations has demanded institutional, operational and structural reforms in WTO.
- ❑ Various trade disputes have also occurred between India and other players like the US and the European Union in the past due to various issues.

❑ Timeline of WTO reforms in the past:

- ❖ 1986-1994 - GATT negotiations culminate in the Marrakech Agreement that establishes the World Trade Organization (WTO).
- ❖ November 2001 - The Fourth Ministerial Conference takes place in Doha, Qatar. WTO members agree on the Doha Development Agenda (DDA or just Doha Round), the ninth trade round which is intended to open negotiations on opening markets to agricultural, manufactured goods, and services. The Conference issues the Doha Declaration.
- ❖ August 2004 - Geneva talks achieve a framework agreement on the Doha round. Developed countries will lower agricultural subsidies, and in exchange the developing countries will lower tariff barriers to manufactured goods.
- ❖ The Bali package of 2013 includes provisions for lowering import tariffs and agricultural subsidies, with the intention of making it easier for developing countries to trade with the developed world in global markets.
- ❖ 2017-The Nairobi Ministerial Conference ended with a number of ministerial decisions, including on fisheries subsidies and e-commerce duties, and a commitment to continue negotiations in all areas.
- ❖ National Committee on Trade Facilitation (NCTF) under the Chairmanship of Cabinet Secretary has been constituted after the ratification of the Trade Facilitation Agreement (TFA) of World Trade Organization (WTO) by India in April, 2016.

❑ Indian disputes at WTO

- ❖ India has had problems with the US, Canada, the EU and China in the field of global trade.
- ❖ India recently lost against, the US in the Dispute resolution body in the case of 'domestic content requirement for solar panels.
- ❖ India along with other developing and least developed countries, namely the G-33 had opposed the Agreement on Agriculture (AoA) made in Uruguay round due to its favouring lean towards developed nations. As a result, peace accord has been agreed upon in 2013 for food stocking program without violating the AoA.
- ❖ US pharma industries made reservations against compulsory licensing practice in India, which India along with developing nations modified in Doha development round, allowing it.
- ❖ EU in a concept paper 'WTO modernization' criticized WTO for allowing world's largest and dynamic countries like India, China, Brazil, etc., for claiming special and differential treatment.

■ India's stance on latest proposed WTO reforms:

- Criticism against the plurilateral negotiations were based mainly on the premise that such reforms stand unfair when already needed reforms are not yet materialized and disputes still exist.
- WTO's recent consultation with IMF and the World Bank violated the core principles of the Marrakesh Agreement for conducting the business at the trade body. According to rules of Marrakesh Agreement, the secretariat cannot offer or propose reforms without prior approval of all the 164 members.
- Plurilateral negotiations reform is pushed for new issues such as electronic commerce, investment facilitation, and disciplines for micro, and small and medium enterprises. Digital divide and numerous other concerns in countries like India will affect the WTO's proposals.
- The consensus principle at WTO reassures that democratic decision making takes place and all member nations are involved in the process. The recent proposal might harm this deliberating and participatory procedure.

■ Future of future international trade:

- Trade wars: Trade giants like America and China have waged trade wars against each other whereby US has imposed tariffs on Chinese steel and aluminum to protect domestic players. More such trade are like to be seen between various trading nations and blocs in future.
- Protectionism: Trading nations particularly US, China, India, etc., have been accused of promoting protectionism under the pretence of domestic growth and nationalism is highly detrimental to global trade. IMF in its recent Global Financial Stability Report have alerted about threats of protectionism in world trade order.
- Volatility: Low demand, lower wages, higher oil prices along with risky offshore investments involving hot money has made global trade volatile, uncertain and fragile.
- Groupings: Trade blocs like the North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Corporation (APEC) are gaining more significance than a pan-world trading order.

Way forward:

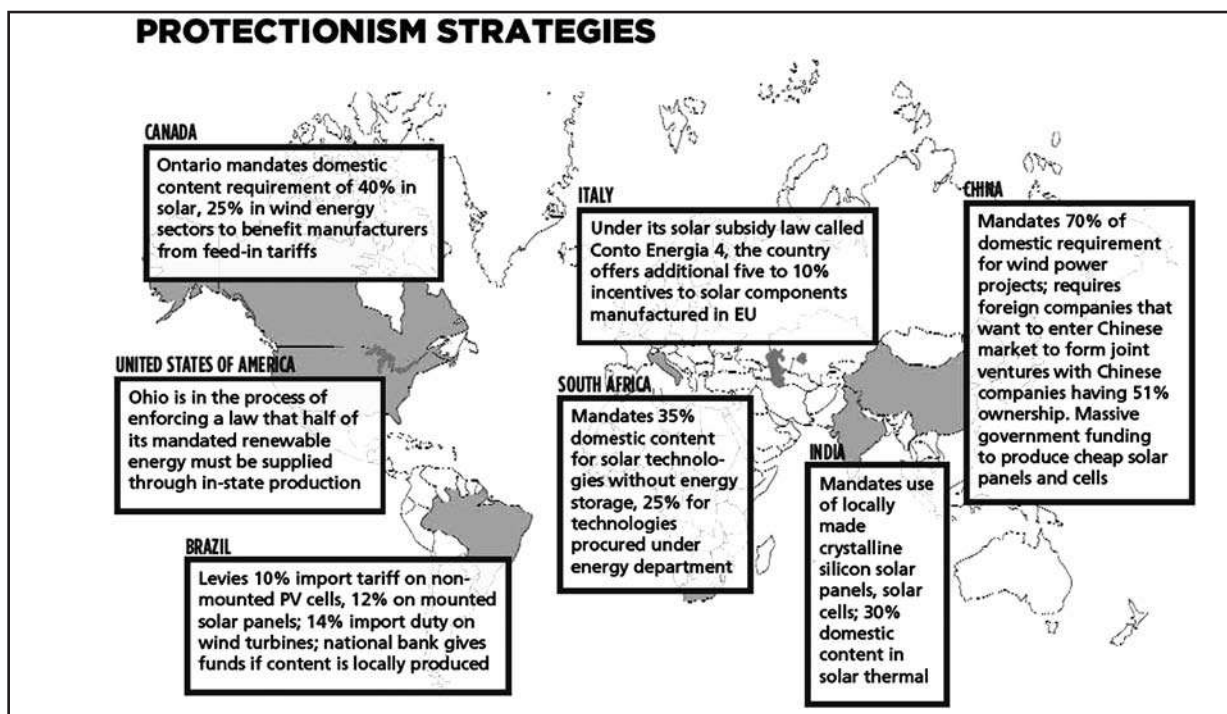
- If plurilateral negotiations are imposed, it should become mandatory to spell out clear criteria for when a country may use its veto power, thus justifying the cause.
- Stalling of Bali package also needs to be soon resolved. An independent panel could play the role of arbiter, evaluating the competing claims and helping to overcome the political posturing on both sides.
- India, as the unsaid leader of developing and LDC's should strengthen its diplomatic competence and ensure that everyone's voices are heard at the platform.
- A right balance should be weighed between relaxations to boost growth and development in developing and under-developed nations and the demand of fair trade by developed nations.
- Bilateral and multilateral talks outside WTO dispute settlement mechanism should be promoted to ensure healthy relationships and quick and deliberated conclusions.
- As the WTO's members discuss reform proposals, they need to ensure not only that the WTO becomes more efficient, but also that it is inclusive and delivers on development, raising global trade volumes and aiding economic development uniformly all over. Thus, the onus of world economic development is on trading partners as well as the WTO equally.

Dispute Settlement Mechanism at WTO

- ❑ The World Trade Organization (WTO) is the global international organization dealing with the rules of trade between nations. The WTO, which has its headquarters in Geneva, Switzerland, has three basic functions:
 - ❑ It organizes and staffs the periodic rounds of international trade negotiations.
 - ❑ It organizes a dispute settlement process when one member country accuses another of violating one or more of the rules of international trade that all had agreed to abide by in the most recent round of negotiations.
 - ❑ It organizes periodic reviews of every member country's trade policies to be sure they are consistent with the existing international trade rules.
- ❑ **What is the dispute settlement mechanism of WTO?**
 - ❖ A dispute arises when one country adopts a trade policy measure or takes some action that one or more fellow-WTO members considers to be breaking the WTO agreements, or to be a failure to live up to obligations.
 - ❖ Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish "panels" of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.
 - ❖ First stage: Consultation (up to 60 days). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO Director General to mediate or try to help in any other way.
 - ❖ Second stage: The panel (up to 45 days for a panel to be appointed, plus 6 months for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. Officially, the panel is helping the Dispute Settlement Body make rulings or recommendations. The agreement describes in some detail how the panels are to work.
 - ❖ Either side can appeal a panel's ruling. Each appeal is heard by three members of a permanent seven-member Appellate Body set up by the Dispute Settlement Body and broadly representing the range of WTO membership. Members of the Appellate Body have four-year terms. They have to be individuals with recognized standing in the field of law and international trade, not affiliated with any government.
 - ❖ The appeal can uphold, modify or reverse the panel's legal findings and conclusions.
 - ❖ Follow of the recommendations of the panel report or the appeals report is must. It must state its intention to do so at a Dispute Settlement Body meeting held within 30 days of the report's adoption. If complying with the recommendation immediately proves impractical, the member will be given a "reasonable period of time" to do so. If it fails to act within this period, it has to enter into negotiations with the complaining country (or countries) in order to determine mutually-acceptable compensation - for instance, tariff reductions in areas of particular interest to the complaining side.
 - ❖ If after 20 days, no satisfactory compensation is agreed, the complaining side may ask the DSB for permission to impose limited trade sanctions ("suspend concessions or obligations") against the other side. In principle, the sanctions should be imposed in the same sector as the dispute. If this is not practical, the sanctions can be imposed in a different sector of the same agreement.
- ❑ **Recent News**
 - ❖ Recently, India has imposed Minimum Import price (MIP) as growing imports from steel surplus countries like China, Japan and Korea with predatory prices have been a major concern for the

domestic industry since September 2014. India has also imposed anti-dumping duties on certain steel products to guard domestic players from cheap imports. These measures are called antidumping measures. In response, Japan has dragged India to the World Trade Organisation (WTO) dispute settlement system. This development is part of increase in Trade Disputes across the world since global economic crisis. The shrinking GDP growth in West has given way to protectionist sentiments which favour domestic production to save jobs.

- India now ranks as the second-largest producer of crude steel after China in the World.
- Trade Protectionism: In economics, protectionism is the economic policy of restraining trade between states (countries) through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations. Protectionist policies protect the producers, businesses and workers of the import-competing sector in a country from foreign competitors. According to proponents, these policies can counteract unfair trade practices to allow fair competition between imports and goods and services produced domestically. WTO rules allow countries to use methods of protectionism but in a limited manner and in specific cases.



■ Countries use a variety of ways to protect their trade:

- Tariffs:** A tariff is a tax on imports, which can either be specific (so much per unit of sale) or ad valorem (a percentage of the price of the product). Tariffs reduce supply and raise the price of imports. This gives domestic equivalents a comparative advantage. As such, tariffs are distorting the market forces and may prevent consumers from gaining the benefit of all the advantages of international specialisation and trade.
- Quotas:** Quotas have the effect of restricting the maximum amount of imports allowed into an economy. Once again, they reduce the amount of imports entering an economy and increase the equilibrium price within the market. The government receives no revenue from a quota, as it does with a tariff, unless it can set up a system of licences.
- Exchange controls:** The government could limit the amount of foreign currency available for paying for imports.
- Export subsidies:** Export subsidies allow exporters to supply the market with more product than the natural equilibrium would have allowed. Foreign consumers will enjoy increased economic welfare

as the price of their purchases fall. Domestic employees might enjoy more wages and job security. But taxpayers are footing the bill for this. Domestic firms might divert trade into exports and ignore the home market. This could lead to increases in domestic prices.

- Administrative obstacles: Countries can set administrative hurdles. For example, they may require significant levels of paperwork and then deal with these processes slowly making it difficult for importers to compete on a level playing field with other firms.
- Health and safety standards: Countries may set onerously high health and safety standards for goods that are imported, once again making life difficult for importers.
- Environmental standards: Countries can set high environmental standards that they know only domestic firms are likely to be able to achieve, once again making life difficult for importers.

■ Why are Trade Disputes increasing?

- The main reason for rising trade disputes prolonged economic slowdown since global economic crisis in 2008.

■ Protectionist stance of West:

- A new WTO report indicates a worrying rise in economic protectionism. Countries are imposing new protectionist trade barriers at the fastest rate since the onset of the recession in 2008.
- Though its not illegal as WTO rules allow countries to use methods of protectionism but in a limited manner and in specific cases. The misuse of these norms poses threat to world economy.
- The anti-trade sentiment fuelling this growing protectionism is evident in the rhetoric of various politicians and their constituents, particularly in the US and Europe. The recent Brexit referendum delivered yet another blow to the free market rules that have been enforced for decades in the West.
- There appears to be a growing hostility to international trade of any kind and many of the trade barriers being imposed will only hurt the economies they're supposed to help. If the anti-trade trend persists, the already ailing global economy will only further struggle to improve and the prosperity of future generations will be compromised.
- Unfortunately, the West's growing protectionism goes far beyond reasonable, limited measures to protect domestic industry. There is evidently a growing general hostility to international trade. This can be seen in the strong opposition to a number of major international trade deals currently under negotiation or awaiting ratification.
- The Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the US and the EU has faced harsh criticism. Similarly, the massive Trans-Pacific Partnership (TPP) deal recently concluded between the US, various Asian countries and Australia has been widely attacked in the United States.

■ China's excess capacity in steel and Aluminium:

- Protectionist measure has their counter effect. These practices have mad China world's top producer of steel. It's a matter of concern as one country's illegal trade practices are hurting another country's economy, and that nation has the right to respond in lawful ways in order to protect their domestic industries. Indeed, many of the trade measures recently adopted have been in response to massive Chinese overproduction of various materials, particularly regarding steel and aluminium products. This overproduction is due to excess capacity. The glut has led to a steep drop in steel prices, with China's industry dumping cheap exports into countries around the world and threatening to put their domestic producers out of business, costing thousands of jobs. In response, countries have imposed high tariffs onto Chinese steel imports to protect their domestic producers. For example India has effectively taken counter dumping measures against China's cheap export of Steel.

Rising New Form of Protectionism

- The Trump administration has recently announced a 25% hike in tariff on steel imports and 10% on aluminum imports for an unspecified period.
- A couple of months ago, his administration slapped a 30% and 20% duties respectively on imports of solar panels and washing machines, using a provision within WTO and US Trade laws that allows for temporary “breathing space” or safeguard protection when import surges lead to injuries in the form of serious losses in profits and employment.
- Two countries that have been given exemption from such heavy tariffs are Canada and Mexico (in special case) while negotiations are on for changes in the North America Free Trade Agreement (NAFTA).
- Canada is the biggest exporter of these two metals (totaling about \$12 billion) to the US, the EU (with these exports equaling \$7 billion) is next.
- These above stated government steps showcase a form of protectionism.

■ What is Protectionism?

- Countries use a variety of strategies to protect their trade. One way is to enact tariffs that tax imports that immediately raises the price of the imported goods. They become less competitive when compared to local goods. This method works the best for countries with a lot of imports, such as the United States.
- A second way of protecting trade is when the government subsidizes local industries. Subsidies come in the form of tax credits or even direct payments that allows producers to lower the price of local goods and services. This makes the products cheaper even when shipped overseas. That means subsidies work even better than tariffs. This method works best for countries that rely mainly on exports.
- A third method is to impose quotas on imported goods. This method is more effective than the first two. No matter how low a foreign country sets the price through subsidies, it can't ship more goods.

■ What could be Possible General Impacts of such Tariffs?

- Protectionist measures are justified on the grounds that they would aid local firms in becoming competitively viable.
- Protectionism, however, does not help the home economy as it promotes domestic manufacturers' inefficiency.
- Exports are likely to suffer, domestic goods will cost more, and consumers will receive less advantages from increasing competition.
- Therefore, protectionism is probably just going to hurt industry's capacity to compete worldwide in the long run.
- Further, such tariffs will end up hurting America's strategic and military allies the most, thereby turning the national security argument on its head.
- Despite China's small loss from these metal tariffs, it has signalled retaliation. It is likely to continue with its strategy of slapping tariffs on US agricultural products, thereby hurting President Trump's rural electoral base of farmers.
- China is quite likely to target its \$14 billion worth of imports of American soybeans.
- But a much stronger retaliation is expected from the EU along with lodging a complaint with the WTO, it is also planning to retaliate immediately and quite strategically with tariffs on bourbon produced in Kentucky, on Harley-Davidson motorcycles and cranberries both produced in Wisconsin, and on oranges produced in the swing state of Florida.

- Although apparently intended to help US steel and aluminum makers, the tariffs could lower profits for companies as well as increasing prices for consumers.
- In U.S., the latest levy is expected to put at risk millions of manufacturing jobs that rely on these metals.
- American steel and aluminum manufacturers will get a boost, but it's not clear that they actually have the capacity to meet a huge surge in demand.
- Other sectors of American manufacturing could be hurt by rising steel and aluminum prices. The tariffs would raise the cost of raw materials for automakers like Ford and General Motors (GM).
- The hefty tariffs could undermine recent tax initiatives to lure investment. These measures severely damage multilateral trade mechanisms represented by the World Trade Organization and will surely have huge impact on normal international trade order.

■ Impacts on India

- India may not have immediate or direct impact on the Indian metal sectors as only about 4% of Indian steel exports and 2% of aluminum exports are headed to the US. A greater worry for India could be the indirect impact: the potential cascading inflationary impact of the decision in the US itself.
- If more imported products (other than metal) pose a threat to US national security and ban extends to such other products, it will certainly pose a greater threat for India as such items constitute a bigger share of India's export basket.
- Higher tariffs on steel imports leads to increase in domestic prices resulting inflation. The three measures such as higher tariffs, rising interest rates in order to curb inflation, elevated bond sales to reduce liquidity from the market will have grappling effect on other economies of the world including India.
- Rising interest rates in the US could mean a potentially rough ride for the Indian equities market. Higher US rates lead to outflows from emerging bonds and equities markets as investors will look to chase higher returns in their home country.
- While a downfall in domestic inflows, especially mutual fund money, is a reassuring factor for Indian equities as higher interest rates in India (in comparison to America) will attract more investors borrowing cheap money in US and investing in Indian equities for higher returns.
- Increased local inflation in US along with inching yields will lower the prices of bonds resulting in mark-to-market losses for PSBs. Indian banks, stressed by bad loans, may have to incur mark-to-market losses of up to Rs. 20,000 crore in the January-March quarter itself.

Conclusion

- The US move is basically to stop China from dumping of its cheap products in US markets. However, China has initiated an investigation on the dumping or, alternatively, subsidization of \$1 billion worth of US exports of sorghum (a multipurpose grain).
- This investigation could lead to anti-dumping or countervailing duties that will hurt American farmers. There could then be further rounds of counter-retaliation by the US and China, through slapping of tariffs on each other, leading to large losses to both countries' producers and consumers.
- India's tariffs, despite recent hikes, are, unlike the US's and still within bindings it has committed to at the WTO.
- While WTO rules don't seem to constrain Trump's actions, India should feel safe and derive comfort from the fact that it is on the right side of the WTO rules and loses relatively little from the new metal tariffs (i.e. \$0.3 billion).
- On EU's complain, WTO is likely to rule out such move by US as Trump's own arguments in favour of these tariffs relying on China's action such as dumping, subsidization, building overcapacity in steel

and aluminium production etc can be used by the WTO judges to infer that national security was not the actual reason for the tariffs. In that case, the WTO would just go ahead with the evaluation of these as safeguard tariffs and hence may reject them.

Reforms in IMF Quota

- International Monetary Fund (IMF) is an international organization which was conceived at UN conference in Bretton Woods Conference, formally United Nations Monetary and Financial Conference, meeting at Bretton Woods, New Hampshire (July 1–22, 1944), during World War II to make financial arrangements for the postwar world after the expected defeat of Germany and Japan. IMF's primary aim is to ensure stability of International Monetary System (i.e., exchange rates etc.) for the purpose of smoother transactions among member countries or all over the world. It does it in three ways: surveillance of economy of all 188 member countries, lending to countries with balance of payments difficulties, and giving practical/technical help to members by helping in framing economic or financial policies, etc.

IMF QUOTA: Introduction

- When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members of broadly comparable economic size and characteristics. The IMF uses a quota formula to help assess a member's relative position.
- The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP-based on market exchange rates (weight of 60 percent)-and on PPP exchange rates (40 percent). The formula also includes a "compression factor" that reduces the dispersion in calculated quota shares across members.
- Quotas are denominated in Special Drawing Rights (SDRs). The largest member of the IMF is the United States, with a current quota (as of January 25, 2016) of SDR 42.1 billion (about \$58 billion), and the smallest member is Tuvalu, with a current quota of SDR 1.8 million (about \$2.5 million).

IMF QUOTA: Role in IMF

- The IMF's quota system was created to raise funds for loans.

Multiple Roles of Quotas

Resource Contributions	Voting Power	Access to Financing	SDR Allocations
Quotas determine the maximum amount of financial resources a member is obliged to provide to the IMF.	Quotas are a key determinant of the voting power in IMF decisions. Votes comprise one vote per SDR100,000 of quota plus basic votes (same for all members).	The maximum amount of financing a member can obtain from the IMF under normal access is based on its quota.	Quotas determine a member's share in a general allocation of SDRs.
			

- Each IMF member country is assigned a quota, or contribution, that reflects the country's relative size in the global economy. Each member's quota also determines its relative voting power as well as its borrowing capacity.
- A member's quota determines that country's financial and organizational relationship with the IMF, including:
 - Subscriptions: It can be called subscription fee that a member have to pay when member joins IMF and subscription is decided by help of IMF quota. A member must pay its subscription in full upon joining the Fund: up to 25 percent must be paid in SDRs or widely accepted currencies (such as the U.S. dollar, the euro, the yen, or the pound sterling), while the rest is paid in the member's own currency.
 - Voting power: IMF quota determines voting power of any member in IMF decisions. Each IMF member's votes is comprised of basic votes plus one additional vote for each SDR 100,000 of its quota. The number of basic votes is fixed at 5.502 percent of total votes under 2008 reforms which is almost 3 times higher than basic votes percentage in the previous quota system.
 - Access to finance from IMF: IMF quota is used to decide amount of finance a member can obtain from IMF. For example, under Stand-By and Extended Arrangements, a member can borrow up to 200 percent of its quota annually and 600 percent cumulatively. However, access may be higher in exceptional circumstances.

■ Major Facts: Proposed 2010 Reforms:

- In 2010, the IMF's Quota and Governance Reforms were drafted; which finally became effective in 2016.
- The combined quotas (or the capital that the countries contribute) of the IMF's 188 members increased to a combined SDR 477 billion (about \$659 billion) from about SDR 238.5 billion (about \$329 billion).
- 2010 reforms make overall 6% increase for developing countries and reduce quota share of developed or over represented countries in almost same proportion.
- India's share has been increased to 2.75% from current level of 2.44% and by jumping 3 spots, India become 8th largest shareholder in IMF.
- China becomes the third largest member country in the IMF and there will be four developing countries (Brazil, China, India, and Russia) among the 10 largest shareholders in the Fund.
- Preserve the quota and voting share of the poorest member countries. This group of countries is defined as those eligible for the low-income Poverty Reduction and Growth Trust (PRGT) and whose per capita income fell below \$1,135 in 2008 (the threshold set by the International Development Association) or twice that amount for small countries.
- Implementation of 2010 reforms paves the way for comprehensive review of the current quota formula and bringing forward the completion of the 15th General Review of Quotas.
- The 2010 reforms also include an amendment to the Articles of Agreement that would facilitate a move to a more representative, all-elected Executive Board. Once the quota and governance reforms are in effect, there will be two fewer Board members from advanced European countries, and all Executive Directors will be elected rather than appointed, as some are now. The size of the Board will remain at 24, and its composition will be reviewed every 8 years.

■ Recent reforms

- Finally, the International Monetary Fund has made country quota reforms agreed by the G20 in 2010 a reality.
- Under this emerging and developing economies gained more influence in the governance architecture of the International Monetary Fund (IMF).

- India's voting rights increase to 2.6 per cent from the current 2.3 per cent and China's, to six per cent from 3.8, as per the new division. Russia and Brazil are the other two countries that gain from the reforms. More than six per cent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.
- The reforms represent a major step toward better reflecting in the institution's governance structure the increasing role of dynamic emerging market and developing countries. The entry into force of these reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.
- For the first time, four emerging market countries (Brazil, China, India, and Russia) will be among the 10 largest members of the IMF. The reforms also increase the financial strength of the IMF, by doubling its permanent capital resources to SDR 477 billion (about US\$659 billion).
- These reforms will ensure that the Fund is able to better meet and represent the needs of its members in a rapidly changing global environment. It marks a crucial step forward and it is not the end of change as the efforts to strengthen the IMF's governance will continue.
- However, these reforms are just a start but not the end and a long way to go for achieving the goals of liberty and democracy in all over the world.

■ Further suggestions:

- The proportion for BRICS nations should rise, whereas the quota for EU nations should fall.
- Additionally, it is crucial that the PPP GDP be given more weight in the revised quota formula in order to more accurately represent the underlying economic strength of emerging markets and developing nations.
- Helping Lower Income Nations: The IMF should concentrate on helping lower income countries and support other developing countries' market fund raising operations since credit rating agencies use its Article IV consultation reports, which has an effect on India's ability to get money.
- The majority of Asian nations, including India, are now able to raise money on their own thanks to the strength of their foreign exchange reserves and do not necessarily need to turn to the IMF as they did in the past to weather crises.
- Management Reforms: The IMF's management structure has to be changed.
- There is an unwritten rule in the IMF and World Bank group that the IMF chief should be a European and the World Bank chief should be an American.
- The moment has come to reevaluate this, and the IMF should definitely do so.

Benefits & Risk Associated With Capital Account Convertibility

What does the term capital account convertibility (CAC) imply?

- Convertibility refers to the ability to convert domestic currency into foreign currencies and vice versa to make payments for balance of payments transactions.
- Thus, CAC is the ability or freedom to convert domestic currency for capital account transactions. Capital account liberalization is the process of removing impediments to inflows of capital, or allowing domestic investors to invest more freely in foreign assets.

"A full CAC allows local currency to be exchanged for foreign currency without any restriction on the amount."

Regulation of CAC

- India has cautiously opened up its capital account since the early 1990s and presently there exists partial **capital account convertibility in India**.
- Several committees have been established by the RBI in the past to recommend a pathway towards fuller CAC including **Committee on CAC, 1997 (Tarapore Committee, 1997)** recommended full CAC for 1999-2000 based on fulfilment of certain benchmarks related to Fiscal Deficit, Inflation, Non-Performing Asset (NPA) etc.
- Committee on Fuller CAC, 2006 (Tarapore Committee, 2006)** suggested measures for gradual capital account liberalisation.

Benefits associated with CAC

- Facilitates economic growth as it** opens markets to global players including investors, businesses, and trade partners, leading to enhanced investment flows with economic benefits like improved liquidity in financial markets and better risk allocation.
- Reduction in the cost of both foreign equity and debt capital.
- Offshore rupee market development.
- Improved employment and business opportunities.
- Positive pressures for better infrastructure and business practices.
- Improves the efficiency of the financial sector:** as openness to capital flows can expose a country's financial sector to greater competition.
- Spur improvements in domestic corporate governance to meet standards of foreign investors.
- Impose discipline on macroeconomic policies, and the government.

Risks associated with free capital mobility

- Exchange rate volatility:** A lack of suitable regulatory control and rates subject to open markets with a large number of global market participants can lead to sudden exit of capital causing volatility, devaluation, or inflation in forex.
- Unsustainable Foreign Debts:** Businesses are prone to the risk of high repayments in case of foreign debt if exchange rates become unfavorable.
- Credit and asset bubbles:** Foreign investors may use equity markets in emerging countries to bet on currency appreciation, thereby distorting asset values and adding to the risk of speculative bubbles.
- Exposure to global macroeconomic shocks:** Fuller CAC exacerbates risks associated with Global financial crises, especially for emerging economies like India.
- Effects on Balance of Trade and Exports:** Substantial inflows could lead to an overvalued exchange rate which can make Indian exports less competitive in the international markets.
- Lack of effectiveness in generating growth:** Foreign capital inflows by themselves only have temporary effects on growth because productivity growth is the main determinant of long-term growth which needs robust infrastructure, ease of business, technological advancements etc.

Is India ready for a full/fuller CAC?

Several economic parameters have considerably improved in India, indicating a readiness to fuller CAC-

- Burgeoning forex reserves of around \$640 billion.

- Higher increase in FDI flows than unstable portfolio flows (see graph).
- Low current account deficit (CAD) ~1.0 per cent of GDP in fourth quarter of 2020-21.

But strain on India's macroeconomic situation is evident by high Fiscal deficit (9.3 per cent for 2020-21) and inflation (4.48% in October of 2021). Further, increase in international oil prices and the pace of economic recovery post COVID-19, can substantially increase CAD.

Steps taken to move towards fuller CAC

- Introduction of the Fully Accessible Route (FAR)**, which places no limit on non-resident investment in specified Government securities (G-Secs).
- Allowing banks to trade in non-convertible forward (NDF) rupee market** if it operates in International Financial Services Centre Banking Units (IBUs).
- An NDF is a foreign exchange derivative contract, which allows investors to trade in non-convertible currencies, with contract settlement in a convertible currency. NDFs trade principally beyond the borders of the currency's home jurisdiction, enabling investors to transact outside the regulatory framework of the home market.
- Liberalised Remittance Scheme:** It is to allow all resident individuals, including minors, to freely remit up to USD2, 50,000 per FY for any permissible current or capital account transaction or a combination of both.
- Rationalisation of External Commercial Borrowing (ECB):** Steps taken by RBI include
 - Replacing the system of sector wise limits:** All entities eligible to receive FDI have been permitted to raise ECBs up to USD 750 million per financial year under automatic route subject to certain terms and conditions prescribed in the Guidelines.
 - Relaxed the end-use restrictions related to ECBs:** allowing corporates and non-banking finance companies (NBFCs) to raise ECBs for working capital and general corporate purposes.
- Foreign Direct Investment has been made more or less unrestricted** except (i) for some sectoral caps and (ii) restrictions in a few socially sensitive (e.g., gambling) or volatile (e.g., real estate) or strategic (e.g., atomic energy) sectors.

Further steps required

- Proceeding in a phased manner:** Gradually, through the Fully Accessible Route, the entire G-sec issuance can be eligible for non-resident investment.
- Develop a System of Checks and balances to deal with the risks of CAC:**
 - Tools to manage the volume and composition of capital inflows**
 - Macro prudential tools** like counter cyclical capital buffers.
 - Proper mechanism for information flow** so that exchange and interest rate management can continue to be effective in an environment of larger offshore transactions.
 - Preparing market participants, particularly banks,** to manage the business process changes and the global risks associated with capital convertibility.
 - Developing sound macroeconomic fundamentals:** Recommendations of Committee on Fuller CAC, 2006 (Tarapore Committee, 2006) in this regard include earmarking substantial part of the revenue surplus of the Centre for meeting the repayment liability under the Centre's market borrowing programme.
 - Central Government and the States should graduate from the present system of computing the fiscal deficit to a measure of the Public Sector Borrowing Requirement (PSBR).

- ▶ **Setting up an Office of Public Debt** to function independently outside the RBI.
- **Strengthening business environment:** A fuller CAC would culminate into higher growth facilitated by factors like quick bankruptcy proceedings, infrastructural growth, streamlining FDI transactions, tax clarity and policy certainty etc.

Conclusion

- ▣ India has come a long way in achieving increasing levels of convertibility on the capital account. It has broadly achieved the desired outcome for the policy choices, in terms of achieving a stable composition of foreign capital inflow.
- ▣ The rate of change in capital convertibility will only increase with each of these and similar measures. With that comes the responsibility to ensure that such flows are managed effectively with the right combination of capital flow measures, macro-prudential measures and market intervention.

BIT Dispute Management Strategy

▣ What is BIT?

- Bilateral investment Treaties (BITs) or Bilateral Investment Protection Agreements (BIPAs) are agreements between two countries for the reciprocal promotion and protection of investments in each other's territories by individuals and companies situated in either State. They provide treaty based protection to foreign investment.

▣ What is the fivefold strategy suggested by the Committee?

- The following are the five pillars of a proper mechanism for dispute management — procedures, authority, coordination, counsel and funds.

▣ Recommendations under these heads include:

- Designating a body that would be responsible for dispute management and claims of investors;
- Creation of a body that would be responsible for coordinating the state's defence at all stages of the arbitration;
- Creation of an inter-ministerial group to coordinate with the dispute management agency in order to ensure that the state's views are adequately represented before the tribunal;
- Close monitoring of disputes brought by Indian investors against other contracting states so as to ensure that treaty interpretations by Indian investors do not run contrary to the position adopted by the Indian Government;
- Appointing qualified and reputed counsel without any conflict of interest;
- Ensuring that the team of counsel consists of solicitor and lead counsel and lastly; and
- The creation of a fund for defence of investor state proceedings so as to ensure that unavailability of funds does not delay investor state arbitration proceedings.

▣ Critical analysis

- The recommendation for the creation of the post of an 'International Law Adviser' (ILA) will amount to duplicating the existing arrangement to offer advice on international law, including BITs, to the government. The Legal and Treaties (L&T) division of the External Affairs Ministry is mandated to offer legal advice to the government on all international law matters including BIT arbitrations.

Instead of creating a new office — which will only intensify the turf wars between ministries, and deepen red tape — the L&T division should be strengthened. This division could be made the designated authority to deal with all BIT arbitrations and thus act as the coordinator of the proposed IMC.

- The IMC should have a member from the Commerce Ministry as well. This ministry, while dealing with India's trade agreements — that also cover investment protection — works in tandem with the Finance Ministry. Thus, it is only prudent that both be a part of an IMC on BIT dispute management.

■ What steps are needed for making the recommendations effective?

- The government must establish a clear channel of communication for investors with grievances by notifying a nodal agency and a single point of contact.
 - Further, once a notice of dispute is received, the government must ensure there is effective coordination between different ministries and agencies to avoid unnecessary delays, inconsistent positions and other prejudicial consequences.
 - The IMC, as proposed by the committee, should be able to do this task adequately as long as its powers are sufficient and clearly defined. The IMC must be suitably empowered to enable it to meet at short notice and take decisions swiftly.
 - Given the short timelines in BIT arbitrations, it is also necessary to lay down standard procedures governing the conduct of India's defence, including time-bound appointment of counsel, nomination of shortlisted arbitrators, etc. For example, in the ongoing Vodafone BIT dispute, the arbitrator nominated by India recused himself after accepting appointment, and another arbitrator had to be nominated. This caused a lot of delay, and indicates the need for a comprehensive strategy, including in relation to appointment of counsel and nomination of arbitrators.
 - The government must also stipulate suitable procedures for effectively conducting settlement negotiations (wherever feasible) between aggrieved investors and the IMC.
- Lastly, the importance of ongoing coordination with state or local government agencies cannot be overemphasized. Actions taken by state or local government agencies in respect of foreign investments without sufficient consideration of liability under BITs may put the Central government in the unenviable position of facing and defending large claims. There must be adequate dissemination of information regarding India's BIT commitments. A procedure could be established whereby state or local government agencies consult the nodal agency/the ILA prior to taking any action that may affect BIT commitments.

Broad Based Trade and Investment Agreement (India–EU FTA Talks)

Introduction

- India and the European Commission (with a negotiating mandate from the European Council) initiated negotiations on a Free Trade Agreement (FTA) called the Broad-based Trade and Investment Agreement (BTIA) in 2007.
- Seven rounds of negotiations have been completed without reaching a Free Trade Agreement.
- About the Agreement: The first round of talks for trade and investment agreements between India and the European Union was completed in New Delhi.

- ❑ There were held 52 technical workshops covering the 18 free trade agreement policy areas, as well as 7 sessions on investment protection and geographic indicators.
- ❑ The second round of talks is slated to take place in Brussels in September 2022.

❑ Hurdles in the negotiations

● India's Demands:

- Data secure status (important for India's IT sector to do more business with EU firms) to permit Indian ITeS and BPM companies to gain greater traction in the EU, besides seeking greater access to the EU markets in various categories.
- Ease norms on temporary movement of skilled workers across the EU, make business visas easier.

● EU's Demands:

- Elimination of India's duties on goods such as automobiles and wines and spirits, open its financial services sector as well as public procurement.
- The EU is keen on finalisation of an India-EU Bilateral Investment Treaty (BIT) before the re-launch of the FTA talks; India wants to make 'investment protection' a part of the negotiations on the proposed comprehensive FTA.
- Over time, with the boom in the Indian economy and the changing food habits and the retail distribution in India, the EU has also added easing FDI in retail and a greater access to the Indian food and agricultural markets.

Analysis:

- ❑ Neither the European Union nor India has been able to satisfy the demands of the other side for the deal to progress ahead.

❑ Duties on goods:

- India did slash tariffs on automobile imports and eased import and distribution of alcohol and spirits, but the EU wants it to go much further in both, something that India is not willing or able to, mainly to protect its own automobile and beverages industries.

❑ Data Secure Status:

- The EU has refused to cede to Indian demands on data secure status or to ease mobility of Indian professionals in the EU region, citing that visas were national subjects and not something that Brussels could decide.
- Indian ITeS firms are also outraged that the EU continues to refuse a data secure status to India, casting doubts over the security of private individuals' data to be shared with Indian ITeS companies, thus severely limiting their business prospects in Europe.
- Mode IV: It refers to the delivery of a service within the territory of a member, with the service provider present as a natural person. In its essence, this enables the free movement of individual professionals by committing to measures such as a relaxation of immigration norms.
- The EU law mandates that European countries doing outsourcing business with countries that are not certified as data secure have to follow stringent contractual obligations which increases operating costs and affects competitiveness.

❑ Free movement of people:

- India has been keen to ensure that the final BTIA agreement includes provisions for free movement of people. India is particularly interested in the liberalisation of services under Modes I and IV of GATS.

- As India's skilled services labour force is growing very fast, India emphasises better market access for services through Mode IV liberalisation over market access for goods in trade negotiations.
- India says that improved market access in Mode IV will allow skilled professionals such as software engineers to temporarily reside and work in EU countries. The barriers include work permits, wage parity conditions, visa formalities and non-recognition of professional qualifications.
- The Europeans, however, have been unable to reach a consolidated position on the issue, which is subject to the individual immigration policies of member states rather than of the EU as a whole.
- **Scope:** India's bilateral trade with the European Union amounted to over 116 billion dollars in 2021-22.
- Despite the global disruptions, bilateral trade achieved impressive annual growth of more than 43% in 2021-22.
- Currently, the European Union is India's second-largest trading partner after the US, and the second-largest destination for Indian exports.
- The EU's share in foreign investment inflows to India has more than doubled from 8% to 18% in the last decade, making the EU the first foreign investor in India.

■ Intellectual Property Rights:

- India's Intellectual Property Rights regime is another impediment as the EU wants India to go further than what it has signed on at the WTO.
- India fears that any commitment over and above WTO's intellectual property right rules will undermine India's capacity to produce generic formulations.
- Data exclusivity protection measures (that allows pharmaceutical companies to exclusively retain rights to their test results for a certain time period) would delay the supply of generic medicines. That explains India's opposition to the proposal.
- European pharmaceutical companies are wary of India's patents law which prevents ever greening, which allows companies to renew patents on old drugs by making incremental changes.

■ FDI:

- The EU has been insisting that India further liberalise its Mode III services, including FDI in multi-brand retail and insurance and presently closed sectors such as accountancy and legal services.
- European banks have been eyeing India's relatively under tapped banking space.

■ Non-tariff barriers:

- India is also keen that the EU abolishes non-tariff barriers such as standards and mutual recognition of licensing requirements.
- Indian businesses have accused the EU of using terms like sustainable development, human rights, child labour and working conditions as import barriers and that these are being used increasingly in a rampant fashion.

■ Agriculture:

- In 2020, the agricultural sector contributed an estimated €171.9 billion towards the EU's GDP, the equivalent of 1.3% of the total, compared to over 60% of Indian population that lives off the land and makes up \$375.61 billion, India is 2nd largest producer of agriculture products.
- The EU has a highly protected agricultural sector and India has strong defensive interests in the negotiations not just with the EU but even at the World Trade Organisation talks where India has blocked a deal on trade facilitation agreement unless the WTO members recognise India's right to provide food and farm subsidies for as long as it deems fit.

❑ Procurement Issues:

- This is a priority issue for the EU and a bone of contention between the parties. The EU has complained that the Indian public procurement practices are often not transparent, discriminate against foreign companies while giving preferences to the locals. India is reluctant to agree to bring public procurement on board as it accounts for nearly 13 per cent of India's GDP.
- Hence, several rounds of negotiations and even high level meetings have failed to get around these hurdles and the deal seems more or less to be at the same place where it first encountered hurdles.

❑ Benefits:

- When concluded, this (FTA) would be one of the world's largest trade agreements, touching the lives of 1.7 billion people.
- The European Union is India's biggest trade and investment partner. In principle, the trade agreement can be a great boost to the Indian economy.
- The proposed agreement ensures greater access to trade in information technology (IT) services for Indian IT professionals in the EU. An exchange for a reduction of tariffs from the most favoured nation (MFN) rates by India would facilitate this.
- However, a reduction in tariffs for India would mean more imports than exports, with a greater opening in the Indian market for European goods than in the European market for Indian goods. Therefore, the real issue for India is tackling with the non-tariff barriers such as sanitary and phytosanitary measures, and technical barriers to trade.
- Development of India as a manufacturing hub and expansion of infrastructure of India would also be beneficial for trade. Our imports would also grow. And, it is natural that German companies would benefit a lot from it.

Conclusion

- ❑ The BTIA would encompass markets of more than 1.7 billion people. It has been described as "the mother of all trade agreements" by the Indian media. Therefore, it has been opined that India should adopt a flexible approach. This would be necessary in order to tap the potential gains of the FTA. However, it needs to be understood that issues of contentions between the parties are results of different economic structures and policies. These reflect opposing interests of economies at different levels of development.
- ❑ Hence, the Indian Government needs to take a holistic overview of the potential gains and losses from the proposed FTA with the EU and initiate consultations with all stakeholders. The FTA requires political will from both sides. This should ensure a middle ground which enables both the countries to reap benefits out of the agreement, while at the same time, safeguarding domestic concerns and the public interest at large.

Evaluation of India's PPP Policy

- ❑ Public Private Partnership is a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.
- ❑ PPP Characteristics
 - The private sector is responsible for carrying out or operating the project and takes on a substantial portion of the associated project risks.

- During the operational life of the project the public sector's role is to monitor the performance of the private partner and enforce the terms of the contract.
- The private sector's costs may be recovered in whole or in part from charges related to the use of the services provided by the project, and may be recovered through payments from the public sector.
- Public sector payments are based on performance standards set out in the contract.
- Often the private sector will contribute the majority of the project's capital costs, although this is not always the case.

■ PPP Advantages

- Access to private sector finance.
- Efficiency advantages from using private sector skills and from transferring risk to the private sector.
- Potentially increased transparency.
- Enlargement of focus from only creating an asset to delivery of a service, including maintenance of the infrastructure asset during its operating lifetime.
- This broadened focus creates incentives to reduce the full life-cycle costs (ie, construction costs and operating costs).

■ PPP Modes

- Build Operate and Transfer (BOT): This is the simple and conventional PPP model where the private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector.
- The project's private sector partner is required to provide the funding as well as assume construction and maintenance duties.
- The public sector will let the private sector partner to collect user fees. A key illustration of the BOT paradigm is the national highway projects that NHAI contracted out under the PPP form.
- Build-Own-Operate (BOO): This is a variant of the BOT and the difference is that the ownership of the newly built facility will rest with the private party here.
- Public sector partner consents to "buy" the goods and services delivered by the project on mutually acceptable terms and circumstances.
- Build-Own-Operate-Transfer (BOOT): This is also on the lines of BOT. After the negotiated period of time, the infrastructure asset is transferred to the government or to the private operator.
- The BOOT model is employed in the building of ports and motorways.
- Build-Operate-Lease-Transfer (BOLT): In this approach, the government gives a concession to a private entity to build a facility (and possibly design it as well), own the facility, lease the facility to the public sector and then at the end of the lease period transfer the ownership of the facility to the government.
- DBFO: Under this model, the private party is entirely responsible for the project's design, building, financing, and operation during the concession period.
- LDO: In this kind of investment model, the government or a public sector organisation keeps ownership of the newly built infrastructure facility and gets payments under the conditions of a lease with the private promoter.
- It is mostly used for developing airport facilities.
- Hybrid Annuity Model: HAM is a Combination of EPC model and BOT- (Build Operate Transfer) Annuity model. Under this model. The government will provide 40% of the project cost to the developer to start work while the remaining investment has to be made by the developer.

- **Management contract:** Here, the private promoter has the responsibility for a full range of investment, operation and maintenance functions. He has the authority to make daily management decisions under a profit-sharing or fixed-fee arrangement.
- **Service contract:** This approach is less focused than the management contract. In this approach, the private promoter performs a particular operational or maintenance function for a fee over a specified period of time.

■ Government initiatives

The Government has facilitated the PPP sector by offering:

- **Foreign Direct Investment (FDI)** - upto 100% FDI in equity of SPVs in the PPP sector is allowed on the automatic route for most sectors.
- **Viability Gap Funding (VGF) subsidy**
 - ▶ Viability Gap Funding of upto 40% of the cost of the project can be accessed in the form of a capital grant.
 - ▶ This scheme aims at supporting infrastructure projects that are economically justified but fall marginally short of financial viability.
 - ▶ Support under this scheme is available only for infrastructure projects where private sector sponsors are selected through a process of competitive bidding.
 - ▶ VGF under this Scheme is normally in the form of a capital grant at the stage of project construction.
- **India Infrastructure Project Development Fund (IIPDF)**
 - ▶ Scheme supports the Central and the State Governments and local bodies through financial support for project development activities, (feasibility reports, project structuring etc) for PPP projects.
 - ▶ The IIPDF would assist ordinarily up to 75% of the project development expenses.
 - ▶ The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority for achieving Technical Close of such projects.
 - ▶ On successful completion of the bidding process, the project development expenditure would be recovered from the successful bidder.
 - ▶ From the Government of India's perspective, the IIPDF must increase the quality and quantity of bankable projects that are processed through the Central or States' project pipeline.
- **India Infrastructure Finance Company Limited (IIFCL)**
 - ▶ IIFC was set-up to bridge the gap between long-term debt and Sufficient tenure for cost recovery.
 - ▶ There is urgent need for providing long-term debt for financing infrastructure projects that typically involve long gestation periods.
 - ▶ Debt finance for such projects should be of a sufficient tenure which enables cost recovery across the project life, as the Indian capital markets were found deficient in long-term debt instruments;

■ Issues and Challenges

- The idea that PPP investments can spur infrastructure development and growth without much fiscal pain is not practical as the actual experience of many countries, including India is bitter. In the current scenario Private investments in India is failing to pick up speed, and with government's own finances under strain the government is emphasizing on public-private partnership (PPP) projects to make up for a shortfall in investment spending in the Union budget.

- The reason for the lack luster performance by PPPs projects are:
 - Disputes in existing contracts
 - PPP initiatives have run into problems such disagreements over preexisting contracts, a lack of finance, and legal barriers to buying land.
 - The Indian government has a dismal track record of really controlling PPPs.
 - Metro projects turn into examples of crony capitalism and a tool for land acquisition by private corporations.
 - PPPs are having issues all around the world, and studies undertaken by various research groups indicate that PPP performance has been quite inconsistent.
 - Governments that find it difficult to promote privatisation or when contracting out is challenging politically may assert that PPP is nothing more than a “language game.”
 - The non-performing asset portfolio of India’s public sector banks is thought to contain a sizable portion of loans for infrastructure projects.
 - PPP initiatives have become crony capitalism conduits in several industries.
 - “Politically linked businesses” that have leveraged their political ties to gain contracts are in charge of many PPP projects in the infrastructure sector.
 - PPP companies take advantage of any chance to renegotiate contracts by blaming factors like decreased revenue or rising expenses, which has been the standard in India.
 - Additionally, frequent renegotiations led to a greater drain on public funds.
 - These companies’ opportunistic actions pose a moral hazard.
 - Non-availability of capital and
 - Regulatory hurdles related to the acquisition of land.
 - Though India is one of the largest recipients of private investment in infrastructure, yet due to regulatory and policy issues, there are few hurdles in this area as well.
 - A few private companies have walked out of big projects and some others have been demanding renegotiation or are under arbitration. GMR and GVK that walked out of mega highway projects and Delhi Airport Metro Express are some of the cases.
 - Unstable Macroeconomic Indicators
 - The government and its agencies cannot predict the macro-economic indicators accurately but they expect from the private sector to forecast all the issues that may crop up in the future and take risks.
- Political Indecisiveness & Renegotiation
 - Political indecisiveness leads to policy paralysis.
 - The contracts once negotiated are opened for renegotiation
 - Moreover, articulation of any changes required attracts the charge of crony-capitalism.
 - Therefore renegotiation is easier said than done.

■ PPP in Health Care

- Niti Aayog and Union Health Ministry have proposed a public private partnership (PPP) model to augment the state run healthcare institutions’ capacity to treat non-communicable diseases like cancer and heart ailments. The suggestion is to provide land or building within an existing public health facility or its premises to allow private healthcare provider set up specialised treatment units for specified illnesses. Over the last two decades or so, several state governments have tried to rope in private healthcare players to offer affordable treatment to masses. One of the earliest models

was to provide land at concessional rates, after getting the private partner to commit to offer free treatment to the poor. Governments have tried to lease out entire facility to the private player, given them the operational rights for mutually agreed time frame and allowed them to provide specific services like diagnostic labs or pharmacies within the government hospital premises. The results have always been mixed. There were some good examples, some failures. But none of these partnerships were seen as something that can be scalable pan-India, and hence become a template for universal healthcare coverage

■ Kelkar Report on PPP

Key recommendations of Kelkar Committee are:

- **Periodic reviews:** Reviews should ideally be done frequently, perhaps once every three years.
- **Change in attitude and in the mind-set:** All parties concerned to foster trust between private and public sector partners when they implement PPPs.
- **Amend the Prevention of Corruption Act, 1988:** The Government may take early action to amend the Prevention of Corruption Act, 1988 which does not distinguish between genuine errors in decision-making and acts of corruption.
- Capacity building programmes for different stakeholders including implementing agencies and customized programmes for banks and financial institutions and private sector need to be evolved. The need for a national level institution to support institutional capacity building activities must be explored.
- **Optimal allocation of risks across PPP stakeholders:** Project specific risks are rarely addressed by project implementation authorities in this “One-size-fits-all” approach.
- **Dispute Resolution Mechanism:** The Committee recognizes the need for a quick, equitable, efficient and enforceable dispute resolution mechanism for PPP projects.
- **Unsolicited Proposals (“Swiss Challenge”)** may be actively discouraged as they bring information asymmetries into the procurement process and result in lack of transparency and fair and equal treatment of potential bidders in the procurement process.
- The Committee is of the view that since state owned entities SoEs/PSUs are essentially government entities and work within the government framework, they should not be allowed to bid for PPP projects.
- PPP should not be used as the first delivery mechanism without checking its suitability for a particular project.
- Equity in completed, successful infrastructure projects may be divested by offering to long-term investors, including overseas institutional investors as domestic and foreign institutional investors with long-term liabilities are best suited for providing such long-term financing, but have a limited appetite for risk.
- Encouraging the banks and financial institution to issue Deep Discount Bonds or Zero Coupon Bonds (ZCB). These will not only lower debt servicing costs in an initial phase of project but also enable the authorities to charge lower user charges in initial years.

■ New PPP Policy

- Government has announced a new PPP Policy for Affordable Housing that allows extending central assistance of up to Rs.2.50 lakh per house to be built by private builders even on private lands besides opening up immense potential for private investments in affordable housing projects on government lands in urban areas.
- This policy seeks to assign risks among the government, developers and financial institutions, to those who can manage them the best besides leveraging underutilized and un-utilized private and public lands towards meeting the Housing for All target by 2022.

- New policy gives eight PPP (Public Private Partnership) options for private sector to invest in affordable housing segment.
- The two PPP models for private investments in affordable housing on private lands include:
- Extending central assistance of about Rs.2.50 lakh per each house as interest subsidy on bank loans as upfront payment under the Credit Linked Subsidy Component (CLSS) component of Pradhan Mantri Awas yojana (Urban).
- Under the second option, central assistance of Rs.1.50 lakh per each house to be built on private lands would be provided, in case the beneficiaries do not intend to take bank loans.
- The six models using government lands are:
- DBT Model: Under this option, private builders can design, build and transfer houses built on government lands to public authorities. Government land is to be allocated based on the least cost of construction. Payments to builders will be made by the public authority based on progress of project as per agreed upon milestones and buyers will pay to the Government.
- Mixed Development Cross: Subsidized Housing : Government land to be allotted based on number of affordable houses to be built on the plot offered to private builders, cross subsidizing this segment from revenues from high end house building or commercial development.
- Annuity Based Subsidized Housing: Builders will invest against deferred annuity payments by the Government. Land allocation to builders is based on unit cost of construction.
- Annuity-cum-Capital Grant Based Affordable Housing: Besides annuity payments, builders could be paid a share of project cost as upfront payment.
- Direct Relationship Ownership Housing: As against government mediated payments to builders and transfer of houses to beneficiaries in the above four models, under this option, promoters will directly deal with buyers and recover costs. Allocation of public land is based on unit cost of construction.
- Direct Relationship Rental Housing: Recovery of the costs by builders is through rental incomes from the houses built on government lands.
- Under these six Government land based PPP models, beneficiaries can avail central assistance of Rs.1.00 to Rs.2.50 lakh per house as provisioned under different components of PMAY(Urban).
- Also Beneficiaries will be identified as per the norms of PMAY(Urban).
- The private sector has not entered affordable housing segment so far despite huge scope for the same under Pradhan Mantri Awas Yojana(Urban) and an enabling eco-system put in place through several concessions and incentives offered including the grant of infrastructure status for this segment.

Way Forward:

- Large-scale transportation projects in particular are important for boosting mobility and for the many changes in land use patterns. PPPs have the ability to expedite and improve the delivery of infrastructure projects. PPP contracts currently place more emphasis on financial advantages.
- Before implementing this strategy, a thorough evaluation of the effectiveness and potential advantages of increased private sector involvement in metro rail projects is required.
- In its paper “Strategy for New India @75,” the NITI Aayog set a target for investment rates, raising them from 28 percent in 2017–2018 to 36 percent in 2022–23.
- Private and governmental investment must both increase in order to increase the rate of investment (gross fixed capital formation as a proportion of GDP).
- Infrastructure has to be developed through revitalised public-private partnership (PPP) strategies along the lines recommended by the Kelkar Committee.

- Our Prime Minister once observed, “The Government has no business to conduct business.” A mature PPP framework and a strong enabling environment would allow the government to substantially achieve this and encourage private sector investments and engagement in nation-building.

Conclusion

- The ultimate success of the PPP model depends upon the government’s willingness to accept the basic premise within which private sector operates. Whatever be the arrangement, it should make commercial sense. The private sector should also be careful not to utilize this opportunity for maximizing their profits. It’s going to be a volume game, and they should be contented with the thinnest margins possible. Once there is a convergence in these motives, resource convergence will take no time.

COMMITTEES

Nachiket Mor Committee on financial Inclusion

The “Committee on Comprehensive Financial Services for Small Businesses and Low Income Households” was set up by the RBI under the chairmanship of Nachiket Mor.

■ Vision for financial Inclusion

- In its final report, the Committee has outlined six vision statements for full financial inclusion and financial deepening in India:
- Universal Electronic Bank Account (UEBA): Each Indian resident, above the age of eighteen years, would have an individual, full-service, safe, and secure electronic bank account.
- Ubiquitous Access to Payment Services and Deposit Products at Reasonable Charges: The Committee envisions that every resident in India would be within a fifteen minute walking distance of a payment access point.
- Sufficient Access to Affordable Formal Credit: Each low-income household and small-business would have access to a formally regulated lender that is capable of assessing and meeting their credit needs. Such a lender must also be able to offer them a full-range of suitable credit products at an affordable price.
- Universal Access to a Range of Deposit and Investment Products at Reasonable Charges: Each low-income household and small-business would have access to providers that can offer them suitable investment and deposit products. Such services must be available to them at reasonable charges.
- Universal Access to a Range of Insurance and Risk Management Products at Reasonable Charges: Each low-income household and small business would have access to providers that have the ability to offer them suitable insurance and risk management products. These products must at minimum allow them to manage risks related to: (a) commodity price movements; (b) longevity, disability, and death of human beings; (c) death of livestock; (d) rainfall; and (e) damage to property.
- Right to Suitability: Each low-income household and small-business would have a legally protected right to be offered only suitable financial services. She will have the right to seek legal redress if she feels that due process to establish Suitability was not followed or that there was gross negligence.

■ Recommendations

- The key recommendations are:
- Providing a universal bank account to all Indians above the age of 18 years by January 1, 2016. To achieve this, a vertically differentiated banking system with payments banks for deposits and payments and wholesale banks for credit outreach. These banks need to have Rs.50 crore by way of capital, which is a tenth of what is applicable for new banks that are to be licensed.
- Aadhaar will be the prime driver towards rapid expansion in the number of bank accounts.
- Monitoring at the district level such as deposits and advances as a percentage of gross domestic product (GDP).
- Adjusted 50 per cent priority sector lending target with adjustments for sectors and regions based on difficulty in lending.

Parthasarathi Shome Committee on GAAR

- GAAR abbreviation stands for General-Anti-Avoidance Rules. These rules are primarily targeted at arrangements or transactions made specifically to avoid taxes.
- The purpose of the GAAR is to minimize the instances of tax avoidance which amount to large revenue losses to the Government. The rules will apply only to income that accrues after April 1, 2013.
- The crux of the GAAR is that authorities can deny tax benefit to any business arrangement or a transaction, termed 'impermissible avoidance arrangement', if they feel it has been primarily entered into to avoid taxes.

■ Provisions of GAAR

- When an arrangement or an economic transaction has been made with the sole purpose of availing the tax benefit, it is termed Impermissible Avoidance Arrangement (IAA). GAAR seeks to target and stop the instances of IAA.
- GAAR aims to target tax evaders, partly by stopping Indian companies and investors from routing investments through Mauritius or other tax havens for the sole purpose of avoiding taxes.
- The rollout of GAAR begins in April 2013 to provide more time to both taxpayers and the tax office to address all related issues.
- GAAR allows tax authorities to call a business arrangement or a transaction 'impermissible avoidance arrangement' if they feel it has been primarily entered into to avoid taxes.
- Once an arrangement is ruled 'impermissible' then the tax authorities can deny tax benefits. Most aggressive tax avoidance arrangements would be under the risk of being termed impermissible.
- The onus to prove an agreement is impermissible will lie with the tax department. If an assessing officer finds that only a part of the tax arrangement is impermissible then GAAR will apply only to that part and not to the entire transaction.
- The rule can apply on domestic as well as overseas transactions.
- The rules will apply only above a certain monetary threshold to give relief to small taxpayers. All action under GAAR will be time bound, and a three-member panel will ensure that only genuine cases are taken up.
- If a foreign institutional investor pays tax in accordance with the domestic laws then GAAR will not be invoked against the FII and its non-resident investors.

- However, if an FII decides to take the benefit of a tax treaty India has with another country then GAAR provisions may be invoked in the case of that FII but its non-resident investors will be spared. This means that those investing in India through participatory notes will not face action under GAAR.

■ Shome Panel Recommendations

- Shome Panel setup to draw final guidelines on GAAR recommended the following:
- GAAR should not be used for filling revenue shortfalls.
- GAAR should be avoided in following cases:
- IT commissioner should send notices only in cases where he can recover more than 3 crore rupees.
- In retrospective cases, only recover tax dues. Don't demand additional penalty.
- Exempt the buying/selling of company shares from capital gains tax.
- GAAR should not be invoked to examine the genuineness of the residency FII from Mauritius and the government should retain the provisions of the CBDT circular issued in the Year 2000 on acceptance of Tax Residence Certificate (TRC) issued by Mauritius. Over 44 per cent of foreign investment in India comes through Mauritius and Singapore. For investments from Singapore and elsewhere, the benefits offered by India through bilateral treaties should supersede domestic tax laws and it is a constructive step in this regard.
- The Shome Committee has proposed to do away with short-term capital gains tax by increasing the transaction tax. It asked the government should abolish the tax on gains arising from transfer of listed securities, whether in the nature of capital gains or business income, to both residents as well as non-residents. In order to make the proposal tax neutral, the government may consider increasing the rate of Securities Transaction Tax (STT) appropriately.

N K Singh Panel Report on FRBM Act

- A five member panel (committee) constituted in May 2016, to set a new fiscal consolidation roadmap on revising the Fiscal Responsibility and Budget Management (FRBM) Act has submitted its report to the Ministry of Finance on January 23rd 2017.
- Headed by former Revenue Secretary N K Singh, the government had mandated the committee to explore whether it should adopt a flexible fiscal deficit target instead of a fixed number every year.

■ Background to the FRBM Act:

- Fiscal Responsibility and Budget Management (FRBM) became an Act in 2003. The objective of the Act is to ensure inter-generational equity in fiscal management, long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the government.
- The FRBM rule specifies reduction of fiscal deficit to 3% of the GDP by 2008-09 with annual reduction target of 0.3% of GDP per year by the Central government. Similarly, revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination to be achieved by 2008-09. It is the responsibility of the government to adhere to these targets. The Finance Minister has to explain the reasons and suggest corrective actions to be taken, in case of breach.
- FRBM Act provides a legal institutional framework for fiscal consolidation. It is now mandatory for the Central government to take measures to reduce fiscal deficit, to eliminate revenue deficit and to generate revenue surplus in the subsequent years.
- The act binds not only the present government but also the future government to adhere to the path of fiscal consolidation.

- The government can move away from the path of fiscal consolidation only in case of natural calamity, national security and other exceptional grounds which Central Government may specify.
- The Act prohibits borrowing by the government from the Reserve Bank of India, thereby, making monetary policy independent of fiscal policy.
- The act bans the purchase of primary issues of the Central Government securities by the RBI after 2006, preventing monetization of government deficit.
- The act also requires the government to lay before the parliament three policy statements in each financial year namely Medium Term Fiscal Policy Statement; Fiscal Policy Strategy Statement and Macroeconomic Framework Policy Statement.

■ Key Recommendations:

• New statutory framework for debt and fiscal targets:

- ▶ Repeal the existing FRBM Act, 2003 and the FRBM Rules, 2004.
- ▶ Enact a new Debt and Fiscal Responsibility Act and in pursuance of the new Act, enact and adopt the Debt and Fiscal Responsibility Rules, as per drafts suggested by the Committee.

• Debt is the new anchor:

- ▶ The Committee recommends a move to public debt to GDP ratio as a medium-term anchor for fiscal policy in India.
- ▶ There are four key economic arguments that form the basis for moving to debt.
- ▶ The standard government solvency constraint suggests debt to be the ultimate objective of fiscal policy.
- ▶ There was broad consensus that a debt ceiling combined with fiscal deficit as an operational target can jointly provide a robust fiscal framework for India.
- ▶ India, with a public debt close to 70 percent of GDP, currently stands out as among the most indebted countries amongst the relevant peer group of emerging markets.
- ▶ Public debt exemplifies an important factor in the assessments of rating agencies.
- ▶ In addition to these economic arguments, a non-economic argument by committee members is that “debt” and “debt repayments” are concepts that can be communicated easily to the public and are also embedded in the psyche of the ordinary citizen.
- ▶ With Fiscal Deficit as the Operational Target:
- ▶ A medium-term debt ceiling is not sufficient by itself, and needs to be combined with a key operational target, which the Committee recommends to be the fiscal deficit.
- ▶ A debt sustainability analysis (DSA) conducted for the central government suggests that a debt ceiling of 40% of GDP for the central government can be attained in the next 5-6 years only if the government sticks to the fiscal path envisaged under the present FRBM.

■ Targets:

• Debt to GDP Ratio:

- ▶ Adopt a prudent medium-term ceiling for general government debt of 60% of GDP, to be achieved by no later than FY23.
- ▶ Within the overall ceiling specified above, adopt a ceiling of 40% for the Centre, and the balance 20% for the States.

- **Fiscal deficit:**

- ▶ Adopt fiscal deficit as the key operational target consistent with achieving the medium-term debt ceiling.
- ▶ The path of fiscal deficit to GDP ratio of 3.0% in FY18-FY20, 2.8% in FY21, 2.6% in FY22, and 2.5% in FY23 be adopted.

- **Revenue deficit:**

- ▶ Revenue deficit to GDP ratio to decline steadily by 0.25 percentage points each year with the path specified as follows: 2.3% in FY17, 2.05% in FY18, 1.8% in FY19, 1.55% in FY20, 1.30% in FY21, 1.05% in FY22, and 0.8% in FY23.

■ **Fiscal Council:**

- Constitute an independent Fiscal Council:

- **Composition:**

- It will consist of a Chairperson and two Members.
- Only persons with domain expertise in public finance, economics, or public affairs shall be eligible to become Chairperson or Member.
- Functions: The Fiscal Council shall perform the following functions, namely.
- Prepare multi-year fiscal forecasts for Central and General Government;
- Provide an independent assessment of the Central Government's fiscal performance and compliance with targets set under this act.
- Prepare the Macroeconomic Framework Statement.
- Advise the Central Government on whether conditions exist to permit a deviation for invocation in the "escape or buoyancy clause".
- Make recommendations to the Central Government on the action plan for returning to the stipulated fiscal targets from which the deviations have taken place.

■ **Escape clause:**

- There is a provision of "escape clause" wherein temporary and moderate deviations from the baseline fiscal path are permitted under exceptional circumstances and in reaction to external shocks.
- The Committee proposes escape clauses for following trigger situations:
- Over-riding consideration of national security, acts of war calamities of national proportion and collapse of agriculture severely affecting farm output and incomes.
- Far-reaching structural reforms in the economy with unanticipated fiscal implications.
- Sharp decline in real output growth of at least 3 percentage points below the average for the successive quarters.
- Caveat: Deviations should not exceed fiscal deficit target by 0.5 percentage points.

■ **How much deviation is allowed?**

- The deviations from the stipulated fiscal deficit target shall not exceed 0.5 percentage points in a year.
- One of the members, Dr.Urjit Patel, however, is in favour of 0.3 percentage points.

❑ **The Escape Clauses can be invoked:**

- By the government after formal consultations and advice of the Fiscal Council.
- Provided it is accompanied by a clear commitment to return to the original fiscal target in the ensuing fiscal year.

❑ **Buoyancy clause:**

- The Committee also felt that the policy responses to sharp changes in output growth should be symmetric.
- If there is a sharp increase in real output growth of at least 3 percentage points above the average for the previous four quarters, fiscal deficit must fall by at least 0.5 percentage points below target.
- Similar to the escape clause, the buoyancy clause can be invoked by the government, after formal consultations and advice of the Fiscal Council.

❑ **Fiscal transparency:**

- Move towards international best practices for compilation and presentation of fiscal accounts, as laid out in the International Monetary Fund Government Finance Statistics Manual 2014 (GFSM 2014).
- Effectively utilize provisions of Article 150 of the Constitution of India to improve accounting and fiscal reporting on Central and General Government finances.
- Expeditiously review and finalise the policy on management of the National Small Savings Fund.

❑ **Institutional Reforms In General Government's Fiscal Management:**

- Centre should give consent to State borrowings under Article 293 of the Constitution.
- Centre should request the RBI to issue a consolidated annual prospectus for planned bond and loan issues by each government.

Shanta Kumar Committee on FCI

- ❑ Government of India (GoI) set up a High Level Committee (HLC) with Shri Shanta Kumar as the Chairman, six members and a special invitee to suggest restructuring or unbundling of FCI with a view to improve its operational efficiency and financial management.

❑ **GoI also asked HLC to suggest measures for:**

- Overall improvement in management of foodgrains by FCI.
- To suggest reorienting the role and functions of FCI in MSP operations, storage and distribution of foodgrains and food security systems of the country.
- To suggest cost effective models for storage and movement of grains and integration of supply chain of foodgrains in the country.

❑ **Major Recommendations of HLC:**

- Below is a summary of major recommendations of HLC keeping in mind the following points:
- How procurement benefits can reach larger number of farmers.
- How PDS system can be re-oriented to give better deal to economically vulnerable consumers at a lower cost and in a financially sustainable manner.

- Finally how stocking and movement operations can be made more efficient and cost effective in not only feeding PDS but also in stabilizing grain markets.

■ On direct subsidy to farmers:

- Since the whole system of food management operates within the ambit of providing food security at a national as well as at household level, it must be realized that farmers need due incentives to raise productivity and overall food production in the country.
- Most of the OECD countries as well as large emerging economies do support their farmers. India also gives large subsidy on fertilizers. Urea prices are administered at a very low level compared to prices of DAP and MOP, creating highly imbalanced use of N, P and K. HLC recommends that farmers be given direct cash subsidy (of about Rs. 7000/ha) and fertilizer sector can then be deregulated. This would help plug diversion of urea to non-agricultural uses as well as to neighbouring countries, and help raise the efficiency of fertilizer use.
- It may be noted that this type of direct cash subsidy to farmers will go a long way to help those who take loans from money lenders at exorbitant interest rates to buy fertilizers or other inputs, thus relieving some distress in the agrarian sector.

■ On the new face of FCI:

- The new face of FCI will be akin to an agency for innovations in Food Management System with a primary focus to create competition in every segment of food grain supply chain, from procurement to stocking to movement and finally distribution in TPDS, so that overall costs of the system are substantially reduced, leakages plugged, and it serves larger number of farmers and consumers.

■ Appraisal of Shanta Kumar Committee Report:

- There has been some criticism of the committee report from several quarters particularly the economists and think tanks that supported National Food Security Bill and they feel the bill will further dilute the food security in India.
- Similarly, there is a doubt that the recommendations will privatize the food procurement activities and bring in private sector which may exploit the farmers.
- However, it must be noted that most of the reforms are aimed at bringing efficiency and reduce wastage in the system and the reforms must go through and shall not be halted. Regarding the fears of privatization, Committee has now explained there would be no privatization of the FCI. Similarly the mandate is not to dilute state control over welfare activities, but rather to reduce the losses that in the end costs only the poor as the failure of the FCI to liquidate stock and open market sale has also contributed to food inflation and reforms are must and urgent need of hour.

HR Khan Committee on Foreign Portfolio Investment

Context:

- Based on Khan Committee's interim report, Securities and Exchange Board of India (SEBI) is conceiving an idea to merge Non Resident Indian (NRI) and Portfolio Investment Scheme (PIS) routes with that of Foreign Portfolio Investors (FPIs).
- The committee was formed by SEBI under the chairmanship of HR Khan, former deputy governor of RBI, to suggest measures for revitalizing and streamlining FPIs.

- ❑ The committee has suggested many reforms in foreign investment regulation mechanism in its interim report which were made public by the SEBI for comments last month.
- ❑ Taking cue from the interim report, SEBI has initiated the process of reforms especially with regard to NRIs and Overseas Citizens of India (OICs) investments in India.

❑ **The committee was mandated:**

- To rationalise the rules for foreign investors and come up with a policy regime without altering the broader framework.
- To relook at rules for foreign institutional investors that are otherwise registered within matured jurisdictions like the US, but pool their money in tax haven jurisdiction.
- To examine the time framework given to FPIs for making their funds broad based.
- To examine the feasibility of asking persons of funds to share their personal details, since these funds are of high risk in nature.
- To examine the feasibility of bringing NRIs and OCIs more under the net of SEBI regulations.
- To bridge the gaps between hundreds of FAQs released by SEBI at various points and the actual regulations.

❑ **Recommendations:**

- NRIs, overseas citizens of India and resident Indians should be allowed to hold non-controlling stakes in FPIs and no restriction should be imposed on them to manage non-investing FPIs or SEBI-registered offshore funds.
- NRIs will be allowed to invest as FPIs if the single holding is under 25% and group holding under 50% in a fund, according to the panel.
- Erstwhile PIOs should not be subjected to any restrictions, while clubbing of investment limits for well-regulated and publicly held FPIs having common control should be allowed.
- Time for compliance with new norms should be extended by six months, after they are finalised and also the non-compliant investors should be given further 180 days to wind down their existing positions.
- SEBI should do away with additional Know Your Customer (KYC) requirements for beneficial owner in case of government related FPI's.

❑ **Reforms:**

- Based on the interim report of the Khan Committee, along with other reports such as A.R Dave panel on the Consent Mechanism and the T.K Viswanathan on Fair Market Conduct, SEBI has initiated a process of reforms in the capital market of the country.
- SEBI eased the KYC norms and eligibility terms for FPIs. Now the beneficial ownership criteria in the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 (PMLA Rules), will apply for KYC. As per the new norms clubbing of investment limit should not be done based on beneficial owner (BO).
- There will be separate set of norms for determining conditions, wherein NRIs, OCIs and resident Indian are constituents.
- NRIs, OCIs and resident Indians are allowed to be constituents of FPIs if a single NRI, OCI or RI holds less than 25% of holding.
- Investment managers of NRIs, OCIs and RIs can control the FPI, if they are regulated in the home jurisdiction and registered with SEBI as a non-investing FPI. Such an FPI may be directly or indirectly fully-owned and controlled by an NRI, OCI, or RI.

- ▶ Foreign investment is one of the most important engines of economic growth and development in India. The recent trends in the global economy have put pressure on the Indian foreign investment. In the face of it, Indian rules and regulations regarding foreign investment should have been simplified and rationalised to retain and increase the capital coming from outside the country. Although, India is one of the fastest growing economies of the world, there are certain vulnerabilities which put pressure on the overall economic performance of the country. One of the main challenges in the recent past is flight of FPIs.
- ▶ There are several reasons for the flight of portfolio investment from the country in recent past. Some of the important ones are discussed below.
- **Depreciation of Rupee:** Since January 2018, Indian Rupee has depreciated by over 16 per cent to record a new all-time low practically every month. The decreasing value of rupee implies an increased cost for Indian economy to pay for its import obligations, thereby risking an increase in inflation. FIIs are concerned as they have to earn more returns to substitute the fall in their portfolio value due to rupee depreciation.
- **Fear of US sanctions and trade war:** The trade war between US and China has escalated on the back of import tariffs imposed by the US President Donald Trump on the Chinese imports. US has imposed tariff on Chinese imports worth \$250 billion in three rounds so far this year. Reacting to the trade war, Asian Development Bank's President Takehiko Nakao has warned "people will start worrying about the credibility" of the multilateral free trade system that the world has believed in for so long and adversely affect the global investor sentiment. This could shave 1 and 0.2 per cent growth rate of China and US respectively. Foreign investors are worried the trade war may spill and negatively affect Indian export potential, and ultimately reduce investor returns.
- **Rising crude oil prices:** This year alone Brent crude oil has appreciated by 17.25 per cent. The rise in crude oil implies that logistics cost for all commodities such as food items, agricultural output, expenses on daily transportation would raise thereby increasing inflation. This would impact the profitability of most companies, which would lead to fall in stock prices of such companies, erasing investor wealth.
- In the light of these challenges, frequent changes in regulations and norms pertaining to FPIs and other foreign investments would be devastating and would send a bad signal to foreign investors. SEBI announced a set of new rules for foreign fund ownership last month. Its objective was to stop Indians from round-tripping their money.

Way forward:

- A multi-pronged approach is needed to attract the foreign investment in the country both portfolio and direct investment.

Strategic Partnership Policy to Boost Defence Manufacturing: Dhirendra Singh Committee

■ What is Strategic Partnership Policy?

- It is basically a policy decision in defence acquisition, where the private sector would be roped in as a strategic partner for making of advanced weapons system for armed forces of India.
- It has been released as a part of 'Defence Procurement Procedure (DPP)' which is the policy document for acquisition of capital assets for the Armed forces of India.

- It was felt that these public sectors entities were not efficient in their functioning, and therefore Dhirendra Singh Committee on defence acquisition (July 2015) advocated for strategic partnership with private entities for defence manufacturing.

■ Features of the Policy

- Initially, 4 major sectors viz. fighter jets, helicopters, submarines and armoured vehicles (tanks and infantry combat vehicles) would be opened for private sector for strategic partnership.
- One private entity would be chosen as the strategic partner for one of the above mentioned sectors, so as to avoid the monopolistic situation.
- Global OEM can also apply for strategic partnership, provided they agree for 'Transfer of Technology' agreement with the domestic entities.
- After shortlisting of the foreign vendors, Indian pool would be invited to plan collaborations and present joint proposals.

■ The Roadmap Ahead

- The proposal of 'Strategic Partnership' would be placed before the Cabinet Committee on Security (CCS) for the final approval.
- A pool of Indian companies having turnover of Rs 4000 Crore in last 3 years, and the capital assets worth Rs 2000 crore would be created to accord special status of Defence Manufacturing entities.
- Other parameters like demonstrable manufacturing and technical expertise, existing infrastructure and the ability to absorb technology from their foreign partners, would be taken into consideration for creating the pool of eligible domestic private entities for defence manufacturing.

■ Benefits of the Strategic Partnership Policy

- Strategic partnership policy will lay a strong defence industrial foundation by making long-term investment on production and R&D infrastructure.
- The policy is aimed at developing the defence industrial ecosystem in the country through the involvement of major Indian corporates as well as the MSME sector.
- It would help in creating a pool of skilled workforce on cutting edge technologies, and thus would improve the employment scenario in the country.
- It would also increase competition in the domestic defence manufacturing arena, and Defence PSUs and Ordnance Factories boards would be compelled to increase their efficiency in order to survive.
- The crucial aim of this policy is to enhance India's self-reliance in defence procurement which continues to remain at an abysmally low level (30-35%) despite a huge defence industrial complex in public sector.
- With a stated policy measure, private sector would get more confidence in investing in the long-gestation Defence manufacturing Projects.

■ Points of Concern

- There might be issues of lack of institutional capacity in the private sector for running projects of such a large magnitude, as the sector was hitherto kept in isolation with Defence Manufacturing.
- Though Dhirendra Singh committee recommended against cross holding of two or more Strategic Partners by one parent company, the MoD's notified model has left this issue open. This may result in monopolistic domination by one large conglomerate.
- Given the sectors open for strategic partnership currently, it will fail to deal with one of India's more pressing defence shortfalls in ammunitions.

- The eligibility criteria of turnover of Rs 4000 crore, would result in hardly any MSME qualifying for the Strategic Partnerships.
- The government may still prefer to procure from PSU, and in that case, an export policy for Strategic Partners needs to be evolved.

Conclusion

- ▣ Strategic Partnership Policy is a much awaited initiative for revitalizing the domestic defence manufacturing segment in India. On one hand, it would provide incentives to corporate for investing in state-of-art cutting edge technologies and on the other hand it would result in reducing the import dependency of the armed forces, which could become a disadvantage during time of conflicts.
- ▣ As of now, only the broad contours of the policy have been unveiled, and the actual understanding can only be developed after the release of the fine prints. It can be hoped that gradually many other sectors would be opened under the strategic partnership model, which would lead to creation of a robust ecosystem of defence production. The onus would also be on Defence PSUs to improve their performance in order to remain relevant in the changing scenario.
- ▣ Any shortcomings or deficiency in the policy can be addressed by mutual consultation between the government and industry. If implemented in true spirit, this could be the greatest exponent of 'Make in India' policy of the government.

Bibek Debroy Committee on Railway

- ▣ The high-level committee was formed to restructure the Railways and suggest ways for resource mobilization.
- ▣ The Report has been named as: Report of the committee for mobilization of resources for major railway projects and restructuring of railway ministry and railway board.

Recommendations

- In next 5 years bring the following reforms, as these are a prerequisite for bringing further reforms for restructuring of the Railways:
- Get a regulator for railways in 5 years
 - It should be statutory, independent and quasi-judicial.
 - It will be named as Railway Regulatory Authority of India.
 - The Regulator will work under the policy framed by the Ministry.
 - Task -
 - Set freight rates and can also recommend passenger fare revisions but won't be binding on the Railway Ministry.
 - Resolve disputes.
 - The government should take the entire burden of social cost borne by Railways by way of subsidy.
 - Other steps (less important) - Uniform Induction System of all new Human Resource and devolution of powers to General Managers, Divisional Railway Managers and Station Managers.
- **After 5 years:**
 - Scrap the Rail Budget

- ▶ Private players should be allowed in an “open access” regime under which the Indian Railways will be just another train-service provider in the country.
- **Organizational changes:**
 - ▶ Create a Railway Ministry eventually with at least three Secretary-level officers to lay down policy for the rail sector.
 - ▶ The present Railway Board will become a board of Indian Railways only, and not for whole rail sector.
 - ▶ Separation of railway track construction, train operations, and rolling-stock production units under different entities.
 - ▶ Make Dedicated Freight Corridor Corporation Limited (DFCCL) autonomous and separated from Indian Railways so that it gives non-discriminatory access to both Indian Railways and private operators.

Urjit Patel Committee Report on Monetary Policy

Recommendations

■ The recommendations have been discussed below:

- The most important recommendation of the committee was that the RBI should focus on controlling inflation in the economy or in other words inflation should be the nominal anchor to frame monetary policy.
- The nominal anchor or the target for inflation should be set at 4% with a band of +/- 2% around it.
- The nominal anchor should be defined in terms of headline CPI inflation, which closely reflects the cost of living and influences inflation expectations relative to other available metrics.
- Historically, Indian policymakers have relied on the Wholesale Price Index.
- Given the current elevated level of CPI inflation, it recommended a 12-month target of 8% and a 24-month target of 6%, before the inflation target is formally adopted.
- The committee asked the Central Government to ensure that the fiscal deficit as a ratio to GDP (gross domestic product) is brought down to 3.0% by 2016-17.
- The Patel panel felt that the monetary policy decision-making should be vested with a monetary policy committee (MPC).
- It went on to recommend that the Governor of the RBI should be the Chairman of the MPC. It felt that the Deputy Governor in-charge of monetary policy could be the Vice-Chairman. The Executive Director in charge of monetary policy could be its member. It could have two external members.
- The term of office of the MPC could be three years, without prospect of renewal.
- Minutes of the proceedings of the MPC will be released with a lag of two weeks from the date of the meeting.
- Currently, the RBI governor is the sole decision maker on monetary policy, though he is advised by his four deputy governors and a technical advisory committee.
 - ▶ Concerns regarding Urjit Patel Committee Recommendations:

- ▶ Experts feel that it is premature to use the Consumer Price Index (CPI) as anchor since the data had imperfections.
- ▶ Inflation targeting was done in countries which had more stable kind of pricing. In India, it may be difficult to do that kind of targeting because that level of stability is not yet achieved in the prices where we can curb certain volatilities or volatility in certain periods through a very specific targeting.
- ▶ Some experts believe the panel recommendation for adopting monetary policy, which is centered on inflation, will be a shift from traditional policymaking, and will also bring RBI policy calibration closer to the international practices.

SEBI reforms on Corporate Governance – Uday Kotak Committee

Context

- The Kotak Committee on Corporate Governance (hereinafter referred to as ‘The Committee’) was constituted in June 2017, under the chairmanship of Uday Kotak.
- Its primary objective was improving the standards concerning corporate governance of listed companies in India.

About:

- The Committee gave following recommendations:
- It proposed more powers for independent directors, limiting chairmanship to non-executive directors, and called for a greater focus on transparency and disclosures to improve corporate governance.
- It recommended that a listed company should have at least six directors on its board. Current SEBI regulations do not mandate a minimum number. It has suggested at least one independent director be a woman.
- It also proposed that directors attend at least half the total board meetings held in a financial year. If they fail to do so, they would require shareholders’ nod for continuing.
- Companies have asked to make public the relevant skills of directors, and the age of non-executive directors has been capped at 75 years.
- In addition, the chairperson of a listed company will be a non-executive director to ensure that s/he is independent of the management.
- An independent director cannot be in more than eight listed companies and a managing director can hold the post of an independent director in only three listed companies.
- The number of independent directors on a company board be increased from 33% to 50%.
- The minimum sitting fees of independent directors has been halved from the current Rs1 lakh per meeting as stipulated by the Companies Act 2013 to Rs50, 000 for the top 100 companies by market capitalization.
- Detailed reasons would need to be furnished when an independent director resigns. This is to ensure that they remain independent of the company management.
- An audit committee is being proposed with the mandate to look into utilization of funds infused by a listed entity into unlisted subsidiaries, including foreign subsidiaries in cases where the total investment is at least Rs100 crore or 10% of the asset size of the subsidiary.

- It recommended that SEBI should have clear powers to act against auditors under the securities law.
- For government companies, the board have final say on the appointment of independent directors and not the nodal ministry.
- It has also proposed to tweak the definition of a “material” subsidiary to one whose net worth or income exceeds 10% (currently 20%) of the consolidated income, or net worth of the listed entity. This has been done to improve disclosure, since only the activities of material subsidiaries are disclosed to shareholders.

■ **Key Recommendations of the Committee approved by SEBI with their explanation and importance:**

● **Increasing Transparency – Enhanced Disclosure Requirements:**

- ▶ Corporate governance norms are aimed at reduction of agency costs for residual owners of a corporation (its shareholders) incurred by them in monitoring and ensuring effective functioning of a corporation as per its objectives (by the management). Effective disclosures, thus, are fundamental to corporate governance. The Committee had made various recommendations pertaining to enhancing disclosure requirements of listed entities.

● **Recommendations approved by SEBI pertain to the following–**

- ▶ Disclosure of Utilization of Funds from Qualified Institutional Placement (QIP) /Preferential Issues :Full disclosure of utilization of funds rose through Preferential Allotment and QIPs undertaken in the relevant financial year have to be made in the Annual Report of the listed company until such funds are fully utilized.
- ▶ Disclosures of Auditor Credentials, Audit Fee, Reasons for Resignation of Auditors: A listed entity will now be required to disclose in its Annual Report, the details of all fees paid by the listed entity and its subsidiaries (on a consolidated basis) to the statutory auditor and to all other entities in the network firm/network entity of which the auditor is a part.
- ▶ Apart from the above, detailed reasons for resignation of an auditor as given by the said auditor has to now be disclosed to the stock exchanges.
- ▶ Disclosure of Expertise/Skills of Directors: The listed entity is required to disclose a chart or a matrix setting out the skills/expertise/competence of the board of directors in its Annual Report containing a list of core skills/expertise/competencies identified by the board of directors as required in the context of its business and sector(s) for it to function effectively, and those actually available with the board in the Financial Year 2018-2019.
- ▶ Further, detailed disclosures of competencies of every board member, along with their names have to be disclosed in the Annual Report for the Financial Year 2019-2020.
- ▶ Enhanced Disclosure of Related Party Transactions (RPT): A listed entity has to submit within 30 days of publication of its standalone and consolidated financial results for the half year, disclosures of RPTs on a consolidated basis, in the format prescribed in the relevant accounting standards for annual results, to the stock exchanges and to publish the same on its website.
- ▶ Mandatory Disclosure of Consolidated Quarterly Results with effect from Financial Year 2019-2020
- ▶ Reshaping the Institution of the Board of Directors and Enhancing the Role of Committees of the Board:
- ▶ The board of directors of a company, being entrusted to keep a check on the management, is its primary governance body. The board of directors owe a fiduciary duty to a company as a whole, and have the function of protecting the interests of various stakeholders. Therefore, institutionalizing a board of directors is of primal importance to effective corporate governance.
- ▶ To strengthen the institution of the board of directors, SEBI has approved following recommendations of the Committee:

- ▶ Separation of the office of the chairperson (i.e., the leader of the board) and CEO/MD (i.e., the leader of the management): The top 500 listed entities (by market capitalization) having a public shareholding of 40% or more, have to separate the office of CEO/MD and Chairperson with effect from April 1, 2020.
- ▶ Augmenting board strength and diversity: The top 1000 listed entities (by market capitalization), and the top 2000 listed entities, have to mandatorily have a minimum of six directors on their boards. The top 500 listed entities (by market capitalization) and the top 1000 listed entities have to have a minimum of one woman independent director.
- ▶ Enhanced Quorum-Quorum of the board of directors will be one-third of the total strength of the board of directors or three directors, whichever being higher, for the top 1000 listed entities (by market capitalization).
- ▶ Capping the Maximum Number of Directorships: No person will be allowed to hold the office of director in more than eight listed entities at the same time (of which independent directorships are capped at seven).
- ▶ Expanded Eligibility Criteria for Independent Directors: No person who is a part of the promoter group can be appointed as an Independent Director. Further, to avoid the problem of 'board interlocks', a person who is a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director, will not be eligible to be an independent director in the listed entity.

● **Enhanced Role of committees :**

- ▶ Audit Committee: The Audit Committee will have to review the utilization of loans and/or advances from/investment by the holding company in the subsidiary exceeding Rs 100 crore or 10 percent of the asset size of the subsidiary, whichever is lower.
- ▶ Nomination and Remuneration Committee: It shall now be the duty of the Nomination and Remuneration Committee specifically to recommend to the board, all remuneration, in whatever form, payable to members of the senior management.
- ▶ Risk Management Committee: Its functions shall now specifically cover cyber security.

● **Down-streaming Corporate Governance:**

- ▶ In light of the increasingly complex corporate structures being used by businesses, which function through a web of subsidiaries incorporated in India/abroad, governance practices at subsidiary level is of increased importance to the shareholders of a listed entity.
- ▶ SEBI, in recognition thereof, has approved the following recommendations of the Kotak Committee:
- ▶ Enhanced Obligations on Listed Entities w.r.t Subsidiaries: One independent director from the board of directors of a listed entity should also be a director on the board of directors of its unlisted foreign material subsidiary (as opposed to the extant requirement pertaining to an unlisted material subsidiary incorporated in India). Additionally, the board of all listed entities will now have to be appraised of significant transactions involving all unlisted subsidiaries (as opposed to the extant requirement of significant transactions of only unlisted material subsidiaries). A material subsidiary is defined as a subsidiary, whose income or net worth exceeds 10% (as opposed to 20%) of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
- ▶ Secretarial Audit to be Mandatory for Listed Entities and their Material Unlisted Subsidiaries

● **Shareholder Participation and Involvement**

- ▶ It is widely considered and acknowledged that a key connection between decision-making and accountability, is the effective engagement between shareholders and the board of directors of a

company. Further, shareholders, being owners of a company, are stakeholders for the primary benefit of whom corporate governance norms are envisaged. In light of the same, SEBI has approved some recommendations of the Kotak Committee to increase shareholder participation and engagement in the affairs of a listed company.

- **Assessment of Uday Kotak Committee recommendations**

- ▶ The approved changes to corporate governance norms are aimed towards aligning corporate governance standards to global best practices. Most of the approved recommendations, are firmly rooted in local business realities, where most listed entities are promoter-led as opposed to being professionally managed, thus increasing risks of promoter-raj at the cost of minority shareholders.
- ▶ Some of the approved recommendations, such as the enhanced disclosure requirements, will have the effect of reducing information asymmetry between the managers of a company and its shareholders. To conclude, while there may exist certain issues and glitches, such as various recommendations of the Kotak Committee which have been approved have been made applicable to top companies in terms of market capitalization, precluding smaller listed entities from such compliance requirements even though it is usually some of the smaller listed entities wherein corporate governance standards are found to be wanting, the approved recommendations are indeed welcome and are expected to extol corporate India to a leadership position with regards to corporate governance.
- ▶ Some argue that added compliance requirements are de-facto abdication of the regulators role and will have the effect of increasing regulatory burden on listed companies, and consequently increase transaction costs/agency costs; in terms of cost benefit analysis for the Indian securities markets at large, it is clearly a move forward. Enhanced monitoring and disclosures arising out of structural modifications will benefit all shareholders, especially the smallest. Needless to add, robust governance will enhance the credibility of the entire public markets and attract more investors in the long term.

P. J. Nayak Committee on corporate governance

It was constituted by the RBI for making recommendations regarding corporate governance in PSU banks.

- **Recommendations of the Nayak Committee are:**

- Scrapping and removal of Bank Nationalisation Acts, SBI Act and SBI (Subsidiary Banks) Act.
- Conversion of PSBs into Companies as per the Companies Act.
- Formation of a Bank Investment Company/BIC under the Companies Act; transfer of shares by the central government in PSBs to the BIC.
- BIC in turn would have over the controlling power to boards of PSBs.
- Government will only control earning return on investment.
- Fair return on investment to the Central government would be the responsibility of BIC.
- Appointments of CEOs, Inside Directors and top Executives of PSBs would be the responsibility of the Bank Boards Bureau constituting three serving or retired bank chairman and the government would not be involved in this decision in any way.
- Nayak committee also recommends proportionate voting rights to all shareholders and reduction of governmental shareholding to 40%.

- **Mission Indradhanush for revamping Public Sector Banks**

- The mission includes the seven key reforms.

- They are :
 - ▶ **Appointments:** Under the new process of selection for MD & CEO, Even Private sector candidates were also allowed to apply for the position of MD & CEO of the five top banks i.e. Punjab National Bank, Bank of Baroda, Bank of India, IDBI Bank and Canara Bank.
 - ▶ **Bank Board Bureau:** The BBB is a body of eminent professionals and officials, which replace the Appointments Board for appointment of Whole-time Directors as well as non-Executive Chairman of PSBs. The BBB will comprise of a Chairman and six more members of which three will be officials and three experts (of which two would necessarily be from the banking sector).
 - ▶ **Capitalization:** The government will inject a total of Rs. 25,000 crore of capital into debt-laden state banks in this fiscal; Rs. 20,000 crore would be injected in a month. Over the next four years, the government plans to inject Rs. 70,000 crore.
 - ▶ **De-stressing:** The government will concentrate on distressing the banks' bad loans. Under the plan, asset reconstruction companies will also be strengthened to deal with bad loan situation. Moreover, the government has also resolved to set up a Bank Investment Committee, which will act as a holding company for shares on behalf of the government.
 - ▶ **Empowerment:** The government will strive to make it easier for PSBs to hire. The government is looking at introducing Employee Stock Ownership Plan (ESOPs) for the PSU bank managements.
 - ▶ **Framework of Accountability:** The government also announced a new framework of key performance indicators for state-run lenders to boost efficiency in functioning while assuring them of independence in decision making on purely commercial considerations.
 - ▶ **Governance Reforms:** The process of governance reforms started with "Gyan Sangam" - a conclave of PSBs and FIs. There was focus group discussion on six different topics which resulted in specific decisions on optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.

Mahapatra Committee on NBFC Loan Restructuring

The guidelines issued on loan restructuring for NBFCs were based upon the recommendations of Mahapatra Committee. Mahapatra Committee headed by B. Mahapatra, Executive Director at RBI, was appointed by the RBI in October 2013.

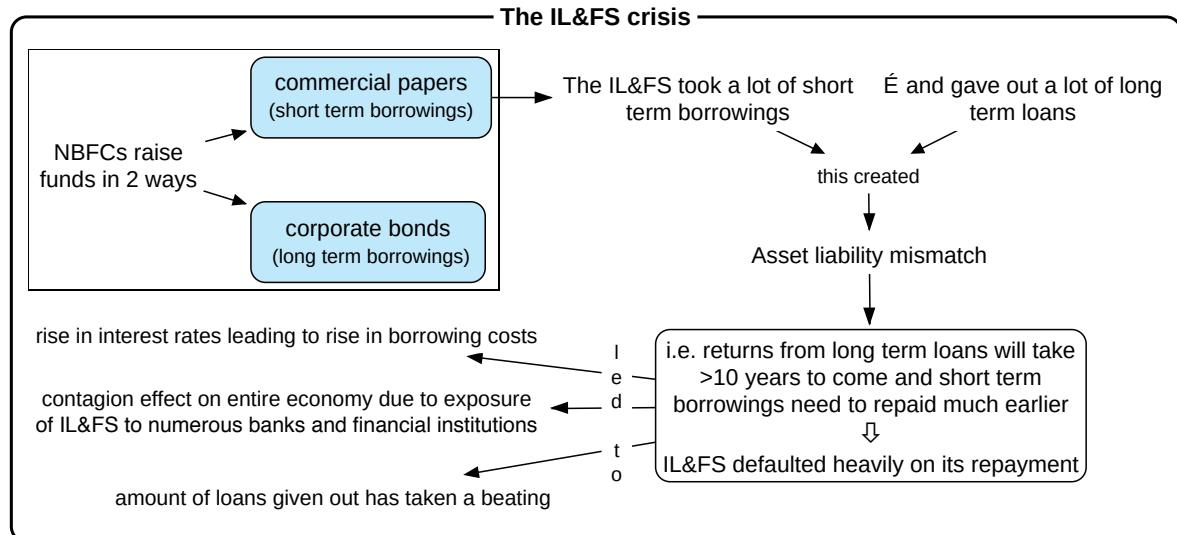
New guidelines

The New Guidelines issued are:

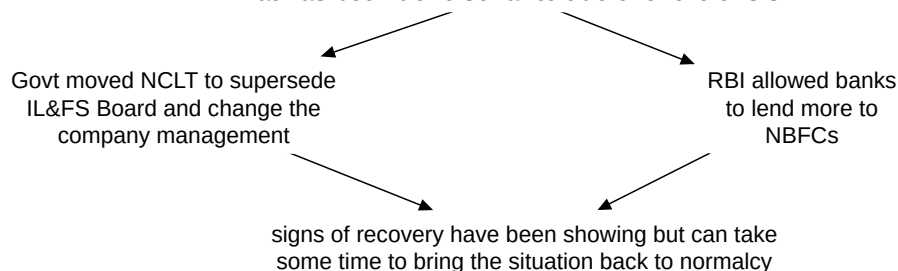
- NBFCs to have more flexibility to deal with stressed loans but it is mandatory for them to set aside a substantial amount of provisions to cover restructured loans.
- NBFCs, like commercial banks, are required to set aside a 5% provision against restructured loans. For existing stock, the provisions will go up to 5% in a phased manner by March 2017.
- At present, a majority of the NBFCs are not allowed to accept public deposits and most of their funding needs are met by borrowing from commercial banks.
- An infrastructure loan given by an NBFC will become a Non-Performing Asset (NPA) if the project fails to take off commercially within 2 years from the original Date of Commencement of Commercial Operations (DCCO), unless it is restructured and becomes eligible for classification as a standard asset.

Tough times for NBFCs

NBFCs have been facing problems due to the adverse situation exacerbated by the defaulting of loans by IL&FS



What has been done so far to tide over the crisis ?



- ❑ If the loan is given to a Non-Infrastructure Project, it will become an NPA if the borrower fails to commence commercial operations within One year from the original DCCO, even if it is regular as per record of recovery, unless the loan is restructured.
- ❑ NBFCs will have to make a provisioning of 0.25% of the loan amount for such loans.
- ❑ For commercial real estate loans, an extension of DCCO will not be considered as restructuring if the revised DCCO falls within a period of 1 year from the original date of commercial commencement. Hence, such loans will be treated as standard assets without attracting higher provisioning.
- ❑ A special classification benefit will be provided to corporate debt restructuring cases, including small and medium enterprises. The benefit will, however, be withdrawn with effect from 1 April 2014.

Usha Thorat Committee (2012) on NBFC

❑ Recommendations

The key recommendations of the Working Group were:

- The minimum Net Owned Fund (NOF) requirement for all new NBFCs wanting to register with the Reserve Bank could be retained at the present Rs.2 crores till the Reserve Bank of India Act is amended.

The RBI should, however, insist on a minimum asset size of more than Rs.50 crores for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of 2 years.

- NBFCs not accessing public funds may be exempted from registration provided their assets are below Rs.1000 crores.
- Any transfer of shareholding, direct or indirect, of 25 percent and above, change in control, merger or acquisition of any registered NBFC should have prior approval of the RBI. Currently, only change in control of deposit accepting NBFCs require prior approval of the RBI.
- The twin-criterion of assets and income for determining the principal business of an NBFC should be increased to 75% of the total asset and 75% of the total income, respectively. A time period of 3 years may be given to fulfil revised principal business criteria.
- Tier-I capital for Capital to Risk Weighted Assets Ratio (CRAR) purposes may be specified at 12% to be achieved in three years for all registered deposit taking and non-deposit taking NBFCs.
- Liquidity ratio may be introduced for all registered NBFCs such that cash, bank balances and holdings of Government Securities fully cover the gaps, if any, between cumulative outflows and cumulative inflows for the first 30 days.
- Asset classification and provisioning norms similar to banks to be brought in phased manner for NBFCs. Suitable income tax deduction akin to banks may be allowed for provisions made under the regulations. Accounting norms applicable to banks may be applied to NBFCs.
- NBFCs may be subject to regulations similar to banks while lending to stock brokers and merchant banks and similar to stock brokers, as specified by the Securities and Exchange Board of India (SEBI), while undertaking margin financing.
- Financial conglomerate approach may be adopted for supervision of larger NBFCs that have stock brokers and merchant bankers in the group.
- Government owned entities that qualify as NBFCs may comply with the regulatory framework applicable to NBFCs at the earliest.
- Board approved limits for bank's exposure to real estate may be made applicable for the bank group as a whole, where there is an NBFC in the group. The risk weights for NBFCs that are not sponsored by banks or that do not have any bank as part of the group may be raised to 150 percent for capital market exposures and 125 percent for commercial real estate exposures. In case of bank sponsored NBFCs, the risk weights for capital market exposures and commercial real estate may be the same as specified for banks.
- NBFCs may be given the benefits under SARFAESI Act, 2002. Currently, the benefits, e.g. Enforcement of security interests utilizing the favourable provisions of the SARFAESI Act, are restricted to banks and certain financial institutions.
- Captive NBFCs, the business models of which focus mainly (90 % and above) on financing parent company's products, may maintain Tier-I capital at 12% from the time of registration. Supervisory risk assessment of such companies should take into account the risk of the parent company.
- For the purpose of applicability of registration and supervision, the total assets of all NBFCs in a group should be taken together to determine the cut off limit of Rs.100 crores.

Vijay Kelkar Committee Report on Revisiting and Revitalising PPP Model

A Committee on Revisiting & Revitalizing the PPP model of Infrastructure Development was established under the direction of Dr. Vijay Kelkar in response to the Finance Minister's announcement in the Union Budget 2015–16 that the PPP mode of infrastructure development needs to be revisited and revitalised.

▢ Key recommendations of the committee:

- Contracts should place **more emphasis on service delivery** than on financial gains.
- More effective **risk identification and distribution** among stakeholders
- Careful use of **viability gap funds** in situations when user charges cannot ensure a reliable revenue stream.
- Better **financial reporting procedures** and attentive performance monitoring.
- The government must advance the PPP model to the next level of maturity and sophistication given the urgency of India's demographic shift and the expertise India has already accumulated in managing PPPs.
 - ▶ The cost-effectiveness of risk management must be assessed.
 - ▶ An Infrastructure PPP Adjudication Tribunal ("IPAT"), where benches will be created by the Chairperson in accordance with the demands of the subject at hand, and which will be presided over by a Judicial Member (former Judge SC/Chief Justice HC).
 - ▶ Projects that have not made a specified amount of development on the ground ought to be abandoned. Once problems have been fixed, rebid them, finish them using public money, or, if possible, put them out to bid for operations and maintenance.
 - ▶ Institutional frameworks tailored to certain industries may be created to address problems with PPP infrastructure projects.
 - ▶ For pressured projects, umbrella rules that offer a broad framework for the development and operation of the sector-specific frameworks may be created.
 - ▶ The Swiss Challenge ("Unsolicited Proposals") is discouraged in order to prevent knowledge asymmetries and a lack of transparency.
 - ▶ Modify the Prevention of Corruption Act of 1988 to make a distinction between honest mistakes in judgement and corrupt activities.
 - ▶ Establish a body to promote private infrastructure investments and offer direction for a national PPP policy.
 - ▶ A formalised system, such as the National Facilitation Committee (NFC), to guarantee concerns are resolved in a timely manner.
 - ▶ Ensure that the Special Purpose Vehicle follows the rules of good governance (SPV).
 - ▶ Prevent government involvement in SPVs that carry out PPP projects unless it is strategically necessary.
 - ▶ In order to create a soft landing for user fees in the infrastructure sector, the Ministry of Finance will permit banks and other financial institutions to issue Zero Coupon Bonds.
 - ▶ Promote the use of PPPs in industries like railways, urban development, etc. Railways should have a separate tariff regulator.
 - ▶ Establish a PPP institute of excellence to, among other things, lead the industry, contribute to policymaking, offer prompt guidance, and carry out sustained capacity building.
 - ▶ Make that project delivery roadmaps and infrastructure development are coordinated.

Bimal Jalan Committee on Economic Capital Framework (ECF)

Background

- ▢ In cooperation with the government, the Reserve Bank of India (RBI) established a six-person committee, led by former RBI Governor Bimal Jalan, to evaluate the Reserve Bank of India's economic capital framework.

- ❑ The transfer of surplus reserves to the government and the relaxing of the fast corrective action requirements for weak banks are only a few of the topics that have caused friction between the government and the central bank.
- ❑ Due to a decline in income receipts, the government has been pressuring the central bank to turn over its excess reserves.
- ❑ As a result, the government will be able to support welfare programmes, improve lending at weak banks, and satisfy its deficit goals.

What suggestions did the Jalan Committee make?

- ❑ The official name of the Jalan Committee is the Expert Committee to Review the Extant Economic Capital Framework of the RBI.
- ❑ The committee suggested that the RBI maintain a Contingent Risk Buffer of between 5.5 and 6.5% of the balance sheet of the central bank, with the majority of this buffer coming from the CF.
- ❑ The surplus money was to be given to the government because the most recent CF amount represented roughly 6.8% of the balance sheet of the RBI.
- ❑ Additionally, the committee chose to apply the lower limit of 5.5% of the suggested range for the year in question. In essence, this meant that everything in the CF that exceeded 5.5% of the assets of the RBI was to be transferred. This total came to 52,637 crore.
- ❑ Since realised equity was mostly accumulated from retained earnings, it could be used to cover all risks and losses.
- ❑ Revaluation balances were not distributable because they reflected unrealized valuation gains and could only be used as risk buffers against market risks.
- ❑ Market risk provisioning: It has advocated using the Expected Shortfall (ES) technique in place of the current Stressed-Value at Risk methodology while gauging the market risk for the RBI. It has advised that a target of ES 99.5% confidence level be adopted.
- ❑ Size of Realized Equity: It has been advised that the contingent risk buffer (CRB), which is primarily made up of retained earnings, be kept between 6.5% and 5.5% of the balance sheet of the RBI, with 5.5 to 4.5% of that amount going toward monetary and financial stability risks and 1.0% going toward credit and operational risks.
- ❑ A surplus distribution policy has been suggested, with the goal of the RBI maintaining a certain level of realised equity. According to it, the complete net revenue will only be transferable to the government if realised equity exceeds its criteria.
- ❑ Additionally, it has been proposed that the economic capital structure of the RBI be revised every five years.

RBI accepted the recommendations

- ❑ The RBI board decided to send Rs 1,76,051 crore to the government after accepting the Bimal Jalan committee's recommendations.
- ❑ For the 2018–19 fiscal year, this is broken down into Rs 1,23,414 crore in surplus and an additional Rs 52,637 crore in excess provisions that the committee determined in accordance with the new Economic Capital Framework (ECF).
- ❑ An amount of Rs 28,000 crore from this total has already been paid as an interim dividend and was included in the budget for the prior fiscal year.
- ❑ The Reserve Bank of India (RBI) hasn't up to now followed the traditional financial year of April–March, which is the cause of the accounting discrepancy.

Rajesh Pant Committee

The 22-page report regarding “National Cyber Security Strategy”, was conceptualized by the Data Security Council of India (DSCI), led by Lt. General Rajesh Pant, focuses on **21 areas** to ensure that India has a safe, secure, trustworthy, resilient, and vibrant cyberspace.

The report's primary areas of interest are:

- ❑ Large-scale digitalization of public services: Security should be prioritised from the start of all digitization projects, and institutional capacity should be developed for core device inspection, evaluation, certification, and rating, as well as for timely reporting of vulnerabilities and incidents.
- ❑ Integrated circuits (ICT) and electronics supply chain monitoring and mapping, increased product certification and testing, and international strategic, tactical, and technical exploitation of the nation's semiconductor design capabilities
- ❑ Protection of the critical information infrastructure includes integrating SCADA (Supervisory Control and Data Acquisition) security with enterprise security, monitoring device digitisation, evaluating security devices, maintaining a vulnerability repository, creating an industry-wide baseline for security and tracking controls, creating audit parameters for threat preparedness, and creating cyber-insurance products.
- ❑ Digital payments: mapping and modelling of the platforms and devices that have been used, the supply chain, the entities that conduct transactions, the payment flows, the interfaces, and the interchange of data. Regular threat modelling exercises to reveal vulnerabilities.
- ❑ State-level cyber security includes creating cybersecurity policies, allocating funds specifically for that purpose, examining digitization plans critically, and establishing standards for security architecture, operations, and governance.
- ❑ Security of small and medium-sized businesses: Development of security standards, frameworks, and architectures for the use of the Internet of Things (IoT) and industrialization; policy intervention in cyber security providing incentives for greater level of cyber security preparation.

What recommendations does the report make?

The report offers the following suggestions for putting cyber security into practise in the focus areas mentioned above:

❑ Financial provisions:

- It has been suggested that a minimum of 0.25% of the annual budget, which can be increased up to 1%, be set aside for cyber security.
- 15-20% of the IT/technology budget for individual ministries and agencies should be set aside for cyber security.
- The report also recommends creating a cyber security pool of funds and giving central financing to states so they can develop their capabilities in this area.
- It is advised to follow procedures based on the discovery, visibility, and hazards of crucial information while maintaining the security of data.

❑ Development of technology, innovation, skill-building, and research

- The paper recommends funding investments in deep-tech cyber security innovation, setting up a short and long term agenda for cyber security through outcome-based initiatives, and modernising and digitising integrated circuits (ICT).
- It is advised to hold hackathons, practical seminars, and security simulations on both a national and state level in an effort to draw experts to work on cyber security.

■ Management of crises

- DSCI advises conducting cyber security drills that incorporate real-life events and their effects in order to adequately prepare for crisis management.
- Simulation exercises for cross-border scenarios must be conducted on an international level in industries that are crucial.
- The DSCI advises that threat information be shared amongst government agencies in order to find potential system vulnerabilities and exploitations.

■ Online insurance

- Due to the lack of study in this area, actuarial science is necessary for cyber insurance in order to manage cyber security risks in technological and business contexts and determine threat exposures.
- For vital information infrastructure, DSCI advises creating cyber insurance products and quantifying the risks involved.

■ Cyber diplomacy

- India's international relations are greatly influenced by cyber diplomacy.
- Therefore, it is necessary to guarantee the cyber security readiness of important regional blocks like BIMSTEC and SCO through programmes, exchanges, and industry support.
- According to DSCI, the government should promote India's reputation as a trustworthy participant in cyber security and appoint "Cyber envoys" to important nations and areas.
- The DSCI recommends retaining crucial infrastructure, such as the root server of the software that controls and governs India, inside of India for a stable internet infrastructure.

■ Cybercrime research

- The report suggests passing rules to deal with spamming and fake news in order to relieve the court system of the strain brought on by the rise in cybercrime worldwide.
- Additionally, it advises creating a five-year roadmap that accounts for potential technological changes and creating special courts to handle

Ashok Dalwai Committee on Doubling Farmers' Income

Its a report by the Committee on Doubling Farmers' Income.

Major recommendations were:

- Agriculture Marketing: The committee has demanded that agriculture marketing be included to the Concurrent list.
- The one-India market concept would be made easier as a result.
- Additionally, marketing has no territorial restrictions, whereas cultivation does, hence a pan-India level operation is required to supply the demand throughout the nation.
- Further, it has encouraged more involvement of the private sector in logistics and agrimarketing.
- State Level Measures -

- Creation of better physical infrastructure.
- Improved price information dissemination campaigns.
- Reforming regulations that force farmers to sell their produce to local monopolies.
- ❑ Producer Organizations: It was advised that there be more Farmer producer organisations(FPO) and Village producer organisations (VPO).
- ❑ The integration of small and marginal farmers into the agricultural market system might be greatly aided by FPOs and VPOs. For each FPO/VPO, 1,000 farmers and/or 1,000 hectares would be covered.
- ❑ Also, it demanded that the Companies Act be changed to permit up to 26% private sector ownership in FPOs.
- ❑ Additionally, it would be beneficial to motivate them by treating them on par with cooperative groups.
- ❑ Wholesale marketing system: The current agricultural marketing system is made up of Agricultural Produce Marketing Committees (APMCs), which run the main markets and their expanded sub-market yards.
- ❑ State governments are advised to transform these main and sub-market yards into complete, independent markets.
- ❑ Private - While this will increase the number of wholesale markets, boosting private markets is still necessary to meet the remaining requirement.
- ❑ The provisions of the proposed Agricultural Produce and Livestock Marketing, (Promotion and Facilitation) Act, 2017 could be used to accomplish this (APLM).
- ❑ In order for States to implement the act, the committee has also requested the Union Agriculture Ministry to provide the Model APLM Rules.
- ❑ Rural - It was recommended that the current rural periodical marketplaces be upgraded to Primary Rural Agricultural Markets for satisfying rural retail markets demand.
- ❑ It also emphasised the necessity of the National Agriculture Market being owned and run by the Center as well as the States/UTs that make up special purpose vehicles.
- ❑ These recommendations support obtaining the needed market density (wholesale and rural retail marketplaces) to create an all-Indian system.

Other recommendations:

- ❑ According to the committee, small and marginal farmers will only profit from a successful marketing system if they have the ability to retain some of the proceeds.
- ❑ The group has proposed using pledge finance, or post-harvest loans secured by crops, as a solution.
- ❑ For these loans to be available, Negotiable Warehouse Receipts must be made available by upgrading storage godowns, especially cold storages.
- ❑ To encourage trading via eNWR (Negotiable Warehouse Receipts) and warehouse-based post-harvest loans, the Ministry must create thorough rules.
- ❑ Additionally, financial institutions must be encouraged to join the pledge loan scheme.

Swaminathan Committee on farmers:

On November 18, 2004, the Indian government established the National Commission on Farmers (NCF).

- ❑ M.S. Swaminathan, a professor, served as the NCF's chair.
- ❑ It provided the government with five reports.
- ❑ In line with the 11th Five Year Plan's "faster and more inclusive growth" goals, the reports made recommendations for farmers.

- ❑ The fifth study was the most significant since it offered recommendations for the agriculture industry's and farmers' inclusive expansion.
- ❑ The Swaminathan Commission Report from NCF sought to develop a system for ensuring food and nutrition security, sustainability in the agricultural system, improving the quality and cost competitiveness of farm commodities, and recommending policies for credit and other marketing-related initiatives.

Its Recommendations:

- ❑ Land reforms were one of the main reforms. It was intended to deal with the problem of access to and for both animals and crops. According to the commission, property ownership is a glaring example of the disparity in landholdings. It stated that in 1991–1992, only 3% of the country's total land ownership was held by the poorest 50% of rural households. Up to 54% of the wealth was owned by the richest 10%.
- ❑ **Land reforms:** Distribution of waste and ceiling-surplus lands; prohibition of diverting prime agricultural land and forest to corporate sector for non-agricultural use; ensuring that grazing rights are provided and that seasonal access is allowed to tribal and pastoralist groups in forests. It suggested having access to public property. Creating a National Land Use Advisory Service was one of the key cases. The goal of this service would be to link ecological, meteorological, and marketing considerations with decisions about how to use land.
- ❑ **Growth in Productivity:** According to NCF, a “substantial increase in public investment in agriculture-related infrastructure, particularly in irrigation, drainage, land development, water conservation, research development, and road connectivity, etc.” is what is needed to achieve a higher growth in productivity. Women self-help groups should run neighbourhood food and water banks, assist small and marginal farms, and draught a national food guarantee act with provisions like food for work and employment guarantee programmes.
- ❑ **Credit and Insurance:** Increase the reach of the formal credit system; lower crop loan interest rates to 4%; grant a moratorium on debt collection; offer kisan credit cards to women farmers; provide an integrated credit-cum-crop-livestock human health insurance package; and provide nationwide crop insurance for all crops at reduced premiums.
- ❑ **Food Security:** The commission advocated implementing a universal public distribution system, reorganising nutrition support programmes' life-cycle delivery with participation from panchayats and local bodies, eradicating hunger caused by micronutrient deficiency, and fortifying food.
- ❑ **Stopping Farmer Suicides:** Affordable health insurance should be made available at primary healthcare facilities in villages, the national rural health mission should prioritise expanding to suicide hotspots, state-level farmers' commissions should include farmers' representatives, microfinance policies should be restructured to potentially serve as a form of livelihood finance, all crops should be covered by crop insurance, the village should be the assessor rather than the block, there should be a social security system that provides old age support along with health insurance etc.
- ❑ **Reforms in Irrigation:** It suggested putting together a package of changes to give farmers “sustained and fair” access to water for irrigation. Ensuring an increase in water supply by collecting rainwater, recharging water levels through required aquifers, and starting the Million Wells Recharge initiative with a focus on private wells. to make irrigation investment growth a priority for the 11th five-year plan. In order to test areas for appropriate micronutrient levels, it also suggested establishing a national network of advanced soil testing facilities.

Justice MB Shah Committee on Black Money

It was a committee headed for **SIT on Black Money**. Another report was on **Illegal Mining**.

- ❑ The report on Black Money:

- ❑ The third report from the Special Investigation Team (SIT) on Black Money was submitted to the Union Ministry of Finance on November 3, 2015. The SIT is led by Justice MB Shah, and the report covered beneficial ownership and shell firms.
- ❑ The SIT discovered that at least 20 firms are operating from the same address at 345 locations, and over 2600 people are directors of over 20 different companies, which indicates a violation of the 2013 Companies Act.
- ❑ The SIT advocated for proactive detection of shell company establishment and deterrent criminal action against individuals engaging in such actions in order to rectify the situation.

Another report on Illegal iron ore mining in Odisha

❑ Some damning findings from the report

- ❑ **Scam estimated at over Rs 59,000 crore:** A total of 146 cases of excess mining were registered by Odisha's mining department for violation of environment clearance, mining plan and consent to operate norms as well as air and water Acts. Notices have been issued to various lease holders for recovery of mineral value under provisions of Mines and Minerals (Development and Regulation) or MMDR Act of 1957. Show cause notices were issued for the decade 2000-01 to 2009-10 for unlawful extraction of iron and manganese ores worth Rs 59,203.33 crore
- ❑ **54 ha forest patch yields Rs 2,000 crore worth iron ore:** The commission began by investigating illegal mining in Uliburu reserve and revenue forests in Joda mining circle of Sundargarh district. The commission found that from 54 hectares (ha) of pristine forests, mining companies extracted ore worth Rs 2,000 crore between 2003 and 2010 without any clearance or approval. The commission terms this as one of the biggest cases of illegal mining it came across and recommended a CBI investigation. On scrutiny, the Shah Commission found that the state forest department hushed up the matter by filing simple cases of encroachment in the Joint Forest Management Committee's tribunal in Barbil town.
- ❑ **River pollution:** The report observes about 55 mining leases directly pollute the Baitrani or Vaitarni river having its major catchment area in two districts, Keonjhar and Sundargarh, and is lifeline of the area. Vaitarni is one of six big rivers in Odisha.
- ❑ **Mining work sub-contracted illegally:** Since mining operations are completely mechanised, therefore, no jobs were created, the report states. Mining operations are carried out through contractors, which is a violation of Rule 37 of Mineral Conservation and Development Rules (MCDR) of 1988. The commission has found that almost all persons to whom mining leases were granted are not carrying out mining operations themselves. The mining operations are being carried out by third persons—power-of-attorney-holders or contractors. For mining iron ore, the maximum expenditure by the lessees is not more than 45 per cent of the net value of the production. This finding is based on the fact that contractors are getting 36 per cent to 42 per cent share in the minerals extracted.
- ❑ **Railways cheated of freight fare:** The mining companies took advantage of Indian Railways' differential freight scheme (charges for ore to be used domestically is less) to transport iron ore illegally out of the state for export or trade, says the report. Indian Railways incurred big losses on account of evasion of taxes and other surcharges. The policy of differential freight rates allows railway authorities to increase earning from export-bound freight. The illegal practices adopted by mining companies presented a perverse incentive to unscrupulous transporters who could corner huge amount of concession by masquerading their consignment as "domestic traffic" and then exporting/trading the same after unloading, says the report. In 2011, South Eastern Railway detected more such cases of freight charge evasion and issued demand notices to 14 companies for Rs 1,874 crore.
- ❑ **Super-normal profits at state exchequer's cost:** Odisha had suggested 25 per cent royalty on value of the ore. The delay in revision of royalty and the corresponding low rates at which it was fixed have led to continued excess profits being made by private mining companies at the expense of the state government, notes the report. Average profit on per tonne of iron ore increased from Rs 139.78 per tonne in 2001-2002 to Rs 3,237.64 per tonne in 2010-11 and companies started earning super normal profits. Further, the next revision was due in August 2012, but no such revision has been notified by the Central government.

Odisha government also proposed a mineral resources rent tax, which was dismissed by the Centre. The Odisha government told the Shah Commission that with this tax it could have undertaken major development work in these regions. The annual production of iron ore in 2009-10 was 8.08 million tonnes. Taking into consideration the average price of export and domestic consumption at Rs 4,336.75 per tonne (62 to 65 per cent Fe grade), the total sale price comes to approximately Rs 35,082.57 crore. If the value of the public natural resource (iron ore in this case) for only one year is given to the tribal families of the two districts, each family will earn over Rs 9 lakh, says the Shah Commission report

- ❑ **Excess of mine leases:** In Odisha, the mining impact zones in Sundargarh, Keonjhar and Mayurbhanj districts is about 100 sq km (100,000 ha). As many as 192 mining leases of iron and manganese ores are located in these districts and they include forest areas. The total mining leases extend over 45,187 ha, out of which, mining operations are carried out in 33,987 ha of forest area. This covers approximately 45 per cent of the total mining zone which is considered as a very high density leased area.
- ❑ **Toll on forests, wildlife habitat:** The Commission states that 77 per cent of the mining of iron ore and manganese is happening in forest areas. Out of the 192 mines, 176 are in dense forest areas. In the case of 98 mining leases, the Union Ministry of Environment and Forests (MoEF) has not granted permission for diversion of forest areas. The number of mines that have forest clearance is 47. Out of 176 mining leases which are within the forest areas, 10 leases are in Mayurbhanj district and are within 10 km from outer boundary of the Simlipal national park. Of these, 31 mines are adjacent to projected elephant corridor in Sundargarh and Keonjhar district.
- ❑ **Environment clearances not obtained or conditions violated:** Out of 192 mining leases in Odisha, 94 mining leases don't have environment clearance (EC) at all. These include 23 leases where conditions are specified for giving forest clearance (FC) in order to obtain EC, but the conditions have not been met. The remaining 96 of 192 mining leases (excluding two leases of which the area is less than 5 ha for which no ECs were required) have EC. But as many as 75 mine operators have been extracting excess ore since 1994. In the case of 16 mining leases, ECs were granted without forest clearance in spite of the lease areas being located in forests. In 74 mining leases, EC was granted on condition of conservation and protection of wildlife. In 56 mining leases, ECs have been granted without stipulating any condition for protecting wildlife.
- ❑ **Administrative failures:** In 14 cases relating to over-extraction of ore, empowered officers have not taken action, despite direction of MoEF, and in two cases action was taken after a long lapse of time, says the report. In 14 cases, the district collector concerned did not take any action and in seven cases action was taken three to seven years later. Sixty mining leases for iron ore and/or manganese are operating under deemed extension and extraction is happening in violation environment impact assessment (EIA) notifications of 1994 and 2006, says the report. On perusal of approved environment clearances given by MoEF, the commission observes that the information inputs of rivulets, watercourses and rivers in and around mines are either incomplete or suppressed or false.
- ❑ **Fast depletion of reserves:** The report has noted misuse of Rules 10 and 12 of MCDR which relate to modification and review of mining plan by Indian Bureau of Mines (IBM). Out of 85 iron ore mining leases, IBM has modified the plans of 30 mines twice or more which allowed mine operators to increase output significantly. In 53 of these 85 mining leases, IBM has approved modification of mining plan with retrospective effect, thus regularising over-extraction of ore. In 49 mining leases, plans were modified to increase production. From 2000 till date, permission was given to increase production from 41.654 million tonnes to 118.978 million tonnes. If one considers the permission granted so far for extraction of 154.263 million tonnes by IBM and MoEF, then the state reserves of good quality ore would last only 30 years, says the report.

MISCELLANEOUS

Sustainable Development Goals

Goal-wise analysis with respect to India: Status, Challenges and major Government schemes to achieve the goal

■ Goal 1: No poverty

- Status: Global reduction in extreme poverty was driven mainly by Asia – notably China and India. Between 2005-06 and 2015-16, the incidence of multidimensional poverty in India was almost halved, climbing down to 27.5 percent from 54.7 percent as per the 2018 Global Multidimensional Poverty Index report.
- Challenges: In 2015, 736 million people lived on less than \$1.90 a day. The latest World Bank projections show that if we continue down the business-as-usual path, the world will not be able to eradicate extreme poverty by 2030.
- Schemes: The Government of India has many progressive schemes, including the world's largest employment guarantee schemes, Mahatma Gandhi National Rural Employment Guarantee Scheme, and the National Social Assistance Programme, PM Garib Kalyan Yojna.

■ Goal 2: Zero Hunger

- Challenges: South Asia still faces one of the greatest hunger burdens, with over 15% of the population considered to be undernourished. The agricultural, forestry, and fishing sector together constitutes 26.5% of total employment in the world, but 42.7% in India. However, these sectors contribute only 15.5% to GDP value added.
- Schemes: The Government of India has prioritised strengthening agriculture through measures in irrigation, crop insurance (Pradhan Mantri Fasal Bima Yojana), and improved varieties. The government has also taken critical steps to enhance food security, including through a nation-wide targeted public distribution system, Fortified food like golden rice, National Nutrition Mission, Poshan Abhiyan, and the National Food Security Act. The Rashtriya Krishi Vikas Yojana, the National Mission on Sustainable Agriculture and many national schemes on horticulture, agricultural technology and livestock are leading the way in improving India's agriculture.

■ Goal 3: Good health & Well-being

- Status: India has made some progress in reducing its under-five mortality rate, which declined from 125 per 1,000 live births in 1990-91 to 50 per 1,000 live births in 2015-16, and its maternal mortality rate, which declined from 437 per 100,000 live births in 1990-91 to 167 in 2013. India has also made significant strides in reducing the prevalence of HIV and AIDS across different types of high-risk categories, with adult prevalence reducing from 0.45% in 2002 to 0.27% in 2011.
- Challenge: However, a quarter of global TB cases occur in India where nearly 2.1 million people live with the disease, and an estimated 423,000 die annually as a result.
- Schemes: The Indian government's National Health Mission and Ayushman Bharat, Creating India's Digital Health Ecosystem ABHA - Ayushman Bharat Health Account., are prioritizing national wellbeing and is leading change in this area.

■ Goal 4: Quality Education

- Status: The net enrolment ratio in primary education for boys and girls was at 100%, while at the national level, the youth literacy rate was 94% for males and 92% for females.
- Schemes: The new National Education Policy & Nipurn Bharat and Sustainable Development Goal 4 share the goals of universal quality education and lifelong learning. The flagship government scheme, Samagra Shiksha Abhiyan, is aimed at achieving universal quality education for all Indians, and is complemented in this effort by targeted schemes on nutritional support, higher education, and teacher training, Mid-Day Meal scheme

■ Goal 5: Gender Equality

- Challenges: As of January 2018, the proportion of seats held by women in the Lok Sabha is only 5.1% and that in Rajya Sabha is 9.8%. This is even after India achieving gender parity at the primary education level and being on track to achieve parity at all education levels.
- Further, India is confronting the challenge of violence against women. A baseline study has revealed that in New Delhi, 92% of women have experienced some form of sexual violence in public spaces during their lifetime. In 2016, close to a third of total crimes reported against women in India was cruelty or physical violence by her husband or his relative.
- Schemes: Beti Bachao Beti Padhao initiative aims at equal opportunity and education for girls in India. In addition, specific interventions on female employment, programmes on the empowerment of adolescent girls, the Sukanya Samridhi Yojana on girl child prosperity and the Janani Suraksha Yojana, Matru Vandana Yojna, Maternity leave for 26 weeks for mothers advance India's commitment to gender equality, and the targets of Goal 4.

■ Goal 6: Clean Water & Sanitation

- Status: The overall proportion of Indian households with access to improved water sources increased from 68% in 1992-93 to 89.9% in 2015-16.
- Challenge: However, in 2015-16, 63.3% of rural households and 19.7% of urban households were not using improved sanitation facilities. According to the World Bank, more than 520 million in India were defecating in the open – the highest number in the world.
- Scheme: The government has introduced several flagship programmes including the Swachh Bharat Abhiyan to clean India, the National Rural Drinking Water Programme, Nal se Jal scheme, National Project on Aquifer Management (NAQUIM), and Namami Gange, which aims at the conservation of the River Ganga.

■ Goal 7: Affordable & Clean Energy

- Status: India is projected to be a significant contributor to the rise in global energy demand, around one-quarter of the total.

- Challenge: However, as of 2016, more than 205 million people in India do not have access to electricity.
- Schemes: The government's National Solar Mission, PM KUSUM yojna, Off-Shore Hybrid Energy Projects are playing an important role in the work towards renewable energy, and interventions in rural electrification and new ultra-mega power projects are moving India towards achieving universal energy access.

■ Goal 8: Decent Work & Economic Growth

- Status: India can forge its own growth path, which can rely on both manufacturing and services as a growth escalator and employment generator.
- Challenge: The challenge will be to create well-paying and productive jobs in non-farm sectors that can absorb more unskilled workers, including women and those in rural areas. Almost half the labour force in India still works in the agricultural sector.
- As reported by the McKinsey Global Institute (2015), if India increases its female labour force participation rate by 10 percentage points by 2025, its GDP could rise by as much as 16 percent as compared to the business-as-usual scenario. Additionally; the fourth industrial revolution is both an opportunity and a challenge for India.
- Scheme: The government's National Skill Development Mission, Deendayal Upadhyaya Antodaya Yojana, Atal Innovation Mission, Welfare scheme for Migrant workers, e-Shram Portal as well as the National Service Scheme and the Mahatma Gandhi National Rural Employment Guarantee Scheme are some flagship programmes aimed at bringing decent work to all.

■ Goal 9: Industry, Innovation & Infrastructure

- Scheme: The government's flagship interventions like Make in India and Start Up India as well as Pandit Deendayal Upadhyay Shramev Jayate Karyakram, Skill-India, Start-up India are fuelling innovation and sustainable industrial and economic development.

■ Goal 10: Reduced Inequality

- Status: The Gini coefficient of income inequality for India fell from 36.8% in 2010 to 33.6% in 2015. However, still 90% of total wealth is in the hand of top 10% or less people.
- Schemes: The Government of India's emphasis on the three pronged Jan Dhan-Aadhaar-Mobile programmes aimed at a comprehensive strategy of inclusion, financial empowerment and social security. Also, e-RUPI and other welfare schemes have these priorities in line with the Sustainable Development targets aimed at achieving greater equality and promoting the social, economic, and political inclusion of all by 2030.

■ Goal 11: Sustainable Cities & Communities

- Status: India is urbanising rapidly. By 2030, India is expected to be home to six mega-cities with populations above 10 million. 68% of the country's total population lives in rural areas, while 17% of the country's urban population lives in slums.
- Schemes: The Government of India's Smart Cities Mission, the Jawaharlal Nehru National Urban Renewal Mission, and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), LOTUS-HR stands for Local Treatment of Urban Sewage streams for Healthy Reuse plant are working to address the challenge of improving urban spaces. The prime minister's Pradhan Mantri Awas Yojana aims to achieve housing for all by 2022.

■ Goal 12: Responsible Consumption & Production

- Status: India is the third highest emitter of carbon-dioxide and is responsible for 6.9% of global emissions.

- **Challenge:** The issue of resource use is vital for the country. While the country is home to 18% of the world's population, it has only 4% of global water resources. The generation of waste and pollutants also poses a challenge. Only 15% of India's urban waste is processed. However, in October 2015, India made a commitment to reduce the emissions intensity of its GDP by 20-25% from its 2005 levels by 2020 and by 33-35% by 2030.
- **Schemes:** The National Policy on Biofuels, Waste to Wealth Mission and the National Clean Energy Fund are some of the government's flagship schemes aimed at achieving sustainable consumption and production, and managing the efficient use of natural resources.

■ Goal 13: Climate Action

- **Challenge:** At present, the world is 1.2°C warmer compared to pre-industrial levels. As a result of which, decline in crop yields, unprecedented climate extremes and increased susceptibility could push poverty by several million by 2050.
- **Scheme:** India has taken several positive actions, including its major emphasis on renewable power through its 100 GW solar mission and its total 175 GW renewables mission. Last year, for the first time ever, new installations of power using solar cells exceeded all other types of power. It is also committed to reduce the emissions intensity of its GDP by 45% by 2030. India could well be one of few countries that achieve its (self-declared) climate action targets under the Paris Agreement by 2030. The mantra of LIFE- Lifestyle for Environment to combat climate change by PM Modi at COP-26 is the step in right direction.

■ Goal 14: Life Below Water

- **Status:** India has a long coastline of about 7,517 km in length which sustains and provides a source of livelihood to over 250 million people. India is the second largest producer of fish in the world.
- **Schemes:** The Indian government's Sagarmala Project, is working to improve the state of India's ports and coastlines. To conserve marine ecosystems, the government has undertaken a National Plan for the Conservation of Aquatic Eco-systems, National Deep Ocean Mission, Neel Kranti Mission etc. Coastal and marine biodiversity protection is a key area of focus for India.

■ Goal 15: Life on Land

- **Status:** In India, forest cover is now 21% and protected areas cover around 5% of the country's total land area. India is one of 17 mega-biodiverse countries in the world. With only 2.4% of the earth's land area, it accounts for 7-8% of the world's recorded species. Further, 176.4 million people were living on degrading agricultural land in 2010 – an increase of 10% in a decade, bringing the share of rural residents who inhabit degraded agricultural land up to 21% of the total rural population. During the same time-period (2000-10), the amount of people living in remote and degrading agricultural areas with limited market access increased by 11%, reaching 16.7 million people which is 2% of India's rural population.
- **Challenges:** The intensification and expansion of land degradation will harshly affect agricultural productivity, which will jeopardise agricultural livelihoods in the country. The annual cost of land degradation in India is estimated at US\$ 15.9 billion which is around 1.3% of the country's GDP.
- **Schemes:** India is committed to achieving the Aichi targets of the Convention on Biological Diversity and is also an active participant in the implementation of the Nagoya Protocol. India's National Afforestation Programme, New Draft National Forest Policy 2018 and a national programme on the Integrated Development of Wildlife Habitats are core projects aimed at the conservation of land ecosystems. Further, two specific schemes – Project Tiger and Project Elephant – are being undertaken to conserve two of the country's most majestic species of animals.

■ Goal 16: Peace & Justice Strong Institutions

- Challenge: In India, the judiciary is overburdened due to the large number of pending cases, with the backlog touching 33 million in 2018 – 28.4 million cases pending in subordinate courts, 4.3 million in High Courts and 57,987 cases in the Supreme Court.
- Scheme: India has prioritised the strengthening of justice through government initiatives including Pragati Platform, a public grievance redressal system, and the Development of Infrastructure Facilities for the Judiciary including Gram Nyayalays for villages.

■ Goal 17: Partnership to achieve the Goal

- Status: The Government of India is an important part of this new global partnership, and it has been strengthened by the country's efforts to build networks within the region and with the world like through CDRI (Coalition for Disaster Resilient Infrastructure) with its Secretariat is based in New Delhi.
- South-South co-operation has been a crucial part of this, as is India's membership and leadership in institutions like the Shanghai Cooperation Organization, BRICS and its New Development Bank, and the South Asian Association for Regional Cooperation, as well as with UN agencies and programmes around the world.

■ Major broad challenges apart from those mentioned above are:

- Defining Indicators: Past record indicates that we have not been very successful in setting up relevant indicators to measure outcomes as seen in the case of MDGs.
- Financing SDGs: A new study estimates that implementing SDGs in India by 2030 will cost around \$14.4 billion but India has only 5% of the required funding to implement SDGs. Further, given the recent cut in social sector schemes by the Union government, unless states devote a significant portion of their resources on the social sector, there is likely to be a significant funding gap. High growth and redistribution itself are also not enough. According to the United Nations MDG 2014 report, despite high economic growth, in 2010, one-third of the world's 1.2 billion extreme poor lived in India alone. Given these constraints, it is likely that domestic revenues aside, private finance could be a crucial source for financing the SDGs.
- Monitoring and Ownership: There is a significant challenge with respect to ownership. NITI Aayog will play a significant role in tracking progress. However, members at the Aayog have expressed reservations on being able to take on this mammoth task time and again. Moreover, if states are expected to play a pivotal role (giving the devolution post 14th Finance Commission) it will require ownership not just nationally but also at the state and local level.
- Measuring Progress: By the government's own admission, non-availability of data (particularly in respect to sub-national levels), periodicity issues and incomplete coverage of administrative data, made accurate measuring progress of even MDGs virtually impossible.
- Obstacle in policymaking: India lacks credible data in the relevant fields. This could be a major obstacle in policymaking.
- Cultural barriers: Practices such as a preference for male child, gender equality in education, open defecation are deep-rooted in the society and have cultural implications.
- Limited Government Spending: India spends less than 1.5% on health and around 4% on education. This is far below the required levels.
- Limited source of funding: There has been rising trends of nationalism and protectionism across the world. Hence, channeling of funds from developed countries to developing countries could be an issue.

Way Forward

- ❑ SDGs provide broad goals and targets, it will be up to the national, and state governments to identify priorities, decide appropriate locally relevant policies, harness innovation and ensure that an implementation and monitoring plan is in place. It is also the responsibility of people, society, NGOs, media to help the government in achieving these only and contributing towards them.
- ❑ NGOs, CSOs can be a powerful tool in highlighting the plight of the vulnerable at the local as well as international level e.g. CRIES, Doctors without borders etc.
- ❑ Philanthropists, big corporate to leverage their CSR on socio-economic needs of the society for their inclusive and sustainable development e.g. Bill and Milanda Gates Foundation, WIPRO 3 donations, cess, bringing more people under the bit of income tax and such revenue to be diverted to the fulfillment of SDGs.
- ❑ Experts in various fields' e.g. medical, engineering, economy, law, finances etc. Need to collaborate for the formulation of policies, framework, and regulations etc. In a cost-effective manner.
- ❑ Efforts to give effect to international treaties such as GCF, Paris Agreement, Doha round of WTO etc.
- ❑ Increasing budgetary allocation for policies, plans aimed at achieving quality education, health, gender equality etc.

Special Economic Zone– A Boon or Bane for Indian Economy?

Context

The Government approved the Special Economic Zone (SEZ) Bill, 2019.

SEZ in India

- ❑ A SEZ is a territory within a country that is typically duty-free (Fiscal Concession) and has different business and commercial laws chiefly to encourage investment and create employment.
- ❑ SEZs are created also to better administer these areas, thereby increasing the ease of doing business.
- ❑ Asia's first EPZ (Export Processing Zones) was established in 1965 at Kandla, Gujarat.
- ❑ While these EPZs had a similar structure to SEZs, the government began to establish SEZs in 2000 under the Foreign Trade Policy to redress the infrastructural and bureaucratic challenges that were seen to have limited the success of EPZs.
- ❑ The Special Economic Zones Act was passed in 2005. The Act came into force along with the SEZ Rules in 2006.

Analysis

- ❑ Positive Impact of SEZs on the Indian Economy
- ❑ Import Substitution by domestic Production: Baba Kalyani-led committee on special economic zones (SEZ) has suggested that certain sectors such as electronics are showing high domestic demand and need to have a plan for import substitution.
- ❑ Boost to MSME Sector: The SEZ policy has significant constraints for MSMEs, despite its high importance for the Indian economy.

- ❑ Increased Share of Manufacturing in GDP: Although about 30 percent of operational SEZ are engaged in manufacturing but still manufactured goods dominate India's exports from SEZs.
- ❑ Performance of SEZ in India:
 - ❑ Exports: From Rs. 22,840 crore in 2005–06 to Rs. 7,59,524 crore in 2016–17, exports rose (2020-21).
 - ❑ Employment: From 1,34,704 people in 2005–2006, there are now 23,58,136 people employed (2020-21).
 - ❑ Investment: From Rs. 4,035.51 crore in 2005–06, investment has grown to Rs. 6,17,499 crore (2020-21).
- ❑ Negative Impact of SEZ in India
 - ❑ Despite the huge rate of approval and establishment of SEZs, and thus their apparent success, the development of SEZs has faced considerable opposition and is stalling in some cases. Some of the key problems due to SEZ are as follows:
 - ❑ Economic
 - ❑ Loss of Employment for Farmers: SEZ model that replaces farming on fertile agricultural land with autonomous, private industrial enclaves that mostly just provide jobs for urban skilled and semi-skilled workers.
 - ❑ Social
 - ❑ Poor Compensation: The compensation to the land owners, even if paid in full, is woefully inadequate.
 - ❑ Forced Eviction & Poor Rehabilitation: For rural farmers, it is not just the loss of their land but the displacement is very painful since it breaks the family and neighbourhood bonds that are not easy to establish in a new setting.
 - ❑ No Alternative Employment for Rural Poor: In most of the cases, the displaced people have found little new employment in these projects.
 - ❑ Landless Worker & Non – Farm Workers – This section does not receive any compensation and are left without any redress for the severe disruption to their livelihoods that they face.
 - ❑ Discrimination – Land Holdings of the vulnerable groups like SC's and ST's are targeted because such people are least likely to be able to resist the process
 - ❑ Impact on Women - Poverty, indebtedness and unemployment due to SEZ has forced women to undertake more work and struggle hard for making ends meet. Violence against women also increased due to increased frustration.
 - ❑ Political
 - ❑ SEZs have hit at the sovereignty of local bodies, as they function as self-governing autonomous bodies.
 - ❑ Enormous power has been given to Development Commissioners for granting environmental clearance for SEZs. They are able to bypass the State Pollution Control Boards as they work directly under government control.
 - ❑ Environmental
 - ❑ The SEZ Act 2005 does not require "Environmental Impact Assessment" as part of the application for new units because SEZs are only permitted to contain "non-polluting" industries and facilities
 - ❑ Water pollution due to the release of untreated waste water into water bodies by SEZ has led to the deaths of a number of livestock and increased GHGs in the atmosphere.

Challenges faced by SEZ in India

- ❑ **Land Acquisition:** The land for SEZ is usually obtained, with the recommendations of the state governments, through Land Acquisition Act. The flaws in the archaic land acquisition have been replaced by the new Land Acquisition Act, 2013 but the process of land acquisition and getting permissions from custom authorities is still cumbersome.

- ❑ **Free Trade Agreements:** Signing of more Free Trade Agreements (FTAs) by India enabled Indian exporters outside the SEZs to import duty free imports of inputs. This acted as a disincentive for exporters operating within SEZs
- ❑ **Withdrawal of Tax Incentives:** After the withdrawal of exemption for Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) for the SEZs, it has become more beneficial to operate in Domestic Tariff Area (DTA) rather than SEZ.
- ❑ **Non-compliance with WTO rules results in export in competitiveness** - SEZs are entitled to get various tax benefits but these are not compliant with the World Trade Organization (WTO) rules. Therefore, the importing countries impose countervailing duties on imports from India, to negate the effect of direct tax subsidies provided to the exporters operating within SEZs
- ❑ **Unused Land in SEZs:** As a result of the pandemic's interruptions and a lack of demand for SEZ space.
- ❑ **Existence of Multiple Models:** There are numerous economic zone models, including Special Economic Zones (SEZ), Coastal Economic Zones, the Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zones, Food Parks, and Textile Parks, which make it difficult to integrate the different models.
- ❑ **Competition from ASEAN Countries:** Over the past several years, many ASEAN nations have made changes to their policies to draw in foreign investors to their special economic zones (SEZs) and have also pushed to further a number of their skill-building projects.
- ❑ As a result, Indian SEZs have lost some of their worldwide competitive advantages and require newer rules.

Suggestions

- ❑ The government should ensure due Compensation, Resettlement and Rehabilitation of the displaced land owners.
- ❑ A fixed time period needs to be prescribed for getting fast notification by Board of Approval (BOA).
- ❑ Timely redressal of grievances by UAC/BOA and granting of NOC from various authorities for exiting from SEZ scheme.
- ❑ India should not provide direct subsidies to SEZs which violates the WTO rules and rather provide indirect benefits
- ❑ The administrative procedures should be streamlined wherein overall clearance mechanism should be speedy, robust and effective to transform zones as arenas for employment, new investment and development catalysts rather than enclaves for absorbing underemployed workers.
- ❑ SEZs need to be treated differently from the domestic economy and should be provided significant incentives & opportunities for domestic participation, knowledge-sharing, innovation and skills development.

Conclusion

- ❑ Therefore, it cannot be denied that the objectives of the SEZ in terms of the production of goods and services of global standards, earning foreign exchange, improvement in infrastructure and employment are more relevant today than ever before. They probably need to be supported more through incentives and government interventions rather than being hounded as is no alternative to bring in Export led economic development.

FEASIBILITY OF INDIA TO BECOME A \$ 5 TRILLION ECONOMY

- ❑ Prime Minister had announced the target of a \$5 trillion economy for India by 2024. This will make India the third-largest economy in the world.
- ❑ **Contribution of Different Sectors in achieving the goal of \$5 Trillion Economy**
 - Primary Sector
 - Investment is the key for the flourishing of areas like agro-processing, and exports, agri-startups and agri-tourism, where the potential for job creation and capacity utilisation is far less especially in Food processing sector.
 - Investment needs to be driven to strengthen both public and private extension advisory systems (educating farmers about technology and management practices) and the quality of agri-education and research through collaboration and convergence.
 - India has the highest livestock population in the world, investment should be made to utilise this surplus by employing next-generation livestock technology. This would lead to a sustained increase in farm income and savings with an export-oriented growth model.
 - The mining industry has the potential to create 6 million additional total jobs by 2025, accounting for 12 per cent of the new non-farm job gap. At the same time, the mining industry could contribute an additional USD 125 billion to India's output and USD 47 billion to India's GDP by 2025.
 - Investment in renewable energy generation (using small wind mill and solar pumps) on fallow farmland and in hilly terrain would help reduce the burden of debt-ridden electricity distribution companies and State governments, besides enabling energy security in rural areas.
 - A farm business organisation is another source of routing private investment to agriculture. Linking these organisations with commodity exchanges would provide agriculture commodities more space on international trading platforms and reduce the burden of markets in a glut season, with certain policy/procedural modifications.
- ❑ **Manufacturing Sector**
 - To boost electronics manufacturing, the government should consider offering additional fiscal incentives such as a limited-period tax holiday to players investing more than an identified threshold of investment.
 - Similarly for the auto and auto-components sector, it recommended encouragement of global leaders for the identified components to set up manufacturing bases, and incentivising players willing to invest more than a threshold in identified areas.
 - The report suggested measures to boost manufacturing in other areas including aeronautical, space, garments, organic/ayurvedic products besides emerging areas such as biotechnology, electric mobility, unmanned aerial vehicles, medical devices, robotics and chemicals.
 - For micro, small and medium enterprises, the working group said there is a need to improve access to funding by way of development of SME credit risk databases, SME credit rating, and creation of community-based funds.
 - In the defence sector, there is a need to identify key components and systems and encourage global leaders to set up manufacturing base in India by offering limited period incentives; and ensure incentives result in technology/process transfer.

■ Service Sector

- This sector contributes significantly to India's GDP, a goal of around 60 % contribution of services sector has been envisaged for 2024. Exports and job creation, increased productivity and competitiveness of the Champion Services Sectors like IT, tourism, medical value travel and legal will further boost exports of various services from India.
- Multi-Modal Logistics Parks Policy (MMLPs) aims to improve the country's logistics sector by lowering over freight costs, reducing vehicular pollution and congestion and cutting warehouse costs with a view to promoting movements of goods for domestic and global trade.
- To promote growth of accounting and financial services, there is a need of FDI in domestic accounting and auditing sector, transparent regulatory framework, and easing restriction on client base in the accounting and auditing sector.
- Measures like exploring introduction of insurance in the film industry, promoting private investments in film schools, exploring franchise business models to exploit film franchise, and promoting gaming industry value chains aims to push audio visual services.

■ FEASIBILITY OF BECOMING \$5 TRILLION ECONOMY

- If India grows at 12% nominal growth (that is 8% real GDP growth and 4% inflation), then from the 2018 level of \$2.7 trillion, India would reach the 5.33 trillion mark in 2024.
- The Economic Survey 2018-19 highlighted that international experience, especially from high-growth East Asian economies, suggested that such growth can only be sustained by a "virtuous cycle" of savings, investment and exports catalysed and supported by a favourable demographic phase.
- Investment, especially private investment, is the key driver that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction and generates jobs.

Why government is focusing on Benefits of the virtuous cycle:

- Animal spirits in the economy (the ways that human emotion may drive financial decision-making in uncertain situations and unpredictable periods) can thrive when the economy is in a positive cycle because investment, productivity development, job creation, demand, and exports all feed into one another.
- The case studies of growth in China, Thailand, Indonesia, and South Korea are discussed in the Economic Survey 2018–19 to emphasise the problem of gross capital formation, or the contribution of savings and investments to GDP in these nations.
- The "key factor" that drives demand, builds capacity, boosts labour productivity, introduces new technology, permits creative destruction, and creates jobs is investment, especially private investment.
- The manufacturing of capital goods, research and development, and supply networks all contribute to the creation of jobs when capital investment is considered in the context of the entire value chain. International data also implies that when high investment rates generate growth, capital and labour are complementary.
- The example of China shows how a nation with the greatest rates of investment likewise produced the most jobs.
- Investment in capital increases the productivity of all factors, which benefits export performance. Investment becomes essential to improving export performance as a result. For the high development East Asian nations, there is a clear link between export growth and GDP growth.

CHALLENGES

▣ Sectors of Indian Economy

▣ Primary Sector

- One of the major problems that this sector faces is the under-employment and the disguised employment.
- Declining soil fertility coupled with land degradation are serious challenge.
- The slow-down in agricultural growth has become a major cause for concern. India's rice yields are one-third of China's and about half of those in Vietnam and Indonesia. The same is true for most other agricultural commodities.
- Water resources are also limited and water for irrigation must contend with increasing industrial and urban needs. India has low water use efficiency compared to the developed countries. The overall irrigation project efficiency in developed countries is 50 – 60% as compared to only 38% in India. more water per unit of production compared to similar plants operating in other countries

▣ Manufacturing Sector

- Poor networks of roads, inadequate air & sea port capacities along with undeveloped railway networks are hindering the growth of this sector. This leads to slow & inefficient delivery of the product to the customers.
- The turnaround times are also high due to heavy congestion on berths and slow evacuation of cargo unloaded at berths. High cost of fuel & high waiting times negatively impact the logistic sector. Logistics cost is 14% in India in comparison to 8% in developed nations.
- Inverted duty structure is key challenge in Indian manufacturing sector.
- The transportation industry is also severely unorganised. The employees of this sector have inadequate skills which lead to inefficient supply of goods. Low level of technology and poor maintenance of the tools are also responsible for inefficiency of the transportation industry.

▣ Service Sector

- The main problem that this sector is that the jobs which involve lower salaries do not attract much employment. And this remains the future dilemma as India is looking for double-digit growth in the near future.
- Income elasticity is another challenge plaguing the sector sector.

▣ COMMON CHALLENGES

- **Depressing pace in carrying out land and labour reforms:** This has been a major turn-off for investors looking at setting shop in the country. Recently, budget talks about narrowing labour laws. This is a step in the right direction but quick execution is important. Since land is a state subject, respective state governments need to work with the Centre to bring about the change.
- **Slow pace of infrastructure development in the last decade:** India is still at the position where China was 20 years ago in terms of infrastructure development. The plans are ambitious, but the problem is resources.
- **Funding Problem:** India does not have powerful institutions that can fund long-gestation infrastructure projects. Banks do not have enough long-term liabilities to match such loans. Lenders have gone terribly wrong in the past by not following healthy lending practices.
- India does not have a deep bond market to take up the financing burden. The state-insurer Life Insurance Corporation of India (LIC) has been overexploited to do businesses it has never understood.

There aren't many other options left to take up the infra-funding burden. The government's plan to borrow off-budget is risky and inadvisable.

- **Government's excessive involvement in businesses:** The government remains active participant in several entities including banks, airline, and infrastructure firms. It controls 70 % of the banking industry. This participation has resulted in a lot of money getting stuck in these entities.
- **Private investors back:** This is even more critical now since domestic consumption is dropping to dangerous levels. Investment in new projects plunged to a 15-year low in the quarter ending June 2019.
- According to the finance ministry's data, projects worth almost Rs 11 lakh crore remain 'stalled' or are having issues. Railways, roads, and power sectors account for more than half of these stalled projects.
- **Public money:** Government spending has largely aided GDP growth. Sure, this was needed at a time when private investors were absent. However, an economy which rides largely on government money for a prolonged period of time does not promise much to the economy in the long run. What is needed is the participation of private investors.

Way Forward

- ❑ There is a need to place India's official statistics on a firmer footing, so that we can be sure that economic policy-making is based on reality. However, getting the numbers right will not ideally end the task.
- ❑ Government alone would not be able to meet the target of achieving the \$ 5 trillion economy. Private sector would have to take the lead. Budget 2018-19 included a hike in the disinvestment target, governmental support to NBFCs and a long-term plan to deepen the corporate bond markets.
- ❑ Structural reforms in the agriculture sector would also have to carry out. There is a need to modernise the farm sector.
- ❑ The States should recognise their core competence and aim to increase their economy by 2 to 2.5 times, working towards raising GDP targets right from the district level. States to focus on their potential to grow exports.
- ❑ Global healthcare and wellness is a \$8 trillion industry, need to convert India's 600 district hospitals as medical, nursing and paramedical schools to train 5 million doctors, nurses and paramedics to meet the global requirements.

GSSCORE

An Institute for Civil Services

GYAN CAPSULES

YOUR BOOSTER DOSE

**MAINS
ANSWER WRITING**



BHARAT KATHA



GOOD PRACTICE



Monthly
CURRENT AFFAIRS



Weekly
CURRENT AFFAIRS



**FREE MENTORSHIP
SESSION (FMS)**



DATA STORY



SCAN QR CODE TO REGISTER / DOWNLOAD



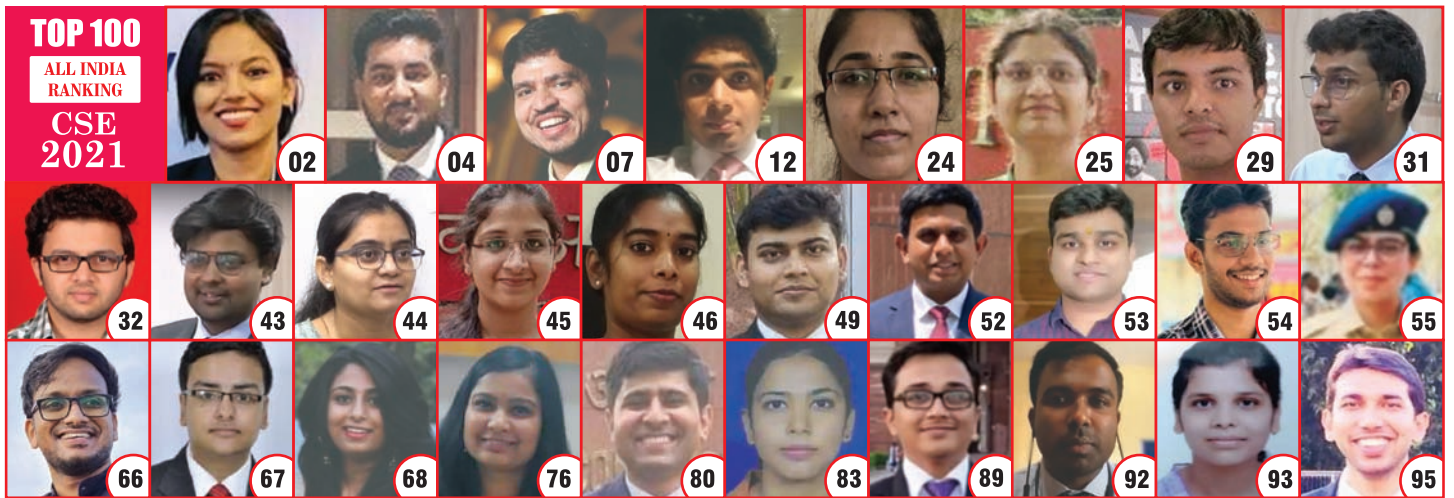
1B, Second Floor, Pusa Road, Karol Bagh,
New Delhi - 110005 (Beside Karol Bagh
Metro Station Gate No. 8)



8448496262



iasscore.in



SUCCESS IS A PRACTICE WE DO!

