



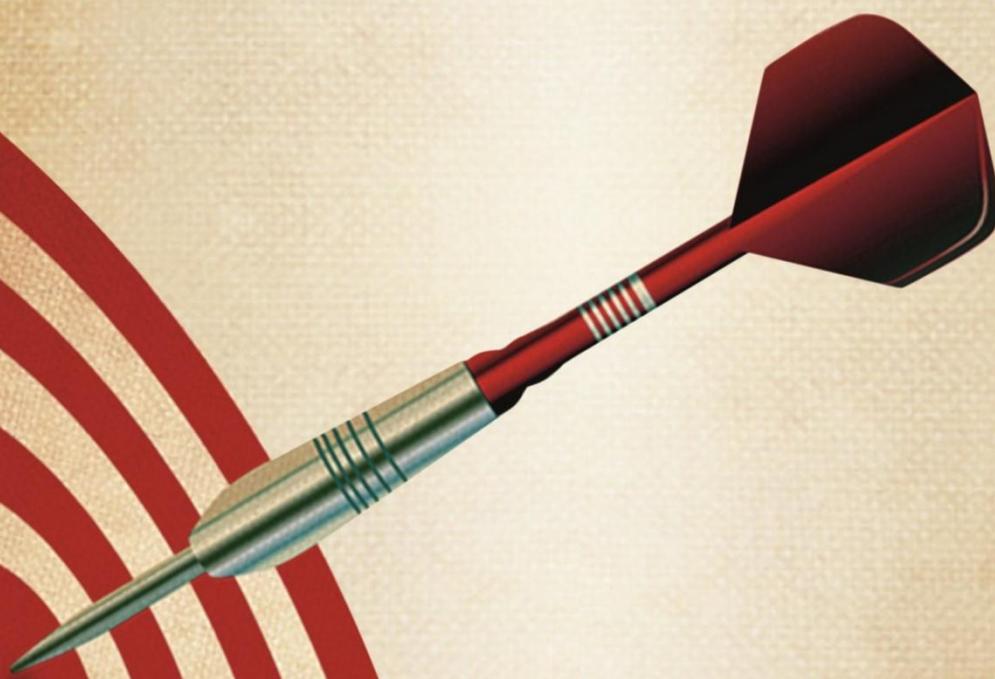
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ECONOMY & AGRICULTURE I



SHANKAR IAS ACADEMY

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TARGET 2020

ECONOMY & AGRICULTURE – I

(JUNE 2019 TO DEC 2019)

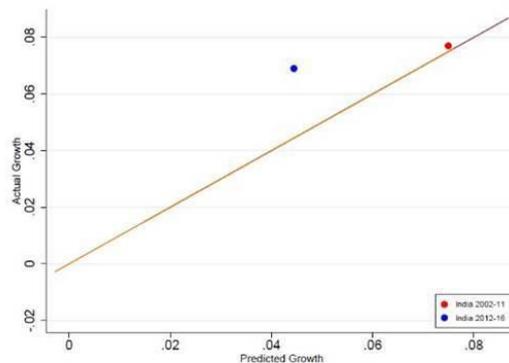
ECONOMY

1. GROWTH AND DEVELOPMENT

1.1 Over Estimation of GDP

Former Chief Economic Adviser (CEA) Arvind Subramanian recently claimed in a research paper that India's GDP growth from 2011-12 to 2016-17 was likely to have been overestimated.

- Official estimates place average annual growth at about 7% for the 2011-12 to 2016-17 period.
- But actual growth may have been about 4.5%, with a 95% confidence interval of 3.5% to 5.5%.
- The methodological changes have led to GDP growth being overstated by about 2.5 percentage points per year between 2011-12 and 2016-17.
- **Parameters** - Firstly, 17 key indicators that are typically correlated with GDP growth were compiled for the period 2001-02 to 2017-18.
- These include –
 - i. electricity consumption
 - ii. two-wheeler sales, commercial vehicle sales, tractor sales
 - iii. airline passenger traffic, foreign tourist arrivals, railway freight traffic
 - iv. index of industrial production (IIP), IIP (manufacturing), IIP (consumer goods), petroleum, cement, steel
 - v. overall real credit, real credit to industry
 - vi. exports and imports of goods and services
- Secondly, India is compared with other countries.
- For a sample of 71 high and middle income countries, relationship between a set of indicators and GDP growth for the pre and post-2011 periods was estimated.
- [The indicators chosen (credit, exports, imports and electricity) are simple, reliable, and typically not produced by the agency that estimates GDP.]



The horizontal axis shows growth predicted for different countries based on the cross-country relationship between the indicators and GDP growth; the vertical axis shows actual growth.

The line shows the growth predicted by the indicators (horizontal axis) and what is officially reported (vertical axis).

- **Mismatch** - In the first period (2001-2011), the India data point (red) is right on the line.
- This indicates that it is a normal country i.e. India's reported GDP growth is consistent with the cross-country relationship.
- However, in the second period (2012-2017) the India data point (blue) is well above the line.
- This implies that its GDP growth is much greater than what would be predicted by the cross-country relationship.
- It is high by over 2.5 percentage points per year.
- **Cause** - Reproducing the detailed methodology underlying the GDP estimates is hard for outside researchers.
- So it is difficult to trace the source of the problem.
- But, possibly, one sector where the mis-measurement seems particularly severe is the formal manufacturing.
- Before 2011, formal manufacturing value added from the national income accounts moved closely with IIP (Mfg.) and with manufacturing exports.
- But afterward, the correlations turn strongly and bizarrely negative.
- **Implications** - Growth estimates are significant not just for reputational reasons but critically for internal policy-making as well.
- The new evidence implies that both monetary and fiscal policies over the last years were overly tight from a cyclical perspective.
- E.g. interest rates may have been too high, by as much as 150 basis points
- Also, inaccurate statistics on the economy's health weaken the drive for reform.
- E.g. if it was known that India's GDP growth was actually 4.5%, the urgency to act on the banking system or on agricultural challenges may have been greater
- The popular narrative has been one of "jobless growth", hinting at a disconnect between fundamental dynamism and key outcomes.
- But in reality, weak job growth and acute financial sector stress may have been a consequence of the modest GDP growth.

Picking Holes		
CLAIM	REBUTTAL	COUNTERCLAIM
Subramanian said GDP overestimated	Subramanian's conclusions mathematically incorrect	India's methodology in line with advanced countries
2011-16 GDP in 3.5-5.5% range	Cross-country regression analysis wrong	GDP estimation not perfect but improving
Official estimate for the period 6.9%	Changed correlation between indicators don't imply low growth	OECD say 0.7% rise in GDP after shifting to global methodology

1.2 GDP Calculation

In January 2015, India's Central Statistics Office (CSO) introduced a new series of National Account Statistics. The resultant changes in the calculation of GDP have led to a series of controversies.

- The new series made several changes; in particular, it revised the base year from 2004-05 to 2011-12.
- It also employed a new methodology to estimate India's gross domestic product (GDP) and used new data sets to arrive at the GDP.
- Revising base years, improving methodologies and opting for better databases are part of normal practice in national income accounting.
- But the debate intensified when, in 2018, the statistical establishment released two back-series GDP data that contradicted each other.
- Back series GDP data recalibrated the GDP 'data for past years' based on the 'new methodology'.
- The first back-series was presented by the National Statistical Commission (NSC) in July 2018.
- It found that the average economic growth between 2005-06 and 2011-12 was 8.6% instead of the 8.3% according to the old series.

- The second back-series was calculated by CSO and published in November 2018.
- It found the average economic growth between 2005-06 and 2011-12 to be just 7%.
- The statistical debate quickly acquired a political colour because of the years concerned.
- Earlier in 2019, Arvind Subramanian argued that the new series overestimated GDP growth by as much as 2.5 percentage points.
- This is starkly in contrast to how things were for a decade before the new series with 2011-12 as the base year.
- The disconnect between the indicators post-2011 becomes even clearer when India's data are compared to the average of six emerging economies.
- India's GDP declined far less than the 6-country average despite its macro-indicators being worse hit.
- Subramanian argued that higher GDP growth between 2011 and 2016 was not backed by -
 - i. movement in key macro-indicators
 - ii. a surge in productivity (otherwise corporate profits would not have declined in this period)
 - iii. a surge in consumption (otherwise consumer confidence and industrial capacity utilisation would not have dipped sharply)
- He finally argued that the GDP Deflator (level of inflation) was considerably less than the retail inflation (as measured by Consumer Price Index) in the 2011-16 period.
 - [GDP Deflator is used to subtract from nominal GDP growth in order to arrive at the "real" GDP growth rate.]
- This essentially resulted in an overestimation of "real" GDP growth rate.
- **Counter claims-** Arvind Subramanian has shown that the nominal GDP growth rate, which is the only observable variable, has not changed under the old and new series.
- Secondly, there was no consolidated Consumer Price Index (CPI) before 2011.
- So, arguing that the gap between CPI and GDP deflator was low between 2002 and 2011, and wide between 2011 and 2016, is unfounded.

2. PUBLIC FINANCE

2.1 Concerns in Utilization of Cess

- A cess is a tax on tax, levied by the government for a specific purpose.
- It is levied on the tax payable and not on the taxable income.
- In a sense, for the taxpayer, it is equivalent to a surcharge on tax.
- A cess can be levied on both direct and indirect taxes.
- Recent examples of cess are:
 - i. infrastructure cess on motor vehicles
 - ii. clean environment cess
 - iii. Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers)
 - iv. education cess
- Unlike a tax, a cess is levied to meet a specific purpose; its proceeds cannot be spent on any other kind of government expenditure.
- E.g. the proceeds from the education cess cannot be used for cleaning the environment and vice versa
- To meet specific socio-economic goals, a cess is preferred over a tax because it is relatively easier to introduce, modify, and abolish.
- **Management** - The proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI).

- The approval of the Parliament is necessary to withdraw funds from the CFI.
- The tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission.
- But the cess proceeds need not be shared with them.
- In order to utilize the cess proceeds lying in the Consolidated Fund of India (CFI), the government has to create a dedicated fund.
- **Recent Issues** - The education cess, at 2%, which was first proposed in 2004, was aimed at improving primary education.
- In 2007, an additional cess of 1% was introduced to fund secondary and higher education (SHEC).
- Recently, in the 2019 Union Budget, a 4% health and education cess was announced.
- This incorporates the previous 3% education cess as well as an additional 1% to provide for the health of rural families.
- **Unutilized Fund** - There has been an increase in the amount of education cess collected via corporation tax and income tax over the years.
- From the inception of the education cess until 2019, the total proceeds have been around Rs. 4,25,000 crore.
- The dedicated fund created for primary education is the 'Prarambhik Shiksha Kosh' (PSK) in 2005.
- Likewise, that for higher and secondary education is the 'Madhyamik and Uchchatar Shiksha Kosh' in 2017.
- CAG audit data show that around Rs. 94,000 crore of SHEC proceeds is lying unutilized in the CFI.
- **Expenditure** - The unspent account, if seen in conjunction with the expenditure on education, reveal the high degree of economic injustice.
- In 2017-18, the public expenditure on school and higher education was estimated to be around Rs. 79,400 crore.
- In other words, the cumulative unutilized SHEC funds far exceeded the expenditure on both school and higher education in 2017-18.

2.2 Corporate Tax Rate Cut

Finance Minister announced the slashing of corporate tax rate to 22% from 30%; an ordinance in this regard has already been issued by the government.

- This big cut (more than a fourth) in corporate tax rate comes after a gap of almost 15 years.
- In 2004-05, the tax rate was reduced to 30% from 35% (one-seventh).
- This was 7 years after it was brought down to 35% from 40% (one-eighth).
- Now, it has been slashed from 30% to 22%.
- Also, for companies that are incorporated after October 1 and whose projects will be commissioned before March 31, 2023, the tax rate will be as low as 15% (compared to 25% currently).
- The effective tax rate for this category of companies will be 17.01%, about 12 percentage points lower than what prevails now.
- [The effective tax rate for a corporation is the average rate at which its pre-tax profits are taxed.]
- **Effect** - The tax rate cut does the following:
 1. it increases the profitability of companies in India, leaving them with extra cash to invest; restrains them from demanding more sops, putting pressure on them to invest
 2. it creates a feel-good sentiment, and sends a strong message about the government's faith in India Inc (the formal sector - government & corporate)
 3. it puts pressure on the fiscal position of the Centre
- **Implications**- The annual cost of this corporate tax rate cut, which no government will be able to restore, is Rs 1,45,000 crore, almost 1% of the GDP.

- States do not have a choice, but to face the impact of this.
- 42% of Union taxes is devolved to the states; so, they will receive almost Rs 61,000 crore less from the Central government now.
- Consequently, they will have little fiscal space to expand spending programmes.

2.3 Tax Buoyancy and Tax Devolution

- Tax buoyancy is one of the key indicators to assess the efficiency of a government's tax system.
- Generally, as the economy achieves faster growth, the tax revenue of the government also goes up.
- Tax buoyancy explains this relationship between the changes in government's tax revenue growth and the changes in GDP.
- In other words, it measures the responsiveness of tax mobilisation to economic growth.
- **Factors** - Tax buoyancy depends largely on -
 - i. the size of the tax base
 - ii. the friendliness of the tax administration
 - iii. the reasonableness and simplicity of the tax rates
- There are many other factors at play in either boosting or pulling down tax buoyancy.
- Also, there is a lag effect of taxation policies. This can be captured only by examining the trend over a longer period of time.
- Thus, tax buoyancy in a year may reflect the impact of an adverse set of developments during that year.
- However, usually, the longer-term trend of tax buoyancy during a period of about 5 years results from policy changes made a few years earlier.
- So, the lag effect of policy changes on tax buoyancy can hardly be ignored.
- **Trend** - The highest tax buoyancy rate for the Union government during the last 28 years after economic reforms was achieved in 2002-03.
- Tax buoyancy that year had risen to 2 at that time.
- This meant that the Centre's gross tax revenues had grown at double the rate at which the Indian economy had grown in nominal terms.
- However, just a year before tax buoyancy hit the record high of 2, gross tax collections in 2001-02 actually declined.
- This was even as the economy had clocked a nominal growth rate of just over 8%.
- So, in the 5 years of 1999-2000 to 2003-04, there was poor tax buoyancy in 2 years and commendable tax buoyancy rates in the other 3 years.
- The period thus holds the record for both the highest and the lowest tax buoyancy rates in post-reforms India.
- During the 2004-05 to 2008-09 period, the first 4 years recorded tax buoyancy between 1.3 and 1.7, a creditable performance.
- In the fifth year (2008-09), there was a sharp fall in tax buoyancy to about 0.2.
- This was due to the impact of the global financial meltdown and the tax measures taken to alleviate its impact on the economy.
- Thus, tax buoyancy was fairly moderate between 1 and 1.3 in 4 of these 7 years between 1991-92 and 1997-98 and was poor in the remaining 3 years.
- But, the tax reforms undertaken during this period did help boost the tax buoyancy rate in the following decade.
- Similarly, the tax reforms during 1999-2004, particularly in the indirect taxes regime, helped tax buoyancy in the 2004-09 period.

- The period of 4 years between 2009-10 and 2011-12 saw tax buoyancy quite irregular.
- The 2014-19 period saw steady performance in tax buoyancy.
- In the first half of 2019-20, the Centre's gross tax revenue grew by just 1.5% over the same period of 2018-19.
- However, tax buoyancy fell further to about 0.15.
- This is on the assumption that the nominal economic growth in the first half is 10%.

2.4 Tax Information Exchange Agreement

India has notified a tax information exchange agreement (TIEA) with the Marshall Islands.

- The agreement enables exchange of information, including banking and ownership information, between the two countries for tax purposes
- TIEA is based on international standards of tax transparency and exchange of information and enables sharing of information on request.
- The agreement also provides for representatives of one country to undertake tax examinations in the other country.
- The agreement will enhance mutual cooperation between the countries which will help curb tax evasion and tax avoidance.
- Marshall Islands are a sprawling chain of volcanic islands and coral atolls in the Pacific Ocean, between Hawaii and the Philippines.

2.5 Base Erosion and Profit Shifting (BEPS)

- BEPS refers to corporate tax planning strategies used by multinationals to "shift" profits from higher tax jurisdictions to lower tax jurisdictions, thus "eroding" the "tax-base" of the higher tax jurisdictions.
- This undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level.
- Moreover, when taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers.
- The Organization for Economic Co-operation and Development (OECD) and G20 has an Inclusive Framework on BEPS, which brings together over 125 countries and jurisdictions to collaborate on the implementation of the BEPS Package.
- The BEPS Package provides 15 Actions that equip governments with the domestic and international instruments needed to tackle tax avoidance.
- Countries now have the tools to ensure that profits are taxed where economic activities generating the profits are performed and where value is created.
- These tools also give businesses greater certainty by reducing disputes over the application of international tax rules and standardizing compliance requirements.

2.6 Buyback tax

Union Budget has proposed to **tax buyback of shares** by companies at **20%**.

- Currently buyback tax is applicable only for unlisted companies.
- A buyback is essentially a scheme by which a company repurchases a certain amount of its outstanding shares.
- It was felt that many companies were avoiding dividend payouts because of the 'dividend distribution tax' (DDT).
- So, the companies were returning cash to shareholders through share buybacks.
- The proposed tax on share buybacks is aimed at plugging this loophole.

- Instead of declaring dividends, the promoters were using the buyback route to enhance their wealth and effectively increasing their shareholding in the company.
- In this process, the government loses, as it was not getting paid the DDT.
- So the proposed tax may nudge companies to payout surpluses through dividends rather than resort to buybacks.
- This would plug the loophole and promoters now have to pay tax whichever way they go, be it dividend payout or the buyback.

2.7 15th Finance Commission

Union Cabinet has extended the term of 15th Finance Commission (15th FC) headed by N.K.Singh by one-year to October 30, 2020.

- Article 280 of the Constitution states that the President shall constitute a Finance Commission at the expiration of every fifth year or at such earlier time as the President considers necessary.
- The term was originally set to end in October 2019.
- It means the Commission will recommend its award to six fiscal years, instead of the usual five.
- The 15th FC can give recommendations for six years through two reports (2020-21 to 2025-26) and 16th FC will consider devolution for 2025-26 to 2029-30.
- The proposed change in coverage of the period will help medium-term resource planning for the state governments and the central government.
- **Finance Commission** is a quasi-judicial body and its recommendations are only of advisory nature and hence, not binding on the government.
- It is constituted to make recommendations to the president about the distribution of the net proceeds of taxes between the Union and States and also the allocation of the same amongst the States themselves.
- It is also under the ambit of the Finance Commission to define the financial relations between the Union and the States.
- They also deal with devolution of non-plan revenue resources.
- According to the recommendation of 14th Finance Commission, the share of states in the net proceeds of the shareable Central taxes should be 42%.

2.8 Financial Stability and Development Council

The 21st Meeting of the Financial Stability and Development Council (FSDC) was held recently.

- FSDC was established in 2010 with Union Finance Minister as its Chairman.
- Its members include
 - i. The heads of financial sector regulators (RBI, SEBI, PFRDA, and IRDA)
 - ii. Finance Secretary, Department of Economic Affairs
 - iii. Secretary, Department of Financial Services
 - iv. Chief Economic Adviser
 - v. Chairman of the Insolvency and Bankruptcy Board
- FSDC has two core functions:
 - i. to perform as an apex level forum to strengthen and institutionalize the mechanism for maintaining financial stability
 - ii. to enhance inter-regulatory coordination and promote financial sector development in the country
- It focusses on financial literacy and financial inclusion.
- It monitors macro-prudential supervision of the economy and also assess the functioning of the large financial conglomerates.

- FSDC sub-committee is chaired by the Governor of RBI.

2.9 Compensation Cess

The government has released Rs 35,298 crore to the States in Goods and Services Tax (GST) compensation.

- Compensation cess was introduced as relief for States for the loss of revenues arising from the implementation of GST.
- States were guaranteed a 14 per cent tax revenue growth in the first five years after GST implementation by the Central government.
- States' tax revenue as of Financial Year (2016-17) is considered as the base year for the calculation of this 14 per cent growth.
- Any shortfall against it is supposed to be compensated by the Centre using the funds specifically collected as compensation cess.
- Compensation cess is levied on products considered to be 'sin' or luxury goods.
- The collected compensation cess flows into the Consolidated Fund of India.
- It is then transferred to the Public Account of India, where a GST compensation cess account has been created.
- States are compensated bi-monthly from the accumulated funds in this account.

2.10 New Strategic Disinvestment Process

- **Strategic Disinvestment** - The sale of substantial portion (50% or more) of the Government shareholding of a central public sector enterprise (CPSE) as the competent authority may determine, along with transfer of management control.
- The Cabinet has approved a new process of strategic disinvestment with a view to expediting privatisation of select PSUs.
- Presently PSUs for strategic sale are identified by NITI Aayog.
- The new process has made Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance, the nodal department for the strategic stake sale.
- Now, NITI Aayog and DIPAM will jointly identify PSUs for strategic disinvestment.
- Also, DIPAM secretary will be a part of Inter-ministerial group on disinvestments.

3. INFLATION

3.1 Rate of Inflation

- Inflation refers to an overall increase in the Consumer Price Index (CPI), which is a weighted average of prices for different goods.
- The set of goods that make up the index depends on which are considered representative of a common consumption basket.
- Therefore, depending on the country and the consumption habits of the majority of the population, the index will comprise different goods.
- Annual inflation, refers to the percent change of the CPI compared to the same month of the previous year.

3.2 Consumer Price Index

- **CPI** along with Wholesale Price Index (**WPI**) are 2 widely used indexes to calculate the inflation in the country.
- CPI measure changes over time in general level of prices of goods and services that households acquire for consumption.

- The National Statistical Office (**NSO**), Ministry of Statistics and Programme Implementation is releasing CPI (Rural, Urban, Combined) with the base year 2012 as monthly basis.
- It is widely used as a macroeconomic indicator of inflation, as a tool by governments and central banks for inflation targeting.
- It is also used for indexing dearness allowance to employees for increase in prices.
- India has adopted 4 CPIs.
 1. CPI (Industrial Workers)
 2. CPI (Urban Non- Manual Employees)
 3. CPI (Agricultural Labour)
 4. CPI (Rural Worker)
- Monthly price data are collected from 1114 markets in 310 selected towns by NSSO and from 1181 selected villages by the Department of Posts.
- The prices are being collected through Web Portals.
- Web portal for rural prices was developed by NIC and for urban prices by the Computer Centre in MoSPI.
- In India, RBI uses CPI (combined) for inflation purpose.

3.3 Wholesale Price Index

- A wholesale price index (WPI) is an index that measures and tracks the changes in the price of goods in the stages before the retail level.
- I.e. goods that are sold in bulk and traded between entities or businesses instead of consumers.
- WPI is usually expressed as a ratio or percentage, it shows the included goods' average price change and is often seen as one indicator of a country's level of inflation.
- Although many countries and organizations use WPIs in this way, many other countries, including the United States, use the producer price index (PPI) instead (a similar but more accurately named index)
- India uses base year 2011-12 for calculating WPI.

4. BANKING

4.1 RBI Bimonthly Monetary Policy - June 2019

RBI made a 25 basis point (0.25 percentage point) cut in the key policy rate, the repo rate (at which banks borrow from the RBI).

- **Repurchase/Repo Rate** - It is the rate at which the RBI lends money to commercial banks.
- This is availed by the banks in the event of any shortfall of funds.
- Reverse repo is the rate at which the RBI borrows money from commercial banks within the country.

Monetary Policy Committee

- The Reserve Bank of India Act, 1934 (RBI Act) has been amended by the **Finance Act, 2016** to provide for a statutory and institutionalised framework for a Monetary Policy Committee.
- It is responsible for fixing the benchmark interest rate in India while keeping in mind the objective of growth.
- It usually meets once in 2 months and is mandated to meet at least 4 times a year and it publishes its decisions after each such meeting.
- The committee comprises six members – Three officials of the Reserve Bank of India and three external members nominated by the Government of India.
- Members from the RBI are the Governor who is the chairman of the MPC, a Deputy Governor and one officer of the RBI.

- The government members are appointed by the Centre on the recommendations of a search-cum-selection committee which is to be headed by the Cabinet Secretary.
- The Members of the committee appointed by the Central Government shall hold office for a period of four years and are not eligible for reappointment.
- The Governor of RBI is the ex-officio chairperson of the committee.
- The quorum for the meeting of the MPC is four members.
- Decisions will be taken on the basis of majority vote and in case of a tie, RBI governor has a casting vote. He doesn't enjoy veto power.
- The current mandate of the MPC is to maintain inflation within the targeted range of 4%+2%, which is to be adhered till March 2021.
- The Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations.
- The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate (WACR).
- Once in every six months, the RBI is required to publish a document called the Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead.

4.2 RBI New Norms for Stressed Assets

RBI has issued a new prudential framework for resolution of stressed assets.

- **Key Highlights** - The new framework effectively replaces RBI's controversial 12 February 2018 circular.
- The central bank has made it **voluntary for lenders** to take defaulters to the bankruptcy court i.e. to use the Insolvency and Bankruptcy Code.
- The norms give lenders 30 days to start working on a resolution plan from the day of default.
- [Earlier norms, struck down by the Supreme Court, stipulated that even a one-day default must be reported and acted upon.]
- A lender will now have to set aside -
 - 20% more provisions if the plan is not implemented within 210 days from the date of default
 - 35% if the plan is not implemented within 365 days of default
- Besides, the new norms said that wherever necessary, the RBI will direct banks to start insolvency proceedings for specific defaults.
- The lenders may also choose to initiate legal proceedings for either insolvency or recovery.
- Meanwhile, the norms put in place penal provisions, for lenders, for resolution plans that are not implemented.
- The RBI circular also mandated signing of the inter-creditor agreement by all lenders.
- The RBI said that lenders must put in place **board-approved policies** for resolution of stressed assets.
- This must include the timelines for resolution.
- RBI said that it ideally expects lenders to initiate the process of implementing a resolution plan (RP) even before a default.
- During 30 days review period, lenders may decide on the resolution strategy.
- These include the nature of the RP and the approach for implementation of the RP.
- Here, the review period for defaulters of Rs.2,000 crore and above will start immediately.
- And that for defaulters between Rs. 1,500 crore and less than Rs. 2,000 crore will start only from 1 January 2020.
- The **framework now applies to** a larger universe of lenders including small banks and non-banking finance companies (NBFCs).

- This essentially means that the lenders will also have to follow the early stress recognition guidelines of RBI.
- These specify that borrowers must be categorized into special mention accounts based on their delay in repayment, which are:
 1. special mention account-o (SMA-o) loans, where the repayment overdue is between 1-30 days
 2. SMA-1 where the repayment overdue is between 31-60 days
 3. SMA-2 where the repayment overdue is between 61-90 days

4.3 Financial Stability Report June 2019 - RBI

The Reserve Bank of India recently released the 19th issue of the Financial Stability Report (FSR).

- The FSR reflects the collective assessment of the Sub-Committee of the *Financial Stability and Development Council* (FSDC) on risks to financial stability.
- It gives a picture of the resilience of the financial system.
- The Report also discusses issues relating to the development and regulation of the financial sector.
- The report analyses the overall state of the various segments as well as highlights the risk-related issues that could cause potential challenges.
- **Key Highlights** - The Financial Stability Report notes that the state of the banking system is encouraging.
- The gross non performing asset (NPA) ratio is 9.3% for all banks as of March 2019. This is likely to come down to 9% by March 2020.
- More importantly, the asset recognition process is completed and from now on, the NPAs will be on new credit given and not on earlier lending.
- Credit growth of scheduled commercial banks (SCBs) picked up, with public sector banks (PSBs) registering near double digit growth.
- Capital adequacy of the SCBs improved after the recapitalization of PSBs.
- The PSBs have, in particular, improved the Provision Coverage Ratio to 60.8% as against an average of 60.6% for the entire system.
- In all, the growth in credit has picked up for PSBs which is a sign that they are on the road to normalcy.
- The fact that NPAs are under control means that the other parameters will only improve.
- Lower NPAs mean fewer provisions which in turn improve profits and remove pressure from the net worth and hence further demand for capital.
- The RBI has also indicated that the recovery rate for the cases under the IBC is around 40-45%.
- This is definitely better than the ratios of less than 20% that was the norm prior to the implementation of the IBC.
- **Need for caution** - The report points out that the problem areas in terms of NPAs still remain.
- In metals, mining and engineering, the NPA ratios are above 25%.
- In construction, gems and jewelry and auto that follow next, the ratios are 21.8%, 21.5% and 18.4% respectively.
- It is to be seen as to how the new norms of dealing with stressed assets by the RBI work out for these sectors.
- **Significance** - The FSR highlights the Non Banking Financial Companies' importance in the country's financial system.
- Around 70% of their liabilities are raised from the public, with a size of Rs 28.8 lakh crore.
- Compared with the banking assets size of roughly Rs 140 lakh crore, the NBFC sector forms around 20%.
- This conveys the importance of this sector, as it caters to the needs of several corners where probably banks are less interested.

- **Loan share** - The combined loan share of the NBFCs and HFCs (Housing Finance Companies), in comparison with the joint share of banks, is fairly impressive.
- So, they are as important as the banks when it comes to providing finance to the household segment.
- **Concerns** - The worrisome part is that the delinquency rates (wrongdoings) tend to be higher.
- It thus calls for a higher degree of introspection in the NBFC sector.
- **Contagion effect** - Given the size of the housing finance companies (HFCs), they tend to be the largest of the NBFCs.
- Now, their combined strength makes them comparable to the banks.
- This means that any major shock or failure can also have far-reaching implications for the financial system.
- This has already been witnessed in case of the mutual funds industry which has been affected by their investments in paper issued by the NBFCs.
- Their dominance in the corporate bond market is well-known and the progress here too will be impeded in case of such a shock.
- Given these, surveillance is the way out to ensure that the NBFCs continue to grow in a disciplined and secure manner.

4.4 50 Years of Banks Nationalisation

July 19, 2019 marks 50 years of nationalisation of 14 commercial banks in India by the Indira Gandhi government.

- State Bank of India was the only public sector undertaking that was nationalised (in 1955) before 1969.
- The SBI nationalisation had happened in the backdrop of private banks going bankrupt at an alarming rate.
- In 1969, Indira Gandhi government carried out bank nationalisation through the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969.
- Fourteen big private banks were nationalised, to be taken control of by the government.
- These lenders held over 80% bank deposits in the country.
- The banks that were nationalised were:
 1. Allahabad Bank
 2. Bank of Baroda
 3. Bank of India
 4. Bank of Maharashtra
 5. Central Bank of India
 6. Canara Bank
 7. Dena Bank
 8. Indian Bank
 9. Indian Overseas Bank
 10. Punjab National Bank
 11. Syndicate Bank
 12. UCO Bank
 13. Union Bank
 14. United Bank of India
- In 1980, the government took control of another 6 banks.
- These included Punjab and Sind Bank, Vijaya Bank, Oriental Bank of India, Corporate Bank, Andhra Bank and New Bank of India.

- **Rationale** -There were issues related to the reach and flow of credit to important sectors, and these were dealt with through various ad-hoc measures in 1960s.
- E.g., the fragmentation was addressed through consolidation of banks
- The number of banks was brought down from 566 in 1951 to 91 in 1967.
- Before nationalisation in 1969, the government tried addressing some of the issues through “social control”.
- The idea was to attain a wider spread of credit and increase the flow to priority sectors.
- However, overall, banks were failing largely due to speculative financial activities.
- After 1967, when Ms. Indira Gandhi became the PM, banks were not giving credit to agriculture and not enough credit to industry.
- The banks were more interested in extending credit for trade.
- The collapse of banks was causing distress among people.
- People were losing their hard-earned money in the absence of a strong government support and legislative protection to their money.
- Given this, nationalisation of banks was a more populist and rational choice for the government.
- Given these, the key objectives of nationalisation of banks were to -
 - i. address the rising economic difficulties in the 1960s
 - ii. remove control of the few on banking system
 - iii. provide adequate credit for agriculture, small industry and exports
 - iv. professionalize bank management
 - v. encourage a new class of entrepreneurs
- Bank nationalisation resulted in a significant increase in bank deposits and financial savings.
- In this backdrop, the rising fiscal deficit made the banking sector a captive source of financing.
- With continued political intervention, the profitability of the banks suffered. Over the years, this affected bank operations.
- In all, the government succeeded partially in meeting its goal of implementing its development agenda through the banking system.
- However, many in India lacked access to formal finance and a large part of the population remained outside the banking net.

4.5 RBI Circular on Lending Rate

In a recent circular to banks, the RBI has directed lenders to link lending rate to external benchmark.

- The benefits of changes made by the RBI to the policy repo rate (rate at which RBI lends to commercial banks) is often not transmitted to the borrowers by the banks.
- In 2015, then RBI Governor Raghuram Rajan decided that the system used by banks to price their loans needed to be changed.
- So, he introduced the Marginal Cost of Funds based Lending Rate (MCLR) regime.
- In October 2017, an internal study group of the RBI recommended the adoption of external benchmarks to ensure effective policy transmission.
- This came after observing that the MCLR too had failed to deliver.

Interest Rate Spread

- Spread refers to the difference in borrowing rates and lending rates of financial institutions.
- In other words, it is the interest yield on earning assets such as a loan minus interest rates paid on borrowed funds.

T-Bill Rate

- Treasury Bills are government bonds or debt securities with maturity of less than a year.
- T-Bill Rates are determined by the central bank and used as a primary instrument for regulating money supply and raising funds.

- Notably, RBI made a total of 75 basis points (bps) reduction in the repo rate between February and June 2019.
- Against this, the weighted average lending rate on fresh rupee loans at banks eased only by 29 bps.
- The current RBI move comes as an effort to address this problem of inadequate interest rate transmission.
- Lenders will have to link all new floating rate loans given in the personal, retail and MSME categories to external benchmarks, including the repo rate, with effect from October 1 2019.
- The banks are free to choose one of the several benchmarks:
 - i. RBI repo rate
 - ii. the 91-day T-bill yield
 - iii. the 182-day T-bill yield
 - iv. any other benchmark market interest rate produced by the Financial Benchmarks India Pvt. Ltd
- However, the RBI has made it clear that lenders would need to adopt a uniform benchmark within a particular loan category.
- Banks have also been given the leeway to determine their spread over the benchmark rate.
- This is however subject to the condition that changes to the credit risk premium can only be made when the borrower's credit assessment undergoes a substantial change.

4.6 RBI's Moves on Punjab and Maharashtra Cooperative Bank

The RBI has slapped restrictions on Punjab and Maharashtra Cooperative Bank Ltd (PMC Bank). It has also appointed an administrator and superseded its board of directors.

- The PMC bank is a leading urban cooperative bank headquartered in Mumbai.
- The decision sent shock waves among thousands of its depositors.
- Panic-stricken customers rushed to bank's branches across the state and were unable to withdraw more than Rs 1,000.
- The Bank has a deposit base of Rs 11,617 crore and operations across 7 states.
- It has been put under the scanner by the RBI after "irregularities" were disclosed to RBI.
- It ranks among the top 10 cooperative banks in the country.
- Moreover, the RBI restrictions will remain in force for 6 months.
- Given these, the unrest among customers is likely to continue.
- **Reporting** - With a deposit base of just over Rs 11,000 crore, PMC bank reported a net profit of Rs 99.69 crore in 2018-19 as against Rs 100.90 crore in 2017-18.
- The bank showed 3.76% (or Rs 315 crore) of advances (Rs 8,383 crore) as gross nonperforming assets (NPAs) in March 2019.
- This was a good performance considering that public sector banks recorded over 10% gross NPAs.
- But, it was learnt that the bank had suppressed the problematic assets and under-reported them.
- With this, the total bad loans could be between Rs 2,000-2,500 crore.
- Though this was not flagged in the Annual Report of 2018-19, the RBI was following it in the wake of huge divergence in bad loan reporting.
- **HDIL** - The bank was funding a clutch of companies, mainly in the troubled real estate sector, led by Housing Development & Infrastructure Ltd (HDIL).
- Rakesh Kumar Wadhawan is the Chairman of HDIL and his son Sarang Wadhawan is the Vice Chairman and MD.
- Notably, the Wadhawans of HDIL group had close links with PMC Bank for a long time.
- PMC had given loan to Wadhawan even after HDIL defaulted on its loans to other banks.

- Notably, commercial banks have already declared HDIL a defaulter.
- HDIL was also taken to National Company Law Tribunal (NCLT) for insolvency proceedings.
- Recently, NCLT admitted an insolvency plea moved by the Bank of India against HDIL in connection with a Rs 522-crore loan default.
- PMC, however, claimed that the loan was much lower than Rs 2,500 crore quoted in the media.
- The loans given to HDIL and other entities were suppressed by the PMC despite defaults.

4.7 Relook at Deposit Insurance in India

The RBI recently capped withdrawals from the Punjab and Maharashtra Cooperative (PMC) Bank at Rs. 1,000.

- In this context, here is an overview at the nature of deposit insurance in India and the working of Deposit Insurance and Credit Guarantee Corporation (DICGC).
- Deposit insurance is a measure to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due.
- The Centre has set up Deposit Insurance and Credit Guarantee Corporation under RBI to protect depositors if a bank fails.
- The deposit insurance scheme is mandatory for all banks and no bank can voluntarily withdraw from it.
- Compared to other BRICS nations, India today has the lowest deposit insurance cover to per capita income ratio.
- **Insurance limit** - A limit is the highest amount an insurer will pay for a claim that an insurance policy covers.
- Most people agree that the insurance limit of Rs.1 lakh, set in 1993, needs to be raised to a higher amount.
- Suggestions are being made to raise it to Rs. 15 lakh, which will cover 90% of the accounts completely.
- **Coverage** - Customers who want more coverage than the statutory cover on their deposits should be able to purchase it by paying additional premium.
- This option should be extended directly to banks that wish to increase the coverage of deposits to above the statutory requirements.
- **NBFCs** - The lack of DICGC coverage for deposits at NBFCs (many of whom the RBI regulates) and primary cooperative societies is one such aspect.
- These entities often serve vulnerable sections and their depositors must not be left stranded in case of a crisis.
- **Withdrawal** - Another deficiency in the current DICGC cover is that the Rs.1 lakh insurance amount only needs to be released if there is a bankrupt.
- Without liquidation of the bank, no liability accrues on the insurance company to pay such a claim.
- The flaw in this scheme is obvious as the 'freezes' in withdrawal directed by the RBI essentially cut the depositor's access to his/her money.
- Hence, during such periods (freezes), at least the statutory amount should be released.
- This will go a long way in preventing bank runs, which could be triggered when customers get alarmed about the ability of banks to repay their deposits.
- **Premium** - Currently the DICGC charges a flat 0.1% insurance premium on the deposits of banks.
- However, as suggested by an RBI panel in 2015, premium should be based on differential risk based on the lending practices of the bank, among other things.
- An SBI report states that 93% of the premium collected by the DICGC in 2018-19 came from commercial banks (public sector: 75%, private sector: 18%).
- But, over 94% of the claims settled (ever since the inception of the DICGC) have been those of cooperative banks.



- Clearly, poor governance in cooperative banks has been cross-subsidised by the better-performing commercial banks.
- The DICGC must thus draw inspiration from standard insurance practices.
- It should charge higher premiums from banks with a past history of higher claims.
- This will also provide a level-playing field for PSBs which are often disadvantaged due to tight government control and inflexibility.
- **Private insurers** - Another possibility to be analysed is that of bringing private sector insurers and re-insurers into the deposit insurance segment.
- This could drive down the premium prices.
- In FY19, the DICGC collected Rs. 12,043 crore as premium and settled Rs. 37 crore worth claims.
- Clearly, this is a lucrative area for private players who can bring in more accurate risk-based pricing of these policies.
- Notably, underwriting such policies entails significant risk-bearing on which the country's economy thrives.
- So, it needs to be reinsured by credible entities.
- Given all these, the government must take purposeful steps in expanding and rectifying the deposit insurance scheme as a safety net of the financial system.

4.8 Operation Twist

- Operation Twist is the name given to a U.S Federal Reserve monetary policy operation in 2011-12 that involves the purchase and sale of bonds.
- Its objective was to make long-term borrowing cheaper and to stimulate the economy.
- It does not expand the Fed's balance sheet, making it a less aggressive form of easing.
- RBI have recently decided to launch India's version of Operation Twist.
- Accordingly, RBI will simultaneously buy and sale government securities worth Rs. 10,000 crore each under its open market operations.
- RBI will purchase the longer-term government bonds maturing in 2029 at 6.45% and simultaneously sell short term bonds maturing in 2020.
- It will purchase bonds that are trading at a spread of 150 bps (basis points) over the repo rate, so that the yield of these papers will soften.
- It is seen as a move aimed at managing the yields.
- Bond yields have been rising since the RBI unexpectedly left its key repo rate unchanged earlier this month
- Thus, it is an unconventional step by RBI as policy rate cuts are unable to bring down the bank lending rates proportionately.

4.9 Leverage Ratio

- A leverage ratio is one of several financial measurements that look at how much capital comes in the form of debt (loans) or assesses the ability of a company to meet its financial obligations.
- The leverage ratio category is important because companies rely on a mixture of equity and debt to finance their operations, and knowing the amount of debt held by a company is useful in evaluating whether it can pay its debts off as they come due.
- A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.
- Common leverage ratios include the debt-equity ratio, equity multiplier, degree of financial leverage, and consumer leverage ratio.
- Banks have regulatory oversight on the level of leverage they are able to have, as measured by leverage ratios.

- The Basel Committee on Banking Supervision (BCBS) has set the minimum requirement for leverage ratio at 3%.
- A lowering of the ratio, with the capital as numerator staying fixed, would imply an expansion of the denominator, or the bank's lending activity.
- Banks have been required to publicly disclose their Basel III leverage ratio on a consolidated basis from 1 April 2015.
- Leverage ratio is one the four indicators under the RBI's prompt corrective action framework, recently RBI has reduced leverage ratio of domestic systematically important Banks (D-SIB).

4.10 Bimal Jalan committee report

- It was set up to review the economic capital framework of the RBI.
- Its **mandate** was to review global best practices followed by the central banks in making assessment and provisions.
- According to **Section 47 of the RBI Act**, profits of the RBI are to be transferred to the government, after making various contingency provisions.
- The contingency provisions includes public policy mandate of the RBI, financial stability considerations etc.
- The committee proposes transfer of RBI reserves to govt in tranches over 3-5 years.
- It recommended transferring of funds from both contingency and revaluation reserves to the government.
- The panel has also sought a 'period review' of the RBI capital framework.
- In the past, the issue of the ideal size of RBI's reserves was examined by three committees,
 1. **V Subrahmanyam** (1997)
 2. **Usha Thorat** (2004) and
 3. **Y H Malegam** (2013).
- At present RBI continue with the recommendation of the Subrahmanyam panel.
- The RBI board did not accept the recommendation of other committees.
- For the year ending June 2018, RBI had total reserves of Rs 9.59 lakh crore.
- It comprises mainly currency and gold revaluation account (Rs 6.91 lakh crore) and contingency fund (Rs 2.32 lakh crore).
- The government was seeking Rs 3.6 lakh crore from the RBI.
- The transfer of surplus capital may help the government meet its fiscal deficit target.
- Most of the Jalan committee members favours reducing the RBI's excess reserves in a phased manner, without any substantial transfer to the government.
- The majority of the members also favors the past reserves of the RBI, especially unrealized gains, in gold and currency revaluation accounts, should not be touched, while future transfers should be guided by the new policy.
- Government nominee on the Committee has expressed differences on key recommendations of the panel.

4.11 Cooperative Societies

- A co-operative society is a **voluntary association** of individuals having common needs who join hands for the achievement of common economic interest.
- Its aim is to serve the interest of the poorer sections of society through the principle of self-help and mutual help.
- People come forward as a group, pool their individual resources, utilise them in the best possible manner, and derive some common benefit out of it.
- A Co-operative Society can be formed as per the provisions of the **Co-operative Societies Act, 1912**.

- It is a Central Act. However, ‘**Cooperative Societies**’ is a **State Subject**.
- **Right to form a ‘Cooperative Society’ is made a ‘Fundamental Right’ under 97th Constitutional Amendment Act, 2011.**
- At least ten persons above of 18 years, having the capacity to enter into a contract with common economic objectives, like farming, weaving, etc. can form a Co-operative Society.
- At the State level, the Registrar of Cooperative Societies (RCS) of respective States exercises control over the Cooperative Banks.
- However, the banking functions of the Cooperative Banks are regulated by RBI under the Banking Regulation Act, 1949.
- The Government has taken the following measures to revive the **Short Term Cooperative Credit Structure (STCCS)**,
 1. Based on the recommendation of **Vaidyanathan Committee**, government implemented a revival package for STCCS.
 2. It encompasses legal and institutional reforms, measures to improve the quality of management and financial assistance as necessary for their democratic, self-reliant and efficient functioning.
 3. Recognizing the need to revamp ailing Cooperative Banks so that they are able to cater to the needs of farmers at their doorstep.
- To enable Cooperative Banks to meet the crop loan and term loan requirements of farmers, Government has set up two Funds in NABARD.

4.12 Small Finance Banks

- RBI has recently released the final guidelines on on-tap licensing for small finance banks.
- The guidelines say that Payments banks willing to convert themselves into small finance banks (SFBs) can apply for such a licence only after five years of operations.
- Such payments banks which are eligible to set up an SFB have to come under the non-operating financial holding company (NOFHC) structure.
- SFB undertakes basic banking activities of accepting deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- The SFB will be given scheduled bank status once they commence their operations.
- The minimum capital for setting up an SFB has been mandated at Rs. 200 crore.
- For primary (urban) co-operative banks (UCBs) to become SFB’s, the initial net worth requirement will be Rs.100 crore and to be increased to Rs.200 crore within 5 years.
- Any individual or professional having at least 10 years of experience in banking and finance at a senior level can also set up an SFB either singly or jointly.
- Promoters of SFB’s shall always hold a minimum of 40% of the paid-up voting equity capital of the bank during the first five years from the date of commencement of business.
- RBI has also decided to bring UCBs with assets of ₹ 500 crore and above, under the reporting framework of the Central Repository of Information on Large Credits (CRILC).

4.13 Payments Banks

- The objectives of setting up of payments banks will be to further financial inclusion by providing
 - i. Small savings accounts and
 - ii. Payments/remittance services to migrant labour workforce, low income households, small businesses, other unorganised sector entities and other users.
- They can Accept of demand deposits and initially restricted to hold a maximum balance of Rs. 100,000 per individual customer.

- They cannot undertake lending activities.
- They should maintain Cash Reserve Ratio (CRR) with RBI.
- It is required to invest minimum 75% of its "demand deposit balances" in Statutory Liquidity Ratio (SLR).
- It should maintain maximum 25 per cent in current and time/fixed deposits with other scheduled commercial banks for operational purposes and liquidity management.
- They can issue ATM/Debit cards however cannot issue credit cards.
- The minimum paid-up equity capital for payments banks shall be Rs. 100 crore.

4.14 Internal Ombudsman

- The RBI has recently announced internal ombudsman scheme for large non-banking entities issuing pre-paid instruments (PPIs).
- It is to have an internal grievance redressal mechanism to provide a swift and cost-effective complaint redressal mechanisms.
- Internal Ombudsman is the authority placed at the highest level of an entity's grievance redressal mechanism.
- He/She will examine customer complaints which are a deficiency in service that is partly or wholly rejected by the entity.

4.15 Manufacturing PMI

- Purchasing Managers' Index (PMI) is an indicator of the economic health and investor sentiments about the manufacturing sector (Manufacturing PMI) and services sector (Services PMI).
- Recent PMI survey has showed that Manufacturing activity increased in November from a two-year low in the previous month.
- The value of the Index rose to 51.2 in November, up from 50.6 in October.
- It is driven by a modest increase in the growth of new orders and production.
- **PMI** - Its purpose is to provide information about current business conditions to company decision makers, analysts and purchasing managers.
- It is based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment
- For India, the PMI Data is published by Japanese firm Nikkei but compiled and constructed by Markit Economics.
- In a PMI survey, a standard questionnaire is administered to business entities.
- The respondents can either give a "Positive, Neutral or Negative" response and each response is marked as "1, 0.5 or 0" on the score card respectively.
- In adding up the response, a reading above 50 indicates economic expansion, while a reading below 50 points shows contraction of economic activities.
- **IIP** - IIP measures actual production output across the industrial sector.
- It shows the change in production volume in major industrial subsectors like manufacturing, mining and electricity. It covers broader industrial sector compared to PMI.
- As it is a comparison over the previous year, it is season neutral.
- PMI shows the growth oriented positive trends and not just the volume of past production that can be traced in an ordinary Index of Industrial Production.
- The PMI is released on the 1st of every month and the IIP is known on the 12th, the PMI score is assumed to be a precursor to the IIP.
- But the correlation between PMI and IIP isn't strong and the relationship between the two variables is quite low and insignificant.



4.16 Utkarsh 2022

- It is a three-year **road map of RBI** to improve regulation, supervision and other functions of the central bank.
- This is a medium term strategy in line with the global central banks.
- It was formulated by an internal committee.
- The committee identified the issues that needs to be addressed over the next three years.
- It is for the central bank to play a proactive role and to take preemptive action to avoid any crisis.

4.17 Merchant Discount Rate

2019 Budget announced revoking of Merchant Discount Rate for both customers as well as merchants.

- Business establishments with annual turnover more than 50 crore shall offer such low cost digital modes of payment to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants.
- The move was aimed at promoting digital payments and a less-cash economy.
- Merchant Discount Rate/Transaction Discount Rate is the sum total of all the charges and taxes that a digital payment entails.
- MDR includes bank charges, which a bank charges customers and merchants for allowing payments to be made digitally.
- Similarly, MDR also includes the processing charges that a payments aggregator has to pay to online or mobile wallets or indeed to banks for their service.
- It is good news for both customers and merchants because their costs of digital payments come down.
- If customers don't pay and merchants don't pay, some entity has to pay for the MDR costs.
- Finance Minister had said that the RBI and Banks will absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment.
- However, the payment services providers are now complaining.
- It has been reported that several Non-bank payment service providers (PSPs) are claiming that they are staring at a shutdown.
- It is because many payments providers believe that the banks will find a way of passing on the costs to them.
- In turn, this will negatively impact the health of a sector that needs nurturing.

4.18 Microfinance Institutions

- The Reserve Bank of India has raised the lending cap for microfinance institutions to ₹ 1.25 lakh, against the earlier limit of ₹ 1 lakh.
- This is mainly to improve credit availability in rural and semi-urban areas.
- RBI has also decided to increase the household income limit for borrowers of non-banking financial companies-micro finance institutions (NBFC-MFIs).
- It has the set the limit as ₹ 1.25 lakh and ₹ 2 lakh for rural and urban/semi urban areas.
- **NBFC-MFI** – Based on the recommendation of **Y.H. Malegam committee** recommendation, a separate category of NBFC-MFI was created in 2011.
- The committee was setup to study issues and concerns in the micro finance sector in the wake of the Andhra Pradesh micro finance crisis in 2010.

4.19 Kerala Bank

- RBI has given its final nod to the Kerala Government for the formation of the Kerala Bank which will be the largest banking network in the State.



- It would be formed amalgamating the District Co-operative Banks (DCBs) with Kerala State Co-operative Bank.
- The objective is to strengthen the cooperative sector but there is opposition that it would destroy the traditional cooperative sector.

4.20 Appointments in RBI

- As per the RBI Act, the central bank should have one governor and four deputy governors -Two from within the ranks and one commercial banker and another an economist to head the monetary policy department.
- Any vacancy in the list will be filled by the government after getting recommendations from the Financial Sector Regulatory Appointment Search Committee (FSRASC).
- FSRASC is headed by Cabinet Secretary and includes additional Principal Secretary to the Prime Minister who is a permanent government nominee and 3 other experts.
- As per the process, the panel will invite applications from eligible candidates and based on interactions with them will select the candidate.
- The appointment would be made by the central government on the recommendation of the FSRASC.
- It is noted that the FSRASC is free to identify and recommend any other person also, on the basis of merit, who has not applied for the post.
- The same process is being followed in the selection of Chairman of SEBI and IRDAI.
- Currently, Deputy governor post in RBI is being vacant after the resignation of Viral Acharya.
- The tenure of the office is three years and the person is eligible for reappointment.

4.21 Development Banks in India

The Union Finance Minister announced the setting up of a development bank.

- Development banks are financial institutions that provide long-term credit.
- They are also known as term-lending institutions or development finance institutions.
- It generally supports capital-intensive investments spread over a long period and yielding low rates of return.
- E.g. urban infrastructure, mining and heavy industry, irrigation systems
- Such banks often lend at low and stable rates of interest to promote long-term investments with considerable social benefits.
- **Working** - To lend for long term, development banks require correspondingly long-term sources of finance.
- This is usually obtained by issuing long-dated securities in capital market.
- These are subscribed by long-term savings institutions such as pension and life insurance funds and post office deposits.
- The long-term investments associated here have notable social benefits as well as involve considerable uncertainties.
- Given this, development banks are often supported by governments or international institutions.
- Such support can be in the form of tax incentives and administrative mandates for private sector banks and financial institutions.
- This is to help them invest in securities issued by development banks.
- **Recent proposal** - It was proposed to establish an organisation to provide credit enhancement for infrastructure and housing projects.
- A development bank would enhance debt flow toward such projects.
- It comes in the context of India not having a development bank and also for the need to have an institutional mechanism in this regard.
- The overall aim is to improve access to long-term finance.

- The announcement could have far-reaching implications for India's financial system.
- **Evolution of development banks** - IFCI, previously the Industrial Finance Corporation of India, was set up in 1949.
- This was probably India's first development bank for financing industrial investments.
- In 1955, the World Bank prompted the Industrial Credit and Investment Corporation of India (ICICI).
- [This is the parent of the largest private commercial bank in India today, the ICICI Bank.]
- It was a collaborative effort between the government with majority equity holding and India's leading industrialists with nominal equity ownership.
- The objective was to finance modern and relatively large private corporate enterprises.
- In 1964, IDBI (Industrial Development Bank of India) was set up as an apex body of all development finance institutions.
- **Source** - As the domestic saving rate was low, and capital market was absent, development finance institutions were financed by -
 - i. lines of credit from the RBI e. some of its profits were channeled as long-term credit
 - ii. Statutory Liquidity Ratio bonds, into which commercial banks had to invest a proportion of their deposits
- In other words, with government's role, short-term bank deposits got transformed into long-term resources for development banks.
- **Performance** - Development banks got discredited for mounting non-performing assets.
- This was allegedly caused by politically motivated lending.
- Inadequate professionalism in assessing investment projects for economic, technical and financial viability was also a reason.
- After 1991, following the Narasimham Committee reports on financial sector reforms, development finance institutions were disbanded and got converted to commercial banks.
- The result was a steep fall in long-term credit from a tenure of 10-15 years to 5 years.

5. FINANCIAL MARKET

5.1 SEBI Norms for Credit Rating Agencies

Securities and Exchange Board of India (SEBI) has released a new framework for financial disclosure by credit rating agencies (CRAs).

- Credit Rating Agencies (CRAs) are companies that evaluate the financial condition of issuers of debt instruments.
- CRAs assign a rating that reflects its assessment of the issuer's ability to make the debt payments.
- Rating is denoted by a simple alphanumeric symbol. E.g. AA+, A-, etc.
- In India, CRAs are regulated by SEBI (Credit Rating Agencies) Regulations, 1999 of the Securities and Exchange Board of India Act, 1992.
- The entities that are rated by credit rating agencies comprise companies, state governments, non-profit organisations, countries, securities, special purpose entities, and local governmental bodies.
- Some of the key CRAs in India include -
 - i. Credit Rating Information Services of India Limited (CRISIL)
 - ii. ICRA Limited
 - iii. Credit Analysis and Research limited (CARE)
- **Rationale** - The credibility of rating agencies has been eroding since the global financial crisis in 2008.

- This is primarily because of the conflict of interest arising from issuer-pays model.
- Under this, the ratings agency is paid by the issuer of the instrument that it rates.
- So agencies are found to be more loyal to companies whose instruments they rate rather than to investors who provide precious capital.
- In effect, agencies fail to downgrade troubled firms until they are on the verge of bankruptcy.
- The defaults at Infrastructure Leasing and Financial Services (IL & FS) in 2018 that led to a liquidity crisis among non-bank lenders in India has brought the focus back to CRAs.
- CRAs as SEBI-registered intermediary are supposed to be an alert system of an instrument before the actual default.
- But after failing to detect early signs of the crisis, credibility of CRAs as an institution and their utility under the regulatory system were questioned.
- Given the impact of this over the larger economy, SEBI aimed at tightening the disclosure guideline.
- **New norms** - Rating agencies have to clearly state the “**probability of default**” of the instruments they rate for the benefit of investors.
- Probability of default describes the likelihood of a default over a particular period.
- It provides the likelihood that a borrower will be unable to meet its debt obligations.
- SEBI will prepare and share standardised and uniform probability of default benchmarks.
- This will be fixed for each rating category for one-year, two-year and three-year cumulative default rates - both for the short run and long run.
- Probability will be based on a 10-year marginal default rate and the economic cycle.
- The agencies will also have to publish **information on their performance** in the rating of debt instruments, in comparison with a benchmark created in consultation with SEBI.
- This will help investors to better judge the performance of credit rating agencies.
- SEBI also introduced **disclosure of factors** to which the rating is sensitive.
- Rating agencies will have a specific section on rating sensitivities in each SEBI's press release.
- This would explain the broad level of operating and financial performance levels that could trigger a rating change - upward and downward.
- This is critical for the end-users to understand the factors that would have the potential to impact the credit worthiness of the entity.
- Besides, SEBI expects rating agencies to make meaningful disclosures on **client's liquidity position** using simple terms.
- This may include terms such as superior or strong, adequate, stretched or poor.
- This should also come with appropriate explanations, to help the end users understand them better and avoid any ambiguity.



5.2 India's First Overseas Sovereign Bonds

As a first, Union Budget 2019 proposed funding the fiscal deficit partially by borrowing from international markets in foreign currency.

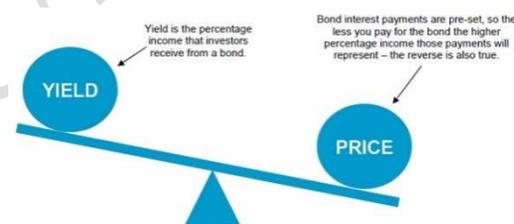
- The government plans to raise as much as \$10 billion from its first overseas sovereign bond. It would start raising a part of its gross borrowing programme in external markets in external currencies.
- A sovereign bond is a specific debt instrument issued by the government.
- They can be denominated in both foreign and domestic currency.

- Just like other bonds, these also promise to pay the buyer a certain amount of interest for a stipulated number of years and repay the face value on maturity.
- They also have a rating associated with them which essentially speaks of their credit worthiness.
- The Yield of the sovereign bond is the interest rate that the government pays on issuing bonds.
- The Yield of the bonds are dependent on primarily 3 factors -
 1. creditworthiness - the issuing countries' perceived ability to repay their debts; this can be obtained from rating agencies
 2. country risk - external/internal factors like unrest and wars tend to jeopardize a country's ability to pay off their debts
 3. exchange rates- in cases where bonds are issued in foreign currency, fluctuations in exchange rate may lead to increased pay out pressure on the issuing government
- **Rationale** - Public-sector borrowing is putting significant pressure on market rates, along with liquidity in the system.
- This, among other things, is affecting monetary policy transmission.
- The government is already resource-constrained and so large levels of local borrowings could drive up interest rates and crowd out the private sector.
- So, the next safe option is borrowing abroad, as the government can take advantage of low global interest rates.
- Also, India's sovereign external debt is less than 5% of its GDP, one of the lowest in the world.
- This makes the move seem relatively risk-free. The basic idea is that by shifting part of its borrowing abroad, the government will reduce the pressure on the domestic market.
- This will, in turn, help keep interest rates at lower levels.
- **Risks** - The government should avoid going overboard because there are multiple inherent risks in the idea.
- **Currency risks** - Primarily, the government will be taking currency risk.
- A depreciation in the rupee will, in turn, increase the government's liability.
- On the other hand, the overall increase in the import of foreign capital could put upward pressure on the rupee.
- This could eventually affect exports and make currency management more difficult for the central bank.
- **Volatility** - Borrowing from international markets will increase the government's exposure to the vagaries of global financial markets.
- With borrowing through sovereign bonds, India's loan repayments would be subject to exchange rate fluctuations.
- Depending on the trend, India may have to repay more than it had originally taken as loan.
- **Investments** - The move could potentially discourage foreign investors from investing in rupee-denominated government bonds.
- This is because they will have the option of investing in hard-currency bonds and avoid the currency risk associated with the rupee.
- This, in turn, could lead to higher volatility, both in the debt and currency markets.
- This can further diminish the gains from accessing international markets.
- **Financial risks** - Forex markets are irregular, especially now, with US-China trade tensions.
- So, any adverse movement can throw off all calculations and make overseas borrowing even more costly than that from local markets.
- Moreover, the domestic bond market serves as a signaling mechanism for the government by making price adjustments in response to the supply of bonds.
- Large issuances in global markets can impede this process.

- In fact, the government will have an incentive to take more of its borrowing abroad because it will help keep domestic interest rates in check.
- Naturally, this will increase risks for financial stability.
- Traditionally, it has been observed that the accumulation of foreign-currency debt can lead to difficulties.
- **Sources** - The use of sovereign bonds indicates that the government may be running out of sources to borrow from within India.
- Notably, India had the second worst debt-GDP ratio among emerging markets.
- India's debt-GDP ratio stands at 68.4%, next only to Brazil.
- India's total debt has risen by almost 50% since 2014.

Relation among Bond prices, Bond yields and Interest rates

- **Price** - Face value is the money amount the bond will be worth at its maturity.
- It is also the reference amount the bond issuer uses when calculating interest payments.
- The issuance price of a bond is typically set at par, usually \$100 or \$1,000 face value per individual bond.
- But a **bond's price changes** on a daily basis, just like that of any other publicly-traded security.
- The actual market price of a bond depends on various factors including:
 - i. the credit quality of the issuer
 - ii. the length of time until expiration
 - iii. the coupon rate compared to the general interest rate environment at the time
- **Interest rates** - The **price of a bond primarily changes in response to changes in interest rates** in the economy.
- For instance, say the investors get a better return in corporate bond either due to rise in their rate or due to fall in rate of government's bond.
- This would make the corporate bond much more attractive.
- Investors in the market will bid up the price of the bond until it trades at a premium that equalizes the prevailing interest rate environment.
- **Yield** - In simple terms, yield is the amount of return that an investor will realize on a bond.
- If the investor holds the bond to maturity, s/he will be guaranteed to get the principal amount back plus the interest.
- However, a bond does not necessarily have to be held to maturity by the investors.
- Instead, investors may sell them for a higher or lower price to other investors.
- The **bond prices and yields generally move in opposite directions**.
- This is because, as a bond's price increases, its yield to maturity falls.
- E.g. for a bond purchased with a par (face) value of \$100, and a 10 percent annual coupon rate, its yield would be 10% ($10/100 = 0.10$)
- If the bond price fall to \$90, the yield would become 11% ($10/90 = 0.11$).



5.3 Secondary Market for Corporate Loans - Manoharan Committee

The task force set up by the RBI to examine the possibilities of a secondary market for corporate loans in India submitted its report recently.

- **Secondary market**- When a company issues its securities for the first time, it does it in the primary market.
- After the IPO (Initial Public Offering), those securities get available for trade in the secondary market.



- A secondary market is thus a marketplace where already issued securities (both shares and debt) can be bought and sold by the investors.
- It is a market where investors buy securities from other investors, and not from the issuing company.
- Equity shares, bonds, preference shares, treasury bills, debentures, etc. are some of the key products available in a secondary market.
- SEBI functions as the regulator for the secondary market.
- **key suggestions-** The task force was led by Canara Bank Chairman T N Manoharan.
- It suggested creating a self-regulatory body (SRB) to manage the secondary market.
- This would develop appropriate benchmark rates for secondary market purchase and sale of corporate loans.
- The SRB is expected to also finalise detailed modalities and formulate guidelines.
- It would -
 - i. standardise the paperwork associated with loans, making them easier to trade
 - ii. maintain the standards and examine documentation
 - iii. maintain a central registry, and so on
- Aside from the creation of this quasi-regulator, the committee also suggested that existing requirements be changed.
- It said the secondary market for corporate loans, currently dominated by banks, be thrown open to mutual funds, pension funds, and insurance companies.
- To start with, it was recommended that term loans be prioritized for sale in the secondary market.
- Subsequently, depending upon the experience gained, other categories of loans like revolving credit facilities should follow suit.
- These include cash credit, credit card receivables, assets with bullet repayment and non-fund based facilities.
- **Rationale** - The secondary loan market in India is largely restricted to sale to Asset Reconstruction Companies and ad-hoc sale to other lenders, including banks.
- Notably, no formalised mechanism has been developed to deepen the market.
- Banks and NBFCs are currently the only participants in the primary and secondary loan markets.
- So, the taskforce felt that it was essential to widen the spectrum of participants to boost the secondary market.
- Besides, the secondary market in corporate debt is so illiquid.
- In the absence of sufficient liquidity, the market is not properly passing the price information about companies.
- So, a more structured form of price discovery would be far more efficient.

5.4 Alternative Investment Fund

Union Finance Minister recently said the government would set up an alternative investment fund (AIF) worth Rs 25,000 crore, in regards with stalled projects in real estate sector.

- An internal survey showed that around 4.58 lakh housing units were stuck in India with over 1,600 realty projects stalled.
- In this regard, the objective of AIF is to provide relief to developers with unfinished projects. This would ensure delivery of homes to buyers.
- The AIF will provide funds to bail out stalled real estate projects with less than Rs. 2 crore a unit in metros and Rs. 1 crore in other places.
- The government will act as the sponsor of the fund and infuse funds up to Rs 10,000 crore.
- The Life Insurance Corporation of India and State Bank of India would also infuse money.
- **SBICAP** Ventures will be the investment manager for the fund.

- The Cabinet also approved an establishment of 'Special Window'.
- This is to provide priority debt financing for completion of stalled housing projects in the affordable and middle-income housing sector.
- Special Window will provide last mile funding to projects meeting the below criteria:
 1. Net-worth positive
 2. Affordable & middle-income housing project
 3. On-going projects registered with RERA (Real Estate Regulatory Authority)
 4. Reference by existing lender
 5. Include stressed projects classified as NPA & NCLT
- **Benefits** - It could help revive the stressed real estate sector.
- The move will help relieve financial stress faced by large number of middle-class homebuyers who have invested their hard-earned money.
- This is also expected to release large amount of funds stuck in these projects for productive use in the economy.
- The scheme will also apply to projects that have been declared as non-performing assets by banks and to those lined up before the insolvency court.
- So, apart from real estate promoters, this will also aid lenders, mainly finance companies and banks, whose funds are locked up in the projects.

SBICAP

- SBI Capital Markets Ltd. (SBICAP) is one of India's leading domestic Investment Banks.
- It offers the entire gamut of investment banking and corporate advisory services.
- These services encompass Project Advisory, Structured Debt Placement, Capital Markets, Mergers & Acquisitions, Private Equity and Stressed Assets Resolution.

5.5 SEBI's New Rule on Default

SEBI had asked listed companies to publicly disclose any default beyond 30 days.

- Default in repayment of principal or interest on loans from banks and financial institutions are to be disclosed.
- Such disclosure shall be made promptly, but not later than 24 hours from the 30th day of such default.
- In August, 2017, SEBI had issued a similar circular.
- It asked all listed entities to make such "disclosures within one working day from the date of default at the first instance of default."
- However, SEBI had deferred the implementation of that rule hours before it was to come into effect on October 1 2017.
- The new default rule made now will come into force on January 1, 2020.
- **Rationale** - There is a gap in the availability of information, to different classes of investors, on defaults on loans by listed companies.
- Investors come to know of such defaults much later.
- Unlike this, a default on repayment of a bond or a similar instrument issued by a company has to be disclosed immediately.
- SEBI thus says the change was necessary to address this information asymmetry.
- An early disclosure can act as an early warning system.
- This can help investors make considered decisions on whether to stay on or sell the stock and exit, reducing their losses.
- In the current scenario, a meltdown such as those at IL&FS, DHFL, or PMC Bank, can leave many investors wary.
- It is thus expected that SEBI's move will lead to greater credit discipline in the banking industry.



- **RBI's move** - The RBI's February 12, 2018 circular directed banks to start the process of resolution or restructuring of a loan even if the default was for only a day.
- The April 2, 2019 ruling of the Supreme Court struck down the circular.
- Following this, the RBI revised its rule in June 2019 offering a 30-day window to classify an account as a Non Performing Account.
- SEBI's circular now could be seen as a sign of regulatory synergy with the RBI.
- **Investments** - In 2017, SEBI restrained at the last minute on implementing the disclosure norms on default.
- But, 2018 and 2019 have seen the collapse of several corporates.
- Little was known about the true state of such companies before they went into bankruptcy.
- That too was based on anecdotal evidence with credit rating agencies way behind the curve.
- Resultantly, the erosion of faith could be detrimental to boosting fresh investment.
- It is now essential for both SEBI and the government to hold firm on the decision taken to instill confidence in investors and other stakeholders.

5.6 Credit Guarantee Fund

- National Credit Guarantee Trustee Company Ltd is a common trustee company to manage and operate various credit guarantee trust funds.
- It has been set up by the Department of Financial Services, Ministry of Finance.
- It operates Fund of Funds for Start-ups (FFS) under Start up India Programme.
- Under Startup India initiative, all applications can be submitted to the Department for Promotion of Industry and Internal Trade.
- Collateral-free loans have been made available to MSMEs under the Credit Guarantee Scheme in Aspirational Districts.

5.7 Sovereign Gold Bonds scheme

- Sovereign Gold Bonds (SGB) are government securities denominated in grams of gold.
- It's **objective** is to reduce the demand for physical gold and shift a part of the domestic savings of gold into financial savings.
- The bonds are denominated in units of 1 gram of gold and multiples thereof.
- Persons **resident in India** as defined under Foreign Exchange Management Act, 1999 are eligible to invest in SGB.
- Eligible investors include individuals, HUFs, trusts, universities and charitable institutions.
- Bonds are sold through Nationalised Banks, Scheduled Private Banks, Scheduled Foreign Banks, designated Post Offices, Stock Holding Corporation of India and the authorised stock exchanges either directly or through their agents.
- Minimum investment in the bonds is **1 gram** with a maximum limit of subscription of **500 gram** per person per fiscal year.
- The maximum limit of subscription is 4 kg for individual and Hindu Undivided Family (**HUF**) and 20 kg for **trusts** and similar entities per fiscal.
- Investors are assured of the market value of gold at the time of maturity and periodical interest.
- The Bonds bear **interest** at the rate of **2.5%** (fixed rate) per annum on the amount of initial investment.
- The bonds are held in the books of the RBI or in demat form eliminating risk of loss of script.
- The **tenor** of the bond is **8 years**, early encashment/redemption of the bond is allowed after 5th year from the date of issue.

- The bond will be tradable on Exchanges, if held in demat form. It can also be transferred or gifted to any other eligible investor.
- It can also be used as **collateral** for loans from banks, financial Institutions and Non-Banking Financial Companies (NBFC).
- Interest on the Bonds will be **taxable** as per the provisions of the Income-tax Act, 1961.
- **Tax Deducted at Source (TDS)** is not applicable on the bond. However, it is the responsibility of the bond holder to comply with the tax laws.
- The SGB Scheme 2019-20 (Series II) will be opened for subscription for the period July 08-12, 2019.

5.8 Mutual Funds to NBFCs

- According to analysis by CARE Ratings, the overall exposure of Mutual Funds to NBFCs has declined.
- It had declined from 19% (of the total funds) in July 2018 to 14.8% in June 2019.
- The fall is much steeper in the exposure of MFs to the '**Commercial papers**' of NBFCs as against '**Corporate debt**' of NBFCs.
- The recent crisis in the NBFC sector, lead to the overall decline of Mutual funds to NBFCs.
- **Mutual Fund** - It is a type of financial vehicle which collects money from investors and invests the money on their behalf.
- The investment can be in securities such as stocks, bonds, money market instruments, and other assets.
- **NBFC** – 'Non-Banking Financial Company' is a company registered under the **Companies Act, 1956**.
- They are the financial institutions that offer various banking services but do not have a banking license.
- They can lend and make investments but cannot accept demand deposits. cannot issue cheques drawn on itself.
- They are of two types, Deposit-taking NBFCs and Non-deposit taking NBFCs.
- NBFCs whose asset size is of Rs 500 cr or more are considered as 'systemically important NBFCs'.
- **Commercial paper (CP)** - It is a **short-term** debt instrument issued by companies.
- It is generally to raise funds for a time period up to one year.
- It is an **unsecured** money market instrument.
- Individuals, banking companies, other corporate bodies and non-resident Indians and FII can invest in CPs.
- **Corporate debt - Debt** markets are often called as "**bond markets.**"
- These are securities issued by private and public corporations.
- It is to raise money for a variety of purposes, such as building a new plant, growing the business, generally for a **long-term**.
- The company promises to return the principal money on a specified maturity date.
- It also pays interest in regular instalments, in most cases, every six months or once a year.
- They are less safe than government bonds.

5.9 Credit Rating Agency

- A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely principal and interest payments and the likelihood of default.
- An agency may rate the creditworthiness of issuers of debt obligations, of debt instruments, and in some cases, of the servicers of the underlying debt, but not of individual consumers.
- The debt instruments rated by CRAs include government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities, such as mortgage-backed securities and collateralized debt obligations.

- The issuers of the obligations or securities may be companies, special purpose entities, state or local governments, non-profit organizations, or sovereign nations.
- A credit rating affects the interest rate that a security pays out, with higher ratings leading to lower interest rates.
- Individual consumers are rated for creditworthiness not by credit rating agencies but by consumer reporting agencies or credit reference agencies, which issue credit scores.
- As of now, there are six credit rating agencies registered under Securities Exchange Board of India (SEBI) namely,
 1. CRISIL,
 2. ICRA,
 3. CARE,
 4. SMERA,
 5. Fitch India
 6. Brickwork Ratings.
- Moody Investors Service is not a registered credit rating under SEBI.

5.10 New Rules for Financial Firms

- The government has recently issued framework for bringing 'systemically important financial service providers' under the purview of the Insolvency and Bankruptcy Code (IBC).
- Accordingly, the ministry of Corporate Affairs has notified the IBC rules, 2019 to provide a generic framework for insolvency and liquidation proceedings of systemically important FSPs other than banks.
- Section 227 of the IBC Code enables the Central government to notify such rules for the purpose of insolvency and liquidation proceedings.
- Such rules will be notified in consultation with the financial sector regulators, financial service providers (FSPs) or categories of FSPs.

5.11 Bharat Bond Exchange Traded Fund

- The Cabinet Committee on Economic Affairs has given its approval for creation and launch of Bharat Bond Exchange Traded Fund (ETF).
- It is to create an additional source of funding for Central Public Sector Undertakings (CPSUs) Central Public Sector Enterprises (CPSEs), Central Public Financial Institutions (CPFIs) and other Government organizations.
- Bharat Bond ETF would be the first corporate Bond ETF in the country.
- ETF will be a basket of bonds issued by CPSE/CPSU/CPFI/any other Government organization Bonds (Initially, all AAA rated bonds)
- Each ETF will have a fixed maturity date. As of now, it will have 2 maturity series - 3 and 10 years.
- Each series will have a separate index of the same maturity series.

5.12 Bharat-22

- The Further Fund Offer 2 (FFO 2) of Bharat 22 Exchange-Traded Fund (ETF) was opened as a part of government's disinvestment programme.
- Bharat-22 will comprise stocks of 22 blue-chip public sector units, State-owned banks and three private companies where Specified Undertakings of the Unit Trust of India (SUUTI) has stakes.
- It is managed through ICICI Prudential Fund and it is in pursuance of government's disinvestment policy targeting an initial amount of Rs.6,000 crore.

- Earlier the government has launched Central Public Sector Undertakings (CPSE) ETF, which had stocks of many energy companies.
- Bharat 22 is a well diversified ETF spanning six sectors such as basic materials, energy, finance, FMCG, industrials and utilities.
- While CPSE ETF has only state-run companies as its constituents, Bharat-22 will give the government a shot at selling stakes in some of the private sector blue-chip companies as well.

5.13 Exchange Traded Fund

- An ETF is a type of fund that tracks the underlying assets and divides ownership of those assets into shares.
- The underlying assets can be shares of stock, bonds, oil futures, gold bars, foreign currency, etc.
- Shareholders do not directly own or have any direct claim to the underlying investments in the fund, rather they indirectly own these assets.
- The ETFs trading value is based on the net asset value of the underlying stocks that it represents.
- ETF shareholders are entitled to a proportion of the profits, such as earned interest or dividends paid, and they may get a residual value in case the fund is liquidated.
- ETF Vs Mutual Fund - The transaction of stocks and bonds under the Mutual Fund is with the company that manages the fund.
- Whereas in ETF, the ownership of the fund can easily be bought, sold or transferred in the same way as shares of stock, since ETF shares are traded on public stock exchanges.

5.14 Derivatives Trade in IFSC

- Based on the recommendations by the Usha Thorat committee on offshore rupee markets, RBI has brought in changes.
- In its monetary policy review, RBI has
 - allowed banks to freely offer foreign exchange prices to non-resident Indians ,
 - allowed trading on rupee derivatives and settled in foreign currencies in International Financial Services Centres (IFSCs)
- These two were the major recommendations of the committee which aimed at bringing the offshore markets to India.
- Gujarat International Finance Tec-City (GIFT) is India's IFSC much like an offshore market in Singapore, Hong Kong, London, Dubai and New York.

5.15 Social Stock Exchange

Finance Minister announced in the Union Budget 2019 that the government proposes to create a social stock exchange

- The purpose is to list social enterprises and voluntary organisations so that they can raise capital.
- A social stock exchange, broadly, is understood as a platform that allows investors to buy shares in a social enterprise that has been vetted by the exchange.
- There are only a few international examples and they follow different models.
- In London, it acts more as a directory connecting social enterprises with potential investors, while in Canada the SVX is an online platform where even retail investors can invest in funds or companies with social impact.
- In India, the finance minister said the exchange will come under the ambit of the SEBI.
- SEBI has constituted a working group on Social Stock Exchanges (SSE) under the chairmanship of Ishaat Hussain, Director, SBI Foundation.
- The working group shall examine and make recommendations with respect to possible structures and mechanisms, within the securities market domain, to facilitate the raising of funds by social enterprises and voluntary organizations.

6. EXTERNAL SECTOR

6.1 \$5 Trillion Economy by 2024 - Significance of FDI

- PM, in the NITI Aayog's 5th Governing Council meeting held recently, called for making India a \$5 trillion economy by 2024.
- Current FDI scenario - Gross inflows** of foreign direct investment (FDI) rose to \$64.37 billion in 2018-19.
- It was stagnated at around \$60 billion for the previous two years.
- The gross FDI inflows have nearly trebled since 2006-07 when it was mere \$22.8 billion.
- Evidently, despite domestic economic ups and downs, foreign investors have retained faith in the Indian economy.
- Net FDI inflows** – It is the net FDI inflows that actually contribute towards balancing the country's external account and boosting economic activity.
- Encouragingly, net FDI inflows in 2018-19 increased to around \$45 billion from around \$39 billion in 2017-18.
- This represents a much needed acceleration in these flows with growth rate in FY19 touching 15%.
- This is in sharp contrast to the previous two years, when net FDI inflows had actually declined by (-) 6% and 6.6% respectively.
- Thus, net flows in 2018-19 have staged a comeback and marginally surpassed the peak of \$44.9 billion reached in 2015-16.
- Recipient of FDI flows** - According to UNCTAD (World Investment Report), India is now the 10th largest recipient of FDI flows.
- [The US leads the list with attracting \$252 billion through FDI in 2018.]
- Cross-border investment flows** - India's share in global cross-border investment flows has increased from 2% in 2010 to 3.2% in 2018.
- Share in GDP** - World Bank data (World Development Indicators) shows that the share of net FDI inflows in India's GDP has less than halved over the years.
- It had peaked in 1999 at 3.6% of GDP and has since then declined to stand at 1.6% in 2017.
- Having staged a comeback in 2018-19, the share would be slightly higher now.

TABLE 1: GROSS FDI INFLOWS (\$ bn)

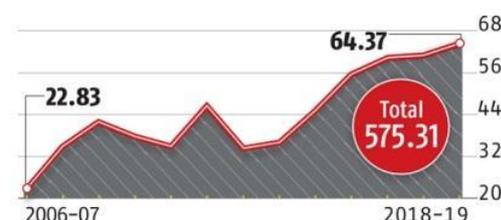
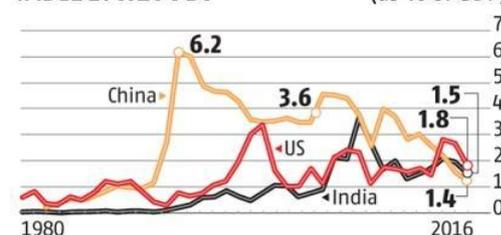


TABLE 2: NET FDI (as % of GDP)



India Vs China

- In terms of share in GDP, India's FDI performance looks comparable in 2017 to both China and the US.
- However, now, with its GDP nearly 5 times the size of India's economy, China managed to attract \$129 billion in 2018.
- Also, since its structural reforms in 1982, China has seen remarkable economic performance driven by a persistent pursuit of FDI.
- Consequently, the share of net FDI inflows in Chinese GDP rose from about 0.2% in 1982 to 6.2% in 1993.
- During this time, per capita incomes in China also rose from \$203 to \$377 and have maintained this rising trajectory.
- India's net FDI inflows as a percentage of GDP has been negligible in 1982, but increased and peaked in 2008.
- But even at its peak, FDI's share in India's GDP was just more than half of Chinese peak levels.
- Also, in 1991, per capita incomes in China and India were at somewhat similar levels (6-7%) of global average per capita incomes.
- By 2018, Chinese per capita incomes were more than 85% of global averages.

- On the other hand, India's per capita incomes just reached up to 18% of the global averages over this period.
- **Reason** - India decided to reduce the dependence on foreign investors for creating additional jobs and spurring economic growth.
- It decided this at a much earlier stage compared to China.
- This is one of the reasons for the low FDI levels in India.

6.2 FDI Policy Reform

The Union Cabinet recently decided to further liberalize foreign direct investment (FDI) rules in four sectors.

- The government approved foreign investment in digital media up to stakes of 26%.
- 100% foreign direct investment (FDI) under automatic route in coal mining and associated infrastructure has been approved.
- This is to include those companies seeking to commercially sell the commodity.
- To boost domestic manufacturing, 100% FDI in contract manufacturing under automatic route has been allowed.
- On FDI in single brand retail trade (SBRT), the Cabinet has expanded the definition of mandatory 30% domestic sourcing norm.
- [Currently, the FDI policy provides that 30% of the value of goods has to be procured from India if the SBRT entity has FDI of more than 51%
- Under the changes, all procurement made from India by the SBRT entity for that single-brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported.]
- It also allowed single brand retailers to start online sales, waiving the previous condition of setting up a mandatory brick-and-mortar store.
- **Rationale** - The government is clearly concerned by the economic slowdown and persistently weak investment activity.
- Also, there is a little slowing down of FDI worldwide.
- The RBI too recently pointed out that net FDI flows had moderated to \$6.8 billion over the first 2 months of the current fiscal year (2019-20) from \$7.9 billion in April-May 2018.
- Also, the government has set a goal of ensuring India becomes a \$5 trillion economy within the next 5 years.
- So, the overall consumptive capacity needs to be raised manifold to support demand growth.
- Given these, the move comes as an effort to get economic growth back on track.
- The measures are expected to make India a more attractive destination to overseas investors and boost investment in private sector.
- It would provide a policy fillip to attract more foreign capital into sectors that are seen as having a multiplier effect particularly in terms of job creation.
- **Shortfalls** - A closer examination of the reforms raises several concerns about the ultimate attractiveness of these changes.
- **Coal mining** - The changes to investment norms on coal appear to be a win-win for both the economy at large and the coal industry.
- [This is keeping aside the environmental costs of focusing on one of the most polluting fossil fuels.]
- This is based on the prospect of seeing an influx of both capital and modern technology into mining and processing.
- Another factors is raising domestic supply of the key raw material for power, steel and cement production thereby cutting costly and increasing imports.
- However, for foreign mining companies to proceed, several related regulatory and market challenges will have to be addressed.



- Large miners will need economies of scale and so require access to large contiguous fields with minimal bureaucratic constraints on operations.
- Given these, how much additional investments may actually accrue is not clear.
- Addressing these shortfalls is essential to make the latest FDI rule changes to be enough to draw a rush of investments.

6.3 Relaxation of SEBI's FPI Norms

SEBI has relaxed the regulatory and compliance framework for foreign portfolio investors (FPIs).

- FPI regulations have been redrafted based on the recommendation of a committee headed by former RBI deputy governor H R Khan.
- Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country.
- It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.
- Along with foreign direct investment (FDI), FPI is one of the common ways to invest in an overseas economy.
- In a developing economy, foreign portfolio investors (FPIs) are perceived to be more uncertain than domestic institutional investors.
- Thus, foreign investment flows tend to be less stable as these are influenced by global liquidity drivers.
- **Key changes** - The changes come as part of efforts to simplify and expedite the registration process for foreign portfolio investors (FPIs).
- SEBI simplified the documentation requirements for KYC, for foreign portfolio investors.
- It also permitted them to carry out off-market transfer of securities.
- The changes did away with the broad-based eligibility criteria for institutional FPIs.
- Under the new framework, FPIs would be classified into two categories instead of three.
- The requirements for issuance and subscription of offshore derivative instruments (ODIs) have also been rationalised.
- Mutual funds with offshore funds too can invest in India after registration as FPIs to avail certain tax benefits now.
- Central banks that are not members of the Bank of International Settlements are also allowed to register as FPIs and invest in the country under the new norms.
- This is to attract more overseas funds into the market.
- SEBI has allowed entities registered at an international financial services centre (IFSC) to be automatically classified as FPIs.
- This might help foreign investors bypass some of the restrictions.
- FPIs shall be permitted for off-market transfer of securities, which are unlisted, suspended or illiquid, to a domestic or foreign investor.
- Besides, registration for multiple investment manager (MIM) structures has been simplified.

6.4 The Federal Reserve Interest Rates

- The Federal Reserve, the US central bank, is expected to cut its main interest rates.
- If it does, the aim will be to stimulate the US economy and get inflation closer to the Fed's target.
- An oil price spike after attacks on Saudi Arabian oil facilities added to the list of risks facing an economy.
 1. Already the economy is slowed by ongoing trade tensions and global weakness.
- Fed policy impact on the rest of the world,

1. US economy's performance is important for the rest of us.
 2. If the Fed gets it wrong, the US could end up underperforming.
 3. This would be bad news for many other countries.
 4. It can have an impact through financial markets by affecting exchange rates, international interest rates.
- Cuts in interest rates in any country tend to make its currency lose value against others,
 1. That is because lower interest rates mean there is less money to be made by investing in assets, such as government bonds.
 2. If investors are less keen to buy, for example US government bonds, they have less demand for the currency needed to buy.
 3. So the currency concerned, the dollar in this case, tends to lose value.
 4. That in turn will make other countries less competitive against goods that are priced in US dollars.
 5. But it also helps slow inflation by making dollar-priced goods cheaper in other countries' currencies.
 - Impact on International investment,
 1. When a large economy such as the US changes its interest rates, it is possible for the movement of investment funds to be disruptive.
 2. As interest rates are likely to be cut, it is more likely that money will go into emerging economies.
 3. That can sometimes lead to financial instability (or unsustainable bubbles).
 4. It is a reason why countries need to keep a careful eye on what happens in the US.

6.5 India's Forex Reserves

- India's Forex reserves consists of Foreign Currency Assets, Gold, Special Drawing Rights (SDR), Reserve Tranche Position in the IMF.
- The country's foreign exchange reserves recently crossed the \$450-billion mark for the first time ever.
- It provides country's import cover for 11 months.
- Since the beginning of the current financial year, the forex reserve has gained by \$38.8 billion.
- It enables the central bank to buy dollars from the market to check any sharp appreciation of the rupee.
- **Trends** -India's foreign exchange reserves fell to \$274.8 billion in September of 2013.
- It prompted the Centre and RBI to unleash measures to attract inflows.
- It has been a steady rise for the reserves since then, with \$175 billion added in the last six years.

7. GENERAL ECONOMY

7.1 Economic Census

- The 7th Economic Census was launched by the Ministry of Statistics and Program Implementation (MoSPI) in Delhi.
- The ministry has tied up with Common Service Centre (CSC), an SPV under Ministry of Electronics and IT to carry out the census.
- It is expected to be completed by March 2020.
- One of the main aims of the Economic Census is preparation of a National Business Register which can be linked with existing databases at the central and state government levels.
- The economic census was started in the year 1977 in collaboration with States/UTs.

- The subsequent Censuses were conducted in the years 1980, 1990, 1998, 2005, 2013.
- The 7th economic census is the first one being done using digital platform which has reduced time for survey to 6 months from 2 years earlier.
- It will cover all households/establishments engaged in non-agricultural economic activities including construction.
- But it will not cover public administration, defence and compulsory social security.
- Population Census 2011 will form the primary geographical unit for this.
- It will provide disaggregated information on various operational and structural aspects of all establishments in the country.

7.2 Standing Committee on Economic Statistics

- The statistics ministry has constituted a 28 member Standing Committee on Statistics (SCES) chaired by former Chief Statistician Pronab Sen.
- It is to improve quality of data amid criticism of the government over political interference.
- The first meeting of the SCES is scheduled on January 6, 2020.
- The committee is set up in the backdrop of controversy over revision of GDP numbers and withholding employment data by the National Sample Survey Organisation (NSSO).
- Earlier, Ministry of Statistics had decided not to release the Consumer Expenditure Survey results of 2017-18 citing data quality issues.

7.3 IBC Amendments

The cabinet has approved amendments to the Insolvency and Bankruptcy Code (IBC) on resolution of defaulting entities.

- The changes protect successful resolution applicants from criminal proceedings against offences committed by previous managements or promoters.
- This is likely to speed up the resolution process by giving comfort to buyers of stressed assets.
- It also lowered the rating threshold for public sector banks to purchase high-rated pooled assets.
- The rating is lowered from AA (“financially sound”) to BBB+ (“most stressed”).
- Earlier, only AA-rated companies were able to raise money from the market considering their healthy credit rating.
- [The ratings are as under the partial credit guarantee (PCG) scheme.]
- The relaxation will now make more NBFCs (nonbanking finance companies) and HFCs (housing finance companies) eligible for funds from banks.
- Other amendments include measures to ensure that corporate debtors undergoing resolution continue as going concerns.
- Licences, permits, concessions, clearances etc. cannot be terminated, suspended or not renewed during the moratorium period.
- The changes also propose a threshold for financial creditors to prevent frivolous triggering of corporate insolvency.
- This is to ensure that bankruptcy is not invoked for small amounts.
- **Benefits** - Changes are being made to streamline the corporate insolvency resolution process (CIRP) and protection of lastmile funding.
- The changes will remove hurdles in the way of speedy resolution and also attract bidders.
- However, the IBC’s effectiveness depends crucially on the mechanism working at speed.
- Thus, it is essential that these amendments swiftly be enacted into law.



7.4 UK Sinha Committee

- Former SEBI chairman UK Sinha led committee recommended comprehensive framework for Insolvency resolution and liquidation of companies.
- Its recommendations are,
 - i. Single insolvency professional and single adjudicating authority
 - ii. Creation of a group creditors committed
 - iii. Implementation of group insolvency framework should be in a phased manner
 - iv. Cross-border group insolvency to be taken up at a later stage
 - v. Single application to commence insolvency proceedings against multiple companies of a group.

7.5 International Cooperation Scheme

- The Scheme is implemented by 'Ministry of Micro, Small and Medium Enterprises'(MSME).
- It's **objective**,
 1. is to enhance the competency of MSMEs,
 2. Capturing new markets for their products,
 3. exploring new technologies for improving manufacturing capacity.
- The Scheme covers the following activities,
 1. Visit of MSME business delegations to other countries to international exhibitions, trade fairs for exploring new areas of technology up-gradation, facilitating joint ventures.
 2. Holding international Conferences and Seminars on topics and themes of interest to the Indian MSMEs.
 3. Visit and participation by Indian MSMEs for improving market for MSMEs products, foreign collaborations.
- It will provide financial assistance on reimbursement basis to the eligible,
 1. State/Central Government Organisations
 2. Registered Industry Associations,
 3. societies/trusts associated with promotion and development of MSME sector.
- Government Institutions and Registered Industry Associations associated with promotion and development of MSME sector can apply for financial assistance.

7.6 National Statistical Office

- Union government has announced that the National Sample Survey Office (NSSO) will be merged with the Central Statistics Office to form the National Statistical Office (NSO).
- The NSO will be headed by the secretary of the Ministry of Statistics and Programme Implementation (MOSPI).
- The move is taken as the Statistical agencies like the Central Statistics Office (CSO) and the National Sample Survey Organization (NSSO) face numerous problems in collecting data from State and Central government departments.
- National Statistical office would lay special emphasis on ensuring collection of unbiased data so as to restore public trust in the figures released by the Government.

National Data Warehouse

- Ministry of Statistical Programme and Implementation has proposed to setup National Data Warehouse.
- National Data Warehouse will leverage big data analytical tools to further improve the quality of macro-economic aggregates.



7.7 SARAL

- Ministry of Power and New and Renewable Energy, launched the 'State Rooftop Solar Attractiveness Index' (SARAL).
- SARAL has been designed collaboratively by,
 1. The Ministry of New and Renewable Energy (MNRE),
 2. Shakti Sustainable Energy Foundation (SSEF),
 3. Associated Chambers of Commerce and Industry of India (ASSOCHAM) and
 4. Ernst & Young (EY).
- It has been developed to evaluate Indian states based on their attractiveness for rooftop development.
- It is the first of its kind index to provide a comprehensive overview of state-level measures adopted to facilitate rooftop solar deployment.
- It currently captures 5 key aspects,
 1. Robustness of policy framework
 2. Implementation environment
 3. Investment climate
 4. Consumer experience
 5. Business ecosystem
- It encourages each state to assess the initiatives taken so far, and what it can do to improve its solar rooftop ecosystem.
- This will help states to channelize investments that can eventually help the sector grow.
- It is also to create more conducive environment for solar rooftop installations and lead to accelerated growth of the sector.
- The Ministry has set a target of 175 GW of renewable energy capacity by 2022,
 1. In that 100 GW solar power is to be operational by 2022, of which 40 GW is expected to come from grid connected solar rooftops.
- Karnataka has been placed at the first rank in the Index followed by Telangana, Gujarat and Andhra Pradesh.

7.8 ICEDASH and ATITHI

- These two initiatives were launched by the Ministry of Finance.
- It is for improved monitoring and pace of Customs clearance of imported goods.
- It facilitates arriving international passengers by electronic filing of Customs baggage and currency declarations.
- It is developed by Central Board of Indirect taxes and Customs in collaboration with National Informatics Centre (NIC).
- With ICEDASH, Indian Customs helps the businesses compare clearance times across ports and plan their logistics accordingly.
- With ATITHI, it uses mobile app for international travelers to file the Customs declaration in advance.

7.9 Global Exhibition on Services

- The 5th Global Exhibition on Services (GES) was organised by the Ministry of Commerce & Industry in New Delhi.
- It is organised in partnership with Services Export Promotion Council and the Confederation of Indian Industry.

- The objective is to give focused attention to the following 12 identified Champion Services Sectors for promoting their development and realizing their potential.
 - i. Accounting & Finance
 - ii. Media & Entertainment
 - iii. IT & ITES
 - iv. Health & Wellness
 - v. Infra & Construction
 - vi. Legal
 - vii. Transport & Logistics
 - viii. Banking, Financial & Insurance
 - ix. Communications
 - x. Tourism & Hospitality
 - xi. Education
 - xii. Environment
- The 'India Services' brand was created by the Ministry of Commerce and Industry to represent the services sector of India.

7.10 Housing Projects

- The Union Cabinet has recently approved the establishment of a 'Special Window' fund for housing projects.
- The fund will provide priority debt financing for the completion of stalled housing projects that are in the Affordable and Middle-Income Housing sector.
- For the purposes of the fund, the government shall act as the Sponsor and the total commitment to be infused by the Government would be upto INR 10,000 crore.
- It will be set up as a Category-II AIF (Alternate Investment Fund) debt fund registered with SEBI and would be professionally run.
- It would provide relief to developers that require funding to complete a set of unfinished projects and consequently ensure delivery of homes to the homebuyers.

7.11 Household Consumer Expenditure Survey

- The National Statistical Office (NSO), Ministry of Statistics and Programme Implementation carried out an all-India survey on household consumption expenditure.
- The survey is usually conducted in quinquennial intervals and the last survey was conducted in 2011-2012.
- It generates estimates of household Monthly Per Capita Consumer Expenditure (MPCE) and the distribution of households and persons over the MPCE classes.
- It is designed to collect information regarding expenditure on consumption of goods and services (food and non-food) consumed by households.
- The data are also used for rebasing GDP and other macro-economic indicators.
- The government has decided not to release the survey results due to data quality issues.

7.12 E-Commerce Guidelines for Consumer Protection 2019

The Consumer Affairs Ministry recently released the E-Commerce Guidelines for Consumer Protection 2019.

- An e-commerce entity shall not influence the price of the goods or services.
- It should not adopt any unfair or deceptive methods to influence transactional decisions of consumers.
- Entities are also not to falsely represent themselves as consumers and post reviews about goods and services.



- The guidelines on returns and refunds are designed to favour consumers.
- Marketplace entities (e-commerce platforms) will not be able to buy more than 25% from a single vendor.
- They can also not give discounts on products or sell the goods of the companies in which there is equity participation by the marketplace entity.
- **Challenges** - The DPIIT (Department of Promotion of Industry and Internal Trade) is also framing an e-commerce policy and has put up the draft for comments.
- The draft talks about -
 - i. retaining ownership and control of data generated within the country (data localisation)
 - ii. rigorous monitoring of cross-border imports
 - iii. placing the responsibility of consumer protection on the intermediary
 - iv. addressing the issue of piracy
- In this context, the element of indecision over data localisation requirement is still a worry.
- Both the DPIIT and MeitY (Ministry of Electronics and Information Technology) are attempting to make a case for data localisation in the e-commerce policy and the data protection policy, respectively.
- The RBI is also pursuing this in the case of payment systems.
- These attempts have predictably resulted in a lot of protests from the EU and US entities.
- Besides, the new guidelines had raised concerns among foreign e-tailers.
- They feel that the rules would jeopardise their business models and could cost them time and money.
- Given all these, the Centre should take a call soon on the e-commerce policy, balancing the priorities of the stakeholders.

7.13 Floor Space Index

- The Maharashtra Government has unveiled a slew of measures to boost the flagging realty sector in the State.
- It has offered significant cuts in builders' fees for availing Floor Space Index (**FSI**) for their projects.
- 'Floor Space Index', also known as 'Floor Area Ratio' (**FAR**), is the maximum area that can be constructed on a plot of land.
- It is the ratio of total floor area of a building (Built up area) to the total Plot area (land).
- For instance,
 - On 1,000 square feet of land with the **FSI 1.5**
 - then build up area could be up to 1,500 sq.ft of covered structures on the plot.
 - Apartments can be built comprising 1 or 2 floors or a single dwelling unit on the plot, but not beyond 1,500 sq.ft.
 - The constructed area would include staircases and other basic structures.
- It is regulated by the municipal or local authorities of the respective State government.
- **FSI** norms are usually set based on the National Building Code.
- The fees paid to the government for this construction is known as FSI fees.
- If a developer wants to build over and above the FSI limit, the authorities give permission to do so for an additional fee. This is termed as 'Premium FSI'.
- A developer can utilise the area (above FSI limit) for providing additional amenities such as flower bed, gardens, balcony.
- Higher FSI for an area indicates greater building volume.

$$\text{FSI} = \frac{\text{Floor space covered in all floors}}{\text{Area of the plot}}$$



- FSI is the most crucial among all the regulations in development planning.
- FSI limit helps regulate vertical building growth and living conditions, while accommodating the burgeoning population.
- Water supply adequacy, sewerage system, solid waste disposal and road capacity are also taken into consideration in **FSI**.
- This is why FSI varies with each State and each region within a State. FSI varies with the type of building as well.
- Increase in **FSI** - For **Land-owners**, Usually peg up the value of land available for sale.
- Increase in **FSI** - For **home buyers**,
 - This would mean more residents needing to share common amenities such as lifts, pools, clubs, electricity and water.
 - This is particularly in high-density buildings and the maintenance cost in such cases could also go up.
 - But **FSI** increases in the outskirts of a city may lead to lower property prices.
 - The builders may lower the price to stimulate demand for homes in these areas.

7.14 **PMEAC**

- Prime Minister's Economic Advisory Council is a non-constitutional, non-permanent and independent body constituted to give economic advice to the Government of India, specifically the Prime Minister.
- The council serves to highlight key economic issues facing the country to the government of India from a neutral viewpoint.
- It is chaired by a Chairperson and consists of eminent economists as members.
- There is no fixed definition on the exact number of members and staff of the EAC-PM.
- **Recent developments** - It was recently reconstituted for the period of two years.
- In the council's earlier terms, there were 5 full time and part time members in total. After the reconstitution, the strength of the council gone upto 7 with 2 full time and 5 part time members.
- Bibek Debroy remains the chairman of the PMEAC and Ratan Watal its Member-Secretary.

eBkraj

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

7.15 **Google and Defamation Cases**

- Supreme Court has ruled that Internet intermediaries cannot be protected from criminal defamation cases registered against them prior to October 27, 2009.
- It was only on October 27, 2009 that Parliament amended the Section 79 of Information Technology Act of 2000.
- By this amendment, it makes intermediary not liable for any third party information, data or communication link made available or hosted by them.
- It aims to protect online intermediaries from liability for criminally defamatory content published in them by third parties.
- It gave almost blanket protection to intermediaries from legal action under Section 499/500 (criminal defamation) of the Indian Penal Code.



- The recent judgement was issued on the basis of an appeal filed by Google India Pvt Ltd against a criminal defamation case filed by M/s Vishaka Industries, a manufacturer of asbestos cement sheets.
- Vishaka accused the co-ordinator of a Google group called 'Ban Asbestos India' and Google India for authoring/hosting defamatory articles against their products in 2008.
- The accused were asked to appear in court in September 2009, that is before the amendment in Section 79 came into existence.
- Google India argued that its role is passive and not a publisher of third-party content.
- The government too agreed with Google India. The government had said that its powers to block online information do not expand to blocking any case of defamation, contempt of court, etc.

7.16 GEM Samvaad

- Government e-Marketplace (GeM) is the national public procurement portal launched by the Ministry of Commerce and Industry in 2016.
- It offers end to end solutions for all procurement needs of Central and State Government Departments, PSUs, autonomous institutions and local bodies.
- It has more than 3 lakh registered sellers and service providers and more than 40,000 Government buyer organizations.
- Sellers from the State are benefitting through the access to national Public Procurement market using the portal.
- It makes procurement contactless, paperless and cashless.
- The government has recently launched **GeMSamvaad**, which is a national outreach programme.
- It will take place with stakeholders across the country and with local sellers in order to facilitate on-boarding of local sellers on the marketplace while catering to specific requirements and procurement needs of buyers.
- The outreach programme will cover all the States and UTs of the country.
- Through GeMSamvaad the marketplace is looking forward to receiving feedback from users which shall be used for making improvements and advancements in the system.

7.17 National Broadband Mission

- Ministry of Communications have recently launched a new "National Broadband Mission".
- The mission aimed at providing broadband access in all villages in the country by 2022.
- Under the mission, the government plans to lay incremental 30 lakh route km of Optical Fiber Cable.
- The Centre will work with States and UTs for having consistent policies pertaining to expansion of digital infrastructure including for Right of Way (RoW) approvals required for laying of optical fibre cable.
- It aims to increase tower density from 0.42 to 1 tower per thousand of population by 2024.
- It entails investments of around ₹ 7 lakh crore from various stakeholders.
- Additionally, a Broadband Readiness Index will be developed to measure the availability of digital communications infrastructure within a State/UT.
- **Other Objectives** - Creation of a digital fiber map of the Digital Communications network and infrastructure, including Optical Fiber Cables and Towers, across the country.
- Investment from stakeholders of USD 100 billion (Rs 7 Lakh Crore) including Rs 70,000 crore from Universal Service Obligation Fund (USOF).

7.18 Nirvik Scheme

- It is a new Export Credit Insurance Scheme (ECIS) introduced by Ministry of Commerce and Industry through Export Credit Guarantee Corporation (ECGC).



- Under the scheme, ECGC will provide 90% credit insurance cover and any additional outgo would be supported by the government.
- The scheme is valid for 5 years.
- It is to enhance loan availability and ease the lending process.
- It would give a fillip to export lending and insurance cover for export credit.
- The ECGC cover provides additional comfort to banks as the credit rating of the borrower is enhanced to AA rated account.
- Previously, the credit insurance cover percentage was 60% for both principal and interest.

7.19 CAA and RBI

- The RBI has released a notification in 2018 under the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations, 2018.
- It gives directions to persons defined under Citizenship Amendment Bill and is residing in India and has been granted a Long- Term Visa (LTV) by the Central government.
- It states that those persons may purchase only one residential immovable property in India as dwelling unit for self-occupation and only one immovable property for carrying out self-employment.
- It also kept out Muslim long-term visa holders from property-buying rights.
- Since these guidelines were issued, under the foreign exchange management regulations, these were issued after consultation with the government.
- With the controversial Citizenship Amendment Act (CAA) coming into force, the spotlight is now on this RBI's notification.

7.20 Prakash portal

- Power Rail Koyla Availability through Supply Harmony (PRAKASH) portal was launched by the Ministry of Coal & Power.
- It is for better coordination among the ministries of power, coal and Indian Railways for coal supply to power plants.
- It will enable all stakeholders to map and monitor coal right from mines to transportation.
- Through the portal, coal company will be able to track stocks and the coal requirement at power stations for effective production planning.
- It is developed by NTPC and sources data from Central Electricity Authority (CEA), Centre for Railway Information System (CRIS) and coal companies.
- However, the portal, unlike the power ministry's other recently launched websites, is not accessible to general public.
- The present mechanism to review coal supply situation consists of an inter-ministerial group with officials from ministries of Power, Coal, Railways, CEA, power utilities and coal companies.
- This has faced several issues such as scattered information, correctness of data from different organizations, timely availability of data etc.

7.21 Changes to Definition of MSMEs

The government has proposed to change the way it defines the micro, small and medium enterprises (MSMEs).

- The change in definition would require an amendment to the MSME Development Act.
- In 2018, the Union Cabinet had approved amendments to the MSME Act.
- It had decided to shift from a criterion of classifying MSMEs based on 'investment in plant and machinery' to a criterion based on 'annual turnover'.
- According to the new definition, there will be no distinction between the manufacturing and service sectors.



- The turnovers of Micro (≤ 5 Crores), Small ($5 < \leq 75$ Crores) and Medium ($75 < \leq 250$ Crores).
- **Present Definition** - The classification of MSMEs is done based on investment in accordance with the provision of Section 7 of the MSMED Act, 2006.

Classification	Manufacturing Enterprise (Investment in plant and machinery)	Service Enterprise (Investment in Equipment)
Micro	Upto Rs 25 lakh	Upto Rs 10 lakh
Small	Rs 25 lakh to Rs 5 crore	Rs 10 lakh to Rs 2 crore
Medium	Rs 5 crore to Rs 10 crore	Rs 2 crore to Rs 5 crore

Source: RBI

7.22 Acceptance Development Fund

- RBI has proposed to set up an 'Acceptance Development Fund' to develop debit and credit card acceptance infrastructure in the country.
- The fund will be used to ensure the growth of card acceptance infrastructure such as swipe machines, particularly in Tier III and Tier IV cities.
- Once infrastructure becomes widely available even in smaller towns, it will become easier to adopt digital payments.
- The framework will be operationalised by December 2019.

7.23 Dholera Special Investment Region

- The 'Dholera Special Investment Region' (**DSIR**) is envisaged to be a first "**green city in the world**".
- It is located to the south-west of Ahmedabad.
- It is one of the several greenfield cities that have been planned on the Delhi Mumbai Industrial Corridor (**DMIC**).
- It will be the world's largest urban development project.
- The DSIR is slated to be bigger than Singapore.
- It will be connected to the city by a six-lane Expressway with a metrorail running through its centre.
- It has been well planned and is well connected through all modes of transport including rail, road, metro and port.
- The Dholera greenfield International Airport is a part of DSIR.

7.24 Amitabh Kant Panel

- Ministry of Railways has constituted Amitabh Kant Panel to oversee the entry of private operators for 150 trains and development of 50 railway stations as per global standards.
- Other members of the panel are,
 - i. Railway board Chairman,
 - ii. Economic Affairs secretary,
 - iii. Housing and urban affairs secretary and

iv. Railways financial commissioner

- The tenure of the Panel is 1 year.
- The panel will approve and monitor the bidding process and also take decisions to ensure the projects are awarded in a time-bound manner.

7.25 NCDC, APEDA and NAFED

- NCDC, with mandate under the NCDC Act, 1963 has been focusing on agri-exports also, in line with the recommendations of the **Ashok Dalwai** Committee on Doubling the Farmers Income.
- National Agricultural Cooperative Marketing Federation of India (NAFED) is registered under the Multi State Co-operative Societies Act and was established in 1958.
- Its objective to promote co-operative marketing of agricultural produce to benefit farmers.
- Agricultural and Processed Food Products Export Development Authority (APEDA) is an export promotion body under the Ministry of Commerce and Industry.
- It is mandated with the responsibility of development of the scheduled products and monitor the import of sugar.
- “Scheduled products” means any of the agricultural or processed food products included in the First Schedule of APEDA Act.
- It includes products of fruits, vegetables, meat, poultry, dairy, honey, jaggery and sugar, cocoa, alcoholic and non-alcoholic beverages, cereal, groundnuts, peanuts and walnuts, floriculture, guar gum, herbal and medicinal plants.

7.26 Livestock Census

- The 20th livestock census has been released by the Ministry of Fisheries, Animal Husbandry and Dairying.
- The Livestock Census has been conducted in the country periodically since 1919-20.
- It covers all domesticated animals and its headcounts in both rural and urban areas.
- It has been conducted in participation with State Governments and UT Administrations.
- It considers the following animals/poultry birds possessed by the households, household enterprises/non-household enterprises and institutions,
- Animals - Cattle, Buffalo, Mithun, Yak, Sheep, Goat, Pig, Horse, Pony, Mule, Donkey Camel, Dog, Rabbit and Elephant
- Poultry birds - Fowl, Duck, Emu, Turkeys, Quail and other poultry birds
- The three key highlights of the 2019 census are,
 - i. The total Livestock population is **535.78** million, an increase of **4.6%** over the previous census 2012,
 - ii. Total Bovine population (Cattle, Buffalo, Mithun and Yak) is **302.79 Million**, an increase of about **1%** over the previous census,
 - iii. The total number of cattle is **192.49 million**, an increase of **0.8 %** over previous Census.
- The major thrust given to 20th Livestock Census is the collection of data through tablets computers, coordinated by National Informatics Centre.

7.27 Transformative Mobility Panel

Niti Aayog CEO Amitabh Kant will head the National Mission on Transformative Mobility and Battery Storage

- The panel is being set up to promote clean and sustainable mobility initiatives in the country.
- Other members of the panel include secretaries of Ministry of Road Transport and Highways, Ministry of Power, Department of Heavy Industry, Department of Science and Technology, Department for Promotion of Industry and Internal Trade, and Director General of Bureau of Industrial Standard.

- The terms of reference of mission includes ensuring implementation and compliance of the decisions and recommendations of the steering committee.
- The panel will also propose and recommend policy guidelines and government interventions and possible strategies for holistic, sustainable and transformative mobility and energy storage in India.

7.28 Harmonised System code for Khadi

Ministry of Commerce and Industry allocated a separate Harmonised System (HS) code for Khadi

- The Harmonised System, or simply 'HS', is a six-digit identification code developed by the World Customs Organization (WCO). Called the "universal economic language" for goods.
- It is a multipurpose international product nomenclature.
- Over 200 countries use the system as a basis for their customs tariffs, gathering international trade statistics, making trade policies, and for monitoring goods.
- The system helps in harmonising of customs and trade procedures, thus reducing costs in international trade.
- The move is expected to boost Khadi exports in the coming years.
- In 2006, the government had given the MSME-controlled Khadi and Village Industries Commission (KVIC) the Export Promotion Council Status (EPCS).
- Yet, the absence of a separate HS code hindered Khadi from achieving its full potential, as its exports were difficult to categorise and calculate.
- The latest move is expected to help resolve this issue.

8. INFRASTRUCTURE

8.1 DHFL Crisis

The shares of Dewan Housing Finance Corporation Ltd (DHFL) plunged 29.15% to Rs 48.50 on the BSE recently.

- DHFL is a non-banking finance company with a focus on housing finance.
- Mutual funds had lent to DHFL in the form of debt securities.
- The company (DHFL) delayed interest rate payments in June, 2019.
- It has reportedly missed interest payments of Rs 960 crore.
- Valuation norms require a write-down in the value of assets in case of such payment delays.
- The default in payments by DHFL has hit the net asset values (NAVs) of debt funds.
- Consequently, the NAVs of several debt schemes fell by 6-53%, reflecting the marked-down value of their holdings in DHFL paper.
- DHFL has faced a series of downgrades by rating agencies on its debt in the following 2 months.
- ICRA, CRISIL, CARE and Brickwork Ratings (Brickwork) have downgraded credit ratings on commercial papers of DHFL to 'D' (Default) owing to liquidity concerns.
- **Recent Happening** - With the recent fall, the DHFL stock had plummeted around 96% from the 52-week level of Rs 690, leading to significant losses for the investors.
- DHFL owes close to Rs 1 lakh crore to banks and investors.
- It recently said the company's ability to raise funds had been substantially impaired and the business had been brought to a standstill.
- It also raised significant doubt on the ability of the company to continue as a growing firm.
- If the liquidity crisis at DHFL evolves into a solvency issue, the ramifications for financial markets and investor confidence may be far more widespread than due to the IL&FS case.

- [Unlike IL&FS, DHFL is a listed company that has directly raised retail funds through public deposits and NCDs (Non-Convertible Debentures)]
- Shareholders and lenders to DHFL now need to take note of the developments.
- It is also time for regulators such as the RBI and the NHB, who have so far taken no public stance on the firm.
- All these highlight the urgent need for a detailed resolution framework for distressed financial firms, which are excluded from the IBC route.
- Such a framework was proposed in the FRDI Bill, but it was shelved along with the controversial bail-in clause.
- There is a need for financial regulators for housing finance companies to take their supervisory roles more seriously.
- It is also essential to build in-house capacity to subject the filings of their constituents to more stringent scrutiny.

8.2 Sutlej-Yamuna Link Canal

SC has recently ordered Punjab, Haryana and Centre to sort out Sutlej-Yamuna Link Canal issue amicably.

- **The issue** dates back to 1966 at the time of reorganisation of Punjab.
- When Haryana was formed, a need arose to share river waters with the newly formed state.
- But Punjab was opposed to sharing waters of Ravi and Beas rivers with Haryana citing riparian principle.
- In 1955, the water flowing down in Ravi and Beas was assessed at 15.85 million-acre feet (MAF).
- It was divided among Rajasthan (8 MAF), undivided Punjab (7.2 MAF) and J&K (0.65 MAF).
- After state reorganisation, the Centre issued a notification allocating 3.5 MAF to Haryana out of undivided Punjab's share 7.2 MAF.
- In a reassessment of water in 1981, Punjab was allocated 4.22 MAF and 3.5 MAF to Haryana.
- In 1982, then PM launched the construction of Satluj-Yamuna Link canal.
- A stretch of 214 km SYL was to be constructed out of which 122 km was to cross Punjab and the rest 92 km in Haryana.
- Haryana has been staking claim on Ravi-Beas waters through SYL canal on the plea that providing water for irrigation was a tough task for the state.
- But Akalis launched an agitation against the construction of the canal.
- In 1985, then PM and Akali Dal Chief signed an accord agreeing for a new tribunal to assess the water.
- The Eradi Tribunal was setup to reassess availability and sharing of water.
- The Tribunal, in 1987, recommended an increase in the shares of Punjab and Haryana to 5 MAF and 3.83 MAF, respectively.
- **Other Problems** - There were militant activities in Punjab following the signing the accord.
- In 1985, Akali Dal Chief who signed the accord was killed.
- In the backdrop of this, the construction came to a halt and Punjab has been cautioning the Centre not to drag up this issue again.
- **Water** - As per government's study, Punjab state's many areas may go dry after 2029.
- The state has already over-exploited its groundwater for irrigation purposes as it fills granaries of centre by growing wheat and paddy worth Rs 70,000 crore every year.
- As per the reports, water in about 79 per cent area of the state is over-exploited.
- In such a situation when farmers are committing suicides, the Punjab government says, sharing it with any other state is impossible.

- In Haryana's southern parts, where the underground water had depleted up to 1700 feet, there was a problem of drinking water.
- Haryana has been demanding the justice by providing its rightful share in the water as assessed by a tribunal.

8.3 K-Fon - Kerala's Internet Connection Project

The Kerala government has officially cleared the K-Fon project to provide free high speed Internet connection to over 20 lakh BPL families in the state.

- The government accorded administrative sanction for the Rs. 1548 crore project to be completed by December 2020.
- The project envisages a State-wide optical fibre network to link houses and offices.
- This is to be set up by Kerala State Electricity Board Limited and Kerala State IT Infrastructure Limited.
- The project will also provide Net connectivity at affordable rate for families that do not fall in the BPL bracket.
- Licensed Internet service providers and cable TV operators can utilise the optic fibre network to provide services to citizens.
- The scheme is being implemented with financial assistance from the KIIFB (Kerala Infrastructure Investment Fund Board).
- **Benefits** - As many as 30,000 government offices and educational institutions would be linked through the high speed network.
- It would also give a push to the digitalisation of government services like the e-health programme.
- IT parks, airports and seaports would also be benefited from the linkage.
- Small-scale enterprises using e-commerce platforms stand to gain from K-Fon.
- High quality video conferencing and transport management are other significant advantages.
- The K-Fon will also link all mobile towers in the State for better mobile Internet services.
- **Significance** - If things go as per plan, Kerala could have near-universal Internet access in a little over a year's time.
- Kerala is a State that already tops in human development indicators in the country.
- When K-Fon is complete, Kerala will be ready for a steep digital evolution.
- What makes it commendable is its recognition that Internet access is a basic human right.
- No other Indian State has recognised Internet access in this manner till now.
- This is also in sync with what the UN has been articulating in recent years.
- Internet's role is increasingly recognised by it in enabling freedom of speech and reducing inequality, among other things.

Internet penetration in India

- India has made huge leaps in providing Internet access to its people in recent years.
- However, internet have-nots still exist in the millions in India.
- The best-performing State, Delhi-NCR, has an Internet penetration of 69%.
- The second-best is Kerala, with just 54%.
- Internet penetration is significantly higher in urban areas than it is in rural areas.
- It is also significantly higher for men than it is for women.
- So, the governments need to play an interventionist role in plugging this gap.
- In this context, Kerala's plan for Internet roll-out is worthy of emulation by other States as well.

8.4 Silver Line Project

- The Silver Line project is a proposal of the Kerala government that aims to connect major districts and towns with semi high-speed trains that will run on their own tracks.
- Ministry of Railways have recently granted in-principle approval for the project.



- It involves laying the railway lines from Kasaragod in the north to Thiruvananthapuram in the south.
- It aims to cut the travel time between the two corners (532 km) from 12 hours to less than four hours with a maximum speed of 200 km/h.
- The project is scheduled to be commissioned by 2024.
- The Kerala Rail Development Corporation (K-Rail), a joint venture between the Ministry of Railways and the Kerala government will be the nodal agency.

8.5 NIIF Master Fund

- The NIIF is a trust that raises debt to invest in the equity of infrastructure finance companies.
- It acts like a bankers' bank in infrastructure financing. Government owns 49% of NIIF.
- It provides equity support to NBFCs/ Financial Institutions (FIs) engaged in infrastructure financing.
- It also provides equity/ debt to commercially viable projects, both Greenfield and Brownfield, including stalled projects.
- It is being considered as an Alternative Investment Fund (AIF) under SEBI regulation.
- A typical sovereign wealth fund (SWF) will be a state-owned investment company owned by governments and invests their own money in foreign countries.
- Though the NIIF acts like an SWF, it does not invest in assets such as stocks, bonds, real estate, commodities etc like an SMF do and therefore cannot be called so.
- **Recent Developments** - NIIF of India and Canada Pension Plan Investment Board (CPPIB) have agreed for CPPIB to invest up to \$600 million through the NIIF Master Fund.
- The NIIF Master Fund invests equity capital in core infrastructure sectors in India, with a focus on transportation, energy and urban infrastructure.

8.6 Defence Industrial Corridor

- Proposal in the Budget to set up **Defence Industrial Corridor** in Tamil Nadu and in Uttar Pradesh.
- It refers to a route along which domestic productions of defence equipment by public sector, private sector and MSMEs are lined up to enhance the operational capability of the defence forces.
- Development of these corridors will help in accelerated growth and regional industry agglomeration.
- It will encourage domestic production and benefit all small and medium manufacturers along the corridor.
- The locations of these corridors are strategically decided by the Defence Ministry.
- The proposed corridor in Tamil Nadu will connect Kattupalli port, Chennai, Tiruchirapalli, Coimbatore, Hosur and Bengaluru.
- In U.P it is planned through Agra, Aligarh, Chitrakoot, Jhansi, Kanpur and Lucknow.

8.7 2nd Multi-Modal Terminal in Sahibganj

PM has inaugurated a multi-modal terminal built at Sahibganj in Jharkhand.

- This is the second of the three Multi Modal Terminals (MMTs) being constructed on river Ganga under Jal Marg Vikas Project (JMVP).
- Earlier, in November 2018, 1st MMT was inaugurated at Varanasi.
- The Rs 290 crore-multi-modal terminal at Sahibganj implemented by Inland Waterways Authority of India (IWAI).
- It will open up industries of Jharkhand and Bihar to the global market and provide Indo-Nepal cargo connectivity through waterways route.
- It will play an important role in transportation of domestic coal from the local mines in Rajmahal area to various thermal power plants located along National Waterway-1.



- Other than coal, stone chips, fertilisers, cement and sugar are also expected to be transported through the terminal.
- The convergence of Road-Rail-River Transport at Sahibganj through the new multi-modal terminal will connect this part of the hinterland to Kolkata, Haldia and further to the Bay of Bengal.
- Sahibganj will also get connected to North-East States through Bangladesh by river-sea route.
- Jal Marg Vikas Project aims to develop the stretch of River Ganga between Varanasi to Haldia for navigation of large vessels upto 1500- 2000 tonnes weight, by maintaining a draught of 2-3 metres in this stretch of River Ganga between Varanasi to Haldia for navigation.

8.8 National Logistics Index

Gujarat has once again topped a perception-based index of mobility of goods and efficiency of logistics chain.

- The state has been ranked the highest in the second edition of the Logistics Ease Across Different States (LEADS) index.
- It is closely followed by Punjab and Andhra Pradesh.
- Himachal Pradesh stood last on the chart. Bihar ranked at 20th position.
- The index is developed by the commerce and industry ministry along with Deloitte.
- The index is based on the analysis of perception with regard to nine parameters, including infrastructure, quality of logistics, services, timeliness of cargo delivery, regulatory process and safety of cargo.

8.9 Tejas Express Flagged Off

Tejas Express, the country's first "private" train run by its subsidiary IRCTC, was recently flagged off.

- It runs on the Lucknow-New Delhi route.
- This train, too, has dynamic pricing.
- If this experiment of handing over certain operations to IRCTC is successful, the railways will make way for private operators to run trains in India.
- The train is a more premium version of the Shatabdi Express category of air-conditioned chair cars.
- The passengers will be paid for any delay on an hourly basis.
- Also, Rs 25 lakh free insurance will be provided for each and every passenger.

AGRICULTURE

9.1 High Powered Committee for Agriculture Reforms

Prime Minister announced a high powered committee to recommend structural reforms in agriculture, at the 5th meeting of the Governing Council of NITI Aayog.

- The proposed committee would include some Chief Ministers.
- It would take a holistic approach on the subject, including allied activities of agriculture.
- The key issues marked out for reference to the proposed committee include -
 - i. private investment in agriculture
 - ii. logistics
 - iii. value-addition
 - iv. marketing support
 - v. irrigation, especially drip and other means of micro-irrigation
 - vi. legislative changes required to revamp agriculture and its allied activities

Earlier committees

- The most notable among panels in this regard are -
 - i. the M S Swaminathan-headed National Commission on Farmers
 - ii. the Shanta Kumar-chaired committee on food sector reforms
 - iii. the Ashok Dalwai-led empowered committee on doubling farmers' income
- **The Swaminathan commission's report** (2006) had sought a paradigm shift in the focus of agricultural development programmes.
- It called for shift in focus from increasing production to raising farmers' income.
- But this took over a decade for the government to realize the importance of this counsel and begin acting on it.
- However, many other equally sensible recommendations of this commission still remain unattended.
- **The Dalwai committee's report** (2018) had a key focus on the structural reforms and governance framework for agriculture.
- Being the latest, its recommendation were most relevant to the prevailing agrarian situation marked by widespread farmers' distress.
- Besides, there is the government's own think tank, the National Institution for Transforming India (NITI) Aayog.
- The three-year action plan for agriculture crafted by NITI Aayog also addressed current challenges in the agriculture sector.
- **Real challenges** - Agriculture, according to the Constitution, is a state subject.
- So the truth is that the Centre has a very limited authority to intervene in matters related to agriculture.
- It can do little without the cooperation of the states which, often, is unavailable in adequate measure.
- The meager success of some of the Centre's key initiatives in agriculture stands as proof.
- E.g. the efforts at reforming agricultural marketing, legalizing land leasing and regularizing contract farming
- The model Bills drafted to serve as the guides for the amendment of the state laws have failed to deliver the desired results.

9.2 Assessment of Urea Industry

A detailed assessment of the urea fertiliser industry was made recently under the CSE's (Centre for Science and Environment's) flagship Green Rating Project (GRP).

- GRP was started in 1997 to act as an independent watchdog on the environmental performance of large Indian companies.
- It is one of the few public-disclosure projects in the world in which an NGO ranks the environmental performance of industries and makes the results public.
- The rating process is robust and transparent and the outcomes help companies and policymakers to improve policies and practices.
- The rating results are used by the financial sector in their investment decisions.
- **Key findings** - The urea sector was rated on more than 50 parameters.
- **Sectorrating** - The urea sector was rated 'average', with a respectable 42% score and was awarded the Three Leaves Award.
- The highest a sector or a company can achieve under GRP is the Five Leaves Award.
- Urea is only the second sector to get the Three Leaves Award, the other being the cement sector.
- The other sectors have received the Two Leaves Award or below.
- **Rankings** - Grasim Industries Ltd's Indo Gulf Fertilisers, Jagdishpur, Uttar Pradesh, was rated as the greenest urea plant in the country.
- This plant, with a 61% score, received the coveted Four Leaves Award.



- It is only the second company out of 250+ companies rated by GRP so far to receive the Four Leaves Award.
- The next three winners have all received the Three Leaves Award, which are:
 1. KRIBHCO, Hazira, Gujarat
 2. Mangalore Chemicals & Fertilizers Ltd, Mangalore, Karnataka
 3. Yara Fertilisers India Pvt. Ltd., Babrala, Uttar Pradesh
- The worst rated plant was Madras Fertilizers Ltd, Chennai.
- **Emission** - The urea sector has performed very well in curtailing its energy use and CO₂ emissions.
- The sector as a whole emits far lower CO₂ per tonne of urea than the urea sector in the US or China.
- In fact, some plants, like Indo Gulf Fertilisers and Yara Fertilisers, match the global best levels in energy efficiency and CO₂ emissions.
- **Water** - The urea sector has slipped on its water consumption and water-pollution parameters.
- Its water consumption is high and can be reduced by at least one-third by using recycling/reusing technologies.
- The sample of groundwater and effluents had high levels of contaminants.
- E.g. the ammoniacal nitrogen concentration in the groundwater in and around many plants was way above permissible limits
- **Health and safety** - A major concern was health and safety practices in older plants.
- The urea sector handles dangerous chemicals, like ammonia.
- However, most old plants had less encouraging safety practices as well as on-site and off-site disaster-management plans.
- **Key observations** - The overall assessment is that incentives largely determine the environmental performance of the sector.
- As the urea sector is strictly controlled, the government has incentivised energy efficiency.
- Plants who do better than the energy consumption targets set by the government make more money.
- This is the reason why plants have done really well in energy consumption.
- However, no incentives are offered for controlling water consumption and environmental pollution.
- So, there is no much investments by companies in pollution-control measures or in technologies to reduce water use.
- In fact, the government's urea pricing policy effectuates a disincentive to invest in environmental protection.

9.3 Definition of a Farmer - Question in Rajya Sabha

The Agriculture Minister evaded answering a question over the government's definition of a farmer and the number of farmers in India by that definition.

Definition in the National Policy

- There is a clear and comprehensive definition available in the National Policy for Farmers.
- [The policy emphasises the need to substantially increase the net income of farmers.
- It also aims at developing support services for them, using that comprehensive definition.
- It was drafted by the National Commission of Farmers headed by M.S. Swaminathan.]
- The definition was officially approved by the Centre in 2007 following consultations with the States, for the purpose of the Policy.
- Accordingly, the term 'FARMER' will refer to a person actively engaged in the economic and/or livelihood activity of growing crops.
- It will also apply to those producing other primary agricultural commodities.

- It will include all agricultural operational holders, cultivators, agricultural labourers, sharecroppers, tenants, poultry and livestock rearers, fishers.
- Others include beekeepers, gardeners, pastoralists, non-corporate planters and planting labourers.
- Besides these, those engaged in various farming related occupations such as sericulture, vermiculture and agro-forestry are also covered.
- The term will also include tribal families/persons engaged in shifting cultivation and in the collection, use and sale of minor and non-timber forest produce.
- In practice, those who cultivate or work on the land but do not own it are excluded from the definition of farmers.
- Thus, dairy farmers, fisherfolk, fruit and flower growers would not fit into it.
- Also, landless agricultural workers who cultivate the land belonging to others would not come under it.
- **Implications** - The government's ambiguity has serious implications for the design and beneficiaries of the schemes meant to help them.
- According to Census 2011, there are 11.8 crore cultivators and 14.4 crore agricultural workers.
- The excluded ones do not get access to agricultural credit and interest subvention for farm loans.
- Crop insurance and loan waivers go to loanees so they are left out of that as well.
- Most schemes meant for farmers' welfare, including the procurement of wheat and paddy at MSP, are effectively available only for land owners.
- Access to subsidised crop inputs is difficult without identification as farmers.
- In the event of crop failure too, compensation is only given to owners.
- Tax exemption is usually claimed by owners who give an unverified affidavit that they cultivate the land.
- Direct income support schemes such as PM-KISAN (Pradhan Mantri Kisan Samman Nidhi) are also limited to owners.
- Those who work on the land may not be identified as farmers for the purposes of counting farmer suicides.
- **Women** - Linking the identity of a farmer to land ownership has devastating consequences for another category - women farmers.
- Some studies estimate that 60%-70% of farmers are actually women, but their names are rarely on ownership documents.

9.4 International Conference on Agricultural Statistics

The 8th International Conference on Agricultural Statistics (ICAS) will be held in New Delhi.

- It will be organized by the Ministry of Agriculture & Farmers Welfare.
- Ministry of Statistics and Programme Implementation, FAO, Asian Development Bank, World Bank, Bill & Melinda Gates Foundation are partners of this conference.
- The theme of the conference is "Statistics for Transformation of Agriculture to Achieve the Sustainable Development Goals (SDGs)".
- ICAS is a series of conferences that started in 1998 based on overarching need for agricultural data worldwide.
- It is conducted every three years based on overarching need for agricultural data worldwide.
- The last conference was held in Rome in 2016.

