Agriculture

CAG report of the crop insurance schemes

- Gaps in the implementation that compromise its purpose of providing financial assistance to farmers.
- MNAIS and the National Crop Insurance Programme
- Delayed payments
- Schemes act "more as loan insurance than as crop insurance" schemes. Almost 97 per cent of farmers opted to insure a sum equal to only the loan availed of from banks.
- Poor due diligence in verification of claims by pvt insurance companies before releasing funds to them.
- Low awareness: only 37 per cent of the farmers were aware of crop insurance schemes
- Grievances redressal systems and monitoring mechanisms were not adequate.
- Small and marginal farmers constitute 85 per cent of the total farmers in the country. Yet, their share in the coverage did not exceed 13.32 per cent under the NAIS scheme.
- Whether the money reached the beneficiaries cannot be ensured as the database of beneficiaries was not maintained.
- It recommended introduction of a mechanism to ensure that state governments' shares are received in time.
- Central government should maintain comprehensive database of beneficiary farmers
- Government should take efforts to bring farmers, especially non-loanees, under the insurance schemes.
- Technology for more accurate assessment of crop yields and efforts to reduce liabilities of the government

Impact of GST on agriculture

- Pesticides would be put in the 18% slab
- Fertilizers will now attract 5% tax which is likely to reduce the tax burden on farmers
- Several farm machinery components are put in a slab of 28 %
- Most raw agri-commodities ranging from rice, wheat, milk, fresh fruits and vegetables, are in the zero tax slab.
- Processed foods, fruit and vegetable juices will be taxed at 12% and fruit jams, jellies etc. at 18%. This would negatively impact food processing industry.
- Mandi taxes and associated cess and levies were distorting agricultural markets, thus driving out the private sector. GST could help in reinvigorating the interest of private sector in agriculture.
- Rationalization of the tax structure on agriculture would help in reducing the food subsidy bill
- GST regime can break inter-state barriers on movement and facilitate direct linkages between processors and farmers.

Why are vegetable prices soaring?

- July saw a rise in inflation at the wholesale level with spiraling tomato, onion, potato prices
- Disparity between demand and supply on account of a drop in production because of unfavourable weather, a rise in transport costs, seasonality and supply chain constraints.
- India's cold storage capacity is nearly 3.5 crore tonnes, which is short by 30-40 lakh tones
- Besides, cold storages need to be upgraded, equipping them to store fruit and vegetables at right temperatures
- Nearly 85% farmers are 'small,' who have less than 2 hectares. Cultivation has become unviable for them
- Through cooperative groups and societies even a small quantity of crop produced can be marketed. This will stabilise prices and benefit consumers.

Centre rejigging food grain inventory management

- To eliminate scenarios where it is compelled to export from public stockholding of these items.
- The move is to allay the fears of some WTO-member nations that India could export surplus grains from food security stockpiles to markets overseas at subsidised prices and distort international trade
- Backdrop of increased efforts by India to ensure a permanent solution to the public stockholding issue

- Public stockholding is a policy tool used by governments to purchase, stockpile and distribute food when needed.
- Public stockholding could yield 'unintended consequences' if governments unloaded the stocks on world markets
- Steps taken to improve food grain management include online operations of FCI

Australia keen on India as pulses hub

- Australia is learnt to be exploring ways to help India transform into a 'pulses-processing hub'.
- Opportunities available in India that Australian firms can take advantage of, using their expertise in food grain production, processing, productivity, nutritional value and packaging.
- The aim is to also attract Australian investments into India in processing these items.
- Production of pulses in the country was affected in 2014-15 and 2015-16 due to drought.
- Initiatives: increased allocation of funds from total allocation of NFSM for 'NFSM-Pulses', additional area under cultivation of pulses and creation of pulses seed hubs to produce quality seeds of important pulse crops

Pulses expert panel under CEA Arvind Subramanian:

- Recommendations: increasing domestic production, GM technologies
- The demand-supply mismatch cannot be fixed by imports as India is already one of the biggest importers of pulses
- Remunerative MSP to be backed up by procurement operations
- High level committee to be constituted to monitor procurement.
- Grant expeditious approval to indigenously developed new varieties of pulses
- Encourage states to delist pulses from apmc
- Review Essential Commodities Act,1955 and futures trading of agricultural commodities
- Buffer stock of 2 million tonnes will comprise domestic procurement of 1 MT and rest will be arranged via other countries and spot purchases from global market.

Organic farming

- Fertilizer-free, non-GMO food, to stay healthy through life.
- World trade in organic food is said to be over $80 billion. India's share is just 1% of the figure.
- The organic farming sector in India has a supply chain problem and technology may just be the answer
- Organic produce cannot be stored in government warehouses that use chemical treatment of storage areas.
- Pune-based startup, Ecozen, has developed a solar-powered cold storage solution for fresh produce.
- Consumption in India is restricted to well-to-do population, with organic production standing at just a % of total.
- Third-party certification and lab testing for pesticides under National Programme for Organic Production Certification has proved expensive for most farmers
- Technology is developing an answer to this problem through the hyper-spectral camera, which uses near infra-red rays to identify whether the produce is organic and whether it has a pesticide residue.
- There are also simple paper tests being developed in Europe

CAC adopts Codex norms for three spices

- Codex Alimentarius Commission standards for pepper, cumin and thyme paving the way for an universal agreement on identifying quality spices in various countries.
- Will help evolve a common national standards for their global trade
- Codex Alimentarius or "Food Code" is a collection of standards, guidelines and codes of practice adopted by CAC
- CAC is central part of joint FAO/WHO Food Standards Programme.

Draft order on ban on pesticides

- Government decided to ban the use of 18 pesticides following the recommendations of the Anupam Varma Committee and sought suggestions on this from all stakeholders before taking a final decision.
- Central Insecticide Board and Registration Committee (CIBRC) approves the use of pesticides in India.
- Committee did not review the use of Endosulfan as the matter was pending with SC

'Fertilizer sector sees tremendous future': CARE Ratings
- Compounded annual growth rate of 4%, production touch 460-470 Lakh Metric Tonnes by 2020.
- MII is encouraging the production of fertilizers within the country to eliminate the imports of urea by 2021 as in the
- Steps: New Urea Policy is incentivising production, Centre & PSUs to revive closed fertilizer plants, setting up gas pipelines, centre has cleared outstanding subsidies, DBT.
- Raising agri productivity requires large investments in R&D, irrigation and fertilisers
- Need: promoting a balanced use of fertilizes in the coming years. (DAP and other Complex fertilizers)

Increase oil palm production: cabinet
- The total production of edible oil is about 9 million MT while the domestic requirement is around 25 million MT.
- This gap is met through imports amounting to about Rs. 68,000 crores in 2015-16.
- Malaysia, Indonesia, Nigeria, Thailand and Columbia are the major oil palm producing countries.
- NMOOP aims to bring an additional area of 1.25 lakh hectare under oil palm cultivation by the end of 2016-17.
- The waste land or degraded land can be given on lease/rent to private entrepreneurs.
- Financial assistance under NMOOP was available for at most 25 hectare. Cabinet relaxed land ceiling limit
- Need: Increasing irrigation coverage under oilseeds, Inter-cropping of oilseeds, use of fallow land
- Private entrepreneurs and cooperative bodies should derive maximum benefit of 100% FDI.

Niti aayog agriculture marketing reforms
- Department of Agriculture & NITI Aayog identified reforms that are needed in the APMC Acts of the States.
- 3 mandatory reforms - e-trading, unified trading license and a single point levy of market fee, which would enable the integration of the State markets onto e-NAM.
- Multiple charges by APMC (mandi tax, multiple fees etc.) and commissions of agents will be reduced
- Set up markets in the private sector (private mandis) and direct marketing to reduce the intermediaries
- Gives an opportunity to farmers to sell their produce directly and get better prices
- Liberalize land lease market, Take fruits and vegetables (perishables) out of APMC Act.
- It will promote contract farming in fruits and vegetable sector, technologies etc
- Shanta Kumar Committee, only 6% farmers get the benefit of MSP points towards the inefficiencies in market

Reforming trade in agri-products
- Trading of agricultural commodities has been crippled by structural and regulatory issues.
- Lack of liquidity, quality testing, Storage cost at certified warehouse
- Currently, a farmer can take the produce from the farm to a certified warehouse, get the quality inspected and receive a negotiable warehouse receipt (WR) with a unique identity (ISIN). This WR can be traded on the exchange
- It provides better price for farmers, safer collateral for lenders, quality and lower disruptions in supply for customer.
- Creating FPO is a good idea, but the initiatives have been slow
- MSP has become market price instead of minimum assured price. Farmer is not incentivised to carry goods.

Farmer producer organisations (FPOS)
- PO is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen etc
- FPO is one type of PO where the members are farmers

- To overcome a host of challenges–fragmentation, credit, technology, extension services and markets.
- NABARD initiated Producer Organisation Development Fund and SFAC has set up nearly 250 FPOs since 2011.
- Across India, almost 3,000 FPOs have now either been registered or are in advanced stages of mobilisation.
- It takes 4 to 5 years to form a FPO that can stand on its feet
- There is not much clarity in terms of choosing the most appropriate structure of the FPOs.
- Farmers are afraid of companies as they are unaware about them.
- RBI guidelines on PSL mention FPOs. This needs to be broadened to include "agri-input supply, agro-machinery rental/operation, agri-processing, packing, storage and transport units"
- RRB could play a pivotal role in financing FPOs.

Portal not in Punjab farmers' interest: experts

- Government should instead focus on mechanisms for direct payment for farm produce to farmers
- The purpose of e-NAM is to reduce intermediaries between producers and buyers
- In Punjab government procures produce directly. In this scenario, what benefit will the farmer in Punjab derive?
- In Punjab 62% are small farmers, many illiterate. Even if eNAM is implemented they will have to approach middlemen
- 417 markets from 13 States have joined the online-portal, which targets integration of 585 markets by March 2018.

Review of PMFBY:

- A technical committee in each district decides sum insured taking into account all costs incurred by the farmers.
- Premiums are decided by, public and private insurance companies, assessing the risk involved.
- The farmer only has to pay 2% for kharif crop, 1.5% for rabi crops and 5% for commercial crops.
- The rest is paid by the government (divided equally between the Centre and the States).
- High technology including smartphones, GPS, drones and satellites are to be used for accuracy
- PMFBY insured 35.5 million. The area insured 37.5 mha
- The premium should have decreased with increase in scale of coverage, however the opposite happened.
- Also, states which joined late got premium rates as high as 20 percent.
- Drones were not employed for crop inspection despite its proposal. Smartphones were also not distributed.

Modi calls for 'evergreen revolution'

- To enable the country to meet the challenge faced by the agriculture sector.
- He emphasised the need for moving from the concept of 'food security' to 'nutrition security'
- As part of its "dream" to ensure that the farmers' income doubles by 2022

PM sees vast scope for food processing

- SAMPADA (Scheme for Agro-Marine Processing and Development of Agro-Processing) for developing the food processing industry, employment , reduce post-harvest losses, reduction of wastage, value addition, crop diversification, better return to farmers, exports
- India has a less than 10% processing level
- Allowed 100% FDI in trading including through e-commerce, in respect of food products produced in India.
- Special Fund of 2KC in NABARD to give credit at concessional rate to food parks and agro processing units.
- Processing units and cold chain infrastructure have been brought under PSL
- It is an umbrella scheme incorporating ongoing and new schemes of the Ministry of Food Processing

Draft National Food Processing Policy 2017

- It advocates energy generation from bio waste

- For Quality, health and safety of products, the policy suggests compliance with FSSAI Act 2006 and self-regulation.
- Each state should set up an independent Department & e-platform to handle all matters related to food processing.
- The policy recommends following a cluster approach to tap the benefits of economies of scale
- States should register in e-NAM
- Land should be allotted on priority to Mega food parks.
- Technology adoption like bar coding, RFID tags etc. should be supported.

Mega Food Park Scheme

- Provide infrastructure facilities for food processing with a cluster based approach based on a hub and spokes model
- It includes creation of infrastructure for primary processing and storage near the farm
- Infrastructure like roads, electricity, water, Cold Chain and Value Addition Infrastructure

National policy on marine fisheries 2017 by DADF

- After 2015 report of Meenakumari on deep sea fishing, govt had decided to revise existing policy of 2004
- The overall strategy would be based on seven pillars, namely sustainable development, socio-economic upliftment of fishers, principle of subsidiarity, partnership, inter-generational equity, gender justice and precautionary approach.
- For better monitoring, chip-based smart registration cards for fishermen and vessels would be introduced.
- Use of IT and space technology for improving the capacities of the fishing community
- Training would be given to fishermen to avoid crossing IMBL
- Skill traditional fishers for mariculture farms/parks
- Species-specific and area-specific plans with spatial and temporal measures for sustainable utilization of resources.
- Consevation of Ecologically and Biologically Significant Areas (EBSAs) and Vulnerable Marine Ecosystems
- To ensure ecological integrity of the marine living resources
- Diversifying trade market, harmonizing FSSAI standards with international bodies, reducing middlemen, eco-labelling of fishes, Entrepreneurship development, private investment, PPP, Women SHGs
- The policy if well implemented would promote SDG Goal 14 of conserving and sustainably using Oceans

B Meenakumari Committee on deep sea fishing

- Allow fishing in EEZ for vessels with length of 15 metres or more
- Create a buffer zone between the near-shore and offshore regions (waters between 200 m and 500 m in depth) and regulate fishing there "in order to augment resources in the near-shore areas as well as the deep-sea EEZ".

'Tap newer markets to boost agri exports': Commerce Secretary

- India had emerged as the seventh largest exporter of agri-products
- Opportunities in newer markets had to be found to further growth.
- APEDA, Ministry of Commerce is addressing issue of market access.
- Vietnam, UAE, Saudi, USA, Iran, Iraq and Nepal were the major destinations for export of food products from India.
- Asked organic goods exporters to certify their products as it would help boost competitiveness.

Taking water to Telangana farmers

- By and large, one unit of land required for an irrigation project can serve around 20-25 times the area of the fields
- Efforts to ensure payment of fair compensation, transparency in the acquisition process
- Land Act is highly procedure-oriented.
- Another major shortcoming is the absence of consent award that was there in the Land Acquisition Act of 1894.
- Consent award provides a win-win situation by preventing avoidable and prolonged litigation.

- Executive power under Article 298 of the Constitution can be applied for the voluntary purchase of land by the state.

Cabinet's nod to establishment of new FLRP

- Food Legumes Research Platform at Amlaha in MP.
- Research platform will be established in WB (pulses) and Rajasthan (natural resource management) by ICARDA
- Cabinet also gave 'in principle' approval for conferring on FLRP an **international status** as contemplated in Clause 3 of the UN (Privileges and Immunities) Act, 1947.
- ICARDA is a non-profit agricultural research development institute, established in 1977
- This platform will contribute significantly towards reducing poverty, improving food security, improving nutrition and health and sustaining the natural resource base.

Banking

Know your co-operative bank

- RBI placed Kapol Co-operative Bank Ltd under directions, limiting withdrawals, bank's lending activity.
- Cop banks are registered under the Cop Societies Act. Banking laws were made applicable to cop societies in 1966.
- Primary Agricultural Credit Societies fall outside the purview of the BR 1949 and not regulated by the RBI.
- Cooperative banks have to set aside 4% of their total deposits as CRR, 20% of deposits in government securities
- Weak corporate governance has led to bank failures.
- No powers are available with the RBI for constituting boards of Urban Co-operative Banks, removal of directors, auditing, winding up and liquidation of UCBs.
- Relatively higher rates offered on deposits by these banks than commercial banks.

What are payment banks?

- Differentiated bank since it cannot offer all the services
- Objective is to further financial inclusion by providing small savings accounts and payments/remittance services to migrant labour workforce, low income households, small businesses and unorganised sector entities.
- The minimum paid-up equity capital for payments banks is Rs. 100 crore.
- Should have a leverage ratio of **more than** 3%, i.e., its liabilities should not exceed 33.33 times its net worth
- The promoter's minimum initial contribution shall at least be 40% for the first five years
- Hold a maximum of 25% deposits with other commercial banks for operational purposes and liquidity management.
- CRR with RBI, minimum 75% of its "DD balances" in SLR
- Payments banks will mainly deal in remittance services and accept deposits of up to Rs 1 lakh.
- They will not lend and will have to deploy their funds in government papers and bank deposits.
- They can accept demand deposits. They can issue ATM/debit cards but not credit cards.
- Distribution of non-risk sharing financial products like mutual fund and insurance products, etc. Is allowed.
- Four payments banks have started operations — Airtel, India Post, Paytm and Fino.
- RBI permits non-bank Prepaid Payment Instrument (PPI) issuers, individuals and professionals, NBFC, corporate BCs, mobile telephone companies, super market chains, companies, real sector cooperatives and public sector entities to apply for a payments bank licence.

Centre for more PSB mergers

- Aim to create lenders of global size and scale. No Indian bank features among the top 50 banks globally.

- With the huge financing needs that the country faces, infrastructure in particular, size is important.
- Will ease NPA, credit offtake and pressures on capital adequacy due to swift decision making (crisil)
- It adds commercial strengths, prevents multiplicity of resources, improves capacity of banks to absorb shocks
- The merger process will get a boost with the likely improvement in the NPA situation over the next two quarters
- The merger proposals in the banking sector would require clearance from CCI
- There are factors like regional balance, geographical reach, financial burden and smooth human resource transition
- There should not be merger of a very weak bank with a strong bank "as it could pull the latter down."
- Ministerial group will oversee the proposals for mergers among banks.
- There are 20 PSB plus the State Bank of India (SBI)
- Decision will be solely based on commercial considerations and must start from the boards of the banks

State Bank of India
- Merger of SBI with its five associate banks and BMB.
- The five associate banks are the State Bank of Bikaner and Jaipur (SBBJ), the State Bank of Mysore (SBM), the State Bank of Travancore (SBT), the State Bank of Hyderabad (SBH) and the State Bank of Patiala (SBP).
- SBI had seven associate banks —State Bank of Indore and the State Bank of Saurashtra, were merged earlier.
- The merged entity would have close to 24,000 branches and an employee strength of 2.7L

'Banks need 95,000 crore capital': Moody's
- Stressed assets will increase through 2019 and capitalisation will remain a key, Moody's said.
- Under the Indradhanush plan for bank recapitalisation, government is to infuse 70,000 crore in PSU banks. Of this, the government has already infused 50,000 crore
- PSBs need to raise 1.10LC from markets to meet Basel III capital adequacy
- PSB have limited ability to raise external capital and hence need infusion by gov for shoring up capital base

'Scheme for banks not applied as envisaged': CAG
- In 2015-16 and 2016-17, it was decided that 20% and 25% of the capital infusion would be based on performance. However, this was not followed by Indradhanush scheme to recapitalise PSB
- In some years the rationale for capitalising banks was not even recorded.
- Target of raising 1.1LC from the markets by 2018-19 was not likely to be met.
- In some cases, banks were infused with more capital than required.

Private banks' rate cuts slower: RBI data
- Median rate of private banks has fallen by 70 bps
- The median rate for MCLR of PSB, that accounts for 70% of the market, fell by 90 bps
- RBI has been prodding banks to enable monetary transmission by lowering lending rates.

RBI says bank funding can't be substituted
- With banks increasingly 'retrenching' credit; MF, NBFC and capital markets have partly offset the requirement but such alternative sources of funding cannot replace bank loans, RBI said in its biannual FSR
- Banks' **share in flow of credit**, which was about 50% in 2015-16, declined sharply to **38%** in 2016-17.
- While deposit growth of SCB picked up, credit growth remained sluggish

Small finance bank
- Recently micro lenders, Suryoday and Utkarsh, have started SFB offering interest rates of more than 6% in order to compete with commercial lenders for savings bank deposits.

- SFB were recommendation of the committee on financial inclusion chaired by Nachiket Mor.
- SFB are niche banks (banks that focuses and serves the needs of a certain demographic segment of the population) with main function to perform deposit-taking & lending activities among weaker section
- Same eligibility criteria as for payment banks.

'Banks should give more loans to SHGs': Jaitley
- To help generate employment in the unorganised sector in the country.
- It was keeping this in mind that SHG were devised 25 years ago, so that unorganised sector could get loans

'Regulators shouldn't restrain innovation'
- India's financial sector regulators should stop hindering ideas in fintech sector and opt for a regulatory sandbox approach to nurture innovative applications, Niti Aayog CEO
- Regulators don't become restrictors but facilitators and creators
- Regulatory sandbox is oversight mechanism for innovative products and services that do not fall into an existing regulatory regime or cut across traditional regulators' domains.
- Such innovations are permitted to operate for a limited period of time at a limited scale to understand its efficacy and implications, so that the best alternatives for regulation can be evolved based on concerns that emerge.
- Regulatory sandbox balances objectives of nurturing financial innovation and safeguarding consumer interests
- There are over 600 start-ups in the country in fintech space; peer-to-peer lending, virtual currencies etc
- India is ranked amongst the top ten ($8 billion) FinTech markets globally

Banking - RBI and related
Govt proposes setting up of Payments Regulatory Board under RBI
- Keen on promoting digital payments, has proposed to form a separate regulator for the payments industry to resolve disputes, customer protection, check any foul play by dominant players, interoperability of digital transactions, facilitate competition and innovation
- Called for an overhaul of the Payment and Settlements Act 2007 to create the Payments Regulatory Board.
- Under RBI to avoid criticism that the board would dilute the banking regulator's powers.
- The proposed board will have the RBI governor as the chairperson, along with a deputy governor in charge of payments as member, besides an RBI officer nominated by the RBI Board. It will also have three members nominated by the central government.

Long term finance banks
- A RBI discussion paper has proposed to set up long-term finance banks to fund infrastructure and Greenfield projects of industries, with a minimum capital requirement of Rs. 1,000 crores.
- India is in the need of $1.5 trillion investment in infrastructure in next 10 year
- India is suffering from Twin Balanced sheet problem with stressed banks and overleveraged companies.
- Tenor of the infrastructural loans is very long and therefore it does not incentivize institutions like Banks.
- The eligibility criterion for Wholesale and Long-term Finance Bank (WLTFB): 10 years of experience in banking and finance, assets of at least Rs 5,000 crore and with less than 40% of their total income from non-financial
- These banks would be exempted from SLR, opening branches in rural and semi-urban areas and would not be forced to lend to agriculture and weaker sections of the society.

Bank authorization policy
- RBI relaxed the branch authorization policy to bring all branches and fixed BC under definition of banking outlets and removing restrictions on opening branches in Tier 1-6 centres.

- Key focus was to facilitate financial inclusion in all centers through low-cost delivery channels.
- It is mandated that banks open 25% of these outlets in unbanked rural centres. URC is defined as a rural (Tier 5 and 6) centre that does not have a core banking system-enabled 'banking outlet' of SCB, SFB, PB or RRB
- This policy will help in further penetration of banking in rural areas and increase the profitability of the economy.
- Will reduce costs for a bank for opening branches in un-banked rural centres

Officers' body opposes central bank CFO plan

- RBI decision to appoint a chief financial officer questioned on the grounds that such a requirement is neither a statutory nor a legal mandate.
- CFO for reporting financial info of RBI, establishing accounting policies and ensuring compliance with regulations.
- The officers' association argued that since no accounting standards strictly applied to a central bank, it was not clear why the central bank should have a CFO.
- By having a CFO, RBI is gradually opening doors for the Government to have a say in its internal matters
- Questioned the need to induct the CFO from outside as there is enough staff within RBI with the required skill set.

Space for a cut

- Cutting the policy repo rate by 25 basis points hinged on observation that some "upside risks to inflation have either reduced or not materialised", opening up "some space" for accommodation.
- Monsoon has so far been normal, and the initial roll-out of GST has been "smooth".
- Prices of inflation-sensitive tomatoes and onions are spiking.
- Pressures may be building that could spur higher animal protein costs for consumers.
- The implementation of farm loan waivers by States, "tail risk" that the fiscally expansive measures could pose to long-term price stability, pay panel-related hikes
- Poor business sentiment in the manufacturing sector, underlying impulses for growth in industry and services
- High levels of stress continue to be reflected in the balance sheets of both lenders and corporate borrowers
- Acharya cautioned in June, it will serve nobody's interests if the rate reduction doesn't have "the desired amplifier effects on the economy" and ends up only temporarily masking the true problems in the banking and real sectors.

Bodies

Investors 'shell' shocked over SEBI order

- SEBI brought to a halt trading in more than 170 actively traded stocks on the stock exchanges.
- These firms formed part of a larger group of 331 'shell' companies
- Put at risk investor wealth amounting to almost Rs. 13,000 crore
- 8 entities managed to obtain a stay on restrictions by interim relief from SAT, that observed in clear terms that SEBI passed the diktat without an iota of investigation.
- Before a proper investigation, companies were put under stage 4 of Graded Surveillance Measure, whereby trading is limited to one day a month, the trading price is capped, and buyers are required to deposit money.
- List prepared by MCA was based on inputs received from IT department and SFIO
- Larger interest of shareholders was at stake and an immediate action was required.
- Impact of the regulatory action on the stock market. While there was an overall negative trend due to disappointing quarterly numbers and global geopolitical concerns, the mid-cap and small-cap universe bore the maximum brunt.
- The government's resolve to act against dodgy companies, for the sake of bringing business practices under the purview of the law, is indeed warranted.

- According to FM, since demonetisation the Centre deregistered well over 1,60,000 dormant companies
- It has also identified over 37,000 shell firms and 3,00,000 firms engaged in suspicious dealings
- At the same time, a sound business environment also requires that the government adhere to the basic rules of justice
- SEBI's action will deal a blow to its credibility among investors as being an effective and unbiased regulatory body.

Corporate governance: focus on SEBI

- The exit of Sikka as the chief of Infosys brings forth the issue of corporate governance
- SEBI needed to intervene in such matters to protect the interest of investors
- SEBI should install a three-tier governing system for companies where a supervisory board is constituted
- SEBI should lay down the framework for the functioning of the board of directors
- Board of directors, in turn, would oversee the functioning of the executive management.
- Multinationals like Google and Microsoft are governed in this manner
- SEBI had constituted a committee on corporate governance under the chairmanship of Uday Kotak
- Fight between modern, free-market capitalism on the one side and 'compassionate capitalism' on the other

Will Infosys face class action law suits in India?

- Indications are Infosys may face a class action suit from U.S. investors.
- A class action suit allows a number of claimants, who have a common grouse, to file a suit against a company.
- India: Section 245 of the Companies Act provides for such an option. Such a suit can be filed before NCLT.
- Sec. 245 gives the option to claim damages or compensation or demand any other suitable action against "the company or its directors for any fraudulent, unlawful or wrongful act or omission or conduct or any likely act or omission or conduct on its or their part."

NSE files consent plea in co-location matter

- NSE has filed a consent application with SEBI to settle the co-location matter that has been under regulatory probe
- Consent mechanism refers to a settlement procedure wherein entities are directed to pay an amount without admission or denial of any wrongdoing.
- Co-location refers to the facility wherein brokerages can house their servers inside the exchange to get better speed for trade execution as latency is reduced.
- SEBI received an anonymous complaint alleging that certain brokers with co-location servers were getting access to market data before others
- The complaint also alleged that employees of NSE were involved in the irregularities.

SEBI examining CAs', lawyers' board roles

- SEBI is looking into the matter of lawyers and CA being on corporate boards as independent directors and the framework to follow if such directors' law or audit firms were engaged in advising the respective companies.
- Corporate governance committee formed under the chairmanship of Uday Kotak is looking into this aspect

TRAI

- It is the independent regulator established in 1997 by an Act
- In 2000, TRAI act was amended to establish TDSAT to take over the adjudicatory functions of the TRAI.
- TRAI decisions challenged by appealing to TDSAT.

Currency issues

All about bitcoins

- Crypto-currency is a digital currency which allows transacting parties to remain anonymous
- It is not owned or controlled by any institution – governments or private. Currently, they are neither illegal nor legal
- There are multiple such currencies — bitcoin, ethereum, ripple
- The system depends on cryptography to control the creation of the currency.
- Network maintains a foolproof system of the record of every transaction as well as tracking issuance of the currency.
- All this is part of a huge public ledger called the blockchain.
- In a blockchain when a new piece of information arrives, it is appended to a previous block to create a new block.
- Blockchain system is designed such that at its maximum only 21 million bitcoins can be produced and in circulation.
- The blockchain ensures that the same bitcoin is not spent twice by the same user.
- Near-impossibility of reverse engineering a mathematical algorithm ('SHA-256 hash function')
- Bitcoins are available in bitcoin exchanges. You could also purchase bitcoins from other users.
- You can become a bitcoin miner by investing in software and hardware.
- Unocoin is a Bengaluru-based company that allows users to buy, sell, store or use bitcoins.

Bitcoin trade may come under SEBI

- Government- SEBI is considering the introduction of a regulatory regime for virtual or crypto currencies that would enable the levy of GST on their sale.
- A proposal to ban such currency altogether was also considered, but found few takers among top officials from the MO Finance, MHA, IT, SEBI, RBI, SBI and NITI Aayog.
- The idea is to treat such currency in a manner similar to gold sold digitally, so that it can be traded on exchanges in a bid to "promote" a formal tax base, while keeping a tab on their use for illegal activities such as money laundering, terror funding and drug trafficking.
- 'Bitcoins must be regulated': PHD Chamber of Commerce and Industry

Bitcoin economy should be self-regulated: Zebpay

- The best case scenario for the Bitcoin economy in India at the moment would be the creation of a self-regulatory body
- Zebpay currently accounts for 70% of the Bitcoin market in India
- However, Bitcoins in India are still viewed as investment options rather than as a currency, like it is in South Korea.
- This brings with it the added complication of how to regulate it—as a currency or as a stock.
- What China, South Korea, and Japan have done: minimum capital requirements, force segregation of customer accounts, make potential criminal activity difficult, regulated by the central bank.

Bitcoin positives

- Banning will impede tax collection. Regulating the currency instead would signal a boost to blockchain technology, encourage the development of a supervision ecosystem
- Crypto-currency can also be used for a lot of legal activities — such as booking tickets
- Bitcoin is just one of the applications for the technology, whose use in being tested across industries, particularly those that rely on intermediaries such as land record registry.
- Bitcoins can provide a superior route to encourage digital transactions
- Bitcoins can be a boon for the large population of the country which is still unbanked
- Simple peer-to-peer digital currency trading platform through desktops and mobile devices

Negatives of cryptocurrencies

- SC asked RBI to consider issues raised by PIL

- Use of this "parallel currency" is having a "negative impact on Indian currency, loss of control of government on financial discipline and nefarious activities, such as money laundering and tax evasion"
- Digital cryptocurrency balance can be wiped out by a computer crash.
- Since prices are based on supply and demand, the rate at which a cryptocurrency can be exchanged fluctuates widely.
- Cryptocurrencies are not immune to the threat of hacking or theft.
- Unlike traditional currency that is inflationary in nature, the bitcoin is a deflationary currency.
- Post demonetization the price of Bitcoin in India went up around 10% almost overnight, and trading volumes from India jumped up 30-50%. Criticised feature of Bitcoin, that it was not backed by any government, became its most sought-after point.
- 1 bitcoin, worth a couple of cents in 2008, is up to over Rs. 1.75 lakh
- You can freely convert Bitcoin into currency — whether INR or USD.
- There are multiple merchants who accept BTC directly. Some of them are big names like Microsoft, Dell
- It is more expensive in India than it is in the US, so there is arbitrage risk.

Mastercard mulls using blockchain tech

- Mastercard is looking to incorporate blockchain technology into its operations and would like a clear regulatory framework in India that lays down what blockchain can be used for.
- One option that could be considered is bringing blockchain regulation under the proposed Payments Regulatory Board
- Can be used for B2B inter-bank payments, tracking trade finance obligations, exchanging KYC or AML data

Cryptocurrency: An idea whose time has come

- Distrust towards governments that can demonetise at will
- Scarcity of safe assets to store wealth over the long term.

Time for a digital Indian Rupee

- Digital transactions have soared with Net banking, credit cards, digital wallets, payment gateways, Aadhaar pay, PPI, UPI, payments bank and BHIM since demonetisation.
- Rural and semi-urban populations have not had complete inclusion in this financial methodology.
- Hence, it is imperative to introduce digital currency which works in the same way as do notes and coins.
- The digital currency would bring more innovation, competition, better consumer protection, more consumer choices
- Even Sweden is debating issuance of a digital currency

Digital coins: Path to riches, with no rules

- Creating own digital currencies and selling "coins" on the web, sometimes raising tens of millions of dollars
- Currencies — with names like Bitcoin, Ether, BAT, Mysterium and Siacoin — will be redeemable for services like data storage or anonymous internet access, and could appreciate in value in the meantime.
- Known as initial coin offerings, this latest twist in online fundraising has made it easier than ever for entrepreneurs to raise large sums of money without dealing with the hassles of regulators, investor protections or accountants.
- Proponents of initial coin offerings hail them as a financial innovation that empowers developers and enterprise.

Economy

'India can occupy sectors China is exiting'

- India must make it attractive for foreign firms to invest in light manufacturing sectors such as apparel and footwear
- These can generate more jobs, outgoing vice chairman of the NITI Aayog, Arvind Panagariya
- Domestic businesses are reluctant to venture into that space as they prefer sectors such as automobiles, pharmaceuticals, software and petroleum refining.
- 35 crore investment yields a Rs. 100 crore turnover and creates 2,200 high-quality jobs with just six weeks
- Historical reasons for industry's reluctance to invest in employment-intensive sectors, he said, were the licence raj, reservations for small-scale industries and 1980s labour strikes by which textiles entrepreneurs were impacted.
- The way to break this mindset, he asserted, was to bring in global firms.

Economy in trouble

- Government's own data suggest the economy is in a deep hole
- MODI: demonetisation drove Rs. 3LC of unaccounted money into the banking system.
- Survey states that GDP growth will miss the targeted 6.75% to 7.5%.
- GDP, GVA, IIP, credit, investment and capacity utilisation — point to a deceleration in real activity
- Survey shows how demonetisation devastated the informal sector, using two-wheeler sales as a proxy indicator.
- Construction, which absorbs migrant labour, was also badly hit.
- Demonetisation badly affected farmers' incomes resulting in a loss of demand, lowering food prices.
- Consequently, inflation has hit lows below the RBI's targeted band.
- Hasty implementation of the Goods and Services Tax (GST) has paralysed the informal manufacturing sector
- Formalisation of the economy should not shut down businesses and extinguish livelihoods.
- Similarly, leather, another labour-intensive sector, is in trouble due to restrictions on cattle slaughter.
- 1.5 million jobs were lost during January-April 2017.
- The latest RBI surveys of consumer confidence, industrial outlook point to pessimism on all fronts

IIP shrinks 0.1%; at 4-year low

- Industrial activity in June contracted 0.1%, the lowest reading since June 2013
- The fall in capital goods production was the most drastic contraction since September 2016.
- Unfavourable base effect, reduction in inventories ahead of GST, and slide in exports culminated in…

Economy positives

- Investors laud India, rupee is rallying, country's bonds are in demand
- Inflation is at its lowest in five years, economic growth is picking up and CAD is a fraction of its old self.

Centre's eBiz initiative stutters

- By the Centre in 2013 to serve as an online, single-window entry point for investors to set up a business
- Still struggling to become fully operational, 'impacted' due to technical issues.
- State governments have not come on board for critical components of the eBiz project
- Limited availability of technical resources at individual departments causes delays in integration
- Partner ministries and departments have migrated their existing applications to new technology platforms

Centre pings rating agencies in upgrade push

- Credit rating has not improved owing to unfavourable debt, deficit indicators, low private investments
- Steps: structural interaction process with rating agencies, to provide them the information they need.
- Secretary in DEA chairs an annual review meeting on India's sovereign rating with agencies
- DEA encourages agencies to also consider the long-term credit strengths of the economy

- Presentation about the comparative position of India and other similarly rated economies is also made.
- Economic Affairs Secretary meets rating agency representatives on the sidelines of IMF and World Bank meetings

India worthy of rating upgrade: OECD

- But cautioned Indian policy makers against taking measures only with an aim to get a better rating.
- The government needs to be a "good salesman" - by informing investors and rating agencies about the reforms
- India's sovereign credit rating has remained unchanged for the past several years at 'BBB -' or the lowest investment grade, which is only a grade above "junk" status for government/sovereign bonds.
- Credit rating firms rate bonds on the basis of lending risks – borrower's ability to repay its debt and the likelihood of them defaulting.

The lowdown on the Nifty bull run

- Nifty breached the 10,000 mark for the first time ever in 22 years
- Institutional investors, both domestic and foreign, have been putting in huge amounts in the Indian equity markets
- Only China and Taiwan have reported higher foreign flows than India in 2017, though Indian markets have fared better in terms of returns in the current year.
- Many investors look at performance of benchmark indices – Sensex and Nifty – to decide on equity investments.
- Nifty tracks the performance of a portfolio of the 50 largest and most liquid Indian securities

Let's talk about a supplemental income

- Universal basic income primary objective is to enable every citizen to have a certain minimum income irrespective of whatever their current income is.
- The adoption of a universal basic income can impose a burden on the fiscal which is well beyond the capabilities
- 3 questions arise: whether it should be 'universal' or 'restricted', level of minimum income and financing mechanism/ goods-services or cash.
- Cash gives the discretion to beneficiaries to spend it any way they like. But it is assumed they would be wise
- Provision of services or goods to beneficiaries may be directed to achieve certain objectives in terms of nutrition or health or education. In the provision of services, the concern is about leakages and quality of service.
- Some countries have adopted a middle path of conditional transfers, which means that transfers in the form of cash are subject to the condition that they are spent on meeting defined needs.
- We need to think of income support as a supplement to services already provided
- It is extremely difficult to cut implied subsidies or hidden subsidies in order to fund resources, as some proponents argue. These supports range from subsidised bus fares to subsidised power tariff.
- The attempt must be to reduce number of beneficiaries; using easily definable criteria. Elaborate exercises for identification will defeat the purpose.
- If we were to treat the cut-off used to define poverty as the minimum income, then fiscal burden would be enormous.
- Perhaps what is feasible is a scheme which limits the total expenditure to around 1.5 to 2% of GDP, which is between Rs. 2 lakh crore and Rs. 3 lakh crore.

Centre seeks inputs from the academia on trade, industrial policies, TFS

- Minister said as the global Industrial Revolution 4.0 is happening, the country needs more research showing how AI, robotics and IoT will impact India's manufacturing and services.
- It is learnt that India's new manufacturing policies will bring manufacturing and services closer
- Aim to make India a global manufacturing hub in items including textile, pharmaceuticals and electronics.

Demystifying debt funds as an investment option

- Equity funds invest mostly in shares of listed companies
- Debt funds invest in bonds, CP, CD and NCD
- Debt funds can be classified on the basis of the tenure of instruments in which they invest.
- Liquid funds tenure of less than 90 days.
- Short-term funds 90-180, Corporate debt funds 3 years, Long-term funds 3-5 years or even more
- Debt funds are popular among HNI to park their money temporarily before moving to other asset classes
- Debt funds offer more return than bank FD, the risk is also higher
- Price could fall due to various reasons thereby impacting the return.
- There have been cases where the securities have been downgraded
- The gains made on the investment in debt schemes are taxable.

Financial data management centre (FDMC):
- Ajay Tyagi committee constituted under the DEA recommended the creation of statutory body
- FSDC first suggested the creation of such body after RBI objected to share company specific data with FSDC as it is not a statutory body
- GoI in budget 2016-17 announced the setting up of FDMC under FSDC
- To establish, operate and maintain financial system DB, collect financial regulatory data and provide access to it.
- FSDC is autonomous body constituted in 2010. FM is the chairman of this body and heads of financial sector regulatory authorities are its member (RBI, SEBI, IRDA, etc)

Regulation of direct selling firms
- Center issued model guidelines for States to regulate the business of direct selling
- Aim to protect the consumers from Ponzi schemes, fraudulent pyramid schemes and money circulation schemes
- Banned under Prize Chits and Money Circulation Schemes Act, 1978
- The framework defines legitimate direct selling and differentiates it from pyramid and money circulation schemes to help investigating agencies identify fraudulent players.
- These entities will have to enter into a contract with direct sellers or agents, and give full refund or buy-back guarantee for goods and services sold to them.
- The norms have the potential to weed out fraudulent players, help serious companies grow, protect consumers along with agents and entrepreneurs.

General Financial Rules
- GFR are orders dealing with public financial matters issued for the first time in 1947
- These have subsequently been modified and issued as GFRs 1963 and GFRs 2005.
- New financial rules will enable improved, efficient and effective framework of fiscal management & service delivery

AIF: Alternatives to traditional funds
- These are SEBI-registered closed-ended private funds with a fixed tenure of usually over 5 years
- The fund may invest in real estate, unlisted companies, commodities, derivatives
- Professionally managed real estate funds have given envious returns — 15 per cent annually.
- Hedge funds use instruments such as derivatives and techniques such as short selling to hedge against market risk.
- AIFs come with multiple risks and hence SEBI has set the individual investment limit rather high at 1 crore, to protect retail investors who may not fully comprehend the risks.
- Most AIFs do not have any liquidity, which means there is no way investors can exit in the interim.
- Funds may extend the tenure if they are unable to provide an exit.

NIIF

- National Investment and Infrastructure Fund was proposed in Budget 2015
- Government has set up this Rs. 40000 crore fund to provide long term capital for infrastructure projects
- NIIF has been structured as a fund of funds and set up as Category II AIF

General anti-avoidance rules

- GAAR was first proposed in DTC 2009 to counter "aggressive tax avoidance schemes", transfer pricing, round tripping etc. Eg. Vodafone Case; thus promote tax revenues
- Shome committee (2012) to recommend provisions.
- GAAR helps the revenue authorities to decide whether a particular transaction has commercial substance or not, that if the major outcome of a transaction is a tax benefit
- GAAR provisions would apply on those who claim a tax benefit of over Rs 3 crore.
- Where GAAR doesn't apply: If Limitations of Benefits (LOB) clause addresses tax avoidance, Court approved arrangement, arrangement permitted by Authority for Advance Rulings
- LOB clause requires investors to meet certain spending and employment criteria
- Government has included several safeguards against bullying by tax authorities, such as several layers of permissions
- The assessing officer has to get proposal vetted by a principal commissioner and then needs to obtain the approval of a panel headed by a HC judge.
- Can curb the prevalence of P-Notes which have become a tool to invest black money
- EOB in the long term by promoting free and fair investments.
- Canada has had such a law since 1988 and they are still facing problems
- The powers and responsibilities of revenue authorities remain undefined and it can lead to harassment
- There is subjectivity in differentiating tax mitigation and tax avoidance practices.
- There could be cases where the tax benefit accrues upfront whereas the business advantages could accrue later

Disinvestment policy

- The government had earlier renamed the Department of Disinvestment as DIPAM
- Policy of government: PSU are wealth of Nation and to ensure this wealth rests in the hands of people, promote public ownership, retain majority shareholding (51%), management control, Strategic disinvestment
- Ministerial group led by FM to decide on details of SD of PSU, starting from the terms of sale till inviting bids

Doubts raised over second International Financial Services Centre viability

- Commerce Dept has asked DEA to comment on feasibility of having more than one IFSC, proposal for an IFSC in Mumbai following the Gujarat International Finance Tec-City (GIFT City) in Gandhinagar.
- DEA, Finance Ministry, is the nodal agency for economic policies
- IFSC matters fall within the jurisdiction of financial sector regulators such as RBI, IRDA, SEBI, Finance Ministry
- IFSC is set up in a SEZ. Commerce Department it is the nodal body for SEZ-related matters.
- Commerce Department said even advanced nations have been finding it difficult to develop more than one major international financial centre in their respective territory.
- Mumbai IFSC would potentially generate employment for 1.3L and attract investments of Rs. 12KC

GIFT for investors?

- GIFT City is the first greenfield smart city being developed in the country on a sprawling 886 acres
- Provides alternative to domestic companies that are grappling with space-infra constraint in metros.
- IFSC intends to eventually compete with other IFSCs such as Singapore and Dubai in facilitating flow and investment of international capital.

- IFSC has three main verticals — capital markets, banking and insurance. Others such as tax, legal and M&A consultants, fund managers, investment banks etc
- More than 100 companies, including banks, exchanges and software companies have begun operations here and almost 7,000 people are employed in the City.
- Cost of operations is 30 to 40% lower. Concessions: STT, DDT, LTCGT
- Foreign investors not registered with SEBI can trade in IFSC under the EFI (Eligible Foreign Investor) category.
- Individual investors are also not allowed to participate in trading on the exchanges in the GIFT City.
- Fact that rupee is partially convertible on the capital account is one of the major hurdles in the progress of the IFSC as it impedes free flow of domestic money into the IFSC.

Soft rates fail to spur demand for loans, growth at 63-year low

- Bank credit growth in 2016-17 slowed sharply to 5.1%, the lowest since 1953-54
- The marginal cost of funds based lending rate (MCLR) —benchmark rate to which all loans are linked
- Central bank has shifted its policy stance to 'neutral' from 'accommodative' — which means chances of further interest rate cuts are lower than before.
- Last fortnight of the financial year saw credit disbursals surge as lenders turned aggressive to meet their year-end targets: 'window dressing'.

What you need to know about Infrastructure Investment Trusts

- InvITs are similar to MF. It allows one to invest in infrastructure projects such as road and power.
- InvITs raise funds from a large number of investors and directly invest in infrastructure projects or through SPV
- 2 types of InvITs have been allowed: one, which invests in completed infrastructure projects
- Other, which has the flexibility to invest in completed or under-construction projects.
- Both forms are to be listed on stock exchanges.
- InvITs allow pooling multiple projects under a single entity (trust structure).
- InvITs are designed to attract low-cost, long term capital and reduce the funding pressure on the banking system
- InvITs are registered as trusts with SEBI
- InvIT investments are not open for small and retail investors. The minimum application size for InvIT units is 10 lakh.
- Short-term capital gain is taxed at 15%, while long-term capital gains are tax exempt.
- InvITs are subjected to the vagaries of the stock exchanges, resulting in negative or lower returns than expected.
- As in mutual funds, investors in InvITs have no control over investments and exits being made by the trust.

Chit Funds and ponzi scheme

- As per SC, Chit funds are a part of concurrent list.
- Chit funds are registered by the State governments. The unregistered ones are usually termed illegal.
- Ponzi scheme has no underlying assets i.e. it generates returns for older investors by acquiring new investors
- While in a Ponzi scheme, participants believe of earning returns from any asset, participants in a pyramid scheme are aware that they earn money by finding new investors.
- **Reasons of such scams:** Multiplicity of regulations and confusion over jurisdiction. Eg. Centre and State regulate chit funds whereas SEBI regulates other CIS
- Lack of registration of such companies.
- Low financial literacy in the investors about such schemes.
- Quick-get-rich attitude and greed in a consumeristic society.
- **Steps taken by the government:** CIS regulation gives SEBI sweeping powers to oversee all such schemes
- RBI has advised banks to carry out reviews of accounts opened in the names of such as market agencies
- 'Direct Selling Guidelines 2016'

- It has made provision for appointment of monitoring authority at both Central and state level

ECONOMIC SURVEY

Negatives

- Survey points out the growing agrarian distress, un-remunerative prices, balance sheet risks of farm loan waivers
- Deflationary trends arise from lower investment ratio, low farm prices, cutting back on development spending by State owing to the burden of loan waivers and twin balance sheet problem
- Increasing stress to balance sheets that companies in the power (renewable) and telecom
- Survey says that signs of slowdown were evident. The contraction is particularly widespread across manufacturing sectors, with 15 out of 23 industries showing negative growth
- The bank credit growth to industry has been consistently negative since September 2016.
- The strong rupee has also been flagged as potentially harming the domestic economy & exports.
- Recovery in global trade demand is still to acquire more robust momentum.
- GST would provide a short-term impetus by easing a cross-country logistics constraint following the removal of checkposts. And yet, the transitional challenges could feed into the mix of factors retarding momentum.
- Reserve Bank of Indian and the government have substantially overachieved on inflation.
- Both from domestic side on monetary policy and the external side, by exchange rates, we are seeing drag on growth.
- GDP to be on lower side, IIP, GVA, SPC, credit, supply chain,

Positives

- Economic growth for fiscal year 2016-17 was 7.1%.
- Oil prices, inflation, monsoon rains, FDI, currency, FD
- Opportunities from Digital India, Smart Cities and Housing for All are huge, but a kickstart is needed.
- Exports are finally in positive territory.
- Terming efforts to resolve NPA, IBBI, MPC, Aadhaar, GST and the proposed divestment of Air India as signs of 'rekindled optimism' about structural reforms
- Sensex has shot up and our price earnings ratios are now very high
- Early signs of the long-term benefits such as higher number of taxpayers from demonetisation are evident
- That long term will still depend on what happens in the next one, two or three years

Recommendations

- CEA recommended that "time is ripe to consider whether DBT can be a more effective way to boost farm incomes."
- Argues, quick and considerable monetary easing by the RBI — with policy rates cut to about 4.25-5.25%

Survey backs U.P. model on farm loan waivers

- Assumes that other States will follow UP example and waive farm loans, taking the waiver amount to Rs. 2.2-2.7LC
- Only a few States have the fiscal space for such waivers and most will have to either cut expenditure or increase taxes.
- The total impact of waivers could be to lower demand by as much as 0.7% of the GDP
- Survey says the waivers will have four effects: on consumption via increase in wealth, changes in government expenditure/taxes, crowding out, crowding in via higher credit availability as bank NPAs fall.

'Ease norms for airlines to fly abroad'

- Suggested protectionism for domestic airlines & liberal norms for flying abroad to bolster share in international traffic

- Increase in capacity entitlements under BASA with foreign countries has helped foreign carriers in gaining a large share in the international traffic to and from India as domestic carriers have underutilised their rights.
- Factors like foreign airlines utilising the sixth freedom of the air, 0/20 rule and fleet constraints
- Sixth freedom is the bilateral air traffic right to fly from a foreign country to another foreign country while stopping in one's own country. Sixth freedom traffic constituted 61.14% of the total international traffic in 2015-16
- Survey said this had reduced the share of direct, long-haul flights for Indian carriers
- Survey said that the government should focus on building its own aviation hubs
- Survey said the 0/20 rule should be further diluted.

System lighter by Rs. 3.5 lakh crore of cash: Survey

- Digitisation has increased across the board, even among the poor
- The poor (who are largely outside the digital economy), the less affluent sections (who have acquired Jan Dhan accounts and RuPay cards), and affluent (who are fully digitally integrated via debit and credit cards).
- The report analysed the effect of demonetisation on the informal sector via two proxies — demand for MGNREGA work, and two-wheeler sales

Push for law to ensure transparency rules

- The government could consider introducing a new law to ensure transparency of rules
- 'Opaque mesh' of regulations makes life difficult for citizens, act as magnet for corruption and litigation.
- Moreover, these rules frequently change and sometimes contradict each other
- Survey suggests a Transparency of Rules Act (TORA)

Energy – nuclear and coal

Cabinet gives nod for 10 indigenous nuclear reactors

- Backdrop of recent troubles for international collaborations
- Cabinet also approved a coal linkage policy, called the Scheme for Harnessing and Allocating Koyala Transparently in India (Shakti)

- Future coal linkages to generation companies on recommendation of MO Power.
- The future coal linkages to independent power producers shall be on the basis of auction

Nuclear power: Expensive, hazardous and inequitable

- Westinghouse & French Areva bankruptcy.
- U.S. expects the share of nuclear electricity in the U.S. to decline from about 20% in 2016 to 11% by 2050.
- Korea, Swiss and France too
- Changed international scenario for nuclear energy and reductions in cost of renewable energy all imply that nuclear electricity is likely to be costly.
- These reactors are commercially untested
- The cost of reactors, nuclear safety, land acquisition, water reservoirs, environment, health, Nuclear waste

- Relevant factor in assessing employment opportunities provided by a project is not just total number of jobs produced but the ratio of the jobs produced to the capital invested. Solar sources were six times as labour intensive
- Nuclear reactors are also capable of catastrophic accidents, as witnessed in Fukushima and Chernobyl.

Ending nuclear dependency
- India now has 22 nuclear power units.
- The first pair, located in Tarapur, incorporates U.S. nuclear technology.
- The second pair, in Rajasthan, based on Canadian technology.
- Commencing from 1983, India built 16 nuclear power units using its own technology, materials and equipment.
- In recent years, two 1000 MW VVER power units have come up in Kudankulam, using Russian technology.
- The cost of power has been less than from coal in the same region.
- Indian PWR: BARC and NPCIL have completed design of 900 MW reactor using enriched uranium fuel (EUF)
- EUF can be sourced from international suppliers, as such reactors can be placed under IAEA safeguards.
- By about 2025 or so, India may itself supply enriched uranium from its own enrichment facilities.

Delays in the Indo-U.S. nuclear deal and the energy basket
- 6 reactors to be built in Andhra by Toshiba-owned Westinghouse and NPCIL.
- Ever since it was announced in 2005, the Indo-U.S. civil nuclear agreement has faced one obstacle after another.
- Westinghouse's financial difficulties and Japan's procedural issues
- Plans for 55 reactors of 63,000 MW in total by 2032.

Regrading to help fix coal quality, but may hit profits
- Re-grading by the CCO, of coal mined by subsidiaries of Coal India to address the fossil fuel's quality issues.
- It marks a significant departure from the present practice of the CCO certifying the grades fixed by coal companies.
- In 2012, CIL changed the grading and pricing system from the earlier useful heat value to GCV

Govt. to auction mines for coal
- Government will put under the hammer coal blocks for private coal-to-gas, liquid and polychemical (CTL) projects
- Domestic coal gas can help lower the country's import bill and cut carbon emission.
- Fresh coal blocks would be auctioned to the private sector through competitive bidding for exploring
- CIL to compete with private for the first time since 1973 when coal blocks were nationalised
- Allowing competition in the commercial mining space will create a positive disruption in the market

SC denies offset tariff to Tata, Adani
- Set aside an Appellate Electricity Tribunal's decision allowing Adani and Tata Power to charge compensatory tariff
- Tribunal last year had permitted the companies to increase the tariff after Indonesia increased price
- The companies had argued that the increased coal prices was a force majeure event (an unforeseen situation)
- Court held that a change in foreign laws did not measure up to being a force majeure event

Goyal tells power producers to reduce imports of coal
- Centre has directed NTPC, BHEL and private power producers to explore technological solutions to ease India's dependence on imported coal, which currently costs Rs. 1LC a year, especially as India has 52 million tonnes of coal

Illegal mining order by SC
- Lease-holders should pay compensation to the extent of 100% of the price of the quantum of minerals they had illegally extracted, beyond a mere affirmation of the 'polluter pays' principle.
- It has also set stringent action against those who indulge in mining without environmental or forest clearance.

- Mandatory EC in case of expansion in mining activities & every renewal of a mining lease
- Court said EIA would also apply for mining areas less than five hectares.
- Earlier some of miners argued that they did not require environmental clearance as they had started operations prior to 1994, when EIA was first issued, and that unless there was an expansion, they did not require clearance.
- Any excess extraction within the leased area would also amount to unlawful mining.
- Asked the Centre to revisit its National Mineral Policy, 2008, which "seems to be only on paper and is not being enforced, perhaps due to the involvement of very powerful vested interests or a failure of nerve."
- It has become a source for corruption, excessive exploitation of natural resources and forest dwellers and tribals.
- PIL plea filed by NGO Common Cause about the rampant illegal mining of iron and manganese ore in Odisha.
- Supreme Court's own Central Empowered Committee's advice to reduce the compensation to 30% instead of a 100%.
- The court asked "why the State should be compelled to forego what is its due
- It said the recovery should be as per Section 21 (5) of the Mines and Minerals Act.

Feud traps 7,000 cr. mining taxes

- About 7,000 crore of potential mining taxes are locked in litigation over the question of whether rules notified under a 2015 mining law are applicable from the date of their notification or from the day the law came into force.
- DMF norms mandate that miners must pay 10% of royalties on auctioned mines and 30% of royalties for mines allotted before the auction regime began, towards a trust
- The significance is that there has been a paradigm shift in mineral-rich areas with DMF trusts

Priority not right in DMF implementation: CSE

- Despite making the highest collection under DMF, Odisha has not got fund utilisation right
- Ignored healthcare, welfare of women-children for infrastructure, constructions that too poorly conceived.
- 80% of drinking water budget is for building tube-wells leading to water contamination

COAL MITRA:

- Coal Mitra web portal to facilitate coal swapping among government and private firms.
- It will show coal based station data on Operational parameters, Financial health, quantity and source of coal
- It will ensure flexibility in utilization of domestic coal by transferring coal reserves to more cost efficient power generating station thus ensuring optimum utilization of coal reserves

SHAKTI POLICY

- It aims to auction long term coal linkages to power companies
- Because of the supply-demand mismatch of the coal, the power companies are forced to import coal from abroad.
- Therefore a rise in the coal production and a coal linkage policy is needed
- Coal linkages would be awarded to state owned DISCOMs which would assign linkages to generation companies via allocation, and through auction to private units.
- The independent power producers having Power purchase agreements (PPAs) will participate in the auction
- IPPs without PPAs shall be bidding for linkage
- Expected to revive 30,000 MW of power plants, reduce dependence on imported coal, NPA solution, help cut tariffs
- Some observers feel that giving coal linkages on allocation basis to thermal stations owned by governments and to private developers on competitive bidding basis distorts the competitive power market.

Use coal while economical, says CEA

- India should leverage its coal assets while it is still economical to do so before ramping up its renewable
- Low tariffs seen in the renewable sector do not include several implicit costs that are, so far, being subsidised.

- India should not be influenced by 'coal imperialism', with developed countries trying to influence developing countries to cut their fossil fuel consumption
- Renewable issues: cost of intermittent supply of power from solar and wind sources, the land acquisition costs, the upgradation of the grid to support energy from renewable sources, and the cost of stranded coal assets.
- Recent bids are not indicative because of the implicit subsidies and the factor of strategic bidding that has entered the renewable energy space as it did with coal and spectrum auctions.
- Costs of moving away from coal are also significant, since it will impact employment and regional economies

GARV II APP:

- Power ministry launched GARV-2 app to provide real time data about rural electrification in all villages
- Earlier GARV app only provided data about rural electrification regarding 18,452 unelectrified villages
- It has a citizen engagement window called "SAMVAD" through which people can provide their feedback
- DDUGJY is Flagship programme of power ministry to facilitate 24*7 power supply esp in rural area villages.
- It was launched in 2015 in Patna. RGGVY has been subsumed in this scheme.

Government plans to roll out a Rs17,000 crore scheme named Sasti Bijli Har Ghar Yojana

- To provide electricity access to every rural household, 100% electrification by 2022
- At present, around 40 million households are unelectrified, 10% of villages is wrongly noted in government data.
- Ensuring electricity at household level will also cover hamlets not covered in national sample surveys and DDUGJY
- Solutions: decentralized electricity through offgrid solutions like solar, 100% Metering
- Power belongs to the concurrent list so even if centre releases funds, states have to implement it efficiently. Thus, states should create and strengthen state nodal agencies (SNAs)
- T&D losses in some states go up to even 50%.
- As per the latest definition, a village would be declared as electrified, if basic infrastructure such as Transformer and lines are provided in the inhabited locality as well as the Dalit Basti; electricity is provided to public places like Schools, Panchayat Office, Health Centers; number of households electrified should be at least 10% in the village.

Power transmission planning:

- Mata prasad committee suggested an overhaul in transmission planning to facilitate transfer of power on economic principles, customer aspirations, projected load and anticipated generation
- Committee emphasised the need for creation of a central repository of generators where any generation project developer proposing to set up a new generation plant must register itself.
- The committee has also made a strong case for hand-holding of states by cea for accurate demand forecasting.

Government initiatives on mining safety

- Major incidents are investigated by Oil Industry Safety Directorate and a committee set-up by MO PNG
- Mines Act 1952 covers health and safety of workers in mines.
- Ministry of Mines: Anti-collision system, electronic tele-monitoring, slope stability system and gas monitoring system
- NHRC in its 2014 report mentioned the need for the mining sector to adopt best practices including- scientific 'training need assessment' for officers and workers
- Occupational health is not integrated with primary healthcare. It is the mandate of the Labour Ministry. This has to be shifted to Health Ministry for better synergy and finance allocation.

Mining surveillance system (mss):

- Mss is a satellite based monitoring system developed by ministry of mines, indian bureau of mines, BISAG, MEITY
- To curb instances of illegal mining

- The maps of the mining leases are geo-referenced and are superimposed on the latest satellite scenes obtained from cartosat & usgs (united states geological survey).
- A check for illegality in operation is conducted and reported back using a user-friendly mobile app, which has been designed keeping public participation in mind, wherein the citizens can use it to report any unusual mining activity.

DEEP OCEAN MISSION

- MOES, DST, DBT to study and harness minerals, deep ocean energy, desalination plant along Chennai coast, deep sea science and fisheries and PMN.
- The program on PMN was initiated at CSIR-NIO, January 1981.
- India was the first country in the world to have been given the Pioneer Area for exploration of PMN in CIO

International Energy Agency

- India is now associate member, will enhance its weight in dialogue with major oil suppliers and consumers.
- Paris-based organization established in the framework of OECD in 1974 in the wake of 1973 oil crisis.
- IEA works to ensure reliable, affordable and clean energy for its 29 member countries and beyond.
- Only the OECD member states can become members of the IEA.
- **China**, India, Indonesia, Morocco, Singapore and Thailand are the associate members of IEA.
- Publications of IEA: World Energy Outlook 2016, World Energy Investment 2016

Energy - Oil and gas policies

India moves to revive TAPI gas pipeline

- India will host the next steering committee meeting of the proposed TAPI
- It is not just a commercial project, but one which will be good for peace and security in the region

India aims to widen oil import sources

- IOC placed India's first ever shale oil order with the U.S.
- Increasing oil imports from new sources was putting pressure on OPEC countries to reduce the 'Asian premium' on oil prices they charge Asian countries, including India.

Performance of pradhan mantri ujjawala yojana

- PMUY has achieved the target of providing 1.5 crore of LPG connection
- LPG coverage has been increased from 61% (in Jan 2016) to 70% (in December 2016).
- Free LPG connections in the name of woman head of BPL household identified through SECC
- Financial assistance of Rs 1600 will be provided per connection by GoI.
- It is the first welfare scheme implemented by Ministry of Petroleum and Natural Gas.
- To be implemented over 3 year period (2016-19) overall providing 5 cr connections to BPL households.

A half-done reform

- Government to completely do away with the subsidy offered to cooking gas used for household purposes.
- Public sector oil companies were authorised to incrementally hike the "effective price" of LPG cylinders until the entire subsidy is wiped off by March next year
- The cut in subsidy would further strengthen fiscal discipline.
- DBT has already helped in the better targeting & reducing wasteful spending.
- 18 crore people, many of them BPL, depend on subsidised gas cylinders.
- What the fate of over 2.5 crore women given the connection for free would be

- Oil prices had come down to $48 but the government is raising rates of cooking fuel
- This decision runs against the high-profile 'Give it Up' campaign
- SOL: Deregulating market for cooking gas, thus opening it up to more widespread market competition, would help

By '20, petroleum subsidy bill to halve

- The government expects to more than halve its petroleum subsidy bill to Rs. 10,000 crore by 2019-20.
- While fertiliser subsidies are expected to stay flat, the food subsidy bill is estimated to shoot up sharply
- Following diesel and petrol, the government has set its eye on rationalising kerosene and LPG subsidies
- Efforts are also underway to bring kerosene subsidies under DBT or while making some States 'kerosene-free.'
- One of the main reasons for an increase in food subsidy is to meet the repayment obligations of FCI to NSSF

'High oil taxes curbed consumption, investment'

- Centre's reliance on higher taxation of petroleum products to mop up revenue could be in for review — if the next NITI Aayog Vice Chairman Rajiv Kumar's views are taken into consideration.
- Fresh taxes levied on petroleum products (while their prices fell) helped prop up revenue, but ended up restraining consumption as well as investment

Biodiesel body calls for lower state taxes

- High state taxes making it expensive than regular diesel, according to Biodiesel Association of India
- Called on the central government to continue with the excise duty exemptions for the sector.
- As soon as biodiesel is blended with diesel, the taxes can go as high as 20-30% depending on the state government.
- Biodiesel can reduce hydrocarbon usage by almost 80% and PM emissions can be reduced by 40%, and there is **no sulphur emissions**
- There is no national policy on biodiesels, since the policy framed in 2009 has not been gazetted as of now.

'Methanol a clean, cheaper fuel'

- Gadkari asked NITI Aayog to study the automobile standards developed in China to use methanol
- Vehicles with "flexi-engines", which can use 100% ethanol or a mix of 22% ethanol with petrol or a blend of 15% ethanol with diesel, were available globally.
- Methanol economy will help India use its vast reserves of coal while driving import substitution.
- Ethanol could be made out of coal and informed that a pilot project was already underway in Talcher
- Research in converting carbon dioxide to methanol is promising
- Aayog said methanol is a promising fuel for waterways as it is clean, cheaper than fossil fuels
- India imports methanol from Saudi Arabia and Iran at present
- Methanol can be produced straw, bagasse, biomass, municipal waste and bamboo. While in most countries it is being made from natural gas
- Additional remuneration to farmers, Reduction in CO2 emissions from straw, will produce bio-fertiliser and Bio-CNG

Step towards more efficient biofuel: fat from algae

- Algae uses CO2 to generate fat and thereby produce energy but Genomics research team modified an algae strain to enhance the algae's fat content from 20 percent to more than 40 percent.
- No stress on food production and requirement of arable land and freshwater, unlike other biofuel feedstock

State oil firms sign pact to build $40 billion refinery

- IOC, BPCL and HPCL to jointly set up the world's largest refinery in Ratnagiri
- India is the world's third largest energy consumer after U.S. and China

- Per capita energy consumption is one-fourth of the world average.
- Domestic oil demand is likely to climb to 500 million tonnes by 2040.
- Against this, our domestic refining capacity currently is 230-235 million tonnes.

FIRST 2G ETHANOL BIO-REFINERY IN BHATINDA, PUNJAB:
- One of the major drawbacks of 1G is that they come from food source such as wheat and sugar.
- This has led to increase in the volumes of crops being diverted away from the global food market
- Some biofuels have negative Net energy gain meaning that the energy expended to produce the biofuel is more than the energy gained from them
- 2G Biofuel from marginal croplands unsuitable for food production or non-food crops organic waste EX Jatropha
- Third Generation Biofuels from specially engineered energy crops such as algae
- Fourth Generation aimed at producing sustainable energy, capturing and storing CO2
- This carbon capture makes fourth generation biofuel production carbon negative rather than simply carbon neutral

Ethanol pricing revision:
- Govt has moved towards a new pricing mechanism for sugar-extracted ethanol which is used for blending in petrol.
- The government had initiated the ethanol blending programme in 2003
- Initially the quantity was fixed at 5% which was slowly supposed to be raised to 10%.
- Constraints faced by omc like state specific, supply related, pricing
- Price of ethanol will now be determined on the basis of price of sugar in open market / demand-supply situation.

NITI AAYOG Draft national energy policy
- Builds on Integrated Energy Policy of 2000s.
- AIM: Electrifying all Census villages by 2018, universal electrification with 24x7 electricity by 2022, Reduce oil imports by 10% from (2014-15 levels) by 2022, Achieving INDC targets & address CC concerns
- Energy demand in India is likely to go up by 2.7-3.2 times between 2012 and 2040
- To reduce cost due to air pollution – It is estimated to be 3% of its GDP and causes 1.2 million deaths every year.
- Key provisions: sustainability, ECBC, energy efficiency, electric & hybrid vehicles, mandatory standards and labelling programmes by 2020, index of states by Aayog to rate, renewable, cross border trade of Petroleum and Electricity, statutory regulatory authority for coal, power and petroleum, privatizing coal production
- Issues: Not in sync with draft National Electricity Plan as it estimated that no new coal power plants would be required in India over the next decade
- Reliance on fossil fuels even in 2040 is in direct conflict with twin goals of sustainability and security
- $150 billion investment is needed in energy sector on an annual basis until 2040
- Falls short of expectations in terms of public health

Draft national electricity plan (generation)
- Central Electricity Authority, statutory under EA 2003, released draft in accordance with National Electricity Policy
- The document assumes capacity addition from renewable>hydro>gas>nuclear.
- For 2022-27, priority has been given to development of hydro and nuclear
- Coal based capacity addition will not be required in this period
- It said that the renewable energy will contribute about 20.3% and 24.2% in 2021-22 and 2026-27
- It scaled down India's peak power demand over the next 10 years due to energy conservation measures.
- It has also suggested some measures to improve energy efficiency.

Niti Aayog moots new regulator for coal, oil, gas

- These have lacked independent, statutory regulators due to strong presence of PSUs
- But, now with increased private activity, the time is appropriate said new licensing policy
- Looking at inherent complexities in different fuel sources, it is pertinent that there ought to be sectoral regulators

Hydrocarbon Exploration and Licensing Policy (HELP)

- New exploration and production policy of the government in the hydrocarbon sector has replaced NELP 1997
- Production Sharing Contracts in NELP was responsible for inflating the cost of production and loss to gov.
- The multiple licenses for different hydrocarbons in NELP dampened the exploration and production.
- The pricing and marketing freedom for gas produced from deep water, ultra-deep water and high pressure high temperature (HPHT) fields was missing in NELP.
- Realisation that NELP won't be sufficient to achieve the milestones set by Hydrocarbon Vision 2025.
- The policy dismally failed to attract to global players.
- Open Acreage Licensing Policy is likely to eliminate micro-management by the regulator
- NELP forced energy explorers to bid for blocks chosen by the government.
- Companies can now apply for particular areas they deem to be attractive to invest in and the Centre will put those areas up for bids.
- Due to Revenue Sharing Contract, transparency will be induced in operations as well.
- Since, contractors now have to share revenue with government from start; costs cannot be recovered first. Hence, there is scepticism among contractors
- National Data Repository is envisaged as a centralised database of geological and hydrocarbon information
- Besides allowing potential investors to make informed decisions, this will open up a new sector in India. Number of companies make it their business to simply explore basins and sell the information.
- Expected to open up 2.8 mn sq km of sedimentary basins to exploration and production activities.
- Lack of sedimentary basin data has been hampering the oil and gas exploration and production sector
- 52% of India's sedimentary basins have not been appraised yet.
- Policy reiterates GoI's commitment to reduce regulatory burden, thus enhancing EOB
- Uniform licence will enable the contractor to explore conventional as well as unconventional oil and gas resources
- Single license to explore all forms of hydrocarbons, no oil cess, reduced rates of royalty are just few of the many enabling provisions which will stimulate investments in the sector
- This decision will go a long way towards reducing import dependence
- The policy awards an extra five points to bidders for an acreage if they have already invested in the exploration and development of that area, but the investment needed to simply explore is significant.
- Another concern is whether India can attract enough investment to meet the government's objective of reducing oil imports by 10% by 2022

Integration of oil & gas majors is best avoided

- In budget speech, Finance minister revisited the idea of an integrated oil and gas sector.
- The idea first made its appearance during Atal Bihari Vajpayee's government in 1998.
- The proposal was then rejected for encouraging a monopolistic scenario
- In 2005, the Krishnamurthy committee debunked the idea as it would reduce competition and manpower
- Jaitley stated five major reasons for the same: better capacity to bear risks, avail economies of scale, create more shareholder value, make better investment decisions and be more competent globally.
- Could be an energy behemoth with interests spanning both exploration and refining businesses.
- Bigger scale and balance sheet size could give better bargaining power and capital to bag mega deals.

- Indian firms are much smaller in size compared with top international oil companies but government's track record of consolidating state run firms has not borne good results.
- The aviation sector suffered a major setback following the merger of Air India and India Airlines in 2007
- In oil and gas, minimum political interference and liberalisation have proven better in creating more shareholder value
- Giving complete autonomy to one entity can risk the nation's energy security.
- At a time when government is struggling with job creation, it will be difficult to justify job losses due to restructuring.
- The Indian oil market today itself has hardly any competition and is dominated by IOCL, HPCL and BPCL.
- Companies should focus on better techniques and management practices to negate shortcomings of their size.

ONGC's purchase of HPCL refining and retail facilities

- Cabinet's in-principle nod has cleared the decks for India to have its own oil giant.
- Sale of HPCL could contribute almost Rs.30KC to exchequer and fulfil > third of year's disinvestment target.
- There are questions about how ONGC will find the cash to complete the deal

Natural gas no longer profitable: ONGC

- ONGC said that producing natural gas is no longer a profitable business for the company as the government-mandated gas price is significantly below the cost of production.
- Does not make economic or commercial sense to invest in new fields or in augmenting production from existing ones
- Pricing formula using rates prevalent in gas surplus nations like the U.S., Canada and Russia to determine rates
- Prices have halved to $2.48 per million British thermal unit since the formula was implemented.
- Price paid to domestic producers is less than half of the rate paid for import of gas (LNG).
- Demanded a minimum price of natural gas be fixed at $4.2 per mmBtu keeping in view of cost of production of gas, cost of alternate fuels and other market dynamics
- The new formula provides for revising rates every six months

Gas discovery: ONGC for pricing freedom

- Sought pricing and marketing freedom to help bring to production a one-trillion cubic feet gas discovery in the Gulf of Kutch that will open up a new sedimentary basin after over three decades.
- This will open up the country's eighth basin
- Gas price of $2.48 per million British thermal unit does not make the discovery commercially viable.
- Since the find is in shallow waters, it does not qualify to get the $5.56 per mmBtu cap price set for difficult fields

Fuel prices will change daily

- Retail prices for petrol and diesel would be revised on a daily basis compared to the present system where OMC usually adjust prices on a fortnightly basis.
- Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum — launched a pilot project in May
- Will make prices more reflective of current market conditions, based on import parity
- Minimising volatility, increased transparency, entry of more private players.
- This would improve the inefficient allocation of scarce resource like fuel.
- It would also help move the oil public sector units into profits. It would also reduce the burden on exchequer.
- The sustainability of this mechanism would face challenges when the crude oil prices rise.
- It would create an inequality of prices of fuel in different states. The coastal state fuel prices would reduce whereas the fuel prices of hinterland would rise after the market linked pricing steps in.
- Retail presence, logistics arrangement and risk management would be the three critical factors

India's first ever U.S. crude purchase to arrive in Sept.

- Cheaper oil because the U.S. could sell at highly competitive rates
- The deal with the U.S. comes at a time when India's oil imports from Iran have fallen due to tensions
- India sees an opportunity to enhance bilateral cooperation in oil gas coal etc.
- Thirty percent of all increase in world's energy demand from now to 2040 will be from India
- India will start importing LNG from U.S.
- GAIL, Oil India and IOC and Reliance have invested in U.S. shale gas production.

India-UAE strategic oil reserves deal

- Allows the country to fill half of an underground crude oil storage facility at Mangalore
- Strategic petroleum reserve system, an emergency underground storage of 37 million barrels of crude which can supply about 10 days of the country's average daily oil demand.
- India has already filled the other half of the Mangalore storage facility with Iranian oil.
- The country has another storage site in Vizag with Iraqi oil
- Government has proposed reserves in Odisha and Rajasthan in addition to the three reserves set up now at Visakhapatnam, Mangalore and Padur.

High on energy

- Crash of crude oil, fuel pricing reforms, healthy refining margins, high priority to city gas distributors and favourable negotiation of terms with foreign gas suppliers.
- Petrol decontrolled in 2010. In 2014, diesel pricing was freed. This turned around the fortunes of the PSU OMC as diesel accounted for more than 60 per cent of their under-recoveries from selling fuels below cost.
- Cap on subsidised LPG cylinders to 12 a year for a household, DBT-LPG subsidy and gradual price hikes in kerosene and LPG have reduced under-recoveries.
- India imports 40% of its natural gas requirement.
- Probs: fields in decline, limited success on new discoveries, unfriendly exploration regime, lack of pricing and marketing freedom

Fuel Administered Price Mechanism

- APM was created after the Government nationalized oil majors in the early 1970s.
- In APM prices are fixed on the basis of cost of procuring and refining crude oil.
- Cross subsidization among petroleum products was in existence under the administered pricing mechanism.
- The prices of petrol and diesel subsidized the prices of LPG and kerosene.
- Narasimha Rao govt had set up a "R Committee" (Reforms) under Kelkar to plot a blueprint for dismantling APM
- In the 2000s, the price of crude oil became highly volatile and political consensus on reforms withered.

Where energy is waiting to be tapped

- Wind and solar account for 7% of country's electricity production
- Newer materials such as perovskites that can replace silicon are showing up, costs are falling dramatically
- But solar is a daytime source, wind is seasonal
- Helium 3 from the moon on the very edge of science.
- Electricity from wind and solar can be used to produce hydrogen, which can be stored.
- There are three subsets of 24x7 energy source — waves, tides and currents.
- Energy from fusion of sub-atomic particles at near room temperatures (COLD FUSION)
- Auto-rickshaws are using LPG now
- LNG is important but the availability and distribution is a big challenge
- India also plans to start 15 factories to produce 2G ethanol

- Delhi wants to raise the use of natural gas in its energy mix to **15**% in 3-4 years from **6.5**% now.
- India is developing LNG bunker ports and plans to develop its electric vehicle fleet

Green energy target tough to achieve, say officials

- Govt is unlikely to meet target of 175 GW by 2022 due to the poor progress of the rooftop solar programme
- Ministry was considering increasing the contribution of other sources such as biogas and small hydro
- Tariff structure right now is such that it is just not remunerative for people to set up rooftop solar.
- Target of 40 GW of rooftop solar by 2022, but had achieved only about 1.3 GW as of December 2016
- There is no clarity on guaranteed payment by utilities on the net metering basis.
- Potential of 19.7 GW capacity from small hydro, utilised only about 21% of this.

Putting a global price on carbon

- A carbon tax is less likely to face political opposition while creating avenues for businesses and growth
- A large increase in global temperatures correlates with an average 5% loss in global GDP, with poor countries suffering costs in excess of 10% of GDP.
- Carbon tax regimes will only be effective if harmonised internationally. Different country-wise policies could lead to 'carbon leakages' where energy-intensive businesses will most likely move to less strict national regimes.
- Quantity limiting policies are often accompanied by administrative arbitrariness and corruption through rent-seeking.
- This sends off negative signals to investors. In a price-based carbon tax, the investor has an assured long-term regulation to adapt to and can weigh in the costs involved.
- Carbon tax will essentially be a Pigovian Tax
- It can act as an incentive for consumers and producers to shift to more energy-efficient sources and products.
- The political consensus in favour of a direct carbon tax will be difficult to achieve in countries that have developmental priorities and lack the capacity to administer such regimes.
- Another near-term approach can be 'cap-and-tax' which combines strengths of both quantity and price approaches.

'Oil marketing firms must protect consumers too'

- OMC enjoy pricing freedom for diesel, petrol and **ATF**, but must remain conscious of consumer interests

'Revival of fertilizer plants can make India an exporter'

- Centre's revival of four fertilizer plants (at Barauni, Singhri, Gorakhpur, and Talcher)
- Centre's plan to improve development in the eastern region would be a boost to a 'Second Green Revolution'
- Talcher facility will also be the first plant to deploy a coal gasification system.

Kadiramangalam, the Tamil Nadu village where there is distress over search for oil

- Farmers in Thanjavur district have left their fields to protest against ONGC exploration activities in the village.
- Exploration by ONGC has depleted the groundwater table and, worse, has polluted the available quantum too.

Energy - Solar and wind

'New solar power bid norms will reduce risk'

- MNRE guidelines for tariff-based bidding for solar power procurement will reduce risk, enhance transparency-affordability, provide standardisation and uniformity in processes, risk-sharing framework between stakeholders.
- This will also help reduce off-taker risk and encourage investments, enhance bankability of Projects and improve profitability for the investors.

- Issued under the provisions of Section 63 of the Electricity Act, 2003 for long term procurement from grid-connected Solar PV Power Projects
- Norms include generation compensation for off-take constraints for reducing off-take risks.
- The ‘must-run’ status for solar projects has been stressed upon.
- To ensure lower tariffs, minimum PPA tenure has been kept at 25 years.
- Moreover, unilateral termination or amendment of PPA is not allowed.

‘Mandate local sourcing for home rooftop solar system’

- Government should mandate domestically-sourced components which could inspire confidence among customers
- Assess the quality of projects and whether they were meeting cost and longevity assumptions.
- The tariffs in place do not make business sense for residential rooftop solar systems.
- The size of the roof, the roof rights, the cost are all issues.
- The commercial rooftop segment is growing. In the residential part, that business model is not coming.
- Because the residential tariffs for power are lower than those for commercial, there is no business incentive for installing residential rooftop solar system.
- Projects are being deferred, awaiting clarity on the GST effect

Smallest nation joins solar alliance

- Tiny island Nauru — has become the sixth country to ratify the ISA Framework pact initiated by the Indian and French Governments at CC summit held at Paris in 2015.
- Five more nations, from Africa, — Comoros, Cote d’Ivoire, Somalia, Ghana and Djibouti — have committed
- Need for continents like Asia and Africa to protect the environment while generating energy for development goals.
- Headquartered in India, the alliance, conceived as a coalition of solar resource-rich countries to collaborate, will become a legal entity once at least 15 countries ratify and deposit the framework agreement.

Solar push could mean 3 lakh jobs by 2022: report

- If India were to be able to meet commitment of adding 160,000 MW of solar and wind power by 2022
- Seventy percent of the new jobs would be in the labour-intensive rooftop solar segment
- Solar jobs would be distributed fairly evenly across the country, with tilt in favour of Maharashtra and Uttar Pradesh.
- However, wind jobs were likely to be concentrated in a few States that have high wind potential.

Low cost solar imports from China hurting MII

- Cheap Chinese imports and the prevailing tax structure in India are making it increasingly attractive for solar manufacturers to choose imports over manufacturing the parts themselves
- Solar tariffs recently touched a historic low of Rs 2.97 per unit, which works out to 3.3 per unit over the 25-year PPA period. Such low tariffs forced companies to keep a very sharp eye on their costs
- Standardisation and quality are key to sustain and build the solar industry

Solar power capacity

- The scheme for “Development of Solar Parks and Ultra Mega Solar Power Projects” by MNRE 2014.
- Clearance from CCEA to double the capacity of solar power installed in dedicated solar parks to 40GW by 2020.
- As of now, 34 solar parks have been commissioned equivalent to 20000 MW.
- The enhanced capacity would ensure setting up of at least 50 solar parks
- SECI will administer the scheme under the direction of MNRE.
- PROS: carbon emissions in check, multiplier effect of creating additional employment
- Failure to tap the investment potential of the middle class.

- While grid-connected installations have received attention, there is slow progress on rooftop solar.
- NEED: mass participation by citizens, incentivize citizen and small business to adopt rooftop solar, state electricity utilities being given mandatory time frames to introduce net-metering systems, competitive manufacturing of PV, training, funding options including debt instruments/green bonds
- This is crucial to achieving the overall goal of 100 GW from solar by 2022, and to raise the share of renewable in the total energy mix to 40 per cent in the next decade.

India's first solar-powered DEMU train launched
- With a battery bank facility that ensures sufficient power even in the absence of sunlight.
- Solar panels fitted atop the coaches of the DEMU (diesel electric multiple unit) train.
- Solar system and panels have been developed and fitted by the Indian Railways Organization of Alternative Fuel

Energy saving Certificates
- ESCerts were introduced in 2013 by BEE for industries which achieved energy efficiency standards.
- One certificate is equal to the energy consumed in terms of one metric tonne of oil equivalent (mtoe).
- Renewable Energy Certificates address the mismatch between availability of Renewable Energy and mandatory RPO
- Its value is equivalent to 1 MWh of electricity injected from renewable energy sources.

Removal of incentives to hit wind energy projects
- Govt has let expire 'generation-based incentive', which paid wind power companies 50P for every kWhr produced
- Also, the tax-saving 'accelerated depreciation benefit' is now halved.
- With incentives gone, installations by small investors — those who have less than 10 MW — is expected to drop
- Of the 32 GW of installed wind energy capacity in the country, 60% are by small investors
- Prices realised for wind energy generated are declining. In February this year, the lowest price quoted in India's first-ever auction for wind energy projects was 3.46 a unit.
- Otherwise, wind power prices are fixed by the various state electricity regulatory commissions.
- At a time when the Government should encourage investments with incentives, these have been removed.

Energy: going where the wind blows
- For the first time, wind power installations crossed the 5 GW mark, to reach 5,400 MW in 2016-17.
- Apart from TN, it has spread to eight other States— four other southern, M.P., Maha, Guj and Rajasthan.
- Centre wants to buy electricity from wind power producers and sell it to DISCOMS in other states, which are bound by law to buy a portion of their needs from wind and solar sources.
- India, 32.3 GW, has the fourth biggest capacity after China>U.S.>Germany. National target is 60 GW by 2022.
- Wind accounts for 10% of India's capacity and 4% in terms of electricity produced.

Early shift to renewables needed to save climate: IRENA
- Countries will have to focus on renewable and energy-efficiency, IRENA at Berlin Energy Transition Dialogue 2017
- IRENA estimates that global carbon emissions can be reduced by 70% by 2050 and completely phased out by 2060.
- Decarbonising energy sector would boost global GDP by 0.8% by 2050, jobs, environment-health benefits
- Renewable energy now accounts for 24% of global power generation
- It also underlines the need to promote electric vehicles, bio-fuels, energy efficiency measures for buildings

Export – Import

Trade Infrastructure for Export Scheme replaces ASIDE

- To enhance export competitiveness, last mile connectivity, quality and certification measures, border haats, land customs stations and cold chains
- Inter-ministerial Empowered Committee chaired by the Commerce Secy to review progress of approved projects

'Erroneous caution-listing of exporters hurts shipments'

- The commerce ministry warned RBI that erroneously 'caution-listing' exporters will severely hurt shipments.
- As per RBI norms, exporters would be 'caution listed' if any shipping bill against them remains open for more than two years in the computerised system called Export Data Processing & Monitoring System (EDPMS) — provided no extension is granted by the RBI or an authorised bank.
- EDPMS eliminates paper requirement to a great extent, considered an EOB reform.
- The caution-listing can happen in certain cases even before two year-period
- Caution-listed exporters are denied packing credit, in turn affecting their exports.

Forex reserves hit all time high of $372.7bn

- The country's foreign exchange reserves touched all-time high on back of sustained inflows.
- According to economists, this level of reserves can cover 11-12 months of imports.
- Following the inflows, the rupee has become one of the best performing currencies in Asia.
- RBI has been intervening in foreign exchange market but the quantum of intervention is limited

'Global standards will curb unsafe imports': Commerce Ministry

- A good standards regime will help in preventing flooding of domestic market with unsafe or sub-standard imports
- The days of differential standards — low for domestic market and high for exports — are over and if the Indian industry has to survive and thrive, it has to adopt global standards
- The ministry, CII, BIS and National Accreditation Board for Certification Bodies and other knowledge partners, is organising a National Standards Conclave
- Conclave would aim at preparing an Indian National Strategy for Standardization document
- It will prepare industries, Governments, regulatory/standards setting and conformity assessment bodies on the growing importance of "Standards" in the changing scenario of global trade.
- Diminishing importance of tariffs and rising influence of standards and regulation both in goods and services trade

Fiscal policy, fiscal deficit, debt etc

Public debt management cell

- FM has set up pdmc as an interim arrangement and will be upgraded to a statutory pdma in about two years.
- Its main purpose is to allow separation of debt management functions from rbi to pdma in a gradual manner
- Pdmc will have 15 debt managers from ministry and rbi for the required expertise.
- A joint implementation committee chaired by joint secretary (budget) will oversee transition of pdmc to pdma.
- Pdmc independent agency, will only have advisory functions to avoid conflict with statutory functions of the rbi.
- It will plan government borrowings & manage its liabilities (integrated debt management system)
- Pdma will manage the internal and external liabilities of centre
- Presently the market borrowing is managed by rbi but external debt by central government directly.
- Establishing a debt management office would consolidate all debt management functions in a single agency and bring in holistic management of the internal and external liabilities

- There is a severe conflict of interest in the rbi responsibility of setting the short term interest rate
- Some functions are not carried out. Ex cash and investment management, information relating to contingent and other liabilities are not consolidated. This will be taken care of by pdma.
- Debt management is not merely an exercise for resource mobilization but has a wider socio-economic impact.
- Pdma's focus is only on central government but rbi can harmonise the debt of both union and state governments
- The conflict of interest would still be present as government is the majority shareholder in psbs.

FRBM Review Panel headed by N K Sinha

- FRBM law was enacted to 'limit the government's borrowing authority' under Article 268.
- Recommended fiscal discipline path, a fiscal council, new act, fixed targets
- The government had mandated the committee to explore whether it should adopt a flexible FD target instead of a fixed number every year.
- The committee says, "a new FRBM Act is critical to create co-ordination between monetary and fiscal policy and usher in a low interest rate regime."
- Fiscal Council must be consulted any time the government wants to deviate from debt targets.
- FD be brought down to 3% over next 3 years, 2.5% by 2022-23, 3.2% in the current fiscal
- RD should be brought down to 0.8% of GDP by 2023
- Debt-to-GDP ratio as fiscal anchor: Centre's debt-GDP ratio to 40% by 2023 from 49% at present.
- The combined C+S debt-to-GDP-ratio 68.5% to 60
- The government borrows money from the market to fund FD, thereby increasing public debt.

2 States breach 3% fiscal deficit target

- While RBI had cautioned 7 States not to breach the 3% FD, two States have already breached that threshold
- We can only advise them, caution them, but can do nothing to stop them

New FRBM review

- Proposal to maintain the 3% target till 2019-20 before aiming for further reduction is pragmatic, as the 'extraordinary and unanticipated domestic development' of demonetisation happened during its tenure.
- Such an event, the committee has said, could trigger an escape clause from fixed fiscal targets
- Fiscal Council would play an important role in judging and assessing the circumstances
- Debt to GDP is something the rating agencies had also pointed out as an important ingredient
- There is no need for a freeze on borrowing if the fiscal deficit path is followed in accordance to the plan
- Wherever a range of deficits is allowed, countries go to the top of the range hence fixed number would be better
- RBI governor preferred the total cap on the escape clauses to be 0.3% of GDP. Other committee members said 0.5% number was more appropriate.
- CEA has given a dissent note and mooted a focus on primary deficit instead of debt targets

FRBM and states

- The challenge of States achieving FD, RD, a debt ceiling of 20% by 2023 is undoubtedly Herculean.
- Solution: use of powers in Constitution under Clause (3) of Article 293. This makes it mandatory for a State to take the Central gov consent for raising any loan if the former owes any outstanding liabilities to the latter.
- Link state borrowing with their expenditure quality
- Fiscally healthy States should be enabled to attract higher investments at lower costs.
- Recently, Cabinet permitted State entities to directly borrow from bilateral partners
- Off-budget expenditures (PSU borrowings) and explicit guarantees offered by States do not form part of liabilities.

- ‘Fiscal Discipline’ in determining inter-state tax shares was used by 11th, 12th and 13th FC. FFC dropped this indicator and accommodated ‘Population (2011)’ and ‘Forest Cover’ in its devolution formula.

Fiscal deficit: Undoing the gains

- Loan waivers in the past failed to address intended outcomes.
- FM: state governments are entitled to take such decisions but manage their financial consequences.
- State finances are crucial lynchpin of India’s fiscal framework.
- The combined FD of States reached 3.6% of GDP in FY16, higher than 2.6% in the previous year.
- DISCOM debt, 75% of which will be accounted in States’ balance sheets, irregularities in food credit accounts of State governments, off-balance sheet expenditures and creative accounting engineering to evade stipulated targets.
- Debt ratio for States is projected to increase as primary deficit is high for States
- Centre has been short-changing States by relying on special levies such as surcharges, cesses that are not considered part of divisible tax pool. So, instead of a 10% rise in States’ share of tax revenue, actual hike was 7.7%.
- SPC hikes, rising interest payments
- Worsening of State finances will dent India’s credibility among FII
- Centre borrows largely for revenue spending. States do so for capital expenditure.
- SOL: Improve diligence by Centre in giving consent to borrowings by States under Article 293
- Whenever the Central government breaches the fiscal norms, it secures parliamentary approval. State governments must be encouraged to adopt a similar practice
- 15th FC must restore adherence to fiscal norm as an important ingredient in the devolution formula.

Goyal rebuffs RBI on UDAY

- Power Minister rebuffed RBI recent report showing that UDAY scheme was harming state finances, and said that the debt was already with the state governments since they owned the stressed electricity discoms
- UDAY scheme shifts debt from discoms already owned by the state governments to the state governments directly.
- Goal 7 of SDG to ensure access to affordable, reliable, sustainable and modern energy for all

States allowed overseas loans

- State government entities to directly access funding from international bilateral financing agencies.
- Presently state entities have to approach State governments to avail international funding and any such funding is included in the State’s borrowing budget which leads to violation of FRBM
- State entities with revenue of greater than 1KC and working on infrastructure projects above 5KC are permitted now
- It will reduce the pressure on the State Budgets and allow them to spend more on welfare schemes.

Budget

- 3 statements under FRBMA 2003 are also laid in LS: MTFPS, FPSS, macro economic framework statement.
- This is the first of its kind which included the Railway Budget.
- This year’s Budget also does not have Plan and Non-plan classifications
- For the first time, a consolidated Outcome Budget, covering all Ministries and Departments, laid along with Budget.
- Transform, Energise and Clean India: to transform governance for QOL. Energise youth and vulnerable. Clean the country from the evils of corruption, black money and non-transparent political funding.
- Mission Antyodaya to bring 1C households out of poverty and to make 50K gram panchayats poverty free by 2019
- Under the reoriented MGNREGA to support resolve to double farmers’ income, about 10 lakh farm ponds are expected to be completed by March 2017 against the targeted 5 lakh.
- SANKALP – Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme to provide market relevant training to 3.5 crore youth

- The next phase of Skill Strengthening for Industrial Value Enhancement (STRIVE) to focus on improving the quality and market relevance of vocational training
- National Testing Agency is proposed to be established as an autonomous and self-sustained premier testing organisation to conduct all entrance examinations for higher education institutions in the country.
- Two new AIIMS in Jharkhand and Gujarat.
- 'Digigaon' initiative will be launched to provide tele-medicine, education and skills through digital technology.
- Trade Infrastructure for Export Scheme (TIES) will be launched in 2017-18.
- Decided to abolish FIPB in 2017-18. This became possible as FIPB has successfully implemented e-filing and online processing of FDI applications
- Amendment Bill to change the Arbitration and Conciliation Act 1996 will be introduced to streamline resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts.
- Government also proposes to create an integrated public sector 'oil major'
- 10,000 crores for recapitalization of Banks in 2017-18 has been allocated.

OUTCOME BUDGET

- Delhi's Outcome Budget document was released
- Measures how well a policy has been implemented, end results in terms of rupees or fund utilization, physical units.
- For example: how many kilowatts of energy have been produced.
- It was first introduced in India in 2005-06. From 2007-08, it has been merged with the Performance Budget.

BUDGETARY REFORMS:

- **Merger of Railway Budget:** Separate Railway budget started in the year 1924 and continued as a convention
- The merger was warranted so as to save the annual dividend liability of railways
- The practice is mainly used by politicians for populist reasons without sound economic rationale.
- The presentation of a unified budget will bring the affairs of the Railways to centre stage and present a holistic picture of the financial position of the Government.
- The merger is also expected to reduce the procedural requirements and instead bring good governance.
- **Advancement of Budget Date:** This would pave the way for early completion of Budget cycle
- Enable Ministries to ensure better planning and execution of schemes from the beginning of the financial year.
- It would lead to utilization of the full working seasons including the first quarter.
- This will also preclude the need for seeking appropriation through 'Vote on Account'
- This would synchronize the transfer of funds to states with their own state budgets.
- **Merger of Plan and Non-Plan classification:** Bifurcation led to a fragmented view of resource allocation to various schemes, making it difficult to ascertain cost of delivering a service, to link outlays to outcomes.
- The bias in favour of Plan expenditure has led to a neglect of expenditures on maintenance, welfare etc
- With the abolition of PC, the relevance of distinction is lost.

ANTI-BLACK MONEY
- Linking Permanent Account Number with Aadhaar
- Legal cash transaction limit set at Rs2 lakh
- Streamlining political funding

EASE OF DOING BUSINESS
- Faster disposal of cases with merger of tribunals and pay parity for judges
- Ambiguity over taxation of foreign portfolio investors removed

LESS-CASH ECONOMY
- Payments regulator to be set up within the central bank
- Tax breaks to point-of-sale manufacturers and for small businesses using digital modes of payment collection

FINANCE BILL

SC seeks govt.'s response on Jairam's petition

- Petition that provisions modifying terms of appointment and functioning in tribunals amounted to a dilution of judicial independence and a threat to the Constitution.

Centre's spending improves after budget advanced to Feb 1

- Increased in April-May compared to previous years

- Disbursement of planned expenditure instead of having to wait till the monsoon got over, as was happening earlier

Different clocks: Changes in financial year need Centre-States coordination

- MP has decided to align it with the Gregorian calendar year — that is, January 1 to December 31.
- A fiscal year rejig is not something that can be left to the States alone. On its part, the Centre had appointed a committee under former CEA Shankar Acharya on the desirability and feasibility of changing the fiscal year

Rail Bhavan, North Block spar after Budget merger

- Finance Ministry, which has taken charge of presenting the annual accounts for the railways, has asked the Railway Ministry to remit annual dividends it receives (850 crore) from 14 PSU under its purview.
- Saving on dividend payments to the Ministry of Finance was one of the biggest arguments made in favour of scrapping the Railway Budget.
- Finance Ministry: since 'capital-at-charge' of railways – on which annual dividend was paid– would be wiped-off post merger, the investment made in the railways-related PSUs would be treated as having come from the Central government's accounts.
- 'Capital-at-charge' is the Centre's investment in the railways
- Railway Ministry said the dividend is not a part of the 'capital-at-charge'.

FDI policy

FIPB

- FIPB was set up in the early 1990s as an inter-ministerial mechanism to vet FDI applications worth up to 5,000 crore.
- Centre had, in the Budget 2017-18, proposed that the FIPB — which offered a single window clearance mechanism for FDI applications in sectors under the approval route – will be abolished in FY'18.
- The applications considered by FIPB will be taken up by the concerned ministries and sectoral regulators
- FIPB has implemented e-filing and online processing of applications
- More than 92% of the FDI inflows were through the automatic route, a superfluous or an additional layer in the form of FIPB is not any longer required
- DIPP to formulate SOP to process applications in 11 sectors that are under approval route
- Economic Affairs Secretary Shaktikanta Das heads the FIPB

Abolishing FIPB review

- Red-tapism will shrink, EOB and investors will find India more attractive.
- However, the decision is little more than a symbolic gesture. Over 90% of investment…..
- Efficacy of this move will be determined by the ability of individual ministries and sectoral regulators to exercise 'discretionary' powers without fear, favour etc
- Bureaucrats are likely to remain cautious from the wrath of auditors and investigative agencies for bona fide decisions
- Cumbersome conditions, not FIPB, have been responsible for a less than enthusiastic response from foreign investors
- Archaic land acquisition and labour laws continue to make it difficult

Eclectic FPI mix drives Indian equities

- 8,000 SEBI registered FPIs in India coming from almost 60 different countries across the world.
- U.S. leads the pack with more than 2,700 registered FPIs, followed by Luxembourg, Canada and Mauritius
- 14 countries from where more than 100 FPIs have registered in India.

- Increasing number of foreign investors are attracted to India because of the higher returns

Multilateral FI allowed to invest in 'masala bonds'

- RBI has permitted multilateral and regional financial institutions to invest in rupee-denominated bonds.
- ADB and the BRICS Bank can also invest in these bonds.
- Masala bonds are bonds issued outside India but denominated in Indian Rupees
- The term was used by IFC to evoke the culture and cuisine of India.

Centre eyes ways to open multibrand retail

- BJP's 2014 Election Manifesto ruled out FDI in the 'politically sensitive' sector.
- Centre is considering various options including allowing certain non-food items such as health and wellness products, with a rider that they should be locally manufactured
- Allowing foreign investment in the sector would lead to small retailers losing their source of livelihood.
- The policy stipulates many conditions including minimum investment levels and local sourcing.
- Several states through Shops & Establishment Act, do not allow foreign-owned and controlled firms to open outlets.
- In order to generate employment in food processing and to attract the latest technologies in the sector, the NDA government, allowed 100% FDI under approval route for trading, including e-commerce, in respect of food products manufactured and/or produced in India.

With several bilateral investment treaties lapsing on March 31, FDI inflows could take a hit

- FERA 1974 required a foreign company to convert foreign equities into minority holdings of 40%, many helpless foreign companies either quit India or applied to the government
- Many BITs would lapse on March 31 after the expiry of the mandatory one-year notice period.
- Although the terminated BITs will continue to be relevant for existing foreign investment for the next 10-15 years due to survival clauses, any new investment shall not enjoy BIT protection.
- To be fair to the government, it wants to sign new BITs with all these 58 countries based on the new Model BIT
- Most developed countries have not shown much interest in the Model BIT
- MFN provision is missing in the Indian Model BIT.
- Indian Model BIT mandatorily requires foreign investors to litigate in domestic courts for five years before pursuing a claim under international law.
- Enterprise based definition.
- EU-Canada CETA provides protection to foreign investors in situations where the state goes back on the concrete representations it made to lure an investor, which the investor relied upon while investing.

A BIT of critique

- Justice Srikrishna committee constituted to prepare a road map to make India a hub of international arbitration, has recommended many changes in arbitration law and institutional mechanisms
- AIM: augmenting government's expertise on BITs and designating a single authority to deal with BIT arbitrations.
- For management of BIT disputes, the committee recommends the creation of an inter-ministerial committee with officials from the Ministries of Finance, External Affairs and Law.
- It also recommends hiring external lawyers having expertise in BIT; creating a designated fund to fight BIT disputes; appointing counsels qualified in BITs to defend India against BIT claims; and boosting the capacity of Central and State governments to better understand BIT obligations.
- Creation of the post of an 'international law adviser' (ILA) to advise the government on international legal disputes, particularly BIT disputes, and who will be responsible for the day-to-day management of a BIT arbitration.
- Duplication: Legal and Treaties (L&T) division of MEA is mandated to offer legal advice to the government

- Instead of creating a new office — which will only intensify the turf wars between ministries, and deepen red tape — the L&T division should be strengthened.
- IMC should have a member from the Commerce Ministry as well.
- Mentioned the possibility of establishing a BIT appellate mechanism and a multilateral investment court.
- However, its conclusion that ISDS (Article 15 Indian Model BIT) provides an effective mechanism for settling BIT disputes is problematic for the following reasons.
- Foreign investors to litigate in domestic courts at least for a period of 5 years. Investor can initiate a BIT claim provided it is done within 12 months from conclusion of domestic proceedings. First 6 months must be spent trying to amicably settle the dispute with the state. Then the investor has to serve a 90-day notice period to the state, and only after this can she actually submit the dispute for BIT arbitration (3 months only)
- Such strict limitation periods dilute the effectiveness of the ISDS mechanism.
- There are many other jurisdictional limitations given in Article 13 that also limit the usefulness of ISDS.
- ISDS mechanism in the Indian Model BIT extends from Articles 13 to 30 covering issues such as appointment of arbitrators, transparency provisions, enforcement of awards, standard of review, which have a bearing on the efficiency of the ISDS mechanism.
- BIT arbitration has three aspects: jurisdictional (such as definition of investment), substantive (such as provision on expropriation) and procedural (ISDS mechanism). While the commission's mandate was to focus on all the three parts, it narrowed it down to just the procedural aspect.

Have foreign fund flows been volatile?

- FIIs have been the prime drivers of every bull run in the Indian equity market.
- They have been attracted by the handsome returns and the robust regulatory and trading mechanisms
- Between 1992-93 and 2015-16, there have been only 3-5 financial years when FIIs ended as net sellers
- Flows started reversing on expectations that growth in the U.S. would accelerate

'Foreign ownership norms a barrier'

- India allows for 100% FDI in B2B E-commerce, but largely prohibits in B2C
- FDI is allowed in a market-based electronic retailing model, but not in the inventory-based model
- Single-brand retailers who meet certain conditions including the operation of physical stores in India may undertake to trade through electronic commerce.
- India's tax (6% equalisation levy) on foreign online advertising platforms was not par with the international norms
- Indian requirements of storage of data within India reduce productivity, dampen investment and undermine the ability of information and communications technology companies to offer cutting-edge services.
- 2012 National Data Sharing and Accessibility Policy, Ministry of Science, which requires that all data collected using public funds be stored within the borders of India
- DEITY: cloud computing providers to store data within India to qualify for bidding for government procurements.

GDP numbers

EXPECTATIONS: GDP growth pegged at 7.1%, belying demonetisation drag

- CSO signalling that independent economic forecasters may have overstated demonetization drag on the economy
- Reduction in GVA compensated by 12.3% surge in net indirect taxes, subsidies show a negative growth, agriculture, mining and quarrying faring better than estimated.
- In some sectors, business shifted from the unorganised to organised players due to digital payments.
- To gauge the actual level of economic activity, GVA is more pertinent number than GDP.

- GVA measures output created by different segments of economy. GVA= GDP - Indirect taxes + subsidies

REALITY

- India lost its tag as the 'world's fastest-growing economy' to china as its fourth quarter GDP growth fell to 6.1%
- Some commentators are cheering as sceptics appear convinced that the official statistics aren't dressed up.
- Previous CSO estimate didn't capture performance of informal economy, which clearly bore the brunt.
- Most sectors of the economy bore the brunt of the note ban in the fourth quarter and not in the third quarter
- Festival season sales in October masked the disruption to consumption in November and December
- Construction, Manufacturing, Services, private sector components fell
- Farm economy and government spending helped growth
- Over-reliance on government is not great news for the long-term health of the economy
- Continuing decline in the Gross Fixed Capital Formation rate, that is, GFCF as a proportion of GDP.
- SOL: greater use of technology-driven payments, Fast remonetisation, private investment for jobs
- The reform agenda has been pushed forward. IBC, GST
- The economy is a complex organism with several variables working in tandem, which makes prediction tough

India must become a growth engine: PM

- Banking reforms and Aadhaar, already yielded savings of $4 billion in cooking gas subsidies, PM said
- We have strengthened our state-owned banks by freeing them from political decisions and appointing professional chief executives on merit through a transparent selection process
- He said India learnt a lot from the mobile banking experience of countries such as Kenya in its push for a less-cash economy following the demonetisation of high-value currency notes.

Gold etc

Centre may cut import duty on gold

- The government is planing to bring down import duty on gold to 2% from 10% to make Indian jewellery competitive

New gold bond scheme may draw more investors

- Government announced a few changes in its Sovereign Gold Bond Scheme recently.
- The primary change was the increase in the limit to 4 kg (from 0.5kg) for individuals, HUF and 20 kg for Trusts.
- So far, SGB garnered approximately Rs. 5,000 crore or about 16 tonnes of gold.
- Bullion prices are highly sensitive to international geopolitical tensions, U.S. Federal rates and dollar upswings.
- SGB price pegged to a 10% import duty and any reduction in duty in subsequent period would inflict severe loss of value to those who have already invested.
- Government introduced SGB to reduce gold imports, changing the habits of Indians from saving in physical form of gold to a paper form
- Government should allow mass channels such as gold loan NBFC to also market it
- Offering gold loan against SGB would help
- Added incentives are the interest which will be paid on the bonds, and zero capital gains tax on redemption.

Gem and jewellery council Vision Document eyes $60 bn exports by 2022

- It suggests several infrastructural changes, tax reforms and procedural changes.

- To enable exports from marginal and small industry players, government will set up common facility centres where modern machines would be provided.
- The jewellery industry needs to achieve higher scale to become globally competitive
- Plans are also afoot to jewellery parks on the lines of IT parks

'Inappropriate to dissuade gold imports': Y.V. Reddy

- Inappropriate to discourage gold imports while allowing imports of luxury cars.
- Gold's lure cannot be explained only as a reserve for illicit wealth or tax evasion.
- As gold is significantly non-depreciating in its physical form or in terms of value, it provides safety and security
- Hedges against inflation, protects the average investor lacking sophisticated financial acumen
- Centre's sudden demonetisation decision has possibly undermined confidence in the rupee as a store of value
- Access to better and more formal financial market instruments remains a pipe dream

Gold exchange in India

- Government would be creating a local spot-gold exchange with the help of WGC
- Presently Gold futures contracts are being provided by MCX & NCDEX but a dedicated platform does not exist.
- The push for a dedicated exchange comes after the launch of the gold monetization schemes and SGBS
- Many jewellers and traders import gold in refined form from markets like Dubai and Singapore.
- Gold market remains fragmented in India and price differences exists across the channels of gold buying and selling
- A gold spot exchange in India could be a national channel to buy and sell standardized quality gold
- Would enhance the efficiency of gold markets by efficient price discovery and active retail participation.
- It would also promote the use of gold-linked financial products instead of jewellery for investment purposes.
- It would integrate financial markets through easier gold leasing and lending practices
- Challenges: States and not the Centre has the responsibility for gold related matters in India.
- Increased infrastructure such as gold vaults and reliable receipts for metal are also needed.

BHARTIYA NIRDESHAK DRAVYA

- India Government Mint, BARC and CSIR-NPL developed BND4201 gold bar, weighing 20 grams, to verify the purity of gold sold in India.
- While the bars will be made by the IGM, technical aspects such as measurement would be done by the BARC and certifying the purity of the bars would be the responsibility of the NPL.
- Gold bar would be 25% cheaper than the imported version, thus saving precious foreign exchange.
- Will add to MII, will be useful for collection and purity testing centres under GMS.

Inflation and MPC

MPC members to get 1.5 lakh per meet, must disclose assets

- Government appointees will be paid 1.5 lakh per meeting along with air travel and other reimbursements
- Full MPC will need to observe a "silent period" 7 days before and after the rate decision for "utmost confidentiality".
- The panel is required to meet at least 4 times in a year. RBI has been convening a bi-monthly meeting of MPC
- While interacting with profit-making organisations or making personal financial decisions, they shall be mindful of conflict between personal interest and public interest, the regulations said.
- Each member of the MPC has one vote and in case the numbers are equal, the governor has the casting vote.
- MPC has responsibility of achieving a set inflation target.

- MPC is deemed to have failed if for three consecutive quarters the inflation rate falls outside the band.
- Should submit a report to gov in case of failure to achieve the required target within one month of failure
- Schedule of the MPC meetings for the entire fiscal year needs to be announced in advance.
- At least 15 days of notice is required for convening a meeting, but an emergency meeting can be called with 24 hours
- All members need to disclose their assets and liabilities and update this information once every year.
- After conclusion of MPC meeting, a resolution needs to be made public including on repo rate and any other monetary policy measures at the discretion of the Chairperson

Taming inflationary expectations

- Inflation rate dipped to 1.5%, the lowest in almost two decades.
- Inflation is more sensitive challenge than joblessness as it affects everyone, whether you have a job or not.
- Inflation is an indicator of whether there is an excess demand or supply of goods.
- Food prices are a component in CPI. Keeping them low involves policies such as public procurement , anti-hoarding and MSP
- Inflation control thus involves a combination of monetary management & measures to increase supply of goods
- “Flexible inflation targeting” (4+-2) main tool is benchmark interest rate
- Who would have imagined that in the new MPC regime, the first instance of deviation of the inflation rate would undershoot, not overshoot the target?
- Partly it must be because the money supply has been kept “dear”, or tight.
- Because of a steep fall in prices of fruits, vegetables and pulses
- Low and stable crude oil prices, which are a crucial determinant of transport and energy costs.
- Job of the MPC won’t be easy because its task is to target future inflation, not the past.
- The short run impact of GST is bound to be inflationary. That’s because a bulk of India’s GDP is in services whose tax rate has moved from 15% to 18%.
- Impact of the award of the SPC, Loan waivers, Uptick in commodity prices worldwide

WPI AND IIP BASE YEAR CHANGE

- Shifted to 2011-12 from 2004-05 in line with the recommendations of the Saumitra Chaudhari Committee
- Inflation rate based on the new series of WPI declined & IIP grew
- Technical Review Committee has been constituted by CSO in order to review the indexes and recommend interventions in line with changing economic structure of the country. The TRC is to be chaired by Secretary, DIPP.
- WPI basket of goods and their weightage have also been overhauled. 199 new items have been added and 146 items have been dropped in line with the changing demand in the country.
- Indirect taxes have been left out of WPI in order to remove the impact of fiscal policy & make it appropriate deflator.
- WPI will now be calculated based on geometric mean (like CPI) rather than arithmetic mean.
- 149 items have been added to the IIP and 124 deleted, weightage changes made increasing them for the manufacturing and mining sector, while reducing them for electricity.
- The change in base year has brought all macroeconomic indicators on the same base making comparison easier.
- The new base year will provide a more realistic picture.
- Change in WPI basket of goods and weightage has brought it closer to the CPI and to changing consumption pattern

Why you don’t feel the record-low inflation

- CPI (Combined — new series) was 2.2% for May 2017, slipping from a 3% reading for April
- India has registered CPI inflation of less than 2.5% only in 12 months in 20 years.
- REASONS: All-India CPI Combined is compiled by collecting town and village-level data

- States and UT do not get equal weighting in the total. The weights are decided by the consumption expenditure within each State relative to the all-India consumption basket.
- The CPI inflation rate for May 2017 has been suppressed by the base effect.
- Bountiful monsoon this year has led to a bumper production

New base, new basket
- Actual manufacturing output growth measured through Annual Survey of Industries, with a lag of 24 months.
- The aim of the IIP is to capture the direction and trend of industrial production, not the absolute value
- Its chief utility is as an early indicator of turning points in the economy.
- Over time, an item may fall out of use. The IIP was not equipped to capture such changes in the economy.
- Hence instead of the periodic baskets revisions, a permanent standing arrangement is being put in place
- Renewable energy, for example, has been included in the electricity index.
- **Challenge**: process of physically collecting data from entities, where no statutorily-mandated system of regularly reporting production is in place.
- IIP's coverage is limited to organised sector. Unorganised sector is expected to get measured in the ASI.

Infrastructure

Public works may be allowed within 100m of monuments
- Prohibited areas around monuments and archaeological sites may have to give space for more infrastructure.
- Ancient Monuments and Archaeological Sites Bill, 2017 to address the issues confronting construction for public works due to proposed plans running through 'prohibited' area
- Act of 1958 bars construction within prohibited area of these structures.
- Bill says the necessity of building such infrastructure would be based on danger to the safety or security of public
- If there is no possibility of any other viable alternative to have such a construction

'Unstable power, a big barrier in India'
- Japan said unstable power supply was among the biggest investment barriers in India.
- Japan to develop industrial corridors and high-speed rail network in India through financial aid and TOT
- Japanese system using solar cells and micro-grid control technology could provide solution to this.

'Maritime university must take lead': gadkari
- Dissatisfaction over the state of affairs at Indian Maritime University, located on the outskirts of Chennai.
- The transaction cost in India was much higher than that of China, he said, and the cost could be reduced only if the number of ports went up, paving the way for greater exports.

'Infra deficit to take two decades to bridge'
- FM said at the inauguration of the regional office of European Investment Bank (EIB) in Delhi.
- EIB will support sustainable transport, renewable, solar, Lucknow Metro.

Go-ahead for key stretch of Mumbai coastal road
- Expert Appraisal Committee for CRZ, MoEF has cleared a key stretch that will de-congest city's traffic.
- It requires reclaiming about 90 hectares of land from sea

- Conditions: toll free, did not affect tidal behaviour, reclaimed land would not be used to build houses and offices, free of encroachment, fishermen would be resettled and a dedicated bus lane would be created.

INDIA'S FIRST COASTAL ECONOMIC CORRIDOR:

- Eastern Coast Economic Corridor (ECEC) from West Bengal to Tuticorin
- ADB & Andhra Pradesh government loan for VCIC.
- Build new ports or upgrade old ones, raise industrial ecosystems, industrial clusters, roads, efficient transport etc
- VCIC will be component of MII, create employment, alleviate poverty and reduce inequality.
- VCIC can provide multiple access points to international gateways.
- Maritime clusters are to be one of focal points for economic development, according to Sagarmala Programme; in Tamil Nadu and Gujarat as areas with potential

DoT's Tarang Sanchar Portal to clear the air over mobile tower emissions

- Will help clear myths and misconceptions with regard to mobile towers
- Portal for sharing information on mobile towers and EMF emission compliances; empowers common man to know mobile towers in a particular locality & compliances (map-based search feature) (**by paying an online fee of 4,000**)
- DoT standards for EMF emissions are 10 times stricter than the standards prescribed by ICNIRP and WHO
- Portal facilitates G2B-G2C service delivery in a transparent and eco-friendly manner

Step up spending on infra, PM tells States

- 'New India' could only be realised if all States work together
- Urged them to speed up capital expenditure and infrastructure creation.

Infra-Railways

Cabinet approves new metro rail policy

- Cabinet has approved a new policy for expanding and regulating metro rail services in cities. This is the first such policy document prepared by the Centre
- Gives a big boost to private players by making private participation mandatory for all the three funding options – be it a PPP-VGF scheme, a grant from the Centre or 50:50 equity sharing model between Central and State
- Policy seeks to ensure that metro projects are initiated for sound reasons. MOUD recently turned down a metro proposal from Vijayawada due to lack of passenger traffic
- Metro project can be proposed only if it is found to be more cost effective as opposed to other mass transit projects such as tramways, light rail transit, or BRT
- Every proposal for Metro Rail should necessarily include proposals for feeder systems
- Also stipulates rigorous project evaluation by a third party.
- The policy also makes it mandatory for state governments to set up a unified metropolitan transport authority. This would be a statutory body entrusted with preparing a comprehensive mobility plan for the city.
- States are required to adopt innovative mechanisms such as 'value capture financing' and 'betterment levy' to mobilise resources for the project.
- States will also get a free hand in implementing the projects.

Railway problems

- Likely reason for derailment of Utkal Express was repairs taken up on the track when train arrived
- Poor coordination between Railway Engineering Department & station officials led to no traffic blockade

- A probe by Commissioner of Railway Safety may reveal whether this was a systemic communication failure or an instance of a casual approach. CRS is yet to conclude investigation into Indore-Patna Express crash last November, which killed 152 passengers.
- Action taken against Railway Board members is rare, and this sends out a strong signal. However, it is no substitute for a larger course correction.
- Nearly 70% of the 303 rail accidents between 2012-13 and 2015-16 were caused by carelessness of railway staff, which includes shortcuts in maintenance work and failure to heed safety norms.
- Derailments — often caused by defects in the tracks— have been the second biggest reason for accidents and casualties over the past decade. (75% of rail accidents in 2016-17, 60% in 2015 and 46% in 2014)
- Rail track fittings, such as plates, nuts and bolts, were "missing on a large scale"
- Lack of traffic block for track maintenance on high density networks
- Railways has over 1.14L km of tracks, but their renewal, the Ministry told the Parliamentary Committee on Railways, depends on the financial resources allotted in a given year rather than the length of tracks that need refreshing.
- The induction of coaches with anti-climbing features, that could minimise fatalities, remains far too sluggish.
- 5-year corporate safety plan, first announced in the Rail Budget 2015-16 is yet to be approved.

Big accidents down, but derailments up under NDA regime
- This highlights Railways' systemic deficiencies.
- This was mainly due to fall in accidents at level crossings due to road over bridges and road under bridges
- Govt has exceeded its targets for elimination of unmanned level crossings

SOLUTIONS:
- Lohani, newly appointed railway board chair promised large scale audit of rail systems, end corruption & VIP culture
- We have to ensure that officers spend time on the field.
- Emphasis on effective communication

Rashtriya Rail Sanraksha Kosh'
- Based on the recommendations of a high-level safety review committee under Anil Kakodkar.
- The fund is proposed to be utilised for track improvement, bridge rehab, rolling stock replacement, human resource development, improved inspection system, safety work at level crossing etc.

Railways India Development Fund:
- 30,000 crores fund for implementation of remunerative projects across the country.
- WB, NIIF, pension and insurance fund and other institutional investors are expected to be part of the RIDF.
- However, the RIDF will invest only on those rail projects having higher rate of returns (freight lines)

Indian Railways mulls new performance index
- The financial performance of the Indian Railways is measured in operating ratio
- Railways' operating ratio in 2016-17 stood at 109%. This means, the Railways spent 109 to earn 100
- A lower operating ratio means better efficiency.
- A committee has been formed to work out another index which reflects financial health of Railways
- The operating ratio reflects the true reflection of the Railways' finances only by the end of the financial year.
- In the corporate sector, you have various ways of measuring a company's operating performance such as EBITDA

Subsidise railway losses, directs PMO
- Directed MOF to fund losses incurred by Railways in operating trains on strategic lines and backward areas
- 34,000C borne by Railways towards social service obligation.

- Will be able to invest money in strategic rail lines which are non-profitable but have national importance.
- MOF reimburses Railways operational losses incurred on 6 strategic lines and in hilly, coastal and backward areas.
- Following the Budget merger, MOF argued that since the 'capital-at-charge' of the Railways would be wiped-off, the reimbursement of losses will be discontinued.

Multilateral institutions

Rewiring the WTO

- The visit of Azevêdo, DG of WTO to India, when the framework of global trade is undergoing a shake-up.
- With Nairobi ministerial failing to decide on future of Doha negotiations, WTO's relevance has been questioned
- The skewed rules in the areas of agriculture and IPR
- Issue of food security, welfare of poor, public stockholding of food. An understanding was reached where even if India breached agricultural subsidies' disciplines, no penal action would be taken against it through what is commonly called a "peace clause". But India's insistence that there should be a permanent solution to the problem of public stockholding for food security purposes has been met with deafening silence.
- Trade facilitation was not exactly an area that excited the developing countries for their shares in global trade are low
- Argentina Dec 2017 issues: e-commerce and investment.
- Interestingly, this proposal speaks of promoting MSME through e-commerce.
- While previous attempts to include an investment agreement have been met with much resistance from the developing countries, the latest bid comes at a time when ISDS & BIT are under the scanner.

WTO dispute

- India and the U.S. have been filing a number of disputes against each other, challenging the other's domestic content requirement in the renewable energy sector.
- California, Connecticut etc are providing renewable energy subsidies similar to those of the DCR under National Solar Mission, which the U.S. claims violates WTO law.
- As India lost the case filed by the U.S. at the WTO, critics claim that case has been filed by India as a reciprocation.
- Indian government also offered to restrict DCR to government-owned companies
- After the WTO ruling was delivered, India asked the U.S. not to implement it.
- Under WTO law, the complainant can give 15 months to the defendant to implement the ruling.

India to pitch global services accord to WTO chief Azevedo

- TFS aims to ease norms relating to movement of skilled workers, fees for visas are reasonable, transparent, and non-restrictive, portability of social security contributions, cross-border insurance to boost medical tourism, single window mechanism for foreign investment approvals,
- India argued that the draft legal text covering Mode 1 (cross-border services), Mode 2(consumption abroad) and Mode 4 (movement of short-term services providers or natural persons) is based on a careful mix
- TFS pact is about 'facilitation' – that is "making market access 'effective' and commercially meaningful and not about 'new' (or greater) market access."

Chennai to host EEPC (Engineering Export Promotion Council) annual show

- MO Commerce sponsored EEPC, a trade and investment promotion organisation caters to Indian engg sector
- Russia will be the partner country for this year's event.
- Intended to encourage building global partnerships with India.

- The annual show had been held in **Mumbai** for the last five years, and is coming to Chennai for the first time.

New IMF Training and Technical Assistance Center (SARTTAC)

- Inaugurated in Delhi for Economic Capacity Building in South Asia.
- SARTTAC, the newest addition to the IMF's global network of fourteen regional centers
- SARTTAC is financed by its six members— BBINMS —additional support from Australia, Korea, EU and UK.
- SARTTAC's goal is to help its member countries strengthen their institutional-human capacity to design and implement policies that promote growth and reduce poverty.

A call for reform: On IMF's quota system

- Quotas determine size of contingency funds, influence over lending decisions and tap into the funds themselves.
- Developing countries hold less than half the overall quota
- India is seeking $2 billion from NDB. AIIB launched in 2014, could be an even bigger threat to the IMF
- India will continue to push for reforms at the IMF even as it simultaneously seeks to diversify its funding base

Non-performing assets

Will promoters block the path?

- There is widespread apprehension that company promoters may try to manipulate system to retain control
- Lenders must go after promoters to recover as much money as possible, including through unmasking of corporate veils, searching for assets globally, establishing proof of funds diversion, initiate criminal proceedings, create deterrence.
- Defaulters take advantage of the current situation and slow recovery environment to get away without repaying banks.
- Since the Indian business environment is typically promoter-driven, it will not be easy to achieve resolution without involving him in some way
- Will Insolvency Resolution Professionals remain independent and not be influenced by promoters
- Should the promoter be allowed to go scot free
- Since there is apprehension that promoters would drag the cases on for years so that the other party would lose interest, 'the timeliness of this process is very important.'
- Banks can't make significant management changes in distressed companies as promoters control key aspects of biz
- RBI does not regulate promoters and hence cannot force resolutions on to them.

PROBLEMS IN RECENT NPA SOLUTION

- Do not address underlying characteristics of economy and banks that make NPA resolution a Sisyphean task in India.
- Banks need to accept significant haircuts, do not have commercial flexibility and autonomy to sell distressed assets.
- It is difficult for banks to find suitable buyers of distressed assets.
- Another issue not addressed is what role promoters play in delaying NPA resolution.
- Institutional framework within which the NPAs will have to be resolved is ready?

Acharya sets timeline on NPAs

- Suggested a pvt Asset Management Company which would be suitable for sectors where the stress is such that assets are likely to have economic value in the short-run
- National AMC for sectors where the problem is of economically unviable assets

Designing the bad bank of India

- The concept was pioneered at Mellon Bank in 1988
- The need for a government-owned bad bank, as the commercial banks are finding it difficult to deal with NPAs
- Recapitalization can have only partial success, it will not clear up the bad assets
- Such an institution would be largely based on principles of ARC, which buys bad loans from the commercial banks at a discount; suitably disposing off the toxic assets
- 4 basic bad-bank models: on-balance-sheet guarantee, internal restructuring, SPV entity and bad-bank spin-off.
- On-balance-sheet guarantee: bank gets a loss-guarantee from the government for a part of its portfolio.
- The model is simple, less expensive and can be implemented quickly. However, the transfer of risk is limited and bad assets continue to remain on balance sheet, clouding its core performance.
- An internal restructuring unit/internal bad bank: The bank places bad assets in a separate internal unit, assigns a separate management team and gives them clear incentives.
- In SPV entity structure, bad assets are offloaded into a SPV, securitized and sold to a diverse set of investors. The model works best for a small, homogeneous set of assets.
- In a spin-off, the bank shifts bad assets into a separate banking entity, which ensures maximum risk transfer. But the model is complex and expensive because it requires setting up a separate organization, equipped with a skilled management team, IT systems and a regulatory compliance set-up.
- Public Sector Asset Rehabilitation Agency (PARA) proposed by the Economic Survey 2016-17 falls in this category.

Bad bank pros and cons

- Bad bank would help in clearing the books of banks and this could make them more attractive to buyers.
- A single government entity will be more competent to take decisions rather than 28 individual PSBs.
- Private ARCs haven't proved successful in resolving bad debts," the economic survey said
- "International experience shows that a professionally-run central agency with government backing can overcome the difficulties" it added.
- Foreign investors with risk appetite would be more interested in a government- led initiative
- 'Bad bank' to help speed up stressed assets resolution: Fitch
- But it will also require significant capital infusion in the state-run banks to meet any shortfall, says Fitch.
- Rajan was of the view that this concept may not be relevant for india since much of the assets backing the banks' loans are viable or can be made viable. E.g. A large chunk of projects stalled due to extraneous factors like problems in land acquisition or environmental clearance.
- There are issues with respect to composition and management of the bad bank.
- A majority stakes with government would render the bad bank with the same issues of governance as PSB.
- On the other hand, a private majority shareholding could invite criticism of favouritism and corruption
- At least 25,000 to 30,000 crore of capital will be required to set up a bad bank in the initial stages.
- There have to be strict performance criteria for the banks selling such assets.
- This must be complemented with other steps like infusing more capital into the better-performing psbs.

NPA related data

- Willful defaulters reportedly have dues worth 1LC, which is about an eighth of the total 8LC NPA.
- According to RBI, gross NPA 9.1% in September 2016 from 5.1% in Sept 2015.
- Stressed assets (gross NPA + restructured advances + write offs): 12.3%.
- Stressed assets in some PSB have approached or even exceeded 20%.
- FSR states that large borrowers account for 56% debt and 88% NPAs.
- Reserve Bank is aware that group borrower limit in India is higher than international norms. However, it also needs to be recognized that some of the major corporate groups are key drivers of growth of the Indian economy.

BRA 1949

- Section 35A of the Act was amended and two Sections were inserted: 35 AA authorises the RBI to issue directions to banks to initiate insolvency process and 35 AB for resolution of stressed assets.
- RBI has also been allowed to specify one or more authorities or committees to handle bad loans.
- The lenders' committee or JLF to formulate a joint corrective action plan (CAP) for stress resolution
- Following the amendment of BR Act, RBI issued a notification about lenders required to approve resolution proposal — to 60% from 75% by value and to 50% from 60% by number - aimed at reaching consensus quickly.
- Bankers were worried that in case a deep haircut was taken, investigating agencies like CBI would harass them

'Decision on NPAs still lies with banks'

- The oversight committees for JLFs, which the RBI has constituted, could look into the processes adopted by lenders to arrive at a corrective action plan for specific NPA cases. But their recommendations would be advisory
- Now, if there is a delay in decisions by the JLF, the RBI has been given the power to direct banks to act

Nod for Insolvency Bill for financial entities

- Financial Resolution and Deposit Insurance Bill 2017 will have provision for setting up of Resolution Corporation
- Act will lead to the repealing of the Deposit Insurance and Credit Guarantee Corporation Act, 1961
- To decrease the time and costs involved in resolving distressed financial entities
- It aims to limit the use of public money to bail out distressed firms
- To ensure early recognition of a financial firm which could potentially be in trouble
- Complements the IBC. This Bill deals only with the companies that are in the financial sector such as banks and insurance companies. IBC deals with companies in all other sectors.

Centre speeds up insolvency process

- IBBI (Fast Track Insolvency Resolution Process for Corporate Persons) Regulations, 2017.
- Insolvency and Bankruptcy Board of India will be the overall regulator.
- The code has provisions for 'insolvency professionals' trained-regulated by Insolvency professional agencies
- DRT (for individuals) and NCLT (for companies) are to act as adjudicating authorities.
- This will include small companies, start-ups (other than partnership firms), or unlisted companies
- Attempts to ease the process of recovery of money by operational and financial creditors in a timely manner
- The process in these cases shall be completed within a period of 90+45 days, as against 180 days in other cases
- IBBI has powers to start probe against service providers registered with it without intimating them. Insolvency professional agencies, professionals, entities and information utility are service providers
- 136th out of 190 countries in 'resolving insolvency' in EOB Report.
- IBC will usher freedom to exit, efficient utilisation of resources, develop debt market, inclusive growth.
- IBC can help push GDP growth from 7%-plus to over 9%

Negatives of IBBI

- Inadequate safeguards to protect rights of company before handing over management to resolution professional
- It warrants a notice of dispute to be issued followed by a response period of 10 days for the corporate debtor, failing which the creditor is entitled to file an insolvency application before NCLT
- Within 14 days from filing, the application must be admitted. Upon admission, the moratorium period (freezing of bank accounts, prohibition on foreclosures in relation to financial debts, etc.) commences.
- Existing management of the company loses control to an interim resolution professional, who has merely 30 days to put together all the relevant information and call for a meeting of creditors who must appoint a RP

- Corporate debtor has no opportunity to put forth his/her case
- If the financial creditors fail to arrive at a consensus, the default plan is to liquidate the company.
- No scope of discretion with adjudicating authority itself. Code prohibits withdrawal of application once admitted.
- Code is also deficient in providing qualification of IRP & RP
- Progress in creating insolvency professional agencies and recruiting insolvency professionals has been minimal so far
- It allows for any person to access the information memorandum put together by insolvency professional

SC allows two firms to settle loan dispute

- SC used 142 to allow two companies to withdraw from insolvency proceedings and settle their loan dispute, despite the case being admitted to NCLT
- Court's powers to do "complete justice" under Article 142: Lokhandwala case
- Bench's decision came despite the NCL Appellate Tribunal (NCLAT) finding no merit in the appeal

Gujarat HC denies relief to Essar Steel in insolvency case

- Bankruptcy proceeding initiated by RBI, HC dismissed plea by company challenging proceeding under IBC at NCLT
- The company owed lenders about 45,000 crore, of which 31,671 crore had become NPA

NPA resolution

- NPA would largely be resolved, Assocham study NPA Resolution: Light at the end of tunnel by March 2019' said.
- This would be helped by— turnaround in the economic cycle, steps by the government and the RBI
- AQR exercise in March 2017 pulled out NPAs from the closet and after this deep surgery was required
- Banks were reluctant to resolve NPAs through settlement schemes or hair cut for fear of 3Cs CBI CAG CVC

RBI's move against 12 borrowers which account for 25% of NPA

- The central bank's decision to act on the advice of its Internal Advisory Committee
- RBI has directed banks to initiate bankruptcy proceedings against entities that have defaulted on loans of Rs. 5KC+

SEBI eases norms to buy stressed assets

- As part of the larger attempts of the government to resolve the massive bad debt issue
- Relaxed norms for investors acquiring assets in companies with stressed assets and facing bankruptcy proceedings.

India aims to lift 'doing business' ranking

- Reforms in areas such as 'starting a business', 'dealing with construction permits', 'resolving insolvency'.
- Ranking will depend on WB accepting these measures, the response from firms, performance of other countries
- On 'starting a business', the time to start/operate a limited liability company in Mumbai and Delhi (the cities covered by the World Bank) – "including the procedures needed before, during and after registration – has been brought down from 26 days last year to just one day now

All NPA schemes review

- 5/25 scheme which permitted extension of loan amortization period up to 25 years with interest reset every 5 years did not work as the higher interest burden due to tenor extension required additional borrowing
- The sale of NPAs to ARC has so far been very low
- Strategic Debt Restructuring scheme involved banks taking over companies by converting debt into equity
- Scheme for Sustainable Structuring of Stressed Assets (S4A) whereby the outstanding bank loan is required to be bifurcated into sustainable and unsustainable portions and making it possible for the sustainable portion to be repaid.
- Further, both resolution and bankruptcy will cause significant loss to banks.

- If PARA were to operate professionally and not on political principles, it will be required to buy NPAs at prices that will involve deep writedowns by banks.
- Amendment to BR Act to take care of the unwillingness of PSU banks in dealing with corporate stressed assets.
- Solutions: stress tests should be introduced, capital infusion based on performance criteria; mergers

Prompt corrective action for banks

- RBI revised the norms for prompt corrective action
- PCA norms allow RBI to place restrictions such as halting branch expansion, stopping dividend payment, directors' compensation, cap a bank's lending limit to entity or sector, special audit, restructuring operations, promoters can be asked to bring in new management, RBI can also supersede the bank's board, recapitalization, restrictions on borrowing from inter-bank market, merge/amalgamate/liquidate the bank
- RBI introduces PCA when the Bank's financial conditions worsen below certain limits
- 3 financial indicators are trigger points– CRAR, Net NPA and Return on Assets.
- Along with this, leverage of banks also will be monitored.
- PCA framework is applicable only to commercial banks and not extended to co-operative banks, NBFC and FMIs.
- Threshold 1: CAR< 10.25%, net NPA is 6% and leverage ratio 4%, Two consecutive years of negative ROA
- Threshold 2: CAR< 7.75%, net NPA is 12% and leverage ratio 3.5%. Three consecutive years of negative ROA

An Indian sub-prime crisis in the making?

- At the heart of the U.S. sub-prime crisis was the fact that loans were dished out increasingly to ponzi households.
- What was true for the household sector could be true for the corporate sector in India.
- Health of a firm is measured by **Interest Coverage Ratio**, ratio of net profits to interest payments due on past debt.
- It being less than 1 means that the firm is not even making enough profits to pay for interest commitments
- 3 other measures are: profitability / post-tax profits; ratio of current assets to current liabilities, debt to equity ratio

Patents and policy

Trade mark rules

- Trade Mark Rules, 2017 have been notified recently by the Ministry of Commerce.
- It would replace TM 2002 and streamline and simplify the processing of applications.
- Forms have been reduced from 74 to 8. Servicing of documents has been eased. Fees have been rationalized.
- Examination time for application brought down from 13 months to just 1 month
- Hearing of disputes through video conferencing, time-bound resolution
- Limitations: 'fair usage' of certain trademarks for the purpose of education, research etc. is not available under act
- Certain trademarks impact the rights of the public to Cultural Heritage
- Act does not expressively prohibit registration of unconventional marks. Thus leaving loopholes for its exploitation.
- Act doesn't provide for provisions to apply for the trademark simultaneously in other countries. Thus infringing the Madrid Protocol.
- SOL: Bill pending in the Parliament provides for the Simultaneous registration of trademarks

Export of generic versions of patented drugs

- Delhi HC allowed generic drug manufacturers; for the purposes of development, clinical trials and clearances.
- Bayer had moved the high court to restrain pharma companies from exporting generic versions of drugs abroad
- Bayer's argument: CL for production of these drugs were for sale within India only and not abroad.

- The court noted that Section 107A of the Patents Act permitted sale of a patented product during the term of the patent but only for the purpose of obtaining regulatory approvals and marketing
- Absence of law in the destination country to ensure that patented drug is used for the purpose it was originally exported cannot become a ground for barring manufacturing and exporting of a drug.

DRAFT NATIONAL POLICY ON SOFTWARE PRODUCTS:

- The first Software policy came up in 1986. It resulted into Software Technology Park (STP) scheme in 1991.
- But, past few years have seen serious decline in growth, owing to rapid transformation in technology
- There is a need to address weaknesses in regard to developing innovative software products that address the challenges thrown in implementing ambitious programmes like Digital India, Make in India, Smart cities etc.
- To leverage the soft power of Indian IT professional for producing niche innovative IT solutions
- To create conducive environment for creation of 10,000 startups
- Direct and in-direct employment for 35L persons
- Tenfold increase in share of the Global Software market by 2025.
- To create a specialized talent pool of 100,000 professionals by 2025.
- Developing linkages with other sectors including core & social infrastructure and service sector.
- Creation of a Single Window online platform through Software Technology Parks of India (STPI).

Software patent rules reissued

- Patent Office has again issued guidelines on examination of computer-related inventions such as S/W programmes.
- To foster uniformity and consistency under section 3(k)
- Mathematical or business method or a computer programme per se or algorithms are not inventions.
- Associations opposed them, saying the norms were detrimental to the domestic IT sector.

MARRAKESH TREATY COMES INTO FORCE:

- The treaty adopted in 2013 by WIPO to facilitate Access to Published works by Visually Impaired Persons
- The treaty allows for copyright exceptions to help for the creation, export and import, sharing, translation of the books for accessible versions of copyrighted books and other works for the people with impaired visibility.
- WIPO leads an alliance of private and public partners known as Accessible Books Consortium (ABC)
- India was the first country to ratify the Marrakesh Treaty back in July 2014
- India has begun implementation of the Marrakesh Treaty through a multi-stakeholder approach, which includes collaboration among key players such as ministries, DAISY Forum, and the private sector (TCS)
- India launched Accessible India Campaign (Sugama Bharat Abhiyan) and has set up Sugamya Pustakalaya

RIGHT TO PHOTOCOPY:

- Delhi HC verdict Access to Knowledge, holding that educational exception under Section 52(1)(i) –reproduction of a work by teacher/pupil in course of instruction– of Copyright Act was broad enough to cover photocopying and creation of course packs.
- To balance copyright protection with public interest in ensuring access.
- Ensures affordable access to expensive foreign quality educational material
- Sidelines the efforts of writers and publishers and deprives them of livelihood

5TH International IP Index

- By the U.S. Chamber of Commerce’s Global Intellectual Property Center (GIPC).
- India continues to lag behind the rest of the world in IP protections, coming in 43rd place out of 45 countries.
- Only two countries were ranked below India – Pakistan (44th) and Venezuela (45th).

- Report cited challenges Sec 3d, 3k, copyright, patentability requirements being outside international standards, lengthy pre-grant opposition proceedings, used CL for commercial and non emergency situations

The expanding universe of IP

- PROB: increasing scope of existing IP, move to create new IP-like rights, data exclusivity, term extensions
- Data exclusivity prevents drug regulators from referring to or relying on data submitted by an originator company relating to a drug's safety and efficacy while approving bioequivalent versions of the same drug
- Generic companies would then be required to repeat the entire cycle of clinical trials
- Developed countries seek DE to recognise and incentivise the efforts put in to bring a new drug to the market
- In India, such a system may negate the impact of Section 3(d) of the Patents Act
- With data exclusivity, a company could gain exclusive rights over such drugs even though they are not patented.
- India does not offer DE and allows generics to be registered based on, among other things, trial data available
- TRIPS does not mandate data exclusivity. Providing data exclusivity is a TRIPS-plus measure.
- Patent term extensions are given to compensate the company for delays in processing patent applications. A patent term extension will give another five year monopoly to the innovator company.

Nilambur teak set to enter elite club of products with GI tag

- Nilambur teak is popularly known as the Mecca of teak. Produced in kerala.
- GI tag is definite to a geographical territory for agricultural, natural and manufactured goods
- Governed by the Geographical Indications of goods Act, 1999
- Darjeeling tea was the first product to be accorded with GI tag in India.

Poverty

- Poverty is a state of deprivation, in which some people are not able to meet basic needs
- Poverty line was determined by erstwhile PC based on consumption data provided by NSSO.
- The two most common parameters are income and energy requirement
- Rangarajan used the following parameters: Monthly expenditure of a Household of 5, Certain normative levels of 'adequate nourishment', clothing, education; Behaviorally determined non-food expenses.
- For the first time, apart from calorie, it also considered fats and proteins as part of normative nutrition.
- Based on these, it fixed Rs. 972 in rural and Rs. 1407 in urban areas as poverty line. All- India poverty ratio 29.5%
- 21.9% as estimated by the Tendulkar Committee

Road sector

NEMMP

- Research and smart trade agreements are needed to realise India's ambitious electric vehicles target
- Piyush Goyal announced that only electric vehicles (EVs) will be sold in India from 2030.
- National Electric Mobility Mission Plan has set a sales target of only 5-7 million EVs and hybrids annually by 2020.
- On the other hand, the Indian automobile market is expected to clock an annual sales figure of 23 million by 2030.
- Replacing these with EV would require vehicle-charging infrastructure and batteries
- This gigantic demand for batteries is an ideal opportunity for MII and job creation.
- Lack of suitable policy support has led to 3rd highest import bill for electronics, after oil and gold.

- Different variants of lithium-ion batteries are used in electric vehicles. Manufacturing lithium-ion batteries would require critical minerals such as cobalt, graphite, lithium and phosphate.
- 95% of global lithium production comes from Argentina, Australia, Chile and China.
- Domestic market is largely dominated by lead-acid battery
- SOL: acquisition of overseas assets, invest in overseas lithium mining, diversify the supply risk, battery R&D, developing alternative technologies containing minerals with low supply risks and battery recycling techniques

Zip past toll barriers

- FASTag is a device that uses RFID for making toll payments directly from the prepaid account linked to it.
- It is affixed on the windscreen of your vehicle and enables you to drive through toll plazas without waiting
- The tag has a validity of 5 years and after purchase, it only needs to be recharged or topped up.
- The service is currently voluntary.
- All lanes in 371 toll plazas in the country will be FASTag enabled & have dedicated FASTag lane by October 1.
- It helps quicken your passage through toll barriers and helps avoid use of cash.
- Reduce use of fuel and pollution
- It can also help the government identify the quantum of road use and types of vehicles passing through, aiding budgets for road widening and other infrastructure expenses.
- Operators in the past have been suspected of under reporting their revenues.

Road safety measures taken by government

- NHAI to roll out an ‘incident management system’
- Ambulances will be stationed every 50km to be able to respond to any mishap within 15 minutes
- CNG fuel stations will come up with wayside amenities on highways
- We want to target saving lives in the golden hour (the first hour after an accident).
- NH accounted for 35% deaths and 29% persons injured in road accidents
- National & state road safety council advisory body on road safety headed by minister of road transport.
- Dedicated website for reporting high fatality areas (black spots)
- Good Samaritan rules, Dedicated Traffic police
- Need: Enact the Transportation and Road Safety Bill 2016: It has comprehensive provisions for promoting road safety along with economic growth by improving logistics efficiency.
- Speedy implementation of National Highway Grid program for seamless and safe transport.
- Improving the public transport system
- Working towards making road safety a social movement

Taxation (minus GST)

Transfer pricing: rule on adjustment notified

- Secondary adjustment norms based on OECD’s transfer pricing guidelines for MNCs and tax administrations.
- Reflect actual allocation of profits between a company and its arm.

India signs OECD multilateral convention to prevent BEPS

- Multilateral Convention aims at the swift and consistent implementation of BEPS measures.
- Convention will have the effect of amending most of bilateral tax treaties of signatory jurisdictions for preventing artificial tax avoidance, treaty abuse and improve dispute resolution.

- Base Erosion and Profit Shifting refers to strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity

What are APAs

- APA is a contract between a taxpayer and tax authority specifying the pricing method that the taxpayer will apply to its related-company transactions. They define the mechanism for Arm's Length Price
- They also fix the taxes to be shared between the countries on the profit made by the parent company in future.
- Unilateral APA- between taxpayer and tax authority of country where the taxpayer is located.
- Bilateral APA- between taxpayer, tax authority of host country and the foreign tax authority.
- Multilateral APA-between taxpayers, tax authority of host country and more than one foreign tax authorities.
- Obtains certainty for complex, high risk transactions, avoids double taxation, record keeping, litigation costs and saves time for tax payers and tax authorities.

Cairn row: I-T dept. to take away dividend

- IT Department has ordered action against Cairn Energy of U.K., including taking away over 2,000 crore dividend and tax refund, to recover part of the 10,247 crore retrospective tax.
- This follows the British oil firm losing in an international arbitration tribunal its challenge against the I-T department
- Tax recovery officer will go ahead to attach the shares and sell them.
- ITAT upheld levy of retrospective tax on transfer of shares by the U.K. firm to a newly created Indian unit Cairn India

Swiss ratify pact on information sharing

- AEOI with India and 40 other jurisdictions to facilitate immediate sharing of details on suspected black money even as it sought strict adherence to confidentiality and data security.

Capital gains tax rules

- CBDT has come out with a final notification specifying that the securities transactions where STT hasn't been paid would attract CGT
- To curb the practice of declaring unaccounted income as exempt from LTCGT by entering into sham transactions
- A capital gains tax is a tax levied on capital gains, profits an investor realizes when he sells a capital asset
- CGT are only triggered when an asset is realized, not while it is held by an investor.
- Short term (capital gains made within 36 months) and long term capital gains (made beyond 36 months).