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NITI AAYOG RELEASES DRAFT MODEL ACT ON LAND TITLES

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

NEW DELHI: The Niti Aayog has released a draft model Act and rules for states on conclusive land titling with an aim to reduce litigations and ease the land acquisition process.

The model Act and rules will provide state governments power to order for establishment, administration and management of a system of title registration of immovable properties.

The aim of the draft model Act is to reduce a large number of land related litigations and also improve land acquisitions for the infrastructure projects.

Under the model Act, the land dispute resolution officer and land title appellate tribunal are one-shot institutions which will fade away as the work reduces.

Also, after three years of its notification, the register of title attains conclusivity without any external action.

Conclusive land titles are guaranteed by the state for correctness and entail provision for compensation by the state in case of any dispute.

According to the draft Act, any person aggrieved by an entry in the Record of Titles notified under Section 11 may file an objection before the Title Registration Officer within three years from the date of such notification.

Following this, the Title Registration Officer shall make an entry to that effect in Register of Titles and in the Register of Disputes and refer the case to the land dispute resolution officer.

A party aggrieved with an order of the land dispute resolution officer may file an appeal before the Land Titling Appellate Tribunal within 30 days of passing of such an order.

It also said that a special bench of High court shall be designated to deal with appeals against the orders passed by the Land Titling Appellate Tribunal.

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A SECURE FUTURE FOR PLATFORM WORKERS

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The Code on Social Security Bill, 2020, for the first time in Indian law, attempted to define ‘platform work’ outside of the traditional employment category. It says: “Platform work means a work arrangement outside of a traditional employer-employee relationship in which organisations or individuals use an online platform to access other organisations or individuals to solve specific problems or to provide specific services or any such other activities which may be notified by the Central Government, in exchange for payment.” While the long overdue move to recognise platform work has been made, the Code has drawn criticism from platform workers’ associations for failing to delineate it from gig work and unorganised work. A categorical clarification could ensure that social security measures are provided to workers without compromising the touted qualities of platform work: flexibility and a sense of ownership.

An ongoing global conversation on platform workers’ rights has been around the misclassification of platform workers as ‘independent contractors’; adjudications and emerging amendments to labour laws in Ontario and California have shown a move towards granting employee status to platform workers, thus guaranteeing minimum wage and welfare benefits. This is the view propagated by international agencies in the EU, including the European Trade Union.

Comment | The future of work

The ostensible preference for employment status stems from the fact that while platform work promises workers flexibility and ownership over delivery of work, they are still largely dictated by mechanisms of control wired by the algorithm. This affects pricing per unit of work, allocation of work, and hours. Additionally, entry into on-demand platform work like ride sharing and food delivery are dependent on existing access to vehicular assets. The average Indian worker on a ride-sharing platform has limited access to such capital. Thus, to enter the platform economy, workers rely on intensive loan schemes, often facilitated by platform aggregator companies. This results in dependence on platform companies, driven by financial obligations, thus rendering flexibility and ownership moot in the short- to middle-term investment cycle.

However, contrasting evidence suggests that for specific categories of workers with basic access to capital, the flexibility of the platform is a significant attraction. Smallholder agrarian labour migrants with access to vehicular assets and capital hailing from peri-urban areas rely on the low barrier of entry and flexibility of platform work to accumulate wealth that they invest back into farm work.

The Code states the provision of basic welfare measures as a joint responsibility of the Central government, platform aggregators, and workers. However, it does not state which stakeholder is responsible for delivering what quantum of welfare. To mitigate operational breakdowns in providing welfare services, a tripartite effort by the State, companies, and workers to identify where workers fall on the spectrum of flexibility and dependence on platform companies is critical.

Comment | Gig work and its skewed terms

The role of platform workers amidst the pandemic has presented a strong case to attribute a more robust responsibility to platform aggregator companies and the State. As argued by Aditi
Surie, platform workers were responsible for delivery of essential services during the pandemic at great personal risk to themselves. They have also been responsible for keeping platform companies afloat despite the pandemic-induced financial crisis. This has cemented their role as public infrastructures who also sustain demand-driven aggregators. The dependence of companies on platform workers merits a jointly assumed responsibility by public and private institutions to deliver welfare measures.

Also read | The ‘gig’ economy is creating lakhs of jobs, but workers don’t see a future

A way forward for platform workers is through a socio-legal acknowledgement of the heterogeneity of work in the gig economy, and the ascription of joint accountability to the State and platform companies for the delivery of social services.

*Lakshmee Sharma is Senior Research Associate, Aapti Institute*

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Suresh Nambath

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise
like NRC
LET A BAD BANK LIGHTEN OUR SISYPHEAN LOAD OF BAD LOANS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

A well-designed ‘bad bank’ could reduce perverse incentives and keep PSBs from rolling back to their bad ways.

One of the features of Indian banking has been the perpetual struggle against the Sisyphean task of cleaning up public sector banks (PSBs). Just as their health was recovering, with capital infusions, slowing slippages and higher provision coverage ratios, covid has threatened to roll them back into the depths of Hades. If the deteriorating asset quality of SBI Cards is a sign of things to come, PSBs are unlikely to emerge from the crisis unscathed. Given that a healthy banking system will be vital to a post-covid economic recovery, a business-as-usual approach does not seem optimal.

While their stressed assets are worrying, the key concern is that the Insolvency and Bankruptcy Code (IBC) process takes an average of 340 days for resolution. This market-driven process is arguably the best way to resolve stressed assets. But a long resolution period amplifies the second-order effects of stressed assets. This is because bank capital and managerial bandwidth get tied up, and resolution uncertainty tends to turn them risk averse. Banks, therefore, could be constrained from executing their core function of advancing credit to fuel a recovery. The need of the hour is neither to suspend the IBC, nor to seek resolution outside its ambit, but to create a mechanism that allows PSBs to offload stressed assets in an equitable manner so that they can hit the reset button and focus on credit creation.

In this context, the idea of a “bad bank” has been resurrected in several quarters. It would unburden PSBs swiftly. It will enjoy scale efficiencies and bargaining power, even as coordination frictions are minimized and decision-making gets both centralized and faster. These factors will add significantly to the quality of resolution and the quantity of recovery. Theoretically, a bad bank looks like a very elegant solution, but there are several nuances of funding, valuation, incentives and management that will determine whether it will cleanse balance sheets or worsen the malaise.

The government is justified in being reluctant to fund such an entity. This is because the transfer of stressed assets to a bad bank will inevitably lead to capital write downs in some banks. The government will then find itself in the fiscally unenviable position of having to recapitalize banks even after funding the purchase of stressed assets from those banks. Also, another government-funded and owned bank is unlikely to do a better job of managing the mismanaged assets of other government-owned banks. IBRA, Indonesia’s bad Bank, failed precisely for this reason.

For a bad bank to be successful, it will have to be funded by private capital and managed by specialists who focus on maximizing recovery, unconstrained by political concerns, legacy relationships with promoters, and prospects of post-retirement opportunities, all of which are often seen to cloud the judgement of PSB bankers. The government can provide seed equity capital and mobilize private capital for the bulk of the funding. In fact, the first bad bank to be carved out of Mellon Bank in 1988 was funded entirely by private capital. Kamco, the South Korean bad bank, also raised debt from markets to fund its purchases of stressed assets. Given that in the current low-yield environment global asset managers are sitting on approximately $2.6 trillion of capital (FT and Prequin data) in search of higher-yielding distressed debt opportunities, mobilizing capital for an Indian bad bank should not be difficult. If need be, the
government can provide partial credit guarantees and/or low-cost currency hedging options on the debt issued by such a bank.

Other issues involve the valuation of distressed loans and incentivizing banks to sell these loans to such a bad bank. These issues are closely intertwined. Due to uncertainty over valuations and the public-sector nature of banks, bank managers suffer from perverse incentives. They are reluctant to sell these loans, since they risk being investigated for wrongdoing if the price at which they sell is much lower than what is ultimately recovered, while there is no career risk associated with holding on to an underperforming loan even if it reduces the ultimate recovery. The situation with Dewan Housing Finance Ltd, where bankers want rebidding despite receiving four public bids, is a testament to these perverse incentives.

Valuation uncertainty is not unique to India. Even in developed markets, the pricing of distressed loans is relatively opaque and their trading illiquid. A bad bank will have to reduce the impact of valuation uncertainty to incentivize banks to sell distressed loans. An elegant solution is to issue participation rights, which confer upon selling banks the right to participate in recoveries over and above the price at which they sell loans. This will minimize the risk of under-pricing for selling banks and limit the impact of bankers’ incentives. Malaysian bad bank Danaharta used this model effectively by letting banks claim up to 80% of the recoveries beyond their sale prices. These rights could also be made tradable.

A well-capitalized, professionally-managed and time-bound bad bank could alleviate asset quality-related risk aversion among Indian PSBs. However, it will by no means cure the inefficiency that afflicts them. That will require deep and painful structural reforms in their ownership, management and incentive structures. In their absence, like Sisyphus, a new bad bank would again have to haul the burden of non-performing assets uphill in a few years.

Diva Jain is director at Arrjavv and a ‘probabilist’ who researches and writes on behavioural finance and economics.

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FIXING THE RULES OF THE ECONOMY

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

India has an incomes crisis: incomes of people in the lower half of the pyramid are too low. The solutions economists propose are: free up markets, improve productivity, and apply technology. These fundamentals of economics must be re-examined when applied to human work.

Economists say markets should be freed up for agricultural products so that farmers can get higher prices; and freed up for labour to attract investments. Without adequate incomes, people cannot be a good market for businesses. In fact, it is the inadequate growth of incomes that has caused a slump in investments. Ironically, the purpose of freeing up markets for labour is to reduce the burden of wage costs on investors just when wages and the size of markets must be increased.

The Hindu Explains | What explains India’s poor rank under the Global Hunger Index, and what are the solutions?

Human rights must prevail over economic considerations. Good markets enable smooth transactions between buyers and sellers of commodities. However, humans are not commodities, like agricultural produce and minerals are. Humans must not be put up for sale to the highest bidders which was the practice in slave markets. Human rights activists fought a long, hard battle to abolish the abhorrent idea that humans can be considered as commodities in markets.

Improvement of ‘productivity’ is key to economic progress. Productivity is a ratio of an input in the denominator and an output in the numerator. The larger the output that is produced with a unit of input, the higher the productivity of the system. Economists generally use labour productivity as a universal measure of the productivity of an economy. The number of people in the system (the country/the economy) is the denominator, and the gross domestic product the people produce is the numerator. Companies also measure their productivity similarly, by dividing the total output of the enterprise by the numbers of workers employed.

Companies can apply two broad strategies for improving their productivity. They can take the managerially more difficult route of increasing the total output of the factory while maintaining the number of workers. This may require adding more machines and technology to supplement the capacity of workers to increase total output. This is a good strategy for capital-rich enterprises and countries.

Comment | Human rights and economy are linked

Alternatively, employers can enhance their workers’ skills and create a culture of continuous improvement in the factory, whereby workers and managers cooperate to improve the capability of their system, and squeeze more output from limited capital resources. This is the strategy of ‘total quality management’, with which Japanese companies reduced their costs and improved the quality of their products in the 1960s and 1970s, becoming the most competitive enterprises in the world. The Japanese companies had lifetime employment contracts with their workers. They invested in their workers; and the workers — the companies’ ‘appreciating assets’ — grew their capabilities as well as contributed to the improvement of the total productivity of their enterprises.
Humans are the only ‘appreciating assets’ an enterprise has. They can improve their own abilities. The values of machines and buildings depreciate over time, as any accountant knows. Whereas human beings develop when they are treated with respect, and are provided with environments to learn.

The lazy management strategy for improving productivity is to reduce the denominator, i.e. the number of workers. Hire them when times are good, and fire them when the company cannot compete any more. Governments of countries cannot apply the ‘hire and fire’ strategy to improve a nation’s productivity that companies can. A company can fire people it is not able to use productively any more. They are off the company’s accounts. The company’s owners hope someone else will take care of them. Such ‘used and discarded workers’ are no longer their responsibility.

Also read | India up one rank in UN development index

However, if a country is not productive, in terms of GDP per unit of population, its government does not have the luxury of firing citizens. Where will they go? Who will take care of them? In desperation, they may try to migrate to other countries, which are reluctant to have them because they will have to provide them with productive jobs when there are not enough jobs for their own citizens.

For capital-scarce and human resource-abundant countries, such as many developing countries, the correct ratio of productivity is output per unit of capital. This must be the driver of business as well as national strategies. This was the strategy of ‘Japan Inc.’ to make Japan an industrial powerhouse. This was E.F. Schumacher’s insight also.

Schumacher, best known for his seminal idea ‘small is beautiful’ (and his book with the same title), was an economist ahead of his time. He understood where capitalism powered with technology would be heading. In his essay, ‘Industrialisation through Intermediate Technology’, published by the journal *Resurgence* in 1966, he wrote: “If we define the level of technology in terms of ‘equipment cost per work-place’, we can call the indigenous technology of a typical developing country (symbolically speaking) a £1-technology, while that of the modern West could be called a £1,000-technology. The current attempt of the ‘developing ‘countries, supported by foreign aid, to infiltrate the £1,000-technology into their economies inevitably kills off the £1-technology at an alarming rate, destroying traditional workplaces at a much faster rate than modern workplaces can be created and producing the ‘dual economy’ with its attendant evils of mass unemployment and mass migration”. Schumacher had warned there was a malaise brewing beneath the drive to ‘Westernise’ and ‘technologise’ economies. The harsh lockdown of the economy in India to prevent the spread of COVID-19 caused the malaise to spill out for everyone to see.

Comment | Enabling people to govern themselves

A good job implies a contract between workers and society. Workers provide the economy with the products and services it needs. In return, society and the economy must create conditions whereby workers are treated with dignity and can earn adequate incomes. Good jobs require good contracts between workers and their employers. Therefore, the government, to discharge its responsibility to create a good society for all citizens, and not only for investors, must regulate contracts between those who engage people to do work for their enterprises, even in the gig economy.

The economist Dani Rodrik, an authority on industrial policy and international trade, advocates reforms that will induce firms to employ more numbers of less skilled workers. He says, to
increase productivity of firms, “too often they [governments] subsidise labour-replacing, capital-intensive technologies, rather than pushing innovation in socially more beneficial directions to augment rather than replace less skilled workers.”

Comment | A case for down-to-earth governance

A turbo-charged, financial globalisation has made life very easy for migrant capital, while making the lives of migrant workers more precarious. The power to fix the rules of the game has become concentrated with wealthy investors and large multinational corporations. The rules do not favour workers and tiny enterprises because they have too little power. Large enterprises employ fewer people within their own organisations; therefore, labour unions have lost their traditional support bases. The power balance must shift. Small enterprises and workers must combine into larger associations, in new forms, using technology, to tilt reforms towards their needs and their rights.

Arun Maira is author of The Learning Factory: How the Leaders of Tata Became Nation Builders

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The Cabinet Committee on Economic Affairs chaired by Prime Minister Shri Narendra Modi has approved the investment of Rs.1810.56 crore for 210 MW Luhri Stage-I Hydro Electric Project located on river Satluj which is situated in Shimla & Kullu districts of Himachal Pradesh. This project will generate 758.20 million units of electricity annually.

This project is being implemented by Satluj Jal Vidyut Nigam Limited (SJVNL) on Build-Own-Operate-Maintain (BOOM) basis with active support from Government of India and State Government. The MoU of this project was signed with the Govt. of Himachal Pradesh during Rising Himachal, Global Investor Meet, which was inaugurated by Prime Minister, Shri Narendra Modi on 7th November 2019. Government of India is also supporting this project by providing grants of Rs. 66.19 crore for enabling infrastructure which has helped in reducing in power tariff.

The Luhri Stage-I Hydro Electric Project shall be commissioned within a span of 62 months. The power generated from the Project will help in providing Grid stability and will improve the power supply position. Besides adding valuable renewable energy to the Grid, the project would also lead to reduction of 6.1 lakh Tons of carbon dioxide from environment annually, thus contributing to improvement in air quality.

The construction activities of the project will result in direct & indirect employment to around 2000 persons and will contribute to overall socio-economic development of the State. Further, Himachal Pradesh will benefit with free power worth around Rs. 1140 crore from Luhri Stage-I Hydro Electric Project, during Project Life Cycle of 40 years. The Project Affected Families will be provided with 100 units of free electricity per month for ten years.

SJVNL has forayed into the fields of Renewable Energy, Power Transmission and Thermal power generation. It has envisaged Internal Growth Targets of total installed capacity from all sources of 5000 MW by 2023, 12000 MW by 2030 and 25000 MW by year 2040.

*****

VRRK

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*****

VRRK
In a circular issued today, the Securities and Exchange Board of India (Sebi) enhanced the foreign investment limit per fund house from 300 million USD to 600 million USD. The move comes after several AMCs approached the regulator to increase the limit as Mint reported here.

A surge of interest in international investing pushed some AMCs close to the previous foreign investment limit of USD 300 million.

In the fund of funds (FoF) category, overseas assets under management (AUM) touched 6,496 crore at the end of September 2020, according to data from the Association of Mutual Funds in India (Amfi). This figure does not include funds that primarily buy local stocks, but also invest part of their corpus abroad.

“We welcome the move to enhance the foreign investment limit per fund house. It will allow Indian investors to diversify their portfolios through the mutual fund route in a low cost, efficient manner,” said Neil Parikh, CEO, PPFAS Mutual Fund which invests up to 35% of the corpus of its flagship scheme outside India.

The market regulator has however retained the overall industry cap of USD 7 billion set by a 2008 circular. However it increased the limit per fund house. The regulator also set up a separate limit for investment in foreign exchange traded funds (ETFs) of USD 200 million per fund house within an overall industry limit of USD 1 billion. This had been previously set at USD 50 million per fund house and USD 1 billion for the industry.

A mutual fund launching a new scheme intending to invest overseas will be required to specify the amount it will invest outside India and use the limit specified within 6 months.

For existing schemes, the regulator specified a headroom of 20% of the AUM in overseas securities in the previous three calendar months, for investment in foreign securities subject to the overall limit of USD 600 million. “This is to check explosive growth in AUM in certain AMCs investing abroad who are consuming their limit rapidly. They will have to grow at a more measured pace,” said a senior compliance executive at a mid sized fund house on condition of anonymity. AMCs would have to report utilisation of the foreign limit to Sebi on a monthly basis, within 10 days from the end of each month. There are 44 AMCs in India implying that all fund houses will not be able to use the USD 600 foreign limit without breaching the industry cap of USD 7 billion. Hence Sebi has reserved an amount of USD 50 billion per fund house. “This effectively reserves around 2.2 billion out of the 7 billion, leaving another 4.8 billion vacant,” said the aforementioned executive.

However the first-come-first-serve system created by the regulator may spawn a race among AMCs to consume the unreserved industry limit before it is taken up by competitors.

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MF schemes in the new category will have to adopt the name flexi cap. Existing schemes can reclassify themselves to this category. However, this constitutes a change in attributes and such schemes will have to give investors a 30-day window to exit, without any fee.

The markets regulator has introduced a ‘flexi-cap category’ for mutual funds (MFs), which will be required to invest at least 65% of the corpus in equity but will have no restrictions on investing in large-, mid- or small-cap company stocks.

In September, the Securities and Exchange Board of India (Sebi) came up with new rules for multi-cap funds, which are required to invest at least 25% of the corpus in large-, mid- and small-caps. It raised concerns among industry players over the possibility of existing multi-cap funds being forced to buy mid- and small-cap stocks despite these segments not having the liquidity to absorb large flows from MFs. After the circular was issued, the Association of Mutual Funds in India, or Amfi, asked Sebi to create a new flexi-cap category, which will not have such stipulations.

The new MF category will be called flexi-cap schemes. Existing schemes will be able to reclassify themselves. However, this constitutes a change in attributes, and such schemes will have to give investors a 30-day window to exit, without any exit load. “The option to convert an existing scheme into flexi-cap is very good. Rather than introducing new funds, fund houses should convert existing multi-cap funds into flexi-cap. This would be better for investors,” said Viral Bhatt, founder of Money Mantra, a Mumbai-based mutual fund distributor.

Sebi has also restored the pre-covid cut-off timings of MFs with effect from 9 November. It has sent a letter to Amfi in this regard, of which Mint has seen a copy. In April, Sebi reduced the cut-off timings of all MFs from 3pm to 1pm and for liquid and overnight schemes from 1.30pm to 12.30pm. The action follows an RBI move to extend debt market timings for most securities to 3.30pm, also with effect from 9 November.

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Prime Minister Shri Narendra Modi will inaugurate the Ro-Pax terminal at Hazira and flag off Ro-Pax service between Hazira and Ghogha in Gujarat on 8th November 2020 at 11 AM via video conferencing. This marks a big step towards the Prime Minister’s vision of harnessing waterways and integrating them with the economic development of the country. Prime Minister will also interact with local users of the service during the event. Union MoS for Shipping and Chief Minister of Gujarat will also be present on the occasion.

The Ro-Pax Terminal being inaugurated at Hazira is of 100 meters length and 40 meters width, with cost implications of approx. Rs. 25 crores. The terminal has wide ranging facilities including administrative office building, parking area, substation and water tower etc.

The Ro-Pax Ferry Vessel ‘Voyage Symphony’ is a three decks vessel with DWT 2500-2700 MT, with displacement of 12000 to 15000 GT. It has a load capacity of 30 trucks (of 50 MT each) on the main deck, 100 passengers cars on the upper deck and 500 passengers plus 34 crew & hospitality staff on the passenger deck.

There will be several wide-ranging benefits of the Hazira-Ghogha Ro-Pax ferry service. It will work as a Gateway to South Gujarat and Saurashtra region. It will reduce the distance between Ghogha and Hazira from 370 Km to 90 Km. The reduced cargo travel time from 10 to 12 hours to about 4 hours will result in huge savings of fuel (approx 9000 litres per day) and lower the maintenance cost of vehicles drastically. The ferry service, while making 3 round trips/day on the Hazira-Ghogha route, would annually transport about 5 lakh passengers, 80,000 passenger vehicles, 50,000 two-wheelers and 30,000 trucks. It will reduce fatigue of the truck drivers and enhance their incomes by giving them more opportunity to do extra trips. It will also lead to reduction in CO2 emission by approximately 24 MT per day and net saving of approximately 8653 MT per annum. It will give an impetus to the tourism industry with ease of access to Saurashtra region and lead to creation of new job opportunities. With the onset of Ferry services, the port sector, furniture and fertilizer industries in Saurashtra and Kutch region will get a big boost. Eco-tourism and religious-tourism in Gujarat, especially in Porbandar, Somnath, Dwarka and Palitana will grow exponentially. The benefits of enhanced connectivity through this ferry service will also result in increased inflow of tourists in the famous Asiatic lion wildlife sanctuary at Gir.

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AP/SH

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END
RECENT NEW MUTUAL FUND RULES ANNOUNCED BY SEBI

Here is the list of recent changes in mutual funds announced by Sebi.

Securities Exchange Board of India (Sebi), has recently announced a slew of measures for mutual funds industry. The market regulator has modified certain mutual funds rules to make them more investor friendly. The recent announcement of new ‘flexi cap category’ under equity schemes has cheered up investors who were cautious about their investments in multi cap funds due to the change in portfolio allocation rules announced by Sebi in September. Here we have listed the recent changes in mutual funds announced by Sebi:

Introduction of flexi cap category

The markets regulator has introduced a ‘flexi-cap category’ for mutual funds, which will be required to invest at least 65% of the corpus in equity but will have no restrictions on investing in large-, mid- or small-cap company stocks.

Earlier in September, Sebi announced to tweak the asset allocation rules for multi cap funds. According to the circular, a multi cap fund must invest a minimum of 75% in equity and equity related instruments with a minimum 25% allocation to large-, mid- and small-cap stocks.

The existing equity schemes will be able to reclassify themselves under the new category and continue to run their multi cap funds in the same manner without any change in portfolio allocation or investment process, just by changing the scheme’s name.

Restoration of pre-covid cut-off time for mutual fund transactions

Sebi has restored the pre-covid cut-off timings of mutual funds, effective November 9. In April, Sebi had reduced the cut-off timings of all mutual funds to 1 pm from 3 pm and for liquid and overnight schemes to 12.30 pm from 1.30 pm.

On October 19, Sebi had restored the cut-off timings to 3 pm for all schemes except for debt schemes and conservative hybrid schemes.

Now, the cut-off time has been brought back to 3 pm for debt and conservative hybrid funds as well. The cut-off time for purchase of liquid and overnight funds would stand restored from 12.30 pm to 1.30 pm. The redemption cut-off time for equity, debt and liquid funds would stand restored to 3 pm. The Sebi action follows an RBI move extending debt market timings for most securities to 3.30 pm, also with effect from 9 November.

Enhancement of overseas investment for mutual funds

Sebi in a circular issued on November 5, doubled the foreign investment limit per mutual fund house to $600 million, from the existing $300 million. $50 million would be reserved for each mutual fund individually, within the overall industry limit of US $ 7 billion.

Mutual funds can invest in overseas Exchange Traded Fund (ETFs) subject to a maximum of US $ 200 million per mutual fund, within the overall industry limit of US $ 1 billion. According to the
circular, a mutual fund launching a New Fund Offer (NFO) and intending to invest overseas will be required to specify the amount it will invest outside India and use the limit specified within six months.

For existing schemes, Sebi specified a headroom of 20% of the assets under management (AUM) in the previous three months in overseas securities, for investment in foreign securities subject to the overall limit of $600 million.

**Holding liquid assets in open ended debt schemes**

In another circular dated November 6, Sebi has requirements open ended debt mutual funds, except liquid and overnight funds, to hold at least 10% of their corpus in liquid assets. Liquid assets are defined as cash, treasury bills, government securities and repo on government securities.

Liquid funds, since April 2020, were already required to hold at least 20% of their corpus in liquid assets. Overnight funds are allowed to invest in securities maturing in one day and hence also invest in liquid assets. Similarly gilt funds and gilt funds with 10 year constant maturity have been exempted because they are required to invest 80% of their assets in government securities, as per their category rules.

The circular has also required mutual funds to stress test their portfolios. The rules for liquid holdings will be with effect from 1st February 2021 and the stress testing rules will be effective from December 1, 2020.

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The Supreme Court order that allowed banks to maintain certain loan accounts as standard despite defaults by borrowers has at least for now concealed soured loans worth nearly 26,000 crore, data compiled by Mint showed.

The number is likely to be much higher, given that only 10 of the 34 public and private banks have disclosed such bad loans, according to the data. The other banks have not quantified such non-performing assets (NPAs) in their regulatory disclosures.

The Supreme Court on 3 September ordered an interim stay on classifying bad loans if not declared so by 31 August and banks were expected to use this relaxation in the September quarter or till the final order was pronounced.

While private-sector lenders have reported their proforma numbers, state-owned banks, barring a few, have not done so.

Given its size, State Bank of India (SBI) has the highest amount of such bad loans at 14,388 crore. Had the Supreme Court not ordered a stay on asset classification, its bad loans as a percentage of total loans would have been 5.88%, instead of the reported 5.28%.

Chairman Dinesh Khara said the bank has already reduced the proforma bad loans by 6,000 crore in October. The bank expects 20,000 crore of slippages or additional bad loans in the six months to 31 March.

“The 20,000 crore slippage, which we have estimated for the second half of fiscal 2021, is based on our normal run rate of 10,000 crore per quarter,” said Khara.

Meanwhile, Union Bank of India said in a regulatory filing that its bad loans would have been higher by 4,263 crore if it had followed regular asset classification norms set by the Reserve Bank of India. However, the bank’s management clarified it has set aside funds to cover loan losses and does not expect the loans to entirely turn bad.

Among private-sector lenders, HDFC Bank Ltd said its gross bad loan ratio would have been 1.37% but for the apex court order. For HDFC Bank, the court order masks bad loans worth 3,036 crore as of 30 September. Rival ICICI Bank also said its gross NPA ratio would have been 5.36%, instead of 5.17% reported in Q2. In absolute terms, it works out to 1,410 crore of proforma bad loans for ICICI Bank.

Although most lenders have reported a drop in toxic assets in the September quarter, this shows a truer extent of stress in banks’ books following six months of moratorium announced as a relief measure against covid. Lenders, though, have made provisions against these accounts and are hoping they will be resolved within the next quarter. However, given that few retail loans are expected to be recast, the stress in banks’ books may be here to stay.

“With the moratorium period having ended on 31 August, this quarter had only one month of payment, which was due during September. So, the December and March quarters will definitely have higher additions to NPAs,” Rakesh Jha, chief financial officer, ICICI Bank, told analysts on 31 October.
Concerned about this situation, RBI appealed to the Supreme Court in October that its order will have huge implications for the banking system if it is not lifted immediately. It had added that the court’s ruling undermines its regulatory mandate.

For banking sector, just emerging from the last bout of bad loans, the pandemic has presented a plethora of problems. Several borrowers who have been repaying regularly so far have faced job losses or salary cuts, crimping their ability to repay loans.

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END
PM INAUGURATES RO-PAX TERMINAL AT HAZIRA

Relevant for: Indian Economy | Topic: Infrastructure: Ports & Waterways

Prime Minister Shri Narendra Modi inaugurated the Ro-Pax terminal at Hazira and flagged off the Ro-Pax ferry service between Hazira and Ghogha in Gujarat through video conferencing. He also interacted with the local users. He renamed the Ministry of Shipping as the Ministry of Ports, Shipping and Waterways.

Speaking on the occasion, the Prime Minister said today, people of Gujarat have got their Diwali gift. Everyone will benefit from this better connectivity. He added that business will be boosted and connectivity will become faster. He further said RO-PAX service between Hazira and Ghogha has made dreams come true for the people of Saurashtra and South Gujarat, as the journey is shortened from 10-12 hours to 3-4 hours. He said this will save time and expenses will also be reduced. He said about 80000 passenger trains and 30000 trucks will be able to take advantage of this new service in a year.

Shri Modi also said better connectivity between Saurashtra and Surat is going to change the life of the people in these regions. He added fruits, vegetables and milk can now easily be transported and pollution will also be reduced due to this service. He thanked all those engineers, workers, who remained courageous to develop the facility amidst a lot of challenges. He wished the people for this new maritime connectivity established between Bhavnagar and Surat.

The Prime Minister lauded the way Gujarat realized its maritime potential in the last two decades and gave priority to port led development and said it is a matter of pride for every Gujarati. He listed the initiatives of the State Government in developing the maritime potential of the state like drafting a Shipbuilding policy, construction of Shipbuilding Park and Specialized Terminals, promotion of Vessel Traffic Management system and GroundBreaking Connectivity project. He said with these initiatives the port sector has got a new direction. He stressed that efforts were made to modernize the entire ecosystem of the coastal area in addition to developing the physical infrastructure.

The Prime Minister said today, Gujarat has become a gateway of prosperity due to the efforts of the government in ensuring the development of all types of infrastructure in the coastal area. He said over the past two decades, a unique model of integrated port has evolved from traditional port operations in Gujarat and has developed as a benchmark today. He said the result of these efforts is that the ports of Gujarat have emerged as major maritime centers of the country. Last year, it accounted for more than 40 percent of the country’s total maritime trade.

The Prime Minister remarked that today, maritime business-related infrastructure and capacity building in Gujarat is in full swing. Many facilities are getting ready in Gujarat like Gujarat Maritime Cluster, Gujarat Maritime University and country’s first CNG Terminal at Bhavnagar. Gujarat Maritime cluster ports to be built in GIFT city would be a dedicated system to address Ports to sea based Logistics. He said that these clusters would help in strengthening the cooperation between the government, industry and educational institutions and will also help in value addition in this sector.

The Prime Minister said that in the recent past India’s first Chemical Terminal was established in Dahej, India’s first LNG terminal was established, now India’s first CNG terminal is going to be installed at Bhavnagar Port. In addition facilities like Ro-Ro terminal at Bhavnagar port, Liquid cargo terminal and a new container terminal are being prepared. He said with the addition of
these new terminals, the capacity of Bhavnagar port will increase manifold.

The Prime Minister said the government is making efforts to restart the ferry service between Ghogha-Dahej very soon. He said many natural challenges have arisen in this project and efforts are being made to remove them through modern technology. He added Gujarat Maritime University is a big center for getting trained manpower and experts ready for maritime trade. Today, this University provides opportunities to pursue maritime law and international trade law and also MBA in Maritime Management, Shipping and Logistics. He said apart from the university, work is also going on to build the first National Museum to preserve the country's maritime heritage in Lothal.

The Prime Minister said facilities like today's Ro-Pax Ferry service or Sea Plane inaugurated a few days ago, is giving a lot of momentum to water-resource based economy. He said that over the years, serious efforts have also been made to strengthen the Blue Economy in the country. He listed the ecosystems and many schemes made over the years to help the fishermen like financial aid to fishermen for modern trollers or navigation systems that provide accurate information of weather and sea routes. He assured that safety and prosperity of fishermen is the priority of the Government. He added recently launched Pradhan Mantri Matsya Sampada Yojana is also promoting fish related trade. Under this scheme, Rs 20 thousand crore would be spent for infrastructure related to fisheries in the coming years.

The Prime Minister said that today, the capacity of the ports have been increased across the nation and construction of new ports is also going on at a faster pace. He added efforts are made to put maximum use of about 21000 km of waterway in the country, for the development of the country. He added today, under the Sagarmala project, work is going on over 500 projects across the country. He said that transportation by waterways is many times cheaper than road and railways and also causes less damage to the environment. Yet work has been done with a holistic approach in this direction only after 2014. He said today work is going on in inland rivers across the country, to connect many Land-locked states to the sea. He added today in the Bay of Bengal, we are developing our capabilities in the Indian Ocean unprecedentedly. The maritime part of the country has emerged as an important part of AtmaNirbhar Bharat.

The Prime Minister renamed the Ministry of Shipping as the Ministry of Ports, Shipping and Waterways. He said in most of the developed countries the Ministry of Shipping handles Ports and Waterways. He added now with more clarity in name, there will be more clarity in the work.

The Prime Minister said to strengthen the Blue Economy's stake in AtmaNirbhar Bharat, there is a great need to strengthen the maritime logistics. He was concerned that today, the cost of carrying goods from one part of the country to another is more than other countries. He suggested that the cost of Logistics can be reduced by water transport. Therefore, he said our focus should be to create an ecosystem where there can be seamless movement of cargo. He added the country is now making rapid strides in the direction of Multimodal Connectivity to reduce logistics costs and efforts have been made to improve connectivity between road, rail, air and shipping infrastructure and also to overcome the silos. He said Multimodal Logistics Parks are being constructed in the country. He added that Multimodal connectivity is being developed with our neighbouring countries also. He wished that with these efforts the cost of Logistics in the country should come down and give impetus to our economy.

The Prime Minister also urged the people to go Vocal for Local during this festive season. He insisted on buying things from small traders, small artisans and rural folks. He said by these efforts light could be lit in the homes of the rural artisans also during Diwali.

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DS/AK
SAFFRON BOWL OF INDIA EXTENDS TO THE NORTH EAST

The saffron bowl, which was so far confined to Kashmir, may soon expand to the North East of India. Plants from seeds transported from Kashmir to Sikkim and acclimatized there are now flowering in Yangyang in the Southern part of the North-East state.

Saffron production has long been restricted to a limited geographical area in the Union territory of Jammu & Kashmir. Pampore region, in India, commonly known as Saffron bowl of Kashmir, is the main contributor to saffron production, followed by Budgam, Srinagar, and Kishtiwar districts. Saffron has traditionally been associated with the famous Kashmiri cuisine. It’s its medicinal values were considered as part of the rich cultural heritage of Kashmir. As saffron growing was confined to very specific areas in Kashmir, its production remained limited. Though the National Mission on Saffron focused on several measures to improve its farming, the measures were still limited to the specified areas of Kashmir.

North East Centre For Technology Application and Reach (NECTAR), an autonomous body under the Department of Science & Technology, Government of India supported a pilot project to explore the feasibility of growing saffron in North East region of India, with the same quality and higher quantity.

The Botany and Horticulture department of Sikkim Central University carried out tests to understand the soil and actual pH conditions of Yangyang of Sikkim and found it comparable to saffron growing places of Kashmir. Saffron seed/corms were purchased and air transported from Kashmir to Yangyang site by the department. One saffron grower was engaged and stationed to look after the complete growing process, along with the faculty of the university.

The corms were irrigated during the month of September and October, which ensured timely corm sprouting and good flower yields. The matching of climatic and geographical conditions between Pampore (Kashmir) and Yangyang (Sikkim) led to the successful sample farming of Saffron in Yangyang.

The project also focused on post-harvest management and value addition of saffron so that
quality saffron drying and efficient post-harvest processing can improve saffron recovery, thereby improving its production.

Further, detailed analysis and testing of all parameters, including soil testing, quality, quantity, and possible value addition are planned, for immediate results and extrapolation of the project to other parts of the North East Region along with Micro Food Enterprises.

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A meeting of the International Financial Services Centres Authority (IFSCA) was held today. The IFSC Authority, after detailed deliberations, approved the International Financial Services Centres Authority (Banking) Regulations, 2020.

Banking constitutes one of the major focus areas of IFSC and is expected to drive and facilitate the other constituent operations in the IFSC in due course. A self-contained regulation laying down the major principles of banking operations at IFSCs is thus an important step in the IFSC reaching its desired potential.

The Authority approved the draft banking regulations at its meeting today, which paves the way for putting in place the rules for the various aspects of banking operations that would be permissible at the IFSC.

The salient aspects of the Banking Regulations include:

The abovementioned regulations will be notified by the Government of India in due course.

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RM/KMN

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The Ministry of Agriculture along with Central Institute of Horticulture, Nagaland organized today a virtual meeting on ‘Value Chain Creation for Kiwi fruit – Farm to Fork’ keeping in mind the popularity of the fruit due to its tremendous commercial potential. The meeting was chaired by the Union Minister of Agriculture and Farmers’ Welfare, Shri Narendra Singh Tomar in presence of Minister of State for Agriculture, Shri Parshottam Rupala, Secretary, Department of Agriculture and Farmers Welfare and other officials of the Ministry and State of Nagaland.

Addressing the gathering, the Union Minister of Agriculture and Farmers’ Welfare, Shri Narendra Singh Tomar said that the entire North East due to difficult terrain is lagging behind and all Ministries including Agriculture Ministry are working towards ensuring a progressive North East. He said that this lag needs to be removed and can only be done through a comprehensive vision along with stable policy planning and balanced growth across the region as envisioned by Prime Minister Shri Narendra Modi.

Shri Tomar stated that the Himalayan Sub - Temperature climate is suitable for Kiwi production and there is a need to introduce high yielding cultivars. With extensive research and development support, the commercial cultivation of Kiwi fruit has been extended from the Sub - Himalayan Regions of India to the mid hills of Himachal Pradesh, Sikkim, Meghalaya, Arunachal Pradesh, Nagaland and Nilgiri Hills. Presently, India is producing 13,000 MT of Kiwi in an area of about 4,000 Ha in Arunachal Pradesh, Nagaland, Mizoram and Himachal Pradesh.

India currently imports 4,000 tonnes of Kiwis from New Zealand, Italy and Chile. Shri Tomar said that to strengthen Prime Minister Shri Narendra Modi’s vision and mission of creating an
Atmanirbhar Bharat, the Ministry of Agriculture is trying to provide handholding support to Kiwi farmers across the country. This is also in line with the call of ‘Vocal for Local’ which will help in reducing dependence on imports and building a sustainable market for locally produced Kiwi fruit variants.

The Union Agriculture Minister further said that the entire nation is witness that Prime Minister Shri Narendra Modi has focused on Agriculture and allied sector rights for the beginning and his leadership has guided all to look threadbare and in-depth into all aspects of Agriculture especially the gaps which need to be filled in order to ensure that farmers can reap the benefits of their toil. He said that a new chapter is being introduced in the Agricultural history of Nagaland which will be highly beneficial to the Kiwi farmers of the State. He said that this programme of Kiwi Production enhancement will prove to be a milestone in the years to come.

Shri Tomar said also elaborated on the problems faced by the farmers in the North East region namely lack of good planting material, productivity issues, lack of packaging facilities and marketing networks for farmers. Considering the problems faced, he said that Centre is working hand in hand with State Governments and especially the Central Institute of Horticulture, Nagaland and the Department of Agriculture and Farmers’s Welfare has taken key steps to ensure proper training and capacity building of farmers in production as well as packaging of kiwi products is done. The Government is also ensuring that farmers are connected to the market so that they can reap a fair price for their produce. The institute in Nagaland has also conducted training and exposure visit of farmers from Phek District of Nagaland for helping them understand how to reap good returns through Kiwi production. Shri Tomar added that persistent efforts should be made by all to ensure Nagaland can emerge as the ‘Kiwi State’ of India.

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APS/AS
GOVT APPROVES PLI SCHEME WORTH 2 LAKH CRORE FOR 10 KEY SECTORS

The Union Cabinet on Wednesday approved Production-Linked Incentives (PLI) worth up to 2 lakh crore for 10 manufacturing sectors for next five years. "This move will enhance India’s manufacturing capabilities," said Union minister Prakash Javadekar while announcing the decision. The 10 key sectors that will get the benefit of production-linked incentive include automobiles and auto components, pharmaceuticals drugs, specialty steel, capital goods, technology products, white goods (ACs and LEDs), telecom and networking products, textiles, high efficiency solar PV modules and advanced battery cells.

"The PLI scheme will make Indian manufacturers globally competitive, attract investment and enhance exports," he further added. The government think tank NITI Aayog identified 10 sectors as key sectors which will help attract investments to shore up revenue. "Critical sunrise sector will get necessary support from the government through PLI scheme," said finance minister Nirmala Sitharaman.

"This move is aimed at promoting PPP in social and economic infrastructure leading to efficient creation of assets, ensuring operation and maintenance, make economically/socially essential projects commercially viable," Javadekar said.

The final proposal of PLI scheme for individual sectors will be approved by an empowered finance committee and Union cabinet. The concerned departments and minister will start implementing schemes immediately, Sitharaman added. There is no cap on the number of companies that will be eligible for PLI under each category for now, she added.

Commenting on government's latest decision to boost manufacturing in the country, Divakar Vijayasarathy, founder and managing partner, DVS Advisors LLP said, "Some of the critical sectors such as textiles which have been under severe stress due to various reasons are expected to welcome this and could definitely play role in reviving the sector. This is definitely significant step in reducing the cost of operations in India and will definitely encourage investors. Further industries such as textiles, automobiles, etc. have significant capacity and potential to scale up the operations and the PLI would give impetus to the same."

"Financial support aimed at bringing investments into the country, and make production in the country attractive," finance minister added.
CABINET APPROVES CONTINUATION AND REVAMPING OF THE SCHEME FOR FINANCIAL SUPPORT TO PUBLIC PRIVATE PARTNERSHIPS IN INFRASTRUCTURE VIABILITY GAP FUNDING VGF SCHEME

The Cabinet Committee on Economic Affairs chaired by Prime Minister Shri Narendra Modi has approved Continuation and Revamping of the Scheme for Financial Support to Public Private Partnerships (PPPs) in Infrastructure Viability Gap Funding (VGF) Scheme till 2024-25 with a total outlay of Rs. 8,100 cr.

The revamped Scheme is mainly related to introduction of following two sub-schemes for mainstreaming private participation in social infrastructure:

a. **Sub scheme -1**

This would cater to Social Sectors such as Waste Water Treatment, Water Supply, Solid Waste Management, Health and Education sectors etc. These projects face bankability issues and poor revenue streams to cater fully to capital costs. The projects eligible under this category should have at least 100% Operational Cost recovery. The Central Government will provide maximum of 30% of Total Project Cost (TPC) of the project as VGF and State Government/Sponsoring Central Ministry/Statutory Entity may provide additional support up to 30% of TPC.

b. **Sub scheme -2**

This Sub scheme will support demonstration/pilot social sectors projects. The projects may be from Health and Education sectors where there is at least 50% Operational Cost recovery. In such projects, the Central Government and the State Governments together will provide up to 80% of capital expenditure and up to 50% of Operation & Maintenance (O&M) costs for the first five years. The Central Government will provide a maximum of 40% of the TPC of the Project. In addition, it may provide a maximum of 25% of Operational Costs of the project in first five years of commercial operations.

Since the inception of the scheme, 64 projects have been accorded ‘final approval’ with Total Project Cost of Rs. 34,228 crore and VGF of Rs. 5,639 crore. Till the end of Financial Year 2019-20, VGF of Rs. 4,375 crore has been disbursed.

**Benefits:**

The aim of the scheme is to promote PPPs in social and Economic Infrastructure leading to efficient creation of assets and ensuring their proper Operation and Maintenance and make the economically/socially essential projects commercially viable. The scheme would be beneficial to public at large as it would help in creation of the Infrastructure for the country.

**Implementation Strategy:**

The new Scheme will come into force within one month of the approval of Cabinet. Proposed
amendments under the revamped VGF scheme would be suitably incorporated in the Guidelines for the Scheme. All steps will be taken up for the promotion of the revamped VGF and in monitoring of the supported projects.

**Impact:**

Revamping of the proposed VGF Scheme will attract more PPP projects and facilitate the private investment in the social sectors (Health, Education, Waste Water, Solid Waste Management, Water Supply etc.). Creation of new hospitals, schools will create many opportunities to boost employment generation.

**Expenditure Involved:**

The revamped Scheme will be financed from budgetary support of Ministry of Finance. The projected outlay of the revamped VGF scheme till the Financial Year 2024-2025 is as under:

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Scheme for Financial Support to PPPs in Economic Infrastructure (Rs. crore)</th>
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<tr>
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<td>Cost 1</td>
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</tr>
<tr>
<td>---------</td>
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The Department of Economic Affairs, Ministry of Finance introduced “the Scheme for Financial Support to PPPs in Infrastructure” (Viability Gap Funding Scheme) in 2006 with a view to support infrastructure projects undertaken through PPP mode that are economically justified but commercially unviable due to large capital investment requirements, long gestation periods and the inability to increase user charges to commercial levels, hi this existing Scheme, VGF up to 40% of the Total Project Cost (TPC) is provided by the Government, of India (GoI) and the sponsoring authority in the form of capital grant at the stage of project construction (20%+20%).

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END
CABINET APPROVES PLI SCHEME TO 10 KEY SECTORS FOR ENHANCING

The Union Cabinet chaired by the Prime Minister, Shri Narendra Modi has given its approval to introduce the Production-Linked Incentive (PLI) Scheme in the following 10 key sectors for Enhancing India’s Manufacturing Capabilities and Enhancing Exports – Atmanirbhar Bharat.

### Priority

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</table>
Textile Products: MMF segment and technical textiles

Ministry of Textiles

10683

Food Products

Ministry of Food Processing Industries

10900

High Efficiency Solar PV Modules

Ministry of New and Renewable Energy

4500

White Goods (ACs & LED)

Department for Promotion of Industry and Internal Trade

6238

Speciality Steel

Ministry of Steel

6322

Total

145980

The PLI scheme will be implemented by the concerned ministries/departments and will be within the overall financial limits prescribed. The final proposals of PLI for individual sectors will be appraised by the Expenditure Finance Committee (EFC) and approved by the Cabinet. Savings, if any, from one PLI scheme of an approved sector can be utilized to fund that of another approved sector by the Empowered Group of Secretaries. Any new sector for PLI will require fresh approval of the Cabinet.

The PLI scheme across these 10 key specific sectors will make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology; ensure efficiencies; create economies of scale; enhance exports and make India an integral part of the global supply chain.

The above will be in addition to the already notified PLI schemes in the following sectors:

No. Sectors
Implementing Ministry/Department Financial outlays Rs. crore

Mobile Manufacturing and Specified Electronic Components

MEITY

40951

Critical Key Starting materials/Drug Intermediaries and Active Pharmaceutical Ingredients

Department of Pharmaceuticals

6940

Manufacturing of Medical Devices.

3420

Total

51311

The Prime Minister’s clarion call for an ‘AatmaNirbhar Bharat’ envisages policies for the promotion of an efficient, equitable and resilient manufacturing sector in the country. Growth in production and exports of industrial goods will greatly expose the Indian industry to foreign competition and ideas, which will help in improving its capabilities to innovate further. Promotion of the manufacturing sector and creation of a conducive manufacturing ecosystem will not only enable integration with global supply chains but also establish backward linkages with the MSME sector in the country. It will lead to overall growth in the economy and create huge employment opportunities.

Sector

Product Lines

Advance

Chemistry Cell (ACC) Battery Manufacturing
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**Sector**

**Product Lines**

Advance

Chemistry Cell (ACC) Battery Manufacturing

ACC Batteries

Electronic/Technology Products

Automobile and

Auto Components

Automobile and Auto Components

Pharmaceuticals

Category 1
Category 2

Category 3

Telecom Products

Textiles

Food Processing

Solar PV manufacturing

  Solar PVs

White Goods

Steel Products

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DS
GROSS BAD LOAN PILE ISN’T DIMINISHING ANY TIME SOON FOR INDIA’S TOP LENDERS

Defaults are mainly expected from small biz loans because MSMEs have been hit hard by the covid pandemic

India’s banks are on the mend from the pandemic’s blow. After all, most lenders have reported that collection efficiencies are back to pre-pandemic levels.

Before investors begin the celebrations, they need to note that lenders have either increased provisions or maintained them in the September quarter. On an aggregate basis, provisions were down a modest 4.6% year-on-year for the 31 listed banks (excluding small finance banks). That is because a moratorium and a standstill from the Supreme Court helped them keep loans standard, which required no provisions. But when it comes to risks related to covid-19, banks have made some more provisions anticipating future risks.

Further, the gross bad loan pile of the September quarter is understated due to two forbearances. One is a straight standstill on declaring loans as bad by the SC in a petition involving compound interest. Until it gives a verdict, the standstill continues. A Mint story on 9 November says at least 26,000 crore worth of loans that could have turned bad benefited due to the court’s standstill.

This forbearance follows that from the Reserve Bank of India (RBI) on loans under moratorium. Note that the moratorium ended on 30 August. Retail loan customers would have seen their skipped equated monthly instalments (EMI) get added to their total loan outstanding. These loans would have been normally termed as bad, but due to forbearance are still standard. Irrespective of whether they paid their EMIs in September or not, these loans would be standard due to the Supreme Court’s standstill. To be sure, collection efficiencies of banks show there is no widespread stress in retail. But that cannot be said about loans to small businesses.

Defaults are mainly expected from small business loans because micro, small and medium enterprises (MSME) have been hit hard. Beyond the government’s credit guarantee scheme, no lender wants to touch MSMEs with a wide pole. For the banking system as a whole, loans to MSMEs fell by 6,380 crore in the first six months of FY21. The largest lender, State Bank of India’s SME portfolio has shrunk 4% during the same period.

A key comfort, though, is the expected restructuring book for banks. It was feared that a large swathe of loans would come up for restructuring once the moratorium ended in August. However, most banks have said that restructuring would be in low single digits as a percentage of their loan book.

“These appear quite encouraging and better than some regional markets. In fact, some lenders like Kotak Bank, ICICI Bank, AU SFB among others have stopped making incremental covid provisions and many others are likely to discontinue it from Q3FY21 onwards,” analysts at Jefferies India Pvt. Ltd wrote in a note.

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REMOVE CURBS ON CHINESE FUNDING UP TO 15%:
GOVT PANEL

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

New Delhi: An eight-member group of ministers (GoM) on employment generation has recommended that the government could consider removing restrictions on Chinese investment up to 15% for reviving the gig economy, while maintaining a balance with geopolitical objectives.

Further, for the same purpose, it has suggested that international investors with 50% less than “ultimate Chinese beneficial ownership” could also be granted exemption from prior approval restrictions.

The GoM, which was headed by social justice minister Thaawar Chand Gehlot, has essentially called for a “clarification and modification of Press Note 3” dealing with “opportunistic takeovers/acquisitions of Indian companies”. While Press Note 3 was issued citing the Covid-19 pandemic in April, the matter has since acquired security ramifications owing to India-China military stand-off in Ladakh.

The three key changes have been proposed in final report that was submitted by the group of ministers on October 22.

First, removal of restrictions on Chinese investment in Indian companies if it’s less than 15%.

Second, exclude international investors with ultimate Chinese beneficial ownership less than 50% from prior approval requirement under Press Note 3.

Third, exempt investment from Taiwan and Hong Kong if the investing entities certify that they are not majority owned or controlled by People’s Republic of China.

The GoM has taken the view that a middle path needs to be found between geopolitical objectives and economic interests.

Report Under Consideration
“Liberalise the FDI rules, maintaining a balance between geopolitical aims of restricting Chinese takeover of Indian companies and the economic objectives of improving employment through the gig economy,” said the report, citing a study by TechCrunch, a technology startup publisher, that said Chinese investment in Indian startups is to the tune of $6 billion.

Besides, the GoM report has called for “removal of long-term capital gains tax of 10% for PE/VC funds to attract more capital into gig economy companies”. The group’s assessment is that this could attract investment up to 36,000 crore. It has also backed the idea of more tax exemptions where technology transfer is done for the benefit of Indian companies.

Set up in the aftermath of Covid-19 pandemic, GoM has made 63 recommendations across 18 sectors to generate 188 million jobs with an investment of 14.55 lakh crore by the government.
and private sector. The report is now under consideration, said sources.

It has proposed setting up of a National Employment Fund under the cabinet committee on employment and skill development, which will provide a policy framework through a National Employment and Entrepreneur Mission.

**Tax Exemptions**
The GoM has taken the view that “the government should abolish the inter-ministerial board that acts as a gatekeeper for evaluating a startup’s credibility for tax exemptions under 80 IAC.” At present, only 266 out of 37,799 startups recognised by the Department for Promotion of Industry and Internal Trade (DPIIT) are eligible for tax exemptions. It further recommended “bringing parity between online and offline businesses in terms of mandatory goods and services tax (GST) registration based on turnover slabs and allow online sellers to avail GST composite schemes to simplify tax returns”.

The group of ministers has also sought to address the issue of tax disadvantages faced by domestic investors. “There is a need to create a conducive environment to mobilise domestic capital towards investment of risk capital. Abolish the current long-term capital gains tax (LTCG) of 20% for equity investments in top DPIIT-recognised startups via collective investment vehicles (CIV). Various developed countries such as US, UK and other EU countries don’t tax capital gains earned by foreign investors,” the report said.

**Listing Norms**
Further, it calls for a “seamless mechanism of allowing startups registered in India to list in secure and high liquidity stock in international stock exchanges”. In this context, the report has stated: “Do not make listing in India mandatory before startups can list abroad.” On promoting travel and tourism, the panel has said the amount spent for this purpose may be “exempted from the income tax until March 2022 subject to a certain limit”.

The GoM included tourism minister Prahlad Patel, skill development minister Mahendra Nath Pandey, ministers of state for home G Kishan Reddy and external affairs V Muraleedharan, among others.
GOVERNMENT ROLLS OUT RS. 1.19 LAKH CRORE STIMULUS

The definition of ‘new employee’ has been kept flexible to include anyone who was part of the EPF net earlier, but had lost their job between March 1 and September 30, 2020.

This may help improve such workers’ re-employment prospects.

As per the Finance Ministry, this benefit will apply to all such ‘new employees’ earning monthly wages less than Rs. 15,000.

**EPF contributions**

For firms with more than 1,000 employees, the Centre will bear half of the EPF contributions (24% of wages), while for smaller firms, it will bear the entire EPF contribution.

To be eligible for the scheme, firms registered with EPFO having more than 50 employees must hire at least five new workers, while those with less than 50 employees must hire a minimum of two workers.

“This benefit will get credited upfront in Aadhaar-seeded EPF accounts of eligible new employees. This will cover nearly 99.1% of all establishments and an estimated 65% of all those employed under the formal sector will be covered by this benefit,” the Minister said.

To boost urban housing and create jobs, an additional allocation of Rs. 18,000 crore has been made for the PM Awas Yojana over and above the Rs. 8,000 crore allotted in the Budget.

Ms. Sitharaman said as many as 78 lakh additional jobs are expected to be generated from this, apart from boosting steel and cement demand significantly.

**Sops for home buyers**

“We are providing income tax relief for developers and home buyers as there is quite a lot of inventory in the real estate sector. At the moment, on the differential between the circle rate and the agreement value — you get 10% relief. We have decided to increase the differential from 10% to 20% till June 30, 2021 for only primary sales of residential units of value up to Rs. 2 crore,” the Minister said.

“We expect a lot of clearance of inventory and people will be able to pay less as the differential gap will be reduced. This will help the middle class which wants to buy when the housing sector is sitting on inventories,” she said, adding that amendments will be made to Section 43 CA of the Income Tax Act.

**Stressed sectors**

While extending a Rs. 3 lakh-crore emergency credit line guarantee scheme announced earlier for micro, small and medium enterprises till March 31, 2021, the Finance Minister also announced a credit guarantee plan for stressed sectors as well as healthcare.
“Entities in 26 stressed sectors identified by the K.V. Kamath Committee, plus healthcare sector with credit outstanding of above Rs. 50 crore and up to Rs. 500 crore as on February 29, 2020, would now be able to avail 20% additional credit for a period of five years, with a moratorium of one year on principal repayment,” Ms. Sitharaman said.

As per the Kamath committee, the stressed sectors include auto components, construction, gems and jewellery, hotel and restaurants, iron and steel, real estate and textiles.

**To help 40,000 firms**

Soumya Kanti Ghosh, group chief economic adviser, State Bank of India, said the scheme could help as many as 40,000 firms but if the overall amount under the scheme stays at Rs. 3 lakh crore, that could be a constraining factor.

So far, Rs. 2.05 lakh crore of liquidity has already been sanctioned under the scheme.

Separately, to free up working capital for contractors bidding for public projects, the Centre has decided to reduce the performance security payable on individual contracts to 3% from the prevailing 5% to 10% of project value.

The earnest money deposit requirement to bid for tenders is also being replaced by a bid security declaration for a period of one year, with the Minister expressing hope this will give them more room to bid for building infrastructure projects.

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Finance minister Nirmala Sitharaman on Thursday said that the government will infuse 6,000 crore equity in National Infrastructure Investment Fund’s (NIIF’s) debt platform, in its attempt to drive infrastructure creation in the country.

NIIF will leverage this equity to raise 1.1 trillion over the next five years to finance infrastructure projects under the national infrastructure pipeline.

"NIIF attracts a lot of sovereign fund for investment in infrastructure-related activities. It also has a debt platform through which it also raises a lot of money and by 2025 it has to provide and infra funding to the extent of 1.1 trillion national infrastructure pipeline (NIP)," Sitharaman said at a press briefing.

In her budget speech, finance minister had said that about 22,000 crore has been provided, as support to infrastructure pipeline, which would cater for equity support to infrastructure finance firms such as IIFCL and a unit of NIIF. “This would create a major source of long-term debt for infrastructure projects and fulfil a long-awaited requirement," she had said.

Focus on infrastructure projects is expected to help revive the economy battered by covid. The 111-trillion investment plan under NIP to develop social and economic infrastructure over the next five years is in line with Prime Minister Narendra Modi’s vision of a $5-trillion economy.

“This 6,000 crore is a follow through to the earlier budget announcement of seeding further capital to NIIF. By further leveraging this, NIIF could deploy in such infrastructure projects which may not necessarily pass the risk adjusted hurdle rate requirement of other private players," Jagannarayan Padmanabhan, Director, Transport & Logistics, CRISIL Infrastructure Advisory.

The finance minister also said that an additional budget outlay of 10,200 crore will be provided towards capital and industrial expenditure, which would benefit sectors such as domestic defence equipment, industrial infrastructure and green energy.

“Allocation of additional 10,200 cro will help in the creation and augmentation of Industrial estates, warehouses and other common infrastructure facilities which can in-turn be used by MSME. This will help them to get integrated into mainstream and also help in scaling up their operations," Padmanabhan said.

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FINANCE MINISTER ANNOUNCES MEASURES ON AATMANIRBHAR BHARAT 3.0

Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman has announced 12 key measures, as part of Government of India’s stimulus to the economy, under AatmaNirbhar Bharat 3.0. The net stimulus announced today amounts to 2.65 Lakh crore. While addressing the Press Conference here today, Smt Sitharaman also informed that the total stimulus announced by the Government and Reserve Bank of India till date, to help the nation tide over the COVID-19 pandemic, works out to 29.87 lakh crore, which is 15% of national GDP. Out of this, stimulus worth 9% of GDP has been provided by the government.

The following are the 12 key announcements under AatmaNirbhar Bharat 3.0-

1) AatmaNirbhar Bharat Rozgar Yojana

A new scheme to incentivize job creation during COVID-19 recovery has been launched. If EPFO-registered establishments take in new employees without EPFO registration or those who lost jobs earlier, the Yojana will benefit these employees.

Beneficiaries / New Employees under the scheme would be:

Central Govt. will provide subsidy for two years in respect of new eligible employees engaged on or after 01.10.2020 at following scale:

The scheme will be effective from October 1, 2020 and operational till 30th June 2021. Certain other eligibility criteria would have to be met, and Central Government will provide subsidy for two years in respect of new eligible employees.

2) Emergency Credit Line Guarantee Scheme

A Credit guarantee support scheme ECLGS 2.0 is being launched for Healthcare sector and 26 stressed sectors with credit outstanding of above Rs. 50 crore and up to 500 Crore as on 29.2.2020 stressed due to COVID-19, among other criteria. Entities will get additional credit up to 20% of outstanding credit with a tenor of five years, including 1 year moratorium on principal repayment. This scheme will be available till 31.3.2021.

3) Production Linked Incentive worth 1.46 Lakh Crore to 10 champion sectors.

10 more Champion Sectors will be covered under the Production Linked Incentives Scheme to help boost competitiveness of domestic manufacturing. This will give a big boost to economy, investment, exports and job creation. A total amount of nearly 1.5 Lakh Crore has been earmarked across sectors, for next five years. The ten sectors are - Advance Cell Chemistry Battery, Electronic/Technology Products, Automobiles & Auto Components, Pharmaceuticals Drugs, Telecom & Networking Products, Textile Products, Food Products, High Efficiency Solar PV Modules, White Goods (ACs & LED), and Specialty Steel.

4) 18,000 Crore Additional outlay of for PM Awaas Yojana - Urban
A sum of Rs 18000 cr is being provided for PMAY- Urban over and above Rs. 8000 Crore already allocated this year. This will help ground 12 Lakh houses and complete 18 Lakh houses, create additional 78 Lakh jobs and improve production and sale of steel and cement, resulting in multiplier effect on economy.

5) Support for Construction & Infrastructure – Relaxation of Earnest Deposit Money & Performance Security on Government Tenders

To provide ease of doing business and relief to contractors whose money otherwise remains locked up, performance security on contracts has been reduced from 5-10% to 3%. It will also extend to ongoing contracts and Public Sector Enterprises. EMD for tenders will be replaced by Bid Security Declaration. The relaxations in the General Financial Rules will be in force till December 31, 2021.

6) Income Tax relief for Developers & Home Buyers

Differential between circle rate and agreement value in real estate income tax under Section 43 CA of IT Act has been increased from 10% to 20%. This is for primary sale of residential units up to 2 Crore (from date of announcement of this scheme, till June 30 2021). Consequential Relief up to 20% shall also be allowed to buyers of these units under section 56(2)(x) of IT Act for the said period. The Income Tax relief provides incentive to middle class to buy homes.

7) Platform for Infra Debt Financing

Government will make 6,000 Crore equity investment in debt platform of National Investment and Infrastructure Fund (NIIF), which will help NIIF provide a debt of 1.1 Lakh Crore for infrastructure projects by 2025.

8) Support for Agriculture: 65,000 Crore for subsidized fertilizers

As fertilizer consumption is going up significantly, 65,000 Crore is being provided to ensure increased supply of fertilizers to farmers to enable timely availability of fertilisers in the upcoming crop season.

9) Boost for Rural Employment:

Additional outlay of 10,000 Crore is being provided for PM Garib Kalyan Rozgar Yojana to provide rural employment. This will help accelerate rural economy.

10) Boost for Project Exports

3,000 Crore boost is being provided to EXIM Bank for promoting project exports under Indian Development and Economic Assistance Scheme (IDEAS Scheme). This will help EXIM Bank facilitate Lines of Credit development assistance activities and promote exports from India.

11) Capital and Industrial Stimulus

10,200 Crore additional budget stimulus is being provided for capital and industrial expenditure on domestic defence equipment, industrial infrastructure and green energy.

12) R&D grant for COVID Vaccine

900 Crore is being provided to Department of Biotechnology for Research and Development of
Indian COVID Vaccine.

RM/KMN

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SKILL INDIA COMMENCES TRAINING OF 3 LAKH MIGRANT WORKERS FROM 116 DISTRICTS IDENTIFIED ACROSS 6 STATES UNDER GARIB KALYAN ROZGAR ABHIYAN

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

Guided by Hon’ble Prime Minister’s Garib Kalyan Rojgar Abhiyaan (GKRA), the Ministry of Skill Development and Entrepreneurship (MSDE) has begun skill training of 3 Lakh migrant workers from the identified 116 districts across Uttar Pradesh, Bihar, Rajasthan, Odisha, Madhya Pradesh and Jharkhand. The initiative aims to empower migrant workers and rural population in the post-COVID era through demand-driven skilling and orientation under Centrally Sponsored and Centrally Managed (CSCM) component of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 2016-2020. In collaboration with the concerned District Collectors/District Magistrates/ Deputy Commissioners, MSDE is rolling out the programme across these districts for skill training within 125 days. The training has already started in certain parts of the identified districts and will gradually expand to other parts in the course of the month.

National Skill Development Corporation (NSDC), under the aegis of MSDE, is executing the training programme through existing Training Providers and Project Implementing Agencies operating under PMKVY 2016-20 or state schemes. 1.5 lakh migrant workers are being trained under Short Term Training (STT) programme, and another 1.5 lakh migrant workers are slated to be certified under Recognition of Prior Learning (RPL) scheme. Demand aggregation for local jobs in these districts as well as the mobilization of returnee migrants for the purpose of training is being done by the district administrations. The Skill Ministry is directing its efforts to organize skill training for various job roles as per local industry demand, as recommended by the district administrations.

Stressing upon the need to promote skilling and entrepreneurship for rural development, Dr. Mahendra Nath Pandey, Union Minister for Skill Development and Entrepreneurship said, “Rural development through skill empowerment is a fundamental element of Skill India mission as 70% of the total workforce comes from rural India. The vision of making rural workforce attuned with the changing needs of the industry requires seamless synergies between various partners in the skilling ecosystem. We need to realign ourselves and complement each other on the pressing need for creation of industry-relevant jobs at regional levels to offset the after-effects of workforce migration. We are committed to focus on local demand-driven skill development programmes to create better and sustainable livelihood opportunities for the migrant skilled workers whose collective strength forms the backbone of our economy.”

The skill training and orientation programme across these identified districts has begun post accreditation and affiliation of Training Providers on Skill India Portal and subsequent approval of system-based targets. Job roles that are in demand across these 6 states include Assistant Electrician, Self Employed Tailor, Retail Sales Associate, Customer Care Executive (Call Centre), Sewing Machine Operator and General Duty Assistant amongst others. As GKRA is a part of Short Term Training (STT), all benefits to eligible candidates as per the STT-CSCM-PMKVY 2016-20 are applicable. Eligible candidates are receiving Direct Benefit Transfer (DBT) for conveyance support, boarding and lodging, post placement support, assistive aid, and other support as per the guidelines.
The objective of Short Term Training (STT) under Skill India’s flagship PMKVY scheme is to provide skill training to either school/college dropouts or unemployed youth for various sectors and job roles. Duration of the training programme varies as per job roles, ranging between 150 and 300 hours. Recognition of Prior Learning (RPL) program recognizes the value of learning acquired outside a formal setting and provides a government certificate for an individual’s skills. Candidates receive exposure to concepts of digital and financial literacy and an accidental insurance coverage for three years free of cost. No fee is charged from a candidate for participating in the RPL programme and every successfully certified candidate receives INR 500.

The Skill Ministry has trained more than 92 lakh candidates so far under Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 2016-2020.

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YB/SK

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YB/SK
NEW DELHI: Finance minister Nirmala Sitharaman on Thursday announced an emergency credit line guarantee scheme 2.0 (ECGLS) for 26 stressed sectors, including power, construction, real estate, iron and steel manufacturing.

Identified by the KV Kamath committee, entities in these 26 sectors as well as the healthcare sector have credit outstanding of more than 50 crore and up to 500 crore as on 29 February, 2020.

Entities will get additional credit of up to 20% of outstanding credit, while the repayment can be done in five years' time, which will include a one-year moratorium and repayment period of four years.

“ECLGS 2.0 will provide much needed relief to stressed sectors by helping entities sustain employment and meet liabilities. Will also benefit MSME sector, which provides goods and services to eligible entities,” Sitharaman said while announcing measures to boost economic growth. The scheme will be available till 31 March, 2021.

“The tenor of additional credit under ECLGS 2.0 will be 5 years, including one year moratorium on principal repayment,” she said.

The minister added that the government-backed, collateral-free loan plan emergency credit line guarantee scheme (ECLGS) for small businesses, business enterprises, individual loans for business purpose, MUDRA borrowers, will be extended till 31 March.

So far, lenders have sanctioned 2.05 trillion in loans, of which 1.52 trillion has been disbursed.

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PURVEYOR OF PROMISE: THE HINDU EDITORIAL ON ATMANIRBHAR BHARAT ABHIYAN 3.0

The most heartening aspect of the Centre’s latest announcement to spur the economy, a package worth over 2.65-lakh crore, is the implied realisation that the economy is not yet out of the woods. Over the past month, with several high frequency indicators registering an uptick, the Finance Ministry has often asserted that a sustainable recovery is under way, hitting out at analysts who hinted that the spike reflected pent-up demand and could be transient. From that standpoint, the fresh stimulus, exactly a month after the LTC cash voucher scheme to revive spending, suggests the government has not taken its eye off the ball while purveying hope and promise. That the package takes cognisance of India’s jobs crisis and seeks to resuscitate the construction sector — the largest job creator — bodes well. One, it acknowledges the spate of job losses in the formal sector, and rural distress, as the pandemic and lockdowns hit home. Second, by pushing urban housing projects, introducing tax sops to help primary sales of unsold units worth upto 2 crore, and freeing up capital requirements to bid for public contracts, there is demonstration of a commitment to get the maximum bang for each precious fiscal rupee by focusing on a sector with multiplier effects. Apart from creating formal and informal jobs, this would drive up demand for steel, cement and other materials.

While some sectors have been lifted with the rising tide of demand (pent-up or otherwise) following the unlocking in September and October, employment-intensive retail, hospitality and tourism remain battered. Therefore, it is encouraging that medium-sized firms in 26 such stressed sectors as well as health care have been brought under an emergency credit scheme originally restricted to MSMEs. But 2.05-lakh crore of the 3-lakh crore scheme outlay has already been sanctioned, so additional allocations may be needed for new beneficiaries. Stimuli such as 1.46-lakh crore as incentives for domestic manufacturing investments in 10 sectors will take years to play out. Terming a 900 crore outlay for COVID-19 vaccine research a ‘stimulus’ is somewhat disingenuous, as it should have been made in any case. Outcomes in terms of new jobs (or maintaining jobs in stressed sectors) will rely on creating demand for which there is little direct push. It is generous of the government to foot PF contributions worth 24% of salary for two years for people getting jobs between October and June, but it is not enough to nudge firms into hiring just because they get an employee at about 3/4th of salary costs — unless there is a foreseeable demand pick-up. Future measures should be simpler, with a template for economic activities to scale up or down depending on the infection trend. This would help firms plan operations without worrying about the next official diktat under the Disaster Management Act.
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MNRE EXPANDS SCOPE OF PM-KUSUM SCHEME TO ENABLE GREATER SOLAR ENERGY GENERATION IN FARM SECTOR

MNRE has amended/clarified implementation Guidelines of Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyaan (PM-KUSUM) Scheme based on the learnings from the implementation of the Scheme during the first year. The Cabinet Committee on Economic Affairs had approved PM-KUSUM scheme in its meeting held on 19.2.2019. The Scheme consists of three components. The Component-A includes installation of Decentralized Ground Mounted Grid Connected Renewable Power Plants, Component-B includes installation of standalone Solar Powered Agriculture Pumps and Component-C includes Solarisation of Grid-connected Agriculture Pumps.

The ministry has issued following amendments/clarifications in the Scheme Implementation Guidelines:

For Component-A, scope has been increased by including pasturelands and marshy lands owned farmers. Size of solar plant has been reduced so that small farmers can participate and completion period increased from nine to twelve months. Further, penalty for shortfall in generation removed for ease of implementation by farmers. The amendments/clarifications in Component-A are:

As part of amendments/ clarification in Component-B, MNRE will retain 33% of eligible service charges for nation-wide Information, Education and Communication (IEC) activities. The order mentions that the ministry may release 50% of eligible service charges for the sanctioned quantity after placement of LoA for preparatory activities. For solar pumps to be set up and used by Water User Associations (WUA)/Farmer Producer Organisations (FPO)/Primary Agriculture Credit Societies (PACS) or for cluster based irrigation system, the CFA will be allowed for solar pump capacity of higher than 7.5 HP considering upto 5 HP capacity for each individual in the group.

Eligibility for participation in the centralised tender has also been amended. During last bid, only solar pump and solar panel manufacturers were allowed to participate in the bid considering quality and post installation services for next five years. During implementation it has been observed that these manufacturers lacking workforce in the field and are dependent on local integrators for this purpose, which has caused delay in installation of solar pumps.
To overcome this situation and also ensure quality and post installation services, it is now decided to allow joint venture of manufacturer of solar pump/solar panel/solar pump controller with integrators. The order allows either one or both of the following two categories to participate in the centralised tendering:

The order further says that Quantity equivalent to 10% of total quantity (rounded off to nearest whole number) under the particular category/type of pumps of a cluster will be allocated to L1 bidder and balance will be kept on market mode for all selected bidders including L1 bidder. This assured allocation will bring seriousness and competition in the bid. Further, Option to match L1 price will be initially extended to all bidders falling under L1+15% and in case number of bidders in this range is less than five the same may be further extended to other bidders in the ascending orders of price bid quoted by them till five bidders agreed for L1 matching or all bidders have been given option to match L1 price, whichever is earlier.

The guidelines related to Specifications and testing have also been amended to avoid repetitive testing of same model and faster implementation. Solar pump specifications have been updated by MNRE in July 2019 and same are being used for PM-KUSUM Scheme. So far, it has been mandated that vendor should possess test certificate for each type and category of solar pump issued in the name of vendor. This has resulted in multiple testing of same solar water pumping system, which is not only time consuming and costly but also do not have any value addition.

To overcome this, it has been decided that the test certificate already available for a solar pumping system can be used for other installers provided the user obtains written consent from the owner of test certificate to use the same. Further, in case of any change in the component of already tested solar pumping system the user shall get technical compatibility certificate for the changes component along with the consent from certificate owner.

As part of amended guidelines separate bid price for solar water pumping system with Universal Solar Pump Controller (USPC) will be invited and subsidy will be made available for these pumps according to benchmark price of solar pumps without USPC, even if the price discovered for solar pumps without USPC are less than benchmark price.

Standalone solar pumps are used only for 100-150 days in a year and solar energy generated during balance period is not utilised. In order to make effective use of solar energy it was proposed to introduce USPC, which will not only run the water pump but can also run other electric equipment like cold storage, battery charging, flour mill, etc. Installation of USPC will increase the income of farmer, which is the aim of the PM-KUSUM Scheme.

As part of Component-C Ministry will also use 33% of service charges for IEC
activities. The provision has been made for advance release of Service charges to implementing agencies for preparatory activities. The Ministry order says, “MNRE may release 50% of eligible service charges for the sanctioned quantity after placement of LoA for preparatory activities.”

Under Component-C, individual farmers having grid connected agriculture pumps are being supported to solarise their pumps. Farmers will be provided solar panels and they will be able to use the generated solar power to meet the irrigation needs and sell the surplus solar power. DISCOMs will buy surplus power from them at the per-determined rate to be decided by the respective State/SERC. Solar PV capacity up to two times of pump capacity in kW is allowed under the scheme. The Scheme Guidelines were silent on CFA applicable for solarisation of large capacity pumps used by Water User Associations and community/cluster based irrigation system. Now it has been clarified by the Ministry that for grid connected pumps used by Water User Associations (WUA)/Farmer Producer Organisations (FPO)/Primary Agriculture Credit Societies (PACS) or for cluster based irrigation system, the CFA will be allowed for solarisation of pump capacity higher than 7.5 HP considering upto 5 HP capacity for each individual in the group.

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END
FINANCE MINISTER ANNOUNCES AATMA NIRBHAR BHARAT 3.0 STIMULUS WORTH 2.65 LAKH CRORE

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

(Union Finance Minister Smt. Nirmala Sitharaman has announced 12 key measures, as part of Government of India’s stimulus to the economy, under Aatma Nirbhar Bharat 3.0. The net stimulus announced today amounts to 2.65 Lakh crore. She also informed that the total stimulus announced by the Government and Reserve Bank of India till date, to help the nation tide over the COVID-19 pandemic, works out to 29.87 lakh crore, which is 15% of national GDP. Out of this, stimulus worth 9% of GDP has been provided by the government.)

FM’s 12 Key announcements as part of Aatma Nirbhar Bharat 3.0

1) Aatma Nirbhar Bharat Rozgar Yojana

A new scheme is being launched to incentivize job creation during COVID-19 recovery. If EPFO-registered establishments take in new employees without EPFO numbers or those who lost jobs earlier, the Yojana will benefit these employees. The scheme will be effective from October 1, 2020.

2) Emergency Credit Line Guarantee Scheme for MSMEs, businesses, MUDRA borrowers and individuals (loans for business purposes), has been extended till March 31, 2021. Credit guarantee support scheme is being launched for Healthcare sector and 26 sectors stressed due to COVID-19. Entities will get additional credit up to 20% of outstanding credit; repayment can be done in five years (1 year moratorium + 4 years repayment).

3) Production Linked Incentive worth 1.46 Lakh Crore is being offered to 10 champion sectors.

This will help boost competitiveness of domestic manufacturing. Will give a big boost to economy, investment, exports and job creation. A total amount of nearly 1.5 Lakh Crore has been earmarked across sectors, for next five years.

4) 18,000 Crore Additional outlay for PM Awaas Yojana - Urban

This is over and above Rs. 8000 Crore already allocated this year; will help ground 12 Lakh houses and complete 18 Lakh houses; will create additional 78 Lakh jobs and improve production and sale of steel and cement, resulting in multiplier effect on economy.

5) Support for Construction & Infrastructure – Relaxation of Earnest Deposit Money & Performance Security on Government Tenders

To provide ease of doing business and relief to contractors whose money otherwise remains locked up, performance security on contracts will be reduced to 3%. EMD for tenders will be replaced by bid security self-declaration. The relaxations will be till December 31, 2021.

6) Income Tax relief for Developers & Home Buyers

Differential between circle rate and agreement value in real estate income tax is being increased from 10% to 20%. This is for primary sale of residential units up to 2 Crore (from date of announcement of this scheme, till June 30 2021). The Income Tax relief provides incentive to middle class to buy homes.

7) Platform for Infra Debt Financing

Govt. will make 6,000 Crore equity investment in debt platform of National Investment and Infrastructure Fund, which will help NIIF raise 1.10 Lakh Crore by 2025 for financing infrastructure projects.

8) Support for Agriculture: 65,000 Crore for subsidized fertilizers

As fertilizer consumption is going up significantly, increased supply of fertilizers will ensure that forthcoming crop seasons will not be affected for want of adequate fertilizers.
9) Boost for Rural Employment:

Additional outlay of 10,000 Crore is being provided for PM Garib Kalyan Rozgar Yojana. Funds can be used for MGNREGA or for Gram Sadak Yojana, this will help accelerate rural economy.

10) Boost for Project Exports

3,000 Crore boost to be given for project exports through assistance given by India to developing countries under Indian Development and Economic Assistance Scheme (IDEAS Scheme). This will help EXIM Bank facilitate these Line of Credit development assistance activities and promote exports from India.

11) Capital and Industrial Stimulus

10,200 Crore additional budget stimulus will be provided for capital and industrial expenditure on defence equipment, industrial infrastructure and green energy.

12) R&D grant for COVID Vaccine

900 Crore is being provided to Department of Biotechnology for research activities related to COVID-19 vaccine development. This does not include cost of vaccine or logistics for vaccine distribution (whatever is required for that will be provided).

Click here, to access the presentation made by the Finance Minister during the Press Conference

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END
ATMANIRBHAR BHARAT – PROMOTING LOCAL SHOULDN’T BE SEEN AS ANTI-TRADE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The Cabinet recently approved introduction of a production-linked incentive (PLI) program to attract manufacturing in ten key sectors to India. These ten sectors include the traditional export intensive warhorses like textile, pharmaceuticals, automotive, steel and white goods, but also the sectors of the future like solar panels, telecommunications gear, advanced cell batteries, food processing and electronics products.

The idea of the PLI program is to get large manufacturers to India, whether integrating India as part of the supply chains or encouraging them to set up new base. The total five year outlay of the program is INR 1,45,000 crore. The PLI program provides incentives to companies against their incremental sales, capital expenditure or investments after the program is notified.

Earlier in October, the government cleared a PLI program to boost large scale electronics manufacturing, approving ten firms in the mobile phone segment and six others in the electronics component manufacturing segment. The former segment included big names like Samsung, Foxconn (Hon Hai), Wistron and Pegatron. This targeted PLI program was notified in April and within six months, it evinced enough interest, netting several big names, with an expectation of INR 10,50,000 crore incremental production.

This success has led the government to look at the latest initiative involving ten new sectors.

When Prime Minister Modi gave the clarion call for Atmanirbhar Bharat, sections of the commentariat immediately got worried about Protectionism 2.0. The ‘professional pessimistic’ view was that India will go back to the days of license raj, close its borders and stop trade. This clamour grew when the government targeted certain imports with duties, especially in the aftermath of the Chinese border aggression.

The government is deploying a carrot and stick policy on trade, coupled with large scale domestic factor market reforms to plug the gaps on various shortcomings India has as an investment destination. But it continues to attract flak for being perceptibly anti-trade.

The conventional wisdom says that open trade and Free Trade Agreements (FTAs) should over time lead to better domestic competitiveness. India has had FTAs with the ASEAN nations (2009), South Korea (2009) and Japan (2010) for more than a decade. Not only has these FTAs not helped export competitiveness in a great way, India has actually yielded ground to several South East Asian countries in terms of trade balance.

While India eliminated tariffs on 74% of its market to ASEAN countries, the reciprocity was less generous. Indonesia eliminated tariffs only on 50% of its market for India while Vietnam on 69% of the trade market. In 2009, India’s exports to South Korea was $3.4-billion, which barely increased to $4.7-billion in 2018-19 after a decade of signing an FTA.

Anecdotal evidence cited to call India protectionist flies in the face of ground reality of the last decade. Our concern should be the protectionism we face from other export oriented countries.

The situation has been complicated further with China using the South East Asian route to dump
its goods, circumventing the Country Of Origin (COO) issue. This was a key concern why India did not sign the Regional Comprehensive Economic Partnership (RCEP) last year. In fact, at one point India had considered signing an FTA with China itself, which would have been a sure death knell to whatever little manufacturing happening in India. Thankfully better sense prevailed, for without that FTA, Indian trade deficit with China peaked at $73-bilion in 2016-17.

No large economy captured market share without using moderate tariffs to protect its interest. Today’s advocates of free trades were all protectionist at some point, but do not wish India to traverse the same path. India in fact has the added advantage of a monopsony market to normalize its non-tariff barriers for global firms.

In the last few years, India has taken a more holistic view of the problem rather than treating free trade as some kind of an inalienable dogma. The labour and capital reforms currently being undertaken will provide a fillip to domestic competitiveness. Reduced corporate tax rates aligned with other competing countries would shift the location selection consideration towards areas of India’s strength like human capital. The government is also using public procurement as a tool to truly leverage India’s market power in promoting local manufacturing.

Free trade leading to unhinged import dependence and fair trade leading to strengthening specific areas of domestic manufacturing should really be a Hobson’s Choice for India. The promotion of manufacturing should involve Make In India for India and for the world. We may never make everything that we need – imports won’t be wiped off. That is neither the intent of the Atmanirbhar Bharat approach nor its end outcome. But that should in no way stop India from taking a sectoral view to re-shore manufacturing to India and to mount a challenge as global factory.

Restriction is not prohibition. India attempting to use targeted and phased tariffs, with an aim to reduce Chinese imports, while helping open the Western export markets is a perfectly legitimate strategy.

Adam Smith had once remarked that “Mercy to the guilty is cruelty to the innocent”. Let our trade, commerce and manufacturing policy focus not be to incentivize those who adopt dubious ways while seeking Indian market access. Inflicting that self-cruelty may appeal to textbook perfection, but does not serve either the Indian firms or the Indian citizens.

(Aashish Chandorkar is a public policy analyst and author based in Pune. Views are personal and do not reflect Mint's.)

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China looms large in reports submitted by all eight groups of ministers (GoMs) formed amid the Covid-19 pandemic. While the GoM on employment, as reported by ET on Friday, called for a balance between supporting the gig economy and geopolitics, others have mostly focused on ways to counter China.

The GoM on manufacturing has even suggested formulating a model ‘Time-Bound Clearances Act’ for permissions to set up investment projects in a state, besides speedier land acquisition, titling and registration processes for businesses looking to relocate from China.

It has recommended that states must “acquire sizeable areas of non-inhabited land and carve out investment zones under the protection of Article 234q(c) and (they) should be notified as an industrial township”. The article allows the governor to notify a designated municipal area as an industrial township.

This will protect it from local inspections and political interference. Noida authority was set up through this.

Significantly, the GoM on health has called for earmarking 4% of GDP for healthcare, of which 25% should be for AYUSH.

Manufacturing

The GoM on manufacturing chaired by textile minister Smriti Irani has done a detailed comparison between India and China.

It has pointed out that while Chinese exports to India reduced after imposition of anti-dumping duties, there was a spike in goods through Hong Kong and Singapore to evade import duties. This was done, according to the GoM, to exploit loopholes in India’s free-trade agreements.

To counter the same, the GoM has recommended an industrywise HSN Code analysis to map local capabilities of production, and facilitate indigenisation of inputs. It has also sought “strict interventions to identify mis-declared goods in import”.

The GoM has also underlined the need for simplification of dispute resolution through arbitration and mediation. “It takes nearly 1,445 days and 30% cost of claim value to resolve a commercial dispute in India as compared to 216 days and 27.2% of claim value in New Zealand, 290 days and 12.7% of claim value in South Korea, and 437 days and 45.7% of claim value in UK.” It has recommended a waiver of the dividend distribution tax out of current and accumulated profits for companies relocating from China.

Active support to MNCs to build capacity in the home country just like Sinosure, China’s premier
export and credit agency, supported GE to build manufacturing capacity for exports from China.

HEALTH
The GoM on health headed by AYUSH minister SY Naik has strongly advocated that spending on health be increased to 4% of GDP. China, it has noted, spends 5% of GDP on health.

“It notes how while developed nations such as the US (16.9%), Germany (11.2%), France (11.2%) and Japan (10.9%) spend considerably on their health setup, India spends the least even among BRICS countries: Brazil spends the most (9.2%), followed by South Africa (8.1%) and Russia (5.3%).” It also recommends that India may take the lead along with Asian, African and Middle Eastern countries to create an equivalent alternative to USFDA for all medical products to increase the market size for products made in India.

The GoM has called for classifying pharmaceutical industry as a priority sector for lending with interest subsidy or at a concessional interest rate along with tax breaks for R&D.

AGRICULTURE & RURAL ECONOMY
The GoM on agriculture and rural economy notes that in furniture, India has become a net importer from China, Malaysia, Italy and Germany. It has recommended that import duty may be raised to 50% to encourage domestic value addition and exports.

It also suggested that the import duty on wood and wood products may be increased to 10% to encourage domestic producers and the ministry of housing and urban affairs be asked to empanel and promote only Indian manufacturers of bamboo wood to dissuade growing imports of Chinese products.

EXPORT PROMOTION
The GoM on export promotion chaired by parliamentary affairs minister Pralhad Joshi noted how packaging manufacturers in India are currently constrained to import certain key input materials from China and other countries in South East Asia towards meeting export commitments. It notes how “in comparison to China, logistics transportation takes 70% longer from factory to final destination”.

The GoM also pointed to China Post’s ‘e-packet’ as an example that India Post could consider to ensure level playing field for Indian exporters and ensure faster delivery to customers.
PSES AREN’T A GOLD MINE OF DIVIDEND FOR GOVT ANYMORE

With tax collections falling majorly this year, the govt now wants PSEs to chip in by paying a higher dividend than they normally do. The higher dividends will help fill up a part of the gap. Mint examines if this is a good long-term policy.

With tax collections falling majorly this year, the government now wants public sector enterprises (PSEs) to chip in by paying a higher dividend than they normally do. The higher dividends will help fill up a part of the gap. Mint examines if this is a good long-term policy.

How bad is the drop in government revenue?

The gross tax revenues of the government for the period between April-September are down 21.6% to 7.21 trillion. Other than Union excise duties, the collections of all other taxes have fallen because of a slowdown in economic activity. The jump in excise duties has primarily been driven by the government increasing the excise duties on petrol and diesel. Of the total disinvestment target of 2.1 trillion for 2020-21, the government has earned only around 5,781 crore or just 2.75% of the entire target. This is despite the stock market having been on a strong footing for most part of this fiscal.

How has the trend in PSE dividends been?

Dividends given by the central public sector enterprises peaked at 0.33% of the gross domestic product (GDP) in 2009-10 and have largely been falling since 2011-12. A decade later in 2019-20, the dividends stood at 0.24% of GDP. Clearly, the contribution of PSEs in the form of dividends has gone down over the years. This isn’t surprising given that the overall net profit of PSEs has fallen from 1.45% of the GDP in 2009-10 to 0.75% of the GDP in 2018-19, the last year for which data is available. The government now wants PSEs, to even dip into their reserves and pay a dividend this year, if the need be.

Why have the profits of PSEs been declining?

Barring a few sectors, where PSEs have a strong footing, they have been losing out to private players. In 2018-19, PSEs made a total profit of 1.43 trillion, out of which the top 10 profit making PSEs accounted for over 75% share amounting to 1.08 trillion. These companies operate in the areas of oil and gas, power and coal, where they don’t have much competition.

What does this mean for Centre’s finances?

In 2018-19, 70 out of the 249 operating PSEs incurred losses. Many others did not earn enough money to justify the quantum of capital invested in them by the government. The return on capital employed of PSEs in 2009-10 had stood at 10.15%. By 2018-19, this figure had dropped to 5.56%. In a capital starved country such as India, this is not the most efficient way of going about things. The lack of profit-making PSEs also explains the slowdown in the dividend that has been paid to the government.

What can the govt do to get out of this ditch?
The need of the hour is to look at these public sector enterprises as investments. The ones that are not earning adequate profit to justify the capital invested in them by the government need to be shut down or sold off. A lot of right noises have been made on this front over the years. However, the efforts taken so far have failed to bear fruit. Now is as good as a time as any to do the right things in this space.

Vivek Kaul is the author of Bad Money.

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DIGI GOLD: WHAT IS GOLD ACCUMULATION SCHEME?

Customer has complete freedom to seek physical delivery of gold in the form of coins or bars at anytime or multiple times according to their discretion.

One can buy gold online via mobile wallets such as Paytm, Phonepe, and under the Gold Rush plan of Stock Holding Corporation of India. These gold buying options are offered either in association with MMTC-PAMP or SafeGold or both. What are these digital gold schemes. Read on to know.

MMTC-PAMP has developed a Gold accumulation plan for customers who wish to buy and accumulate Gold without worrying about safe keeping of the metal. The customer has the flexibility to acquire gold of value as low as 1,000 or in multiple thereof. The customer is not obligated to make any fixed or periodic payments. The gold purchased is set-aside in an allocated enclosure within the MMTC-PAMP vault with full insurance cover and security.

SafeGold is another digital that allows you to buy, sell and take delivery of 24k physical gold, at low ticket sizes, around the clock, with the tap of a button.

Each customer opting to accumulate gold under the scheme is required to open a metal account after complying with a defined registration process.

Customer has complete freedom to seek physical delivery of gold in the form of coins or bars at anytime or multiple times according to their discretion under both the options.

Gold can be bought or withdrawn online 24 hours a day, 7 days a week, and 365 days a year. Physical gold purity is .9999.

Stock Holding Corporation of India, India’s leading securities provider, operates the GAP under the name “GoldRush” and MMTC-PAMP provides the entire metal availability and back office support including posting gold prices, its physical storage and delivery.

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A DAY AFTER RCEP, JAISHANKAR SLAMS TRADE PACTS, GLOBALISATION

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

Raw deal: In the name of openness, we have allowed unfair production advantages from abroad, Mr. Jaishankar said.

India has allowed other countries ‘unfair’ trade and manufacturing advantages “in the name of openness”, External Affairs Minister S. Jaishankar asserted in a speech criticising globalisation on Monday. Speaking just a day after the 15-nation Regional Comprehensive Economic Partnership (RCEP) was signed, Mr. Jaishankar was particularly scathing of trade agreements.

“In the name of openness, we have allowed subsidised products and unfair production advantages from abroad to prevail. And all the while, this was justified by the mantra of an open and globalised economy,” Mr. Jaishankar said at the Deccan Dialogue conference supported by the Ministry of External Affairs.

Without directly referring to the RCEP, the trading bloc that India decided to walk out of a year ago, Mr. Jaishankar said that the government had decided to move away from trading arrangements, towards an “Aatmanirbhar Bharat” (self-reliant India) policy where India could decide the rules and consolidate “comprehensive national power”.

“The effect of past trade agreements has been to deindustrialise some sectors. The consequences of future ones would lock us into global commitments, many of them not to our advantage. Those who argue stressing openness and efficiency do not present the full picture,” Mr. Jaishankar said. India was not “turning its back on the world” but strengthening itself.

The minister’s comments indicate that India is not considering an offer from RCEP nations to rejoin the group.

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FALLEN THROUGH THE CRACKS

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

Representational image.  | Photo Credit: V. Ganesan

The year 2020 marks the anniversary of two major events concerning the status of women. First, it is nearly fifty years since the Committee on the Status of Women in India (CSWI) submitted the report ‘Towards Equality’ to the United Nations (UN), which focused on women-sensitive policymaking in India, providing a fresh perspective on gender equality. Second, it is the 25th anniversary of the Beijing Platform for Action, a benchmark for analysing the condition of women and State-led empowerment. Noting these jubilees, this article reviews the position of women’s work in India, the effects of the ongoing pandemic, and the new Indian labour codes in relation to women’s labour.

India’s female employment trends do not resonate with its high economic growth, low fertility, and rise in female schooling. Between 2004 and 2018 — unlike the shrinking gender gap in educational attainment — the gender gap in workforce participation yawned, demonstrating one of the lowest labour participation rates for women, which have been consistently declining since 1950.

The recently released Periodic Labour Force Survey (PLFS), 2018-19 indicates a dramatic fall in absolute employment for men, and more so women, who faced a decline in labour participation rates (from 2011 to 2019) in rural areas from 35.8% to 26.4%, and stagnation in urban areas at around 20.4%. Furthermore, the World Economic Forum’s Global Gender Gap Report ranks India at 149 among 153 countries in terms of women’s economic participation and opportunity. The gender wage gap is the highest in Asia, with women 34% below men (for equal qualification and work), according to a 2019 Oxfam report. This stifles women’s labour force participation, despite the guarantees of India’s Equal Remuneration Act, 1976. Women also disproportionately populate India’s informal economy, and are concentrated in low-paid, highly precarious jobs.

Research analyst Shiney Chakraborty’s estimates show that agriculture employs nearly 60% of women, who form the bulk of landless labourers in an almost completely informal sector, with no credit access, subsidies, little equipment, and abysmal asset ownership. According to IndiaSpend, only about 13% of women tillers owned their land in 2019. Manufacturing employs (almost completely informally) only around 14% of the female labour force. The service sector sees women disproportionately involved in care-work. According to the National Sample Survey (NSS) 2005, over 60% of the 4.75 million domestic workers are women.

In the context of the ongoing pandemic, in India, the Centre for Monitoring Indian Economy (CMIE) showed that 39% of women lost their jobs in April and May compared to 29% of men, corroborating the UN’s fears of COVID-19’s compounding impact on already low-paid and insecurely-employed poor women. Unsurprisingly, India’s strikingly unequal gender division of household work has also worsened during the pandemic. Women spend (an unpaid) three times (as per NSS) or even six times (as per OECD) more time than men in household work. According to the World Health Organization, 70% of the world’s healthcare and social workers are women. In India, women are indispensable as frontline ASHA workers, but they are underpaid and overworked.

India recently passed three labour codes, on occupational safety, health and working conditions, on industrial relations, and on social security. The laws are expected to transform labour
relations, but they only end up ‘easing business’. The codes acknowledge neither the gender wage gap nor non-payment of wages and bonuses, and ignore informal (mostly women) workers in terms of social security, insurance, provident fund, maternity benefits, or gratuity. Though ‘allowing’ women to work night shifts, there is little focus on accountability and responsibility; even protection from sexual harassment at workplace is missing. Maternity benefits remain unchanged from the 2017 amendment, with an insensitively formulated adoption leave policy that grants leave to women who adopt infants under the age of three months, ignoring that most children are much older at the time of adoption, and offering little incentive to adopt long-awaiting older children.

The recent labour codes disregard women’s work conditions. This is, bluntly, women-insensitive labour policy-making, and, all in the middle of a crushing pandemic. Gender cannot be wished away, since every policy and code affects a giant proportion of India’s workforce — both paid and unpaid, acknowledged and unacknowledged.

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Suresh Nambath
To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC
AGRICULTURE AND RURAL SECTOR CAN JUMP-START ECONOMY IF WE FIX ITS ILLS

Relevant for: Indian Economy | Topic: Agriculture Issues and related constraints

In the first quarter of this financial year, India’s GDP contracted by 23.9 per cent but agriculture grew by 3.4 per cent. Can agriculture make up for degrowth elsewhere? And can it do better than 3.4 per cent? To the first question, I would say — yes, up to a point; to the second — definitely.

Clearly, agriculture, which contributes only 15-16 per cent of GDP, cannot overturn contraction in other sectors, but along with the rural sector, it could jump-start the economy, if we fixed its ills and transformed it.

To begin with, we must reduce our preoccupation with prices and markets to first ensure that more farmers produce enough surplus to gain from higher prices and expanded markets. Despite green shoots, agriculture is ailing. Only 44 per cent of irrigable area is irrigated. Groundwater is fast depleting, soils are degraded, extension services barely function and climate change is speeding up.

Consider water, the key to higher yields. Almost 90 per cent of India’s groundwater goes into irrigation and is grossly over-extracted. In Punjab, water tables have been falling by over 2.3 ft/year since 2000, propelled by free electricity and no meters (only West Bengal meters groundwater use). By 2030, 65 per cent of India’s blocks will be over-extracting groundwater (World Bank).

Opinion | Yoginder K Alagh writes: Farm bills can achieve a lot, but in a crisis year government should exercise caution

Moreover, 86 per cent of our farmers cultivate two ha or less, often in fragments; 75-80 per cent borrow credit informally; 70 per cent provide only 4-5 per cent of marketed surplus in wheat and rice, even in surplus states; barely 6-12 per cent sell in mandis, and few gain from MSPs. Farm incomes are low and erratic. Millions have fallen into extreme poverty with COVID-19. In its current state, agriculture cannot lubricate our growth, let alone engine it.

However, agriculture can do hugely better if we change the way we farm; focus more on “allied sectors” — livestock, fisheries and forests — and build strong growth links with the non-farm rural economy which, along with agriculture, contributes some 46 per cent of NDP.

How do we change the way we farm? First, remodel irrigation by expanding rainwater harvesting (for both surface water and recharging groundwater); promoting micro-irrigation for efficient water use; and regulating groundwater extraction. Between 1999 and 2009, Gujarat’s agriculture grew at 9.6 per cent, attributed mainly to rainwater harvesting and BT cotton (T Shah et al, EPW). In 10-15 years, Gujarat built 0.5 million micro-structures: Check dams, bunds, etc. MGNREGA could be put to similar use in other states.

On micro-irrigation, again, a 2014 government study for 13 states found it significantly reduced water and fertiliser use, while raising wheat yields by 25 per cent, and vegetable yields by 52 per cent. However, only 10 per cent of India’s cropland has micro-irrigation. Regulated irrigation expansion will increase yields, cropping intensity and high-value crops.
Second, agroecological farming can save costs, employ more labour and rejuvenate soils. A survey of 286 experiments in sustainable farming across 57 countries found a mean yield increase of 79 per cent (J Pretty et al, 2006). Moving from cereals to multiple products, including poultry, fruits and vegetables, will also fit our changing dietary patterns.

Opinion | K K Ragesh writes: Rules, precedent were ignored to push through anti-farmer Bills in Rajya Sabha

Third, we need more research into heat-resistant crops and better extension. A study in Science (366, 2019) reported that agricultural information delivered via cell-phones increased yields by 4 per cent and the odds of adopting recommended inputs by 22 per cent, across several countries, including India.

Fourth, and most essential, is institutional change. Our farms are too small for tapping scale economies or effectively exploiting markets. What we need is smallholders pooling resources and farming cooperatively in small groups. People often say: But cooperative farming failed in the 1960s. They forget that we misguided pushed large and small farmers into one cooperative. Today we know better. Cooperation works if groups are small, relatively homogenous, constituted by friends and neighbours, cemented by trust.

Kerala is an obvious success story. It has 68,000 all-women group farms with 4-10 women jointly leasing land, pooling labour, sharing costs and returns. My in-depth research on a sample of group and individual farms in two districts showed that groups had 1.8 times the annual value of output/ha and five times the net returns/farm relative to individual family farms (95 per cent male-managed). Mean net return/group farm was Rs 1.2 lakh, thrice the national average of Rs 37,000/farm that year. Groups also enabled women to deliver on banana contracts. Notably, 87 per cent of the 50,000 groups cultivating under COVID survived economically, including vegetable farmers, whereas most individual vegetable farmers lost out due to lack of harvest labour and market outlets.

Is group farming specific to Kerala? No. We have emerging examples in Bihar, West Bengal, Gujarat and Telangana. In Bihar and Bengal, farmers have pooled their land into contiguous plots, and use electric pumps for drip irrigation, which was not possible with scattered plots and few power sources. These smallholder collectives also cooperate for input purchase and farm operations. Many have doubled their wheat and rice yields. And they, as also those in Gujarat, report being more food secure during the pandemic than their smallholder neighbours farming alone. Notably, these are not the Farmer Producers Organisations that market together but cultivate separately. The groups I mention do joint production and have adapted the SHG model. Many of India’s six million SHGs could run group enterprises.

Opinion | Ashok Gulati writes: On farm bills, government must get its act together, but Opposition is misguided

Fifth, livestock, fisheries and forests, which account for 26 per cent, 5.5 per cent and 8.5 per cent of GVP from agriculture, have huge underused potential. Livestock is much discussed, but what about fisheries? India is the world’s second-largest producer of aquaculture fish and employs 13.5 million people, 32 per cent being women (FAO). In 2017-18, our fisheries grew at 11.9 per cent.

Similarly with forests. They provide an estimated 47 per cent of India’s “GDP of the poor” (TEEB). Since 1990, when we launched joint forest management with community cooperation, forest cover has risen to 21.5 per cent of geo-area. Our target is 33 per cent. Forest protection and plantation, biodiversity restoration and eco-tourism can create millions of jobs.
Finally, we must strengthen farm and rural non-farm linkages: 61 per cent of rural incomes come from non-farm activities. A vast under-tapped potential lies in agro-processing (rural families purchase 80 per cent of the food they eat); machine tools and agro-machinery (consider Ludhiana in the 1980s); farm tourism; and health and education services. In turn, this will boost aggregate demand. Expenditure elasticities calculated by Maitreesh Ghatak et al using CMIE data indicate that a rise in incomes of the bottom 50 per cent of rural households would raise demand for many local products.

Transforming agriculture and its allied sectors and creating synergy with the non-farm rural economy would energise growth and invigorate rural communities. This would also help more rural youth find local jobs, rather than be forced to live as aliens in inhospitable cities.

This article first appeared in the print edition on November 17, 2020 under the title ‘Spot the seeds of growth’. The writer is professor of Development Economics and Environment, University of Manchester, UK

An Expert Explains: What are the broad arguments for and against the farm laws?

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END
SHIFTING SANDS FOR ASIAN ECONOMIES

Discussions on the post-pandemic global economy have often predicted that China’s appeal as a business destination would fade, losing favour as the global manufacturing hub. Arguments have been made that production would be dispersed to other appealing locations mostly in Asia, and even to those outside. It was expected that this relocation of production would benefit emerging labour-abundant economies. The reality, however, is more nuanced.

Some labour-intensive industries, such as textiles and apparels, have been moving to Bangladesh and Sri Lanka as labour costs in China are increasing. But trends in other industries show that businesses have mostly remained in China.

Yossi Sheffi, professor at the Massachusetts Institute of Technology and an expert in systems optimisation and supply chain management, points out in a recent article that the combination of the trade war and the COVID-19 crisis has resulted in firms establishing relatively small-scale operations elsewhere. This is perceived as a buffer against being completely dependent on China, referred to as the ‘China +1’ strategy.

There are three reasons for firms to remain in China and pursue this strategy: First, starting an enterprise and maintaining operations in China are much easier than elsewhere. Second, Chinese firms are nimble and fast, which is evident from the quick recovery of Chinese manufacturing after the lockdown. Third, many global companies have spent decades building supply chains in China. Hence, getting out would mean moving the entire ecosystem, which involves time and expenditure. This strategy of global firms has led to an intensification of competition among Asian economies to be that ‘plus one’ in the emerging manufacturing landscape.

In 1968, Swedish Nobel laureate Gunnar Myrdal published the monumental ‘Asian Drama – An Inquiry into the Poverty of Nations’, which, focusing on South and Southeast Asia, was pessimistic about their development prospects. Half a century later, there has been remarkable growth in the very region in which ‘Asian Drama’ was set. Openness and trade exploded, and these newly industrialised economies rode the wave of exporting goods to the rest of the world, while raising their own levels of living.

A new ‘Asian Drama’ is likely to unfold with the formal launch of the Regional Comprehensive Economic Partnership (RCEP). Asia’s growth would hinge on the role of trade and investment flows into these economies, and this would again be the centrepiece of global growth, as the 15 member countries account for nearly 30% of the global GDP. This largest free trade agreement in the world includes provision to cover the entire gamut of trade and commerce. Unlike the portrayal in ‘Asian Drama’, these economies have spruced up their institutional and infrastructural settings, which would be the deciding factor in the new edition of ‘Asian Drama’.

The RCEP and the ‘China +1 strategy’ is likely to impact investment flows into Vietnam, India, Bangladesh and Indonesia, which have emerged as key investment destinations.

India faces three challenges in this race. First is the task of increasing domestic public investments, which have a central role in economic activity, for both demand and supply sides. According to the International Monetary Fund, “increasing public investment by 1% of GDP could boost GDP by 2.7%, private investment by 10%, and employment by 1.2%, if investments are of high quality and if existing public and private debt burdens do not weaken the response of
In India, even before the pandemic, the growth in domestic investments had been weak, and this seems to be the opportune time to bolster public investments as interest rates are low globally and savings are available. Private investments would continue to be depressed, due to the uncertainty on the future economic outlook, which underscores the need to undertake high-quality public investments.

Second, India needs a major overhaul in her trade policy, as in the pre-COVID-19 era, world trade had been rattled by tendencies of rising economic nationalism and unilateralism leading to the return of protectionist policies. A revamped trade policy needs to take into cognisance the possibility of two effects of the RCEP: the ‘Walmart effect’ and a ‘switching effect’. The first would sustain demand for basic products and help in keeping employee productivity at an optimum level, but may also reduce wages and competition due to sourcing from multiple vendors at competitive rates. Switching effects would be an outcome of developed economies scouting for new sources to fulfil import demands, which requires firms to be nimble and competitive. Trade policy has to recognise the pitfalls of the present two-track mode, one for firms operating in the ‘free trade enclaves’ and another for the rest. A major fallout of this ‘policy dualism’ is the dampening of export diversification. The challenge is to make exporting activity more attractive for all firms in the economy.

Third is to increase women’s participation in the labour force. While India’s GDP has grown by around 6% to 7% per year on an average in the recent years, educational levels of women have risen, and fertility rates have fallen, women’s labour force participation rate has fallen from 42.7% in 2004–05 to 23.3% in 2017–18. This means that three out of four Indian women are neither working nor seeking paid work. Globally, India ranks among the bottom ten countries in terms of women’s workforce participation. When Bangladesh’s GDP grew at an average rate of 5.5% during 1991 and 2017, women’s participation in the labour force increased from 24% to 36%. India could gain hugely if barriers to women’s participation in the workforce are removed, for which the manufacturing sector should create labour-intensive jobs that rural and semi-urban women are qualified for.

India’s approach to the changed scenario needs to be well-calibrated. The intensity of competition is evident from the fact that after India passed three labour code Bills on September 23, Indonesian Parliament on October 5 passed a legislation that slashes regulations contained in more than 70 separate existing laws, to open up the country to more foreign investment. Bangladesh on its part plans to start negotiations with a dozen countries, including the U.S. and Canada, for signing preferential trade agreements.

Thus, the stage is set for a new ‘Asian Drama’. What will be India’s role in it? Well, it will not be on the basis of past accolades, for sure.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise
like NRC
THE ‘TIME USE SURVEY’ AS AN OPPORTUNITY LOST

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The all India Time Use Survey, 2019 has just been published by the Government of India. As a survey that has covered the entire country for the first time, the National Statistical Office needs to be complimented for accomplishing the task.

The “Time Use Survey, or TUS, provides a framework for measuring time dispositions by the population on different activities. Its primary objective is to measure participation of men and women in paid and unpaid activities... TUS is an important source of information on the time spent in unpaid care-giving activities, volunteer work, unpaid domestic service producing activities of the household members. It also provides information on time spent on learning, socializing, leisure activities, self-care activities, etc., by the household members”.

Data | 92% Indian women take part in unpaid domestic work; only 27% men do so

The data collection was done for one day — normal or other day in a 24-hour time diary, beginning at 4 a.m. and till 4 a.m. the next day. In developed countries where literacy is high, time use is recorded in a 24-hour time diary by the respondents themselves, using 10-15 minute time slots.

In India, where literacy is low, the time diary was filled in by interviewers in 30 minute time slots through face-to-face interviews. The International Classification of Activities for Time-Use Statistics of the United Nations Statistics Division, was used for classification of activities.

Two recent developments which have pushed up the demand for TUS globally are the commitment to achieving the Sustainable Development Goals (SDG) by 2030, and the path-breaking Resolution of the 19th International Conference on Labour Statistics, on “Statistics of Work, Employment and Labour Underutilization — International Labour Organization 2013”. The Government of India is fully committed to the SDGs and has also indicated its inclination to implementing the second. TUS data are also required for understanding and monitoring major socioeconomic concerns of countries. Somehow, both these developments have not been incorporated in this first time use survey.

Time use data are needed for implementing not only the SDG 5.4 on unpaid work, but also for implementing the SDG-1 to the SDG-10. Even for the SDG 5.4 — considered to be the most important SDG for measuring and valuing unpaid domestic services and unpaid care by women and men, and reducing unpaid work through public services and infrastructure — the Indian TUS data are not adequate. Unpaid work is usually valued using the input method, i.e. valuing the labour input in unpaid work using suitable prices (minimum wages of workers, housekeeper’s wages, opportunity costs or specialised wages). However, this valuation is not adequate, because it values only the labour input and leaves out the capital and technology used. Satellite accounts of unpaid work, however, takes into consideration capital/technology while computing the accounts. Satellite accounts of unpaid work use the principal functions concept, which can be compared with the national accounts functions. Under this approach, unpaid work is presented in terms of this classification of the functions, similar to the classification of the functions under the national-accounts. These accounts would be comparable with the national income accounts, and measure the correct contribution of unpaid work to the GDP.

Comment | Reset rural job policies, recognise women’s work
This accounting requires information on the assets of a household that includes assets used in domestic services, vehicles used in travel and commuting, and consumer durables, etc. The accounting also requires wage rates prevailing in different locations. Unfortunately, this information is not collected by this TUS in the background questionnaire. In the absence of this information, valuation will not be feasible in satellite accounts. Since there is no data collected on the ownership of the assets by gender, valuation by gender will not be feasible.

The ILO’s Resolution — referred to above — presents a new definition of work, new forms of work and a new labour force status classification. It defines “work” as “any activity performed by persons of any sex and age to produce goods or provide services for use by others or own use”. “Work” is divided into five categories: employment (production of goods and services for pay, profit or barter); own use production of goods and services by households; unpaid trainee work, volunteer work; and other work (compulsory work performed without pay to produce goods/services for others). Unpaid domestic services and unpaid care are now formally recognised as “work” for the first time.

Clearly, the Resolution cannot be implemented without time use data. Several countries have initiated its implementation, and the ILO has also undertaken pilot studies in several countries. It was a good opportunity for India to implement the Resolution. However, the Standing Committee on Labour Force Statistics that designed the time use survey decided to keep the Resolution out and conducted an independent TUS. The TUS does not even have employment as one of the objectives of the TUS.

Experts have always argued that Indian Employment/Unemployment Surveys, or EUS, tend to under-report informal workers, due to the nature of informal employment. Being frequently intermittent, scattered, temporary, short term or unstable, it is frequently not reported accurately by the EUS. Again, women frequently view work as a part of household work and under-report it. Also, the EUS are not equipped to collect data on multiple jobs performed by people, the time spent on work (i.e. intensity of work), the scattered nature of work, subsistence work, and work performed under simultaneous activities. The TUS, which collects comprehensive information on all human activities, provides improved estimates of the workforce as well as shed light on important characteristics of the workforce. The TUS can thus provide critical information to add the richness of the EUS. The Expert Committee on the 62nd Round of the NSSO on EUS therefore recommended that a national TUS should follow an EUS.

A TUS collects data only for one or two days per person in a week, while according to the ILO, “a person is a worker if she/he has spent at least one hour on work in the reference week”. As informal work is frequently intermittent and irregular, the TUS information on one day’s work (for less than one hour) or non-work cannot qualify the person to be a worker or non-worker. It is quite likely that the person reporting as a non-worker on one day may be working on other days, or one reporting work may not work for one hour totally in the week. Thus, the TUS cannot provide information on the workforce/employment status of persons. It is necessary, therefore, to draw the TUS sample (which is always smaller) from the same sampling framework that is used by the labour force survey (EUS), with some common units. The TUS can complement the labour force survey (LFS) information. The independent TUS cannot provide estimates of the workforce/labour force.

In short, the Indian TUS has missed two important opportunities — of implementing the SDG 5.4 and the ILO’s important resolution.

*Indira Hirway is Director and Professor of Economics, Center For Development Alternatives, Ahmedabad*
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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC
India has no balance of payments problem. Nor is it constrained any longer by endemic shortages of food, fuel and other essential raw materials. Even government finances are on the mend, with the goods and services tax regime stabilising and the worst of the COVID lockdown-induced revenue shortfalls over. But there is one unresolved crisis — of a broken banking system — that can hold back economic growth. Public sector banks (PSBs), in the last five years, have seen their share in total advances and deposits fall from 74-76 per cent to 60-65 per cent. But these are still far too high and also worrying, given the accumulation of bad loans, both past and prospective. The Centre cannot keep recapitalising PSBs. While there are well-run private sector banks, they cannot pick up the slack from the vastly reduced lending capacity of PSBs.

The solution is simple: India today needs more banks. It is in this context that the recommendation by a Reserve Bank of India (RBI)-appointed internal working group to allow non-banking financial companies (NBFC) with asset size of Rs 50,000 crore or more to convert to banks, is welcome. Such NBFCs could include those controlled by large corporate houses, subject to their having a minimum of 10 years of successful operations and the promoters being “fit and proper”. If the panel’s suggestions are accepted, many NBFCs — like Bajaj Finserv, Aditya Birla Capital, L&T Finance, M&M Financial Services and Cholamandalam Investment & Finance — would qualify. Their lending books are already bigger than many banks. The integrity and reputation of the promoters in these cases, too, isn’t under question. If becoming banks gives them greater access to low-cost public deposits and thereby enables more lending, that is good for the economy’s growing credit requirement.

Converting established NBFCs into banks is different from permitting large corporate/industrial houses in general to set up banks. The RBI panel has rightly adopted a cautious approach in this regard. Banking as a business involves deploying others’ money. India’s past history is replete with instances of business houses using banks as captive fund pools for financing other group entities and related parties. Licences should, hence, be issued selectively and preference given to those with a proven track record in running NBFCs as independent, arm’s-length businesses. Banking regulations should ensure adequate safeguards against “connected lending”, though one mustn’t forget that recent scams have been more about PSBs and so-called professional-promoted entities (Yes Bank and Global Trust Bank). The need for better supervision mechanisms is as urgent as the need for more banks, small and big.
SAY ‘NO’ TO CORPORATE HOUSES IN INDIAN BANKING

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

An Internal Working Group of the Reserve Bank of India (RBI) has recommended that corporate houses be given bank licences. In today’s pro-business climate, you would have thought the proposal would evoke jubilation. It should have been hailed as another ‘big bang’ reform that would help undo the dominance of the public sector in banking. Instead, the reaction has ranged from cautious welcome to scathing criticism. Many analysts doubt the proposal will fly. It is worth examining why.

The idea of allowing corporate houses into banking is by no means novel. In February 2013, the RBI had issued guidelines that permitted corporate and industrial houses to apply for a banking licence. Some houses applied, although a few withdrew their applications subsequently. No corporate was ultimately given a bank licence. Only two entities qualified for a licence, IDFC and Bandhan Financial Services.

Dangerous suggestion: On allowing corporate houses to set up banks

The RBI maintained that it was open to letting in corporates. However, none of the applicants had met ‘fit and proper’ criteria. The IWG report quotes the official RBI position on the subject at the time. “At a time when there is public concern about governance, and when it comes to licences for entities that are intimately trusted by the Indian public, this (not giving a license to any corporate house) may well be the most appropriate stance.”

In 2014, the RBI restored the long-standing prohibition on the entry of corporate houses into banking. The RBI Governor then was Raghuram G. Rajan. Mr. Rajan had headed the Committee on Financial Sector Reforms (2008). The Committee had set its face against the entry of corporate houses into banking. It had observed, “The Committee also believes it is premature to allow industrial houses to own banks. This prohibition on the ‘banking and commerce’ combine still exists in the United States today, and is certainly necessary in India till private governance and regulatory capacity improve. (https://bit.ly/3ftp7Yf)” The RBI’s position on the subject has remained unchanged since 2014.

What would be the rationale for any reversal in the position now? The Internal Working Group report weighs the pros and cons of letting in corporate houses. Corporate houses will bring capital and expertise to banking. Moreover, not many jurisdictions worldwide bar corporate houses from banking.

Also read | S&P ‘sceptical’ of banks’ corporate ownership

It is the downside risks that are worrying in the extreme. As the report notes, the main concerns are interconnected lending, concentration of economic power and exposure of the safety net provided to banks (through guarantee of deposits) to commercial sectors of the economy. It is worth elaborating on these risks.

Corporate houses can easily turn banks into a source of funds for their own businesses. In addition, they can ensure that funds are directed to their cronies. They can use banks to provide finance to customers and suppliers of their businesses. Adding a bank to a corporate house thus means an increase in concentration of economic power. Just as politicians have used banks to
further their political interests, so also will corporate houses be tempted to use banks set up by them to enhance their clout.

Also read | ‘Raise private bank promoter cap to 26%’

Not least, banks owned by corporate houses will be exposed to the risks of the non-bank entities of the group. If the non-bank entities get into trouble, sentiment about the bank owned by the corporate house is bound to be impacted. Depositors may have to be rescued through the use of the public safety net.

The Internal Working Group believes that before corporate houses are allowed to enter banking, the RBI must be equipped with a legal framework to deal with interconnected lending and a mechanism to effectively supervise conglomerates that venture into banking. It is naive to suppose that any legal framework and supervisory mechanism will be adequate to deal with the risks of interconnected lending in the Indian context.

Corporate houses are adept at routing funds through a maze of entities in India and abroad. Tracing interconnected lending will be a challenge. Monitoring of transactions of corporate houses will require the cooperation of various law enforcement agencies. Corporate houses can use their political clout to thwart such cooperation.

Also read | Rajan, Acharya caution against proposal to allow corporate houses to set up banks

Second, the RBI can only react to interconnected lending ex-post, that is, after substantial exposure to the entities of the corporate house has happened. It is unlikely to be able to prevent such exposure.

Third, suppose the RBI does latch on to interconnected lending. How is the RBI to react? Any action that the RBI may take in response could cause a flight of deposits from the bank concerned and precipitate its failure. The challenges posed by interconnected lending are truly formidable.

Fourth, pitting the regulator against powerful corporate houses could end up damaging the regulator. The regulator would be under enormous pressure to compromise on regulation. Its credibility would be dented in the process. This would indeed be a tragedy given the stature the RBI enjoys today.

Also read | Left slams RBI proposal to give banking licences to corporates

What we have discussed so far is the entry of corporate houses that do not have interests in the financial sector. There are corporate houses that are already present in banking-related activities through ownership of Non-Banking Financial Companies (NBFCs).

Under the present policy, NBFCs with a successful track record of 10 years are allowed to convert themselves into banks. The Internal Working Group believes that NBFCs owned by corporate houses should be eligible for such conversion. This promises to be an easier route for the entry of corporate houses into banking.

The Internal Working Group argues that corporate-owned NBFCs have been regulated for a while. The RBI understands them well. Hence, some of the concerns regarding the entry of these corporates into banking may get mitigated. This is being disingenuous.

The Hindu In Focus podcast | What if corporates owned banks?
There is a world of difference between a corporate house owning an NBFC and one owning a bank. Bank ownership provides access to a public safety net whereas NBFC ownership does not. The reach and clout that bank ownership provides are vastly superior to that of an NBFC. The objections that apply to a corporate house with no presence in bank-like activities are equally applicable to corporate houses that own NBFCs.

There is another aspect to the proposal that cannot be ignored. Corporate houses are unlikely to be enthused merely by the idea of growing a bank on their own. The real attraction will be the possibility of acquiring public sector banks, whose valuations have been battered in recent years. Public sector banks need capital that the government is unable to provide. The entry of corporate houses, if it happens at all, is thus likely to be a prelude to privatisation. Given what we know of governance in the Indian corporate world, any sale of public sector banks to corporate houses would raise serious concerns about financial stability.

India’s banking sector needs reform but corporate houses owning banks hardly qualifies as one. If the record of over-leveraging in the corporate world in recent years is anything to go by, the entry of corporate houses into banking is the road to perdition.

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DANGEROUS SUGGESTION: THE HINDU EDITORIAL ON RBI SUGGESTION TO ALLOW CORPORATE HOUSES TO SET UP BANKS

Most often, reports prepared by the RBI’s internal working groups barely draw much attention beyond the relevant circles in the banking and financial services industries and rarely ever evoke protest. But the strong reactions to an internal panel’s report on November 20, almost a full month since the group of central bank officials had submitted their recommendations on October 26, come as no surprise. The panel, which was tasked with reviewing ownership norms and corporate structure for private sector banks, has made worthwhile suggestions including ways to harmonise licensing norms for all banks including older legacy lenders and newer entrants.

While the panel’s appointment in June — at a time when the country was in the throes of coping with the severe economic fallout of the COVID-19 lockdown — got little attention, its suggestion that corporate or industrial houses be allowed to promote banks has triggered widespread concern. And among those with reservations are at least three former senior central bankers and a global credit rating agency. Most intriguing is that the panel, which consulted with experts ranging from former RBI officials to legal and finance professionals, clearly acknowledges that all but one of these outside experts were unequivocal in their opinion that given the prevailing far-from-ideal corporate governance culture, corporates ought to be barred from promoting banks.

The difficulty in ring-fencing “the non-financial activities of the promoters with that of the bank”, was flagged by these experts as the central concern, a fear that was echoed by S&P Global Ratings too. Former RBI Governor Raghuram Rajan and former Deputy Governor Viral Acharya — who was appointed by the Modi government after Mr. Rajan had left the central bank — in a joint article on LinkedIn have termed the proposal a ‘bad idea’ and questioned its rationale. Acknowledging the RBI group’s caveats including its assertion that corporates only be allowed as promoters after “necessary amendments to the Banking Regulation Act, 1949” are enacted to safeguard against connected lending, the two economists have, however, pointed to the bailouts of Yes Bank and Lakshmi Vilas Bank as examples of the heightened risk posed by any move to loosen bank licensing norms. For all its regulatory powers and supervisory capabilities, the RBI failed to spot the build-up of troubled exposures at Yes Bank in time. The dangers posed to overall financial stability by letting industrial houses have access to relatively inexpensive capital in the form of household savings through banks, howsoever legally regulated, are far too great to risk at the altar of liberalisation of ownership norms. The RBI’s decision makers need to reject this suggestion outright and place it where it belongs — the shelf.
difficult times. To enable wide dissemination of news that is in public interest, we have increased the number of articles that can be read free, and extended free trial periods. However, we have a request for those who can afford to subscribe: please do. As we fight disinformation and misinformation, and keep apace with the happenings, we need to commit greater resources to news gathering operations. We promise to deliver quality journalism that stays away from vested interest and political propaganda.

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From the abrogation of the special status of Jammu and Kashmir, to the landmark Ayodhya verdict, 2019 proved to be an eventful year.

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SUStAINABLE DEVELOPMENT GOALS (SDG)
INVESTOR MAP LAUNCHED BY UNDP AND INVEST INDIA

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

Lucknow: The United Nations Development Program (UNDP) and Invest India has launched a Sustainable Development Goals (SDG) Investor Map for India, laying out 18 Investment Opportunity Areas (IOAs) in six SDG enabling sectors, aimed at aiding India's journey at fulfilling the goals at a time when Covid-19 pandemic has caused a large scale disruption in countries' plans to realise them.

Due to Covid-19, the SDG financing gap has widened by an estimated $400 billion in developing countries, adding to the pre-COVID shortfall of $2-2.5 trillion per annum.

The SDG Investor Map thus maps the overlaps and gaps between public sector priorities and private sector interest, aiming to bridge the gap between private-sector investment and public sector support for 6 SDG-enabling sectors that include education, healthcare, agriculture and allied activities, financial services, renewable energy & alternatives and sustainable environment.

"India occupies a key role in determining the success of the SDGs, globally. Invest India is pleased to have partnered with UNDP India to develop the first-ever 'SDG Investor Map for India'. This initiative is an instrumental stride in India's development trajectory, and I believe it couldn't have come at a better time. We hope our data-backed research and insights serve as useful blueprints to understand how best the SDG financing gap can be narrowed in India", Deepak Bagla, CEO & MD, Invest India, said in a press note.

83% of the identified IOAs address job creation and industrialization needs, 70% focus on inclusive business models and 50% leverage digital technologies to deliver commercial returns and impact at scale. Notable IOAs include ‘Online Supplementary Education for K12’ (Education), ‘Tech-Enabled Remote Care Services’ (Healthcare), ‘Digital Platforms to service input/output needs of farmers to enable easy access to markets’ (Agriculture) and ‘Access to credit by Micro, Small and Medium Enterprises and Low-Income Groups especially through digital platforms for Income Generating Purposes’ (Financial Services).

"The Map comes at a critical time for India. With the emergence of the COVID-19 pandemic, the financing gap for the SDGs in India has only widened further and decades of development progress is nearly on the verge of reversal. Investing in the SDGs at this point is crucial to 'Building Back Better' and making the economy and our societies more resilient and sustainable. Enhanced productivity, technology adoption and increased inclusion are all critical factors that this map uses to identify the most attractive sectors for investors," Shoko Noda, Resident Representative, UNDP India.

END

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BANKING HEALTH AND THE ‘K CURVE’ DYNAMICS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

As the financial ecosystem navigated one more pothole last week, with depositors in Lakshmi Vilas Bank Limited (LVB) getting bailed out, the implications of the Reserve Bank of India’s sleight of hand have got all stakeholders thinking about the way forward. Throw in the non-banking financial companies, or NBFCs, into this cocktail and you sense a lot of pieces are likely to move in this jigsaw puzzle. While different stakeholders may have their own opinions on the way forward for the financial sector, markets, to a large extent, incorporate those differing views and reflect it in the price performance of individual banks. Such price action of banks can give us very useful insights on how the financial system dynamics are likely to change in the coming years. Focusing on the trends in valuation metrics since the ILF&S crisis can give us some important pointers on how the system is likely to take shape. What is the market prognosis right now?

Any sector expert would tell you that the key metric for financial companies would be the ‘Price to Book Value’ ratio (P/BV). The P/BV holds the mirror on the two critical attributes the market values most: adequacy of current capital and runway available to the entity for profitable growth.

A P/BV ratio above 1 indicates that the market believes that the company can grow and generate Return on Equity (RoE) above the hurdle rate that investors expect. The faster it can grow or the greater the spread of the ROE above the hurdle rate, the greater the P/B multiple (above 1). A P/BV below 1, on the other hand, indicates that the market either does not believe the bank has recognised all its bad loans or has the business model to deliver returns above the hurdle rate. This may be because the bank does not have a good deposit franchise, has bad cost discipline or a broken lending model.

Now let us see what the market is telling us through prevailing P/BVs (need to look at a bank’s P/BV over a period). You have banks that have a P/BV above 4 while some others languish at much below 1, even at 0.25. With NBFCs, the P/BV range is even wider, with some NBFCs being valued in excess of 7. The growth trajectories of these entities with dispersed P/BV will be varied, resulting in a classic K Curve playing out. The K Curve depicts the inequality existing between different financial entities in terms of their attributes that determine their future growth and profitability. Widening of the arms of the ‘K’ would imply that the inequality is increasing, while narrowing of the span of the ‘K’ would mean the opposite.

Looking at private sector banks, one can clearly see a couple of banks which have always had their P/BV above 3 on a consistent basis. Capital is available in plenty for these banks and the market is betting that these banks will grow much above system average and generate attractive RoE. This would imply that these banks will have disproportionate incremental market share on both assets and liabilities.

Next comes the set of banks which have had P/BV of above 1.5 for most periods of time. The market insight on these banks is that they are long-term bets, have access to sufficient capital but have to demonstrate a business model that works across cycles. As comfort levels increase on the business model, the P/BV should climb as runway for growth is available for these banks. Both the above set of banks (‘Alpha banks’) would form one arm of the K, having adequate
access to capital and the intrinsic ability to grow market share. The only constraint for these banks would be their ability to grow their liability franchise as changes in market share on deposits are much slower than changes on the asset side.

Also read | Lakshmi Vilas Bank depositors’ money safe, says RBI-appointed administrator

The other private sector banks have a P/BV of around 1 or much below 1. For some of them which have demonstrated an ability to raise capital even through COVID-19 times, it is a business model issue and whether they have strengths to grow profitably in a sustained manner. The new generation banks amongst these have to demonstrate consistent growth and stability on the liability side to earn their stripes for a higher P/BV again. Quite a few of the old generation private sector banks have an issue with the credibility of their business model and their ability to generate above hurdle RoE through the cycle. While they may have a reasonably stable liability franchise, the market perceives issues with their lending practices and thereby, asset quality. That is the reason their P/BV is at very low levels. They need to transform themselves by upgrading technology, add skilled manpower and improve management quality and governance.

Coming to public sector unit (PSU) banks, their current governance model depresses valuations. Their P/BV would better reflect their intrinsic strengths when the banks are run in a professional manner with an ability to decide their own destiny. The largest bank in the country is surely part of the Alpha banks as its ability to attract capital and grow profitably is well accepted. The other PSU banks are viewed by the market broadly as a homogenous set with similar business models and skill sets. Along with the government move to consolidate PSU banks into few large banks, a new vision needs to be drawn out for these banks to ensure that they have differing value propositions to offer to the economy and market. There needs to be a clear level playing field amongst all banks and the government should move to paying transparent and fair compensation for services rendered to various State-sponsored programmes to all players. PSU banks should be free to adopt human resource practices to on-board lateral talent to fill in skill set gaps and adapt to the new digital world. This, coupled with better governance, is the recipe for higher P/BV for PSU banks.

So what happens from here on? The consensus opinion would be that the Alpha banks widen the gap with respect to the rest, thereby widening the K Curve even more and squeezing out the weak banks. If one looks at the financial performance of banks over the last few years, this trend is palpably seen, lending more credence to the widening K curve hypothesis. However, there is clearly more room for banks to migrate into the Alpha banks set. Vision, perseverance and consistent execution will make that happen. For the wheels of the economy to grind faster and higher, we need more than the current handful of Alpha banks to propel it and it is in all stakeholders’ interest to do their bit to make that happen. The multi baggers lie in spotting the bank that can straddle the K. The system can ill-afford another LVB.

For NBFCs, it is a more scary thought. Would both arms of the ‘K’ remain is the moot question for them. Or, would the more valued NBFCs be the ones that become part of the Alpha banks in the long term?

Srinivasan Varadarajan is a veteran banker and market expert

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC
The Union Cabinet, chaired by the Prime Minister, Shri Narendra Modi has given its approval to the proposal for equity infusion by Government of Rs 6000 crores in **NIIF Debt Platform** sponsored by National Investment and Infrastructure Fund (NIIF), comprising of **Aseem Infrastructure Finance Limited (AIFL)** and **NIIF Infrastructure Finance Limited (NIIF-IFL)**, subject to the following conditions:

This was one of the twelve key measures made by Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman, as part of Government of India’s stimulus to the economy, under AatmaNirbhar Bharat 3.0 on 12th November, 2020.

The **NIIF Strategic Opportunities Fund** has set up a Debt Platform comprising an NBFC Infra Debt Fund and an NBFC Infra Finance Company. NIIF through its Strategic Opportunities Fund (‘NIIF SOF’) owns a majority position in both the companies and has already invested ~ Rs.1,899 crore across the Platform. The Strategic Opportunities Fund (SOF fund) through which the NIIF investment has been made will continue to support the two companies apart from investing in other suitable investment opportunities. The current proposal seeks GOI investment directly to further scale the potential and impact of the two entities in the infrastructure debt financing space. This will also support the efforts of the platform to raise international equity. With the fresh infusion of equity by the government, besides the equity already infused by NIIF SOF and potential equity participation from the private sector, the debt platform is expected to raise enough resources to extend debt support of Rs.1,10,000 crore to projects by 2025.

**Implementation strategy and targets:**

**Expenditure involved:**

Rs 6,000 crores will be invested as equity in the NIIF Debt Platform over two financial years, i.e., 2020-21 and 2021-22.

**Impact:**

NIIF Infrastructure Debt Financing Platform is expected to contribute nearly Rs 1 lakh crores in debt to the infrastructure sector over the next 5 years. This will act as a catalyst in attracting more investments into the infrastructure sector as envisaged in National Infrastructure Pipeline.

This process will also help relieve exposure of banks to infrastructure projects and free up space for new green-field projects. Strengthening the IDF / take-out financing space in the infrastructure sector will support enhance liquidity of infrastructure assets and lower the risks.
In India, infrastructure projects are executed through SPVs. Typically, the SPVs on a standalone basis would find it challenging to get investment grade rating, even after the completion of construction. It is also expected that the Debt platform will raise debt from the Bond market and serve as a trusted intermediary. AIFL is rated AA by Care ratings and NIF-IFL is rated AAA by Care Ratings and ICRA. Bond investors seek lowers margins than banks, but prefer to invest in debt of AAA / AA rated entities, to meet their own risk management guidelines. Long term bond investors including Pension and Insurance Funds typically invest in bonds rated AAA.

It is expected that well-capitalized, well-funded and well-governed NIIF debt Platform can play a major role in infrastructure financing and development of Bond Market in India by acting as a AAA/AA-rated intermediary between the bond markets and infrastructure projects and companies.

Background:

As per the National Infrastructure Platform (NIP), investment in infrastructure sector is targeted at Rs.111 lakh crore over the next 5 years across various sub-sectors, creating substantial need for debt financing. This would require at least Rs 60 to 70 lakh crores in debt financing. This current environment requires well-capitalized specialized infrastructure focused financial institutions, such as the ones being developed by National Investment and Infrastructure Fund (NIIF), which can focus on lending across the project life cycle with a strong capital base and expertise driven approach.

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CABINET APPROVES RBI'S PROPOSAL TO MERGE LAKSHMI VILAS BANK WITH DBS BANK

Union Cabinet on Wednesday approved the merger of capital-starved Lakshmi Vilas Bank (LVB) with DBS Bank India. The Reserve Bank of India on 17 November proposed the merger of the 94-year-old lender with the Indian arm of Singapore's DBS Bank. As part of the amalgamation, DBIL will infuse fresh capital of 2,500 crore into LVB.

The central bank on 17 November placed Lakshmi Vilas Bank under one-month moratorium, superseded its board and capped withdrawals at 25,000 per depositor. "With the merger, there will no further restrictions on the depositors regarding the withdrawal of their deposit," Union minister Prakash Javadekar said.

Analysts and global credit rating agencies have applauded RBI's move and said that it will benefit both parties. "The quick action taken by the RBI in the Laxmi Vilas Bank matter affirms the faith of the depositors in the banking system," Ajay Shaw, Partner, DSK Legal.

"LVB merger with another bank is a very prudent step in order to save the depositors and to mitigate the systematic disruption associated with it. The image of government and regulator gets enhanced by such timely action and response," said S Ravi, former chairman of Bombay Stock Exchange (BSE) and Managing Partner of Ravi Rajan & Co.

DBS was the first foreign bank to receive a banking licence after the central bank allowed foreign banks to set up a wholly owned subsidiary in 2014. "With DBS likely to use digital capabilities to enhance its physical footprint in India, the proposed deal could lead to a 30-40% increase in Indian assets of DBS," said JPMorgan analysts Harsh Wardhan Modi and Saurabh Kumar.

The regulator had put LVB under Prompt Corrective Action in September 2019. The lender earlier reported widening of its net loss at 397 crore in the second quarter ended September 2020 due to rise in bad loans and provisions. On 25 September, the shareholders of the bank had voted out seven members from the board, including the then MD and CEO S Sundar. The RBI on 27 September appointed the CoD composed of three independent directors Meeta Makhan, Shakti Sinha, and Satish Kumar Kalra, being headed by Meeta Makhan.

Moody’s said the merger will strengthen DBS’s business position in India by adding new retail and small and medium-sized customers.

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PERMITTING INDUSTRIAL HOUSES TO OWN BANKS COULD UNDERMINE ECONOMIC GROWTH AND DEMOCRACY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

An internal working group of the RBI has recently made a far-reaching recommendation: To permit industrial houses to own and control banks. We believe that this step would be a grievous mistake, one that would seriously set back Indian economic and political development. Accordingly, we urge that this proposal be shelved.

Why do we have such serious misgivings? One clue is given in the report itself, which acknowledges that it ignored the experts the group had consulted. The report states that all the experts except one “were of the opinion that large corporate/industrial houses should not be allowed to promote a bank.”

Experts hold this view because allowing industrial houses to own banks has few benefits and many risks. According to the report, the main benefit is that industry-owned banks would increase the supply of credit, which is low and growing slowly. Credit constraints are indeed a real problem, and creating more banks is certainly one way of addressing the issue. But this is an argument for encouraging more banks and more types of financial institutions, generally. It is not an argument for creating banks specifically owned by industry. The other powerful way to promote more good quality credit is to undertake serious reforms of the public sector banks.

The problem with banks owned by corporate houses is that they tend to engage in connected lending. This can lead to three main adverse outcomes: Over-financing of risky activities; encouraging inefficiency by delaying or prolonging exit; and entrenching dominance. Consider each.

Opinion | Amartya Lahiri writes: On economic growth, there is much we can learn from our past and from Pakistan

First, lending to firms that are part of the corporate group allows them to undertake risky activities that are not easily financeable through regular channels. Precisely because these activities are risky, they often do not work out. And when that happens, it is typically taxpayers who end up footing the bill.

In principle, connected lending can be contained by the regulatory authority. Indeed, Indonesia tried to do this: It banned the practice. But as the authorities there found to their dismay, no matter how often they tightened the definition of connected lending, conglomerates were always able to find loopholes to exploit. Experiences in other nations have been similar, convincing most advanced countries that regulating connected lending is impossible; the only solution is to ban corporate-owned banks. It is also why Indian policymakers over seven decades have consciously and wisely drawn a lakshman rekha between banking and industry.

Crossing this lakshman rekha looks particularly unwise in India’s current circumstances. After all, the RBI has encountered enough difficulty in dealing with banking irregularities at Punjab National Bank, Yes Bank, ILFS and Lakshmi Vilas Bank. Expecting the RBI or other institutions to effectively regulate the practices of corporate houses-turned-banks is to ask the impossible. Regulation and supervision need to be strengthened considerably to deal with the current problems in the banking system before they are burdened with new regulatory tasks. Equally,
the fiscal position needs to be repaired after the considerable damage done by the COVID-19 pandemic before the government takes the risk of assuming an enormous future cost.

Second, the Indian economy today suffers from a serious lack of exit. The economic landscape is littered with failed firms, kept alive on life support, making it impossible for more efficient firms to grow and replace them. While some progress in clearing the landscape was initially made under the Insolvency and Bankruptcy Code (IBC), this had stalled even before the pandemic, largely because existing promoters and owners mounted a stiff resistance. If industrial houses get direct access to financial resources, their capacity to delay or prevent exit altogether will only increase.

Opinion | Sajjid Z. Chinoy writes: Arvind Panagariya’s book points out that export remain key to economic growth

Finally, crossing this lakshman rekha will mean that the existing patterns of industrial dominance will become ruinously entrenched. The Indian economy already suffers from over-concentration. We not only have concentration within industries, but in some cases the dominance of a few industrial houses spans multiple sectors. The COVID-19 crisis is aggravating this picture because those with deep pockets will not only more easily survive the crisis, they will be able to take over small, medium and large enterprises that have not had the resilience or resources to weather the COVID-19 gale. After all, if large industrial houses get banking licences, they will become even more powerful, not just relative to other firms in one industry, but firms in another industry. For example, one can imagine a corporate house trying to assume dominance in the payments space and using that to dominate the e-commerce space. Getting the rights to own a bank could facilitate the former, thereby enabling the latter.

Moreover, the power acquired by getting banking licences will not just make them stronger than commercial rivals, but even relative to the regulators and government itself. This will aggravate imbalances, leading to a vicious cycle of dominance breeding more dominance.

For more than a quarter of a century, Indian financial sector reforms have aimed at improving not just the quantity, but also the quality of credit. In other words, the goal has been to ensure that credit flows to the most economically efficient users, since this is the key to securing rapid growth. If India now starts granting banking licences to powerful, politically connected industrial houses, allowing them to determine how credit is allocated, we will effectively be abandoning that long-held objective.

Opinion | Abhishek Singh writes: Taking stock of the economic toll

But the real problem is much deeper and broader. Indian capitalism has long been stigmatised because of the murky two-way relationship between the state and industrial capital. If the line between industrial and financial capital is erased, this stigma will only become worse. Corporate houses that are already big will be enabled to become even bigger by having access to raise and redirect resources, allowing them to dominate the economic and political landscape. A rules-based, well-regulated market economy, as well as democracy itself — already shaky and ravaged by broader trends in India and also internationally — will be undermined, perhaps critically.

The conclusion is clear. Mixing industry and finance will set us on a road full of dangers — for growth, public finances, and the future of the country itself. We sincerely urge policymakers not to take this path.

This article first appeared in the print edition on November 27, 2020, under the title ‘A
capital mistake’. Kelkar is former Finance Secretary and Acharya and Subramanian are former Chief Economic Advisors

Opinion | Dharmakirti Joshi, Adhish Verma write: Public sector investments are likely to remain depressed as states cut back on spending, making recovery difficult

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HARNESSING THE SUN

Written by Amrita Goldar and Tarun Singh

Energy access has continued to remain an important pillar of energy sustainability negotiations at the G20. Continuing this tradition, G20 negotiations under Saudi Arabia’s presidency this year recognised the importance of off-grid solar solutions for scaling up universal electricity access along with traditional grid-based solutions. There is also an associated emphasis on improving access to microfinance, detailed local planning processes, and dedicated government schemes for closing energy access gaps, among others. As a group of some of the most powerful nations in the world, G20 has the means to provide governmental support to not just member countries but also for all access-deprived regions of the world. However, it could be argued that in order to make effective progress along these lines, there is a need for not just joint political statements, but also a slew of measures that would accelerate this transition. These measures could include adoption of international standards in associated technologies, and the creation of infrastructure that would enable innovative business models for scaling-up pilot projects.

Preparations are already underway for India’s accession to the Troika in December 2020. With India hosting the G20 Summit in 2022, it can prioritise many of these aforementioned ideas in its energy access agenda. We argue that given this unique opportunity, time is ripe for amalgamating the agendas of the International Solar Alliance (ISA) and the G20 to harness the full potential of solar energy for improving energy access. It would also lead to the development of bilateral, regional and inter-regional transmission inter-connections that then have the potential to lead to global inter-connection of solar energy resources and transfer technology from one part of the world to another.

Globally, we have made significant progress in achieving universal access to electricity. Despite the gains however, 840 million people still lack access to electricity. Majority of this population is in Sub-Saharan Africa, Asia Pacific, few parts of MENA (Middle East and North Africa), Latin America and the Caribbean region. One of the chronic challenges in the deficit countries is the presence of technically and financially weak power utilities, and lack of enabling policy and effective finance mechanisms for off-grid solutions. Along with technological challenges, there is also a pervasive duality of access options in rural and urban areas. According to a 2019 report by Sustainable Energy for All and Climate Policy Initiative, while 97 per cent of the global urban population enjoys electricity access, the rural population access is limited to only 79 per cent with a mere 2 per cent of the financing dedicated for renewable energy solutions.

Renewables is the only way forward for augmenting the required energy supply without adding to energy security concerns as well as without loading on to the burden of climate change. Global trends also indicate a clear transition from fossil fuel-based energy generation to clean, efficient and environment-friendly renewable energy sources like small hydro, solar and wind. According to a 2019 study by experts at the International Renewable Energy Agency (IRENA), renewable energy can supply two-thirds of the total global energy demand and contribute to the bulk of greenhouse gas emissions reduction that is needed between now and 2050 for limiting average global surface temperature increase below 2 degrees Celsius. However, in order to achieve the above transition, both conventional and innovative policy designs and regulatory frameworks are essential.

The ISA reflects this need for the establishment of a cohesive and robust global body which can achieve the goal of climate change mitigation, keeping both countries’ renewable energy
commitments and actions voluntary and need-based. While G20 member countries also progress through a similar voluntary access plan, the nested agenda of G20 countries and the ISA is also going to add a new dynamism to energy diplomacy in the 21st century. Along with regional cooperation, ISA can also help address other questions like technology transfer, storage system, and financial assistance to member countries. In fact, already working on those lines and in order to make the process feasible, the ISA is planning to set up a World Solar Bank to exclusively finance energy access in member countries.

In recent years, renewable energy witnessed an increase in installed capacity by 7 per cent globally, and solar power has attracted the largest share of new investments in renewable energies for the ninth year in a row. One of the major reasons for the wide scale acceptance of solar power as an alternative source is its wide availability and affordability. Despite the growth in the renewable energy sector, a 2018 report by the International Energy Agency painted a worrisome picture about how the growing demand for energy is exacerbating the risk of climate change. The report further added that the year 2018 witnessed an increase in CO2 emissions by 1.7 per cent to a historic high of 33.1 Giga-tonnes (Gt) CO2. Out of the 33.1 Gt CO2, coal use in the power sector alone accounted for 30 per cent of the emissions, mostly in transitional and emerging economies. While these economies are in a continuous turf war between improving the standards of living and access to clean, reliable and affordable energy, solar energy has emerged as a promising option to satiate both the needs.

To ensure the availability and accessibility of affordable energy services in a carbon constrained world, India jointly with France launched the ISA at the 2015 Paris climate conference. The ISA is the first international organisation headquartered in India and aims to promote solar electricity in the sunshine belt states between the tropic of Cancer and Capricorn. ISA countries are mostly located across the regions of Africa, Asia-Pacific, Latin America and Caribbean, Europe. Out of these four regions, the first three regions were also continuously discussed among the G20 countries. The regions of Sub-Saharan Africa (Turkey 2015), Asia Pacific (China 2016), Latin America & Caribbean (Argentina 2018) and Middle East and North African region (Saudi Arabia 2020) have been consistently highlighted in G20 meetings through Voluntary Action Plans. These plans build on the linkages between energy access and encourage other agendas such as collection and dissemination of energy data, coordination between international energy agencies, and also try to bridge the energy access gap through coordination between G20 countries and the above-mentioned regions. Since there is a synergy between the agenda of G20 countries and ISA, perhaps it would be worthwhile to link up the agenda of ISA and G20 negotiations for the greater good.

Goldar is senior fellow and Singh is research assistant at the Climate Change and Sustainable Development Team, ICRIER

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UNDP AND INVEST INDIA LAUNCH THE SDG INVESTOR MAP FOR INDIA

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

UNDP and Invest India have launched the SDG Investor Map for India, laying out 18 Investment Opportunities Areas (IOAs) in six critical SDG enabling sectors, that can help India push the needle forward on Sustainable Development.

“India occupies a key role in determining the success of the SDGs, globally. Invest India is pleased to have partnered with UNDP India to develop the first-ever ‘SDG Investor Map for India’. This initiative is an instrumental stride in India's development trajectory, and I believe it couldn't have come at a better time. We hope our data-backed research and insights serve as useful blueprints to understand how best the SDG financing gap can be narrowed in India”, Mr. Deepak Bagla, CEO & MD, Invest India, said on the launch occasion.

Mr Shoko Noda, Resident Representative, UNDP India said on the occasion, “The Map comes at a critical time for India. With the emergence of the COVID-19 pandemic, the financing gap for the SDGs in India has only widened further and decades of development progress is nearly on the verge of reversal. Investing in the SDGs at this point is crucial to ‘Building Back Better’ and making the economy and our societies more resilient and sustainable. Enhanced productivity, technology adoption and increased inclusion are all critical factors that this map uses to identify the most attractive sectors for investors.”

Key highlights of the SDG Investor Map:

The observations from the map present a strong case for investing in SDG enabling sectors and IOAs, bridging the gap between high-level development targets and the need for commercially viable returns. Moreover, investing in the SDGs is crucial to ‘Building Back Better’ from COVID-19 and enhancing India’s resilience to future threats. Investing in opportunities that enhance employment and employability, push forward the inclusion of underserved communities and leverage technology will be of essence to India as it grapples with the challenges of a post-COVID economy.

83% of the identified IOAs address job creation and industrialization needs, 70% focus on inclusive business models and 50% leverage digital technologies to deliver commercial returns and impact at scale. Notable IOAs include ‘Online Supplementary Education for K12’ (Education), ‘Tech-Enabled Remote Care Services’ (Healthcare), ‘Digital Platforms to service input/output needs of farmers to enable easy access to markets’ (Agriculture) and ‘Access to credit by Micro, Small and Medium Enterprises and Low-Income Groups especially through digital platforms for Income Generating Purposes’ (Financial Services).

By mapping the overlaps and gaps between public sector priorities and private sector interest, the SDG Investor Map lays out pathways that can bring together private-sector investment and public sector support for 6 SDG-enabling sectors including Education, Healthcare, Agriculture & Allied Activities, Financial Services, Renewable Energy & Alternatives and Sustainable Environment. These sectors and the IOAs within them were selected through a rigorous analytical process that included extensive consultations with a number of major domestic and international investors, government stakeholders and think-tanks. This ensured that the Map’s findings were truly reflective of market sentiment.
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