# GS PAPER 3

## *Economic Growth and Development – Aug'18*

### New GST Appellate Tribunal

*Syllabus: Indian Economy and Issues relating to mobilization of resources.*

**In News**

- The GST Council has approved creation of the tribunal with a national bench in **Delhi** and three regional benches in **Chennai, Kolkata and Mumbai**.
- A **Goods and Services Tax Appellate Tribunal (GSTAT)** will come into effect soon, providing a higher judicial forum for businesses to redress disputes under the new tax framework. The tribunal is the second level of appeal where pleas can be filed against orders from appellate or revisional authorities. The new body replaces the **Central Excise and Services Tax Appellate Tribunal**.

**Other Provisions Regarding Tribunal**

- ***Composition:*** The council also approved draft rules for the appointment of the tribunal's president and members, and conditions of service. The president of the tribunal must have served as a judge of the Supreme Court or a high court for at least five years.

**Benefits**

- ***Mechanism for disposal of case:*** The Constitution of the second level of appeal will put in place a mechanism for disposal of appeals arising out of the first-level appellate orders.
- ***Bring consistency on issues:*** The Constitution of a national bench of the GST Appellate Tribunal at four locations in India can go a long way in bringing certainty to tax positions and it would save dealers from different interpretations being adopted by state advance ruling authorities.
- ***Set legal precedent:*** So long as the decisions of all four appellate tribunals are consistent, both the assesses and the tax officials would benefit as the rulings would serve as legal precedents on issues under GST laws.

### UPI 2.0

*Syllabus: Indian Economy and Issues relating to mobilization of resources.*

**In News**

- ***Introduction:*** The National Payments Corporation of India (NPCI) launched the second version of UPI *i.e.* the UPI 2.0. To start with, **11 banks** have partnered to offer the second version and five new features have been introduced in the second version of UPI.
- ***One-time mandate:*** This feature allows the user to preauthorize a payment and initiate a debit later. It has to be digitally signed and the information is stored at the payer's bank and with his/her UPI app-providing bank. But, this feature is allowed only for a P2M (person-to-merchant) transaction and not for P2P (person-to-person) transaction.
- ***Linking the OD account:*** UPI 2.0 now allows users to link their overdraft (OD) account in addition to the savings and current accounts that were allowed in the first version. UPI will act as a digital channel to access the OD account.

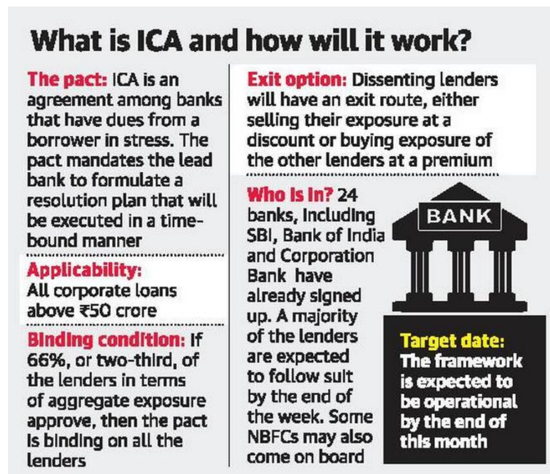
- ***Invoice in inbox:*** This feature gives merchants a provision to share the invoice with their customers before the actual payment is made. The customer can then use the link to verify the details of the invoice.
- ***Signed intent and quick response (QR) code:*** These will be additional security features that have been added in version two of the UPI. This will allow the customer to verify the payee details before making the transaction.
- ***Transaction limit:*** Finally, the per transaction limit has been doubled from **Rs. 1 lakh to Rs. 2 lakh** in UPI 2.0.

## Inter Creditor Agreement

*Syllabus: Indian Economy and Issues relating to mobilization of resources.*

### In News

A group of banks, including public sector, private sector and foreign banks, signed an inter-creditor agreement (ICA) to push for the speedy resolution of non-performing loans on their balance sheets.




### Benefits

- ***Provide flexibility:*** The new inter-creditor agreement (ICA) gives lenders flexibility in taking a call on a viable resolution plan, instead of being herded into taking haircuts that can be substantial, in many cases. Thus the ICA, would keep the RBI away from mandating banks to file insolvency petitions using the bankruptcy code.
- ***More leeway for the banks:*** In projects that have inherent viability, banks should have the freedom to convert debt into equity and participate in the upside when the project does turn around. This can happen regardless of whether the banks retain a controlling stake or not.
- ***Resolve stressed assets problem:*** Earlier, the disagreement between joint lenders was the biggest problem in resolving stressed assets and the objections of a few lenders prevented a settlement between the majority lenders. But this will be solved through the ICA as lead lender can purchase the disagreeing lender's shares in the NPA.
- ***Promoters to remain in charge in some cases:*** ICA also allows promoters to continue to be in charge in some cases. This makes sense as many businesses are stressed due to sudden changes in policy, rather than managerial deficiency.

### Final Analysis

- Thus, the main benefit of the ICA is the flexibility banks acquire to resolve individual bad loans taking into account their specificities, instead of being straitjacketed into resolution under the Insolvency and Bankruptcy Code and accepting huge haircuts.
- Meanwhile, the biggest obstacle to bad loan resolution is the absence of buyers who can purchase stressed assets from banks, and the unwillingness of banks to sell their loans at a deep discount to their face value. Unless the government can solve this problem, the bad loan problem is likely to remain unresolved for some time to come.

- Further, for the scheme to work, bankers need protection from arbitrary arrests and criminalization of motives.

**(For details regarding ICA refer July 2018 Economics current affairs material- Project Sashakt)**

## Need For Review Of Deposit Insurance Cover

*Syllabus: Indian Economy and Issues relating to mobilization of resources and growth.*

### Introduction

- In India, deposit insurance covers **all commercial banks, local area banks, regional rural banks and co-operative banks**. If a bank goes belly up, then the Deposit Insurance and Credit Guarantee Corporation (DICGC) pays back the insured amount to the depositor. But the insurance limit is restricted to just **Rs. 1 lakh per depositor per bank**. Moreover, the premium is borne by banks and not the depositors.
- Set up in the early 1960s in the aftermath of the collapse of two banks, the DICGC, which guarantees repayment of bank deposits up to Rs. 1 lakh in case a bank is liquidated has not reviewed the amount under guarantee **since 1993.**

### Need For Review

- ***Poor health of banks:*** This anomaly (maximum deposited amount insured i.e. currently Rs. 1 Lakh) must be addressed especially at a time when several state-run public sector banks have been roiled by a series of frauds and high levels of bad loans.
- ***To create public faith:*** Any measure that helps prevent further erosion of public faith in the beleaguered banking system would undoubtedly be very welcome. Moreover **less than a third** of bank deposits in value terms are insured by the DICGC.
- ***Too low compared to the International standards:*** Indonesia has a deposit-insurance cover of $1,47,000, Brazil $76,700, and Malaysia $55,700. Mexico too has insurance coverage of over $100,000. Canada, Switzerland and France provide cover upwards of $70,000 per depositor. In the US, the Federal Deposit Insurance Corporation offers an insurance coverage of $250,000. Most of these countries cover 60-70 per cent of total deposits. While, according to the 2017 annual survey by the International Association of Deposit Insurers (IADI), in India, the deposit insurance is **just $1,543.**

### Why The Deposit Insurance Amount Not Reviewed Till Now

- ***Perception of cross subsidization:*** The answer may lie in the fact that in India beneficiaries of the deposit insurance system up until now have mainly been urban cooperative banks. The last claim settled in respect of a commercial bank was way back in 2002. Hence, raising deposit cover, which will imply stronger banks coughing up more premium, mostly for the benefit of weaker banks has created a perception of cross-subsidization in the operation of deposit insurance.

### Final Analysis

- To counter the above issue, a committee headed by **Jasbir Singh** in 2015 made recommendations for the introduction of risk-based premium as against a flat based one for the banks. It is time the RBI pushed forth some of these changes to strengthen our deposit insurance system.

- Thus, given the deteriorating state of affairs at public sector banks and weak governance norms, strengthening our deposit insurance systems and legal framework for bank resolution cannot be put on the back burner any longer.

## Banks and NBFC Can Jointly Originate Priority Sector Loans

*Syllabus: Indian Economy and Issues relating to mobilization of resources and growth.*

### In News


- ***Introduction:*** The Central Bank is set to allow banks and non-banking finance companies (NBFCs) to jointly originate priority sector loans. Thus, allowing them to take advantage of each other's strengths and push credit to this sector. So far, banks that could not meet this target used to buy securities from NBFCs. RBI, which has always wanted banks to directly give loans to this sector, is now promoting an alternative way of lending.
- ***Co-origination agreement meaning:*** The co-origination arrangement entail joint contribution of credit by both lenders at the facility level. It involves sharing of risks and rewards between banks and NBFCs for ensuring appropriate alignment of respective business objectives, as per their mutual agreement.
- ***Priority sector lending:*** Priority sector is defined by loans to agriculture, micro and small enterprises (MSME), housing, education loans and loans to weaker sections of society. Banks have to compulsorily lend 40% of their net bank credit to this sector. Total priority sector loans stood at **Rs. 24.97 trillion**, according to the latest RBI statistics.
- ***Benefits:*** Bankers believe that the new model could work better because it will reduce the risk for banks and bring down the cost of funds for NBFCs. Moreover, for banks it means a wider network, which is very helpful in recovery of such small ticket loans.

## Startup India's Academia Alliance Programme

*Syllabus: Indian Economy and Issues relating to employment.*

### In News

- The Ministry of Commerce and Industry has announced the Startup Academia Alliance programme, to fulfill the Government's mission to **promote the spirit of entrepreneurship** in the country.
- It is a unique mentorship opportunity between academic scholars and startups working in similar domains.
- The programme aims to reduce the gap between scientific research and its industrial applications in order to increase the efficacy of these technologies and to widen their impact.
- By creating a bridge between academia and industry, the Alliance strives to implement the third pillar on which the Startup India Action Plan is based - Industry Academia Partnerships and Incubation.
- The first phase of Startup Academia Alliance was kickstarted through partnering with Regional Centre for Biotechnology, The Energy and Resources Institute (TERI), Council on Energy, Environment and Water, and TERI School of Advanced Studies.

- Renowned scholars from these institutes, in fields such as renewable energy, biotechnology, healthcare and life sciences were taken on board to provide mentorship and guidance to startups working in relevant arenas.
- Emphasis is placed on finding startups that employ innovative solutions to pressing problems in diverse areas.

**Startup India**

- Startup India is an initiative of the government organized by The Department of Industrial Policy and Promotion (DIPP).
- The action plan of this initiative is based on the following three pillars:
    - Simplification and Handholding.
    - Funding Support and Incentives.
    - Industry-Academia Partnership and Incubation.
- An additional area of focus is to discard restrictive state government policies within this domain, such as licence raj, land permissions, foreign investment proposals, and environmental clearances.
- As defined by DIPP, a **Startup is an entity, incorporated or registered in India -**
    - upto a period of seven years from the date of incorporation/registration or upto ten years in case of Startups in Biotechnology sector.
    - as a private limited company or registered as a partnership firm or a limited liability partnership.
    - with an annual turnover not exceeding Rs. 25 crore for any of the financial years since incorporation/registration.
    - working towards innovation, development or improvement of products or processes or services or if it is a scalable business model with a high potential of employment generation or wealth creation.
- An entity formed by splitting up or reconstruction of an existing business shall not be considered a 'Startup'.
- **An entity shall cease to be a Startup -**
    - on completion of seven years from the date of its incorporation/registration, ten years in case of Startups in Biotechnology sector or
    - if its turnover for any previous year exceeds Rs. 25 crore.

## ILO's India Wage Report

*Syllabus: Indian Economy and Issues relating to employment.*

**In News**

According to the India Wage Report published by the International Labor Organization (ILO), despite real wage growth in India, inequality, informality and gender wage gap persist.

**Key Highlights Of The Report**

- India's economic growth has resulted in fall in poverty and moderate change in employment patterns with a growing proportion of workers in services and industry.
- However, the Indian labor market **still faces high level of informality.** More than 51 percent of the people employed in India (as per 2011-12 data) were self-employed and as many as 62 percent of wage earners are employed as casual workers.
- ***Average daily wages*** almost doubled between 1993–94 and 2011–12, increasing more rapidly for casual than for regular workers and for women than for men. But low pay remains pervasive. In 2011–12, the average wage in India was about 247 rupees (INR) per day.
- Although overall ***wage inequality*** in India has declined since 2004–05, wage inequality remains very high with the Gini coefficient for wages being 0.49.
  - *Regional disparities* in average wages have actually increased over time, with wages rising more rapidly in high-wage States than in low-wage ones.
  - The *gender wage gap*, despite having declined from 48 percent in 1993-94 to 34 percent in 2011-12, is still steep, as per international standards.
- Key challenge is that the minimum wage system in India is quite complex -
  - ***National minimum wage floor***, which was introduced in the 1990s, is not legally binding.
  - The minimum wages are **set by state governments for employees in selected 'scheduled' employment** and this has led to 1709 different rates across the country. As the coverage is not complete these rates are applicable for an estimated of 66 % of wage workers.

**Recommendations For Improving The Current Minimum Wage System**

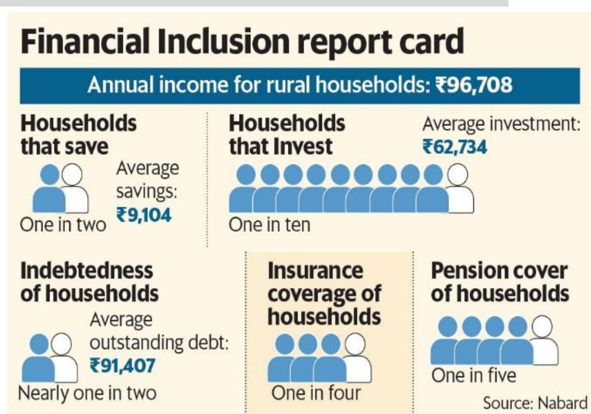
- Extend legal coverage to all workers in an employment relationship,
- Consolidate and Simplify minimum wage structures,
- Take stronger measures for effective application of minimum wage law,
- Collect statistical data on regular basis.

## Financial Inclusion Survey By NABARD

*Syllabus: Inclusive growth and issues arising from it.*

**In News**

- ***Average monthly rural income:*** According to the National Bank for Agriculture & Rural Development's (NABARD) **All India Rural Financial Inclusion Survey 2016-17 survey**, whose reference period is 2015-16, the average net monthly income of Indian rural households after deducting expenses incurred in the course of economic activity was **Rs. 8059.**
- ***Share of income from agriculture:*** Even for so called agricultural households, just over 43 per cent of their average income comes from cultivation of crops and rearing of animals. The balance 57 per



cent income in their case, too, was from non-agricultural sources. The survey reinforces a trend that has gathered momentum since the start of this century of an increasingly **less Krishi in Bharat**. While agriculture may, by definition, be largely rural the converse, though, isn't true.

- ***The agricultural rural household:*** The NABARD survey estimates the total number of rural households in India for 2016-17 at **21.17 crore**. The definition of rural is a broad one, covering revenue villages and semi-urban centres with a population of less than 50000. Out of the 21.17 crore rural households, **10.07 crore**, or under 48% are agricultural *i.e.* those with at least one member self-employed in farming and reporting annual value of produce at more than Rs 5000. The remaining 11.10 crore households or 52 per cent are non-agricultural.
- ***Outstanding debt:*** More than half the agricultural households in the country have outstanding debt, and their average outstanding debt is almost as high as the average annual income of all agricultural households. The average debt of an indebted agricultural household stood at Rs. 104602 in comparison to Rs. 76731 for indebted non-agricultural households. NABARD found that **52.5%** of the agricultural households had an outstanding loan on the date of the survey, and thus were considered indebted. For non-agricultural households in rural India that figure was 10 percentage points lower, at only **42.8%.**

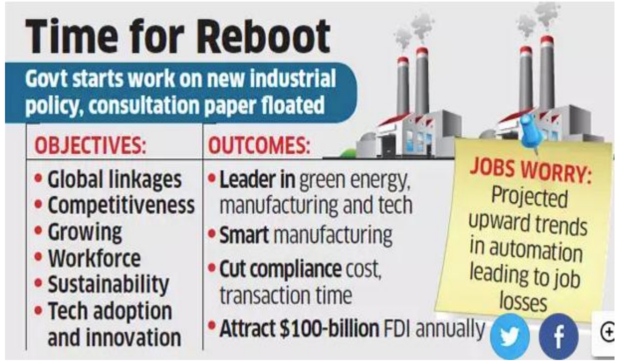
**Final Analysis**

- These findings confirm a trend that has been obvious since the start of this century *i.e.* Rural India can no longer be viewed solely through the prism of farming.
- Even more misplaced is the impression of a widening Bharat-India divide conveyed by agriculture contributing only about 17 per cent of the country's GDP at current prices, despite two-thirds of its population living in rural areas. If just 47.6 per cent of rural households are agricultural, as per the NABARD survey, and 43.1 per cent of even their incomes are from farms, the gap isn't as yawning as made out.
- The crisis in rural areas today is actually one of too much agriculture *i.e.* in terms of both relative output and employment. What is needed is more manufacturing units, including those that process and add value to agricultural produce.
- China's industrialization in the late-Seventies and Eighties was driven by Township and Village Enterprises. There is ample scope to replicate that experience in India and extend it to services such as business process outsourcing or even software development. We do have stories of success in the rural-based manufacturing clusters of Tamil Nadu and Gujarat.
- With 24×7 electricity, all-weather roads, broadband connectivity and investment in education, which is what the government should focus on and this will result in unleashing of rural entrepreneurship. That will help generate better quality non-farm employment than is now available in brick kilns, stone quarries, farm implement repair, construction and other such informal sector enterprises.

## Government To Bring In A New Industrial Policy

*Syllabus: Changes in industrial policy & their effects on industrial growth.*

## In News




- The government will shortly unveil a new industrial policy that aims to speed up regulatory reforms to make businesses more competitive and create more jobs.
- The policy is being given final touches by the Department of Industrial Policy and Promotion (DIPP), will be presented to Cabinet for approval.
- The comprehensive industrial policy is envisaged as a follow up to initiatives such as **Make in India and Startup India**, aimed at boosting domestic manufacturing and entrepreneurship. Such a policy is important as manufacturing had become more complex.
- **The Industries (Development & Regulation) Act** provides the necessary framework for implementing the industrial policy. Its last big revamp was in 1991 when the government liberalized the policy regime, dismantling the licence raj.
- India's industrial sector has a **29% share in GDP** at current prices, well below **44% for China**.

## Proposal Under The New Policy

- ***Three focus areas:*** The proposed policy will be focused on three pillars i.e. competitiveness, sustainability and inclusion.
- ***Overarching body:*** The proposals include establishing an overarching body with representation by the Centre and the states similar to the Goods and Services Tax (GST) Council to enable swift decisions on key changes such as the revamp of labour laws, taxation provisions and land leasing. The proposed Centre-state body will also ensure swifter action at the state government level. It will be chaired by the **Union Commerce and Industry Minister** with State Industry ministers as members.
- ***FDI:*** The policy aims at creating global brands and raising FDI inflows to **$100 billion annually** (from $60 billion levels at present).
- ***DBT for electricity:*** The policy proposes a direct benefit transfer (DBT) for electricity for households and agriculture, which will result in lower tariffs for industry. Power tariffs for industry are high because these subsidies electricity supplies to homes and farms. Bringing them down is part of agenda in the policy to lower the cost of doing business, including cost of capital. E.g., high power costs make Aluminium made in the country uncompetitive in the global marketplace.
- ***Peer to peer Lending:*** It also moots a platform for peer to peer lending and cash flow lending to ensure availability of credit.
- ***Encouraging R&D:*** The policy will also seek to create a framework to encourage research and development in the country by establishing an interface between academic institutions and businesses. To encourage innovation, it is likely to suggest a revamp of the Intellectual property rights regime so that innovators have a greater say.

## Way forward

- A new system of incentives is needed. Strategic industries should be protected (the Centre needs to identify them) on the condition that R&D spends increase.
- Taking a leaf out of China, the government should create clusters so that overheads are reduced. Logistics needs a major boost. The Centre could direct resources away from export subsidies into such priorities.
- A balance between returns on finance and on physical investment needs to be maintained.

## MSME Development (Amendment) Bill, 2018

*Syllabus: Changes in industrial policy & their effects on industrial growth.*

### In News

Micro, small and medium enterprises (MSMEs) will soon be defined based on their annual turnover, if a new Bill introduced in the Lok Sabha is cleared. At present, it is decided based on the investment made in plant and machinery/equipment.

### Provisions of the Amendment Bill

- ***Definition based on turnover:*** Any business with a turnover of up to **Rs. 5 crore** will be considered a micro enterprise. The other slabs are **Rs. 5-75 crore** for small enterprise and **Rs. 75-250 crore** for medium enterprise. At present, there are two sets of definitions, depending on whether the units produce goods or services. Under the goods category, the slabs are up to Rs. 25 lakh for micro, Rs. 25 lakh to Rs. 5 crore for small and Rs. 5-10 crore for medium. In the case of services, the slabs are: up to Rs.10 lakh, Rs. 10 lakh to RS. 2 crore and Rs. 2-5 crore.


### Purpose Of The Change In Criteria

- ***To align with the current needs:*** It was felt necessary to change the criteria for the classification in order to align it with the needs of current times and changing business ecosystem.
- ***Added cost due to physical verification:*** The earlier criterion of investment entailed physical verification, bringing with it transaction costs.
- ***GST information use:*** On the other hand, if the annual turnover is the criterion, it can be directly verified from the GST Network, thus putting an end to physical inspections and the Inspector Raj necessitated by the investment based regime.
- ***Incentivised MSME to remain small:*** The earlier criteria also incentivized the promoters to keep the investment size small to retain the MSME tag. But now the turnover criteria will allow a unit to graduate from its MSME status on reaching a fair size and discourage the proliferation of inefficient units created mainly with an eye to tax sops.
- ***Hindered modernization:*** The new definition will result in fairer comparisons between older and newer ventures in a sector for utilizing MSME sops. Given steady escalation in project

costs, comparing investments in plant and machinery over time illogically puts newer units at a disadvantage over older ones, actively militating against modernization efforts in industry.

- ***More transparency:*** Overall, the turnover-based classification will promote the ease of doing business and will put in place a non-discretionary, transparent and objective classification system.
- ***Turnover criteria fairer to technology industry:*** The turnover-based sops may be friendlier to technology intensive sectors such as engineering; auto components or pharmaceuticals where substantial capital investments are needed to ensure even minimal scale.

### Final Analysis

- Some industry bodies have expressed the concern that under the new dispensation, medium enterprises with Rs. 250 crore turnover may crowd out smaller peers in cornering the sops. But a higher turnover limit is welcome because one of the primary problems plaguing Indian industry is the mushrooming of tiny units that stand little chance against competition.
- For the Make in India initiative to take wing and for Indian firms to stand a fighting chance in the export market, the policy regime for MSMEs needs to actively push them to scale up over time, rather than shower them with sops to remain small-scale. In fact, the Centre should mull a sunset clause on MSME benefits to encourage these units to climb up the value chain.

## Draft E-Commerce Policy

*Syllabus: Changes in industrial policy & their effects on industrial growth.*

### In News

- The govt's draft ecommerce policy makes a strong case for championing 'Indian' online enterprise and may have major implications for foreign-owned ecommerce majors operating in India.
- The draft policy includes multiple aspects in the legislation i.e. from consumer protection and grievance redressal, to ownership, FDI, local storage of data, protecting micro, small and medium enterprises and mergers and acquisitions.
- Indian e-commerce market is estimated to be worth around **$25 billion** and is projected to touch **$200 billion** in a decade. Moreover, the e-commerce which accounts for less than **4% of the $500 billion** India retail market, but is growing about 4x every year compared to brick-and-mortar selling.
- The commerce department has asserted that India requires a domestic E-commerce Policy, as there was pressure from developed countries on it to take part in WTO negotiations on online trade and also to counter China's domination in the digital space.
- Currently, India allows 100% foreign direct investment (FDI) in the marketplace model but prohibits foreign investment in the inventory-based model. Marketplace operators cannot hold inventory and sell products on their platform, they can only facilitate the process for other vendors. Also, an ecommerce entity cannot allow more than **25% of the sales** transacted on its marketplace from one vendor or their group companies.

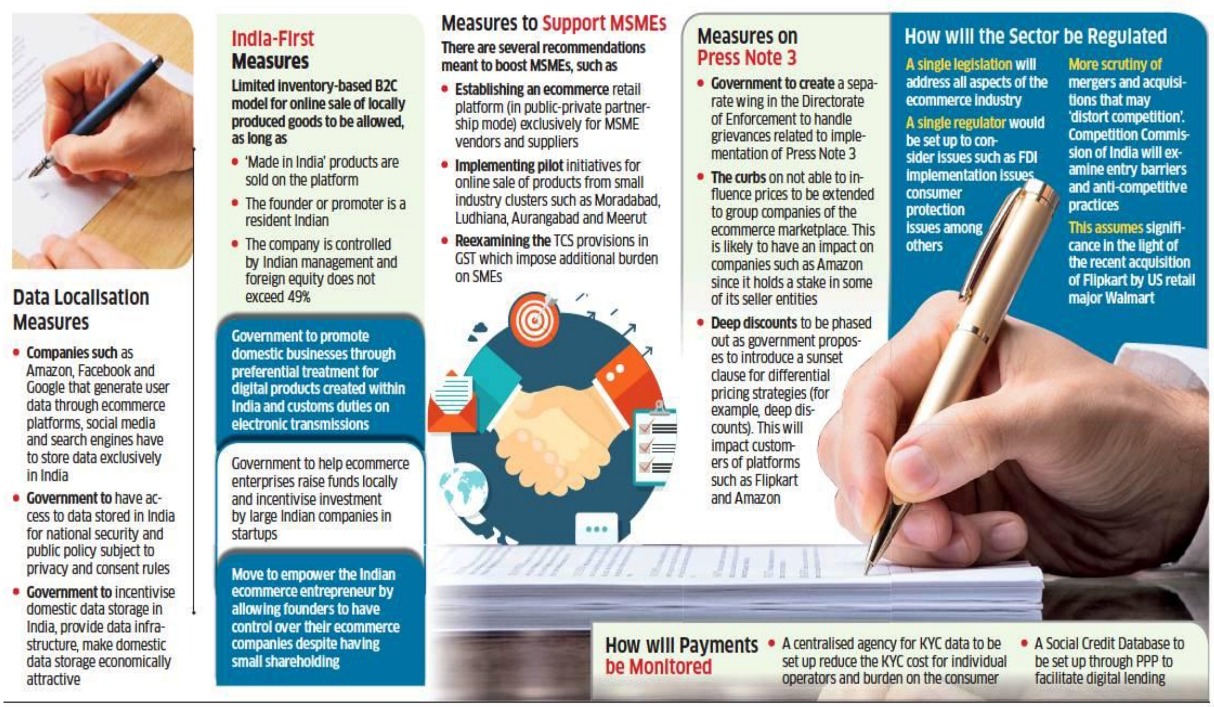
### Provisions of Draft Policy

- ***Not to influence price:*** Key recommendations include barring group companies of ecommerce players from directly or indirectly influencing sale prices. This may mean restrictions on retail strategies of ecommerce majors with subsidiaries.

- ***Sunset clause for discounting:*** The draft policy also suggests a sunset clause for deep discounting, suggesting a maximum duration be set for differential pricing strategies. Competition Commission of India (CCI) and the department of industrial policy and promotion (DIPP) have been asked to flesh out this aspect. It also suggested that discount curbs will not be limited only to the marketplace, such as Amazon and Flipkart, but would extend to group companies. The government suspects that many of the sellers on these platforms have indirect shareholding from the marketplace operators. Thus, a key element of the draft policy that will affect consumers is the plan to check discounts, something that offline retail lobbies have been pitching for.
- ***Bulk purchases affecting prices prohibited:*** The draft mentions that bulk purchases of branded goods like mobile phones, white goods, fashion items by related party sellers, which lead to price distortions in a marketplace will be prohibited.
- ***Check on differential pricing:*** Further, the deep discounts would include checks on differential pricing, which will restrict brands from offering two sets of prices for the same product sold offline and online.
- ***Indian E-commerce companies allowed inventory:*** The policy also suggests Indian owned and Indian-controlled online marketplaces be allowed to hold inventory as long as products are 100% domestically produced. This relaxation on marketplace ecommerce firms is not available for entities controlled by foreign investment. Thus, the draft ecommerce policy include 49% foreign direct investment (FDI) in B2C (business to consumer) e-commerce, but the control and management must rest with resident Indians and such entities would be allowed to hold their own inventory of locally produced goods, a concession that is not applicable for majority foreign-funded companies and they must stick to marketplace model of lending their platforms to other retailers and vendors to conduct business.

- ***Differential voting rights:*** For Indian founders with minority stakes, the draft suggests there should be differential voting rights giving founders more control. It defines an Indian ecommerce firm as that where foreign investment doesn't exceed 49% or where the founder/promoter is a resident Indian and Indian management controls the platform company. Thus, as a part of pro swadeshi policy have prompted the government task force to suggest amendments to the Companies Act so that founders retain control over their companies, despite having small stakes.
- ***Separate wing in ED for Press Note 3 grievance:*** The draft suggests a separate wing be set up in the Enforcement Directorate to handle grievances related to Press Note 3, which details guidelines for foreign investment in ecommerce.
- ***Greater Scrutiny of M&As:*** Greater regulatory scrutiny has been recommended for mergers and acquisitions that may distort competition and a relook has been suggested on what constitutes entry barriers and anti-competitive practices. The CCI has been asked to undertake such exercises. This assumes significance in the light of the recent acquisition of Flipkart by US retail major Walmart.
- ***Single legislation and regulator:*** The draft policy also proposes a single legislation to address all aspects of digital economy and a single regulator for issues related to FDI implementation and consumer protection. It says legal fragmentation seen across various laws governing the ecommerce sector should be corrected.
- ***Data localization:*** On data localization, the draft says only personal data or community data

**Snapshot**




collected by Internet of things devices in public space will need to be stored in India. Other data, which have no personal or community implications can be stored anywhere. However, the draft suggests a **two-year sunset** period before making data localization mandatory.

- ***For taxation purpose:*** On taxation front, it has suggested fast tracking the use of the concept of **significant economic presence** as the basis for determining Permanent Establishment for the purposes allocating profits of multi-national enterprises between resident and source countries. Moreover, it has also favoured simplified GST procedures for ecommerce by allowing centralized registration instead of local registration and displaying requirement for each place of business.
- ***Creation of consumer grievance authority:*** The draft policy also proposes to create a **Central Consumer Protection Authority** to act as a nodal agency for intra-government coordination and to provide a forum for consumers to register unresolved complaints.
- ***Promoting RuPay card:*** Further, a special plan for promoting RuPay has been proposed, which mandates its listing (like Visa, Mastercard) as a payment option in e-commerce transactions, apart from allocation to increase its branding and changing its perception of being a poor man's card.

**Benefits**

- ***Promotes Indian entrepreneur:*** The draft policy will be good to promote Indian entrepreneurship and is thus, in the right direction. The same is done by the Chinese state in promoting Alibaba to challenge the global giants.
- ***Promote Make in India:*** In the long run, it helps the country and Make in India as millions of micro; medium and small enterprises (MSMEs) have a better chance to go online. As pricing will no longer be controlled by group companies.
- ***Enable orderly growth of the sector:*** This is an important step towards creating forward-looking, enabling regulation that will catalyze robust and orderly growth of the ecommerce sector in India.
- ***Building a viable business plan:*** The draft policy will also help large companies build a viable business rather than just depend on discounts.
- ***Will ensure effective implementation of Press note 3:*** There has been seen a large indirect violation of Press note 3 of DIPP, which restrict Ecommerce platform to maintain inventory based model and can't sell to consumer directly. But there have been various instances of its violation.

**Challenges**

- ***E-commerce definition ambiguity:*** There are many issues and ambiguity with the policy including the definition of ecommerce. There is no clarity on who is an ecommerce player now as almost every retailer uses technology and supports online buying and delivery.
- ***Difficult to monitor inventory restriction:*** Foreign direct investment restrictions on players who can hold their own inventory are sought to be lifted, but there must be a majority Indian partner and all products have to be made in India. This seems like a leaf out of India's retail FDI policy that has similar procurement diktats that are not easy to meet or monitor.
- ***Dilution of actual implementation:*** The draft policy effectively leaves the implementation of some of the key provisions to multiple departments and with several clauses, which experts say could dilute the impact.
- ***Strict inventory model benefit only small entrepreneur:*** The draft policy also allows for limited inventory based B2C model for domestically produced goods, but experts say the conditions are very strict and could only likely benefit very small entrepreneurs. As the

provision in the draft policy states that this will be allowed only when 100% made-in-India products are sold through platforms whose founder or promoter would be a resident Indian or the platform company would be controlled by Indian management and foreign equity would not exceed 49 %.

- ***Conflicting Clauses:*** On one hand the draft policy proposes that foreign investors can own up to 49% in majority Indian owned and Indian controlled marketplaces that hold inventory and sell locally manufactured products directly to consumers. Whereas on the other hand the draft policy also states that the government will strengthen the enforcement of **Press Note 3** by creating a separate wing in the Enforcement Directorate to handle grievances related to implementation of the provisions of this note. This note allows up to 100% FDI in marketplaces but stipulates that foreign-funded online ecommerce portals cannot hold inventory and sell to consumers directly.
- ***Pricing control may depress the sector:*** The aim of ruling out deep discount may be to prevent large players from pricing out the competition though unfair practices, but taken too far such licensing and price controls can depress the sector. To give the government a say on who can offer how much discount and for how long, instead of letting consumer's exercise informed choices would be a regressive step for the economy.
- ***Biasness:*** The policy gives preference to local companies and puts up barriers for multinationals including Amazon and Walmart, which have lined up billions of dollars in investments for India. As the Amazon and Walmart who own much more than 49% in their Indian units, they will be barred from stocking inventory, while their rivals with 49% or less FDI will be able to sell directly to Indian consumers.
- ***Regulatory intervention:*** E-commerce companies are especially wary of the proposed e-commerce regulator because they feel it will intervene in decision-making, slowing down business operations. Thus resulting in a new kind of Licence Raj.
- ***Multiple laws on data protection:*** The suggestion on data localization has resulted into multiple such policies for data protection with different recommendations by IT Ministry, the Reserve Bank of India, under the draft ecommerce policy and by the Srikrishna committee. Thus has added to the confusion.
- ***Rise in cost of compliance:*** E-tailer costs are also likely to rise on account of proposed norms on storing and processing data locally.
- ***Impact job creation:*** The proposed e-commerce policy could drive away those planning online retail forays and the opportunity to create jobs and benefit consumers would be lost.

**Way forward**

The draft policy should be finalized after consultation with all the stakeholders. Moreover, the government would do well to focus its energies on improving the quality of education across the board, enhancing ease of doing business, promoting financial markets, making the power sector financially viable and ensuring net neutrality.

## Biodiesel In India

*Syllabus: Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*

**In News**

- With its domestic crude oil output stagnating and the demand for oil continuing to rise at an ever-increasing pace, India has an opportunity to use substitutes of fossil fuels for both, economic and environmental benefits.
- Ethanol is one such substitute that can be produced from sugarcane and used for transport by blending it with petrol/gasoline.
- Another option is biodiesel, which can be produced from the oil-bearing seeds of certain plants and blended with diesel. In the West, biodiesel is produced mostly from field crops like rapeseed and from sunflower in Europe and from soyabean in the US.
- Malaysia utilizes palm oil while Nicaragua uses Jatropha curcas (The Physic Nut) for biodiesel production.
- India's first-ever environment friendly biofuel powered flight between Dehradun and Delhi was propelled by blend of oil from jatropha seeds and aviation turbine fuel. This plane had carried blend of 25% of bio jet fuel (derived from jatropha seeds) and 75% of aviation turbine fuel (ATF) in one of the two engines of plane, while other carried only ATF.
- This flight was technological demonstration that bio jet fuel can be used in flights. International standards permit a blend rate of up to 50% biofuel with ATF. The blend of bio jet fuel and ATF has potential to reduce fuel costs by 15-20%.

## Significance

- Bio jet fuel is greenhouse gas (GHG) neutral, carbon neutral, reduces air pollution. Capping its blending with aviation turbine fuel will help to bring down import bill on crude oil. Moreover, commercialization of aviation biofuel promises large-scale employment avenues both in formal and informal sector.
- The use of bio jet fuel will help in reducing greenhouse gas (GHG) emissions by about 15% and sulfur oxides (SOx) emissions by over 99%. It is expected to provide indigenous jet fuel supply security. Its usage also offers superior engine performance and reduced maintenance cost for the airline operators.

## Jatropha

- Jatropha is drought-resistant perennial plant that can grow in marginal or poor soil. It is grows relatively quickly and lives, produces seeds for 50 years. It is found to be growing in many parts of the country, especially in rugged terrain and can survive with minimum inputs and easy to propagate.
- It seeds has oil content of 37% which be combusted as fuel without being refined. It burns with clear smoke-free flame. It has been tested successfully as fuel for simple diesel engine. Its oil also acts as insecticide.
- Moreover, by-products of its seeds like press cake is good organic fertilizer. Jatropha also has medicinal properties and is used for diseases like cancer, piles, snakebite, paralysis, dropsy etc.

## The Problem of Jatropha

- Availability of Jatropha seeds remains a major problem in increasing the production of biodiesel in India. Much has been done to initiate large-scale cultivation, increasing Jatropha yield and switching to substitutes. However, much of this has not yielded successful results.

- A major obstacle in implementing the biodiesel programme has been the difficulty in initiating large-scale cultivation of Jatropha. The higher gestation period of biodiesel crops (3–5 years for Jatropha) results in a longer payback period and creates additional problems for farmers where state support is not readily available.

## Centre Moots Overseas Version Of UDAN

*Syllabus: Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*

### In News

- The Ministry of Civil Aviation has prepared a draft scheme document for **UDAN International** and invited comments from stakeholders.
- So far, Assam has proposed to offer Rs. 100 crore per year for flights to Kathmandu, Dhaka, Singapore, Bangkok, Kuala Lumpur and Yangon. Andhra Pradesh has also expressed its keenness to the Civil Aviation Ministry to encourage tourism.

### Provisions Of The Draft Scheme

- ***State subsidy:*** State governments will be able to encourage tourism on preferred international air routes by offering subsidy to domestic airlines for a period of three years. Thus, the scheme is designed for State governments that are keen to promote air connectivity on international routes identified by them and for which they are willing to provide subsidy to airlines.
- ***Method of grant of subsidy:*** The airlines will bid on the percentage of flight capacity for which they require financial assistance, provided that the figure **doesn't exceed 60%** of the flight capacity. The entity that quotes the lowest amount will be awarded subsidy for a particular route. However, the government will grant financial aid only for the actual number of passenger seats that are unsold, even if the airline had sought subsidy for a higher percentage of seating capacity at the time of bidding.
- ***No cap on fares:*** An airline that is awarded a particular route will have exclusive rights to a subsidy on that route for a period of three years. The key difference between this scheme and the regional connectivity scheme (RCS) for domestic routes is that there is no capping of fares. Under RCS, fares are capped at **Rs. 2500 for one hour of flight** on a fixed wing aircraft in order to make air travel affordable, which was why the scheme was called **Ude Desh Ka Aam Nagrik (UDAN)**.
- ***Overall benefits expected:*** This will help improve overall connectivity and spur trade, tourism and economic growth in the country.

### Criticism

- ***Less return:*** The economic returns from investing in better schooling, healthcare and sanitation would outweigh, by far, whatever gain is to be had by letting a few thousand more to fly abroad.
- ***Divert domestic resources:*** Subsidizing air travel to some of the most popular tourist destinations abroad would merely divert domestic economic activity, apart from enriching the already well-heeled.

## Centre Proposes New Bidding Model For Greenfield Airports

*Syllabus: Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*

**Provisions Of New Bidding Model**

- ***Revenue sharing to fixed yield:*** The Ministry of Civil Aviation has published a Draft model concession agreements for greenfield airports that moves away from a **revenue-share system to a fixed yield regime** based on the number of passengers the airport is expected to handle.
- ***MBAY for per passenger:*** The Maximum Blended Aeronautical Yield (MBAY) in terms of rupee per passenger would be determined by the concessioning authority at the beginning of the tender period. This fee has been fixed at Rs. 400 per passenger for the financial year 2018-2019. The bids would however differ for each airport in line with the projected traffic, financial returns and risk profile.
- ***Quality assurance:*** The tariff regulator **Airports Economic Regulatory Authority of India (AERA)** will formulate key performance indicators as part of the bid document and could be revised every five years. This would ensure quality of services by the concessionaire.

**Benefits of the New Model**


- ***Affordability and predictability:*** The proposed change to the bid parameters would help ensure affordability of airport services for passengers as well as predictability of revenue for the winning bidder.
- ***Transparency:*** The new model will be based on passengers entering the airport. Thus, this will be the most transparent method. And with new technology, the headcount is far more easier.
- ***Reducing uncertainty:*** For the investor community, the proposal is seen reducing regulatory uncertainty and disputes arising out of tariff determination and revenue sharing. For global airport operators to come and invest in India, there have been two broad concerns *i.e.* AERA fixes the aeronautical tariffs once in five years and this leads to a degree of regulatory uncertainty, which could be daunting for an investor, including a foreign investor. The second challenge was from the concession granting authority. The biddable parameter so far, was revenue share. If this can be disputed then it becomes an item that is difficult to administer. Thus, linking concession fee to number of passengers, the disagreement around gross revenue and the risk of revenue leakage will be reduced.
- ***Disincentivise higher capex and cost:*** A shift away from determining airport tariffs on the basis of costs incurred by the airport developer is expected to disincentivise the company to incur excessive capex or operating expenses in order to seek higher aeronautical tariff.
- ***Realizing government's aim:*** The new concession agreement is aimed at realizing the government's dream of achieving **one billion passenger trips** a year. This necessitates massive investment in the sector and construction of more Greenfield airports.

## Freight Corridor on East Coast

*Syllabus: Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*

### In News

- ***Introduction:*** The Indian Railways plans to invest Rs. 44000 crore to build a 1100-km greenfield freight corridor on the east coast connecting **Kharagpur** in West Bengal with **Vijaywada** in Andhra Pradesh. The corridor is expected to carry about **200 million tonnes** of freight per annum.
- ***Eastern and western DFC:*** The construction work on the corridor will begin only after the DFCC delivers the **3300 km** long eastern and western freight corridors. The two corridors, being constructed to connect the mainland with the ports on the western and the eastern coasts of the country are expected to be fully completed by 2020. The **1500 km** long western freight corridor runs from Dadri near Delhi to Jawahar Lal Nehru Port Trust in Mumbai while the **1800 km** eastern corridor is from **Ludhiana** in Punjab to **Dankuni** in West Bengal. Once open, the stretches on the western and the eastern corridors will significantly reduce the travel time between Delhi and Mumbai and Delhi and Howrah, the two most congested rail routes in the country. The construction of the western corridor is being fully funded by the Japanese International Cooperation Agency (JICA) and the eastern corridor is being partially funded by the World Bank.
- ***Connecting producer & Consumers:*** The corridor will connect mineral rich areas of the country to industries in the south.

## Motor Vehicle Amendment Bill

*Syllabus: Infrastructure: Energy, Ports, Roads, Airports, Railways etc.*

### In News

- The Motor Vehicles (Amendment) Bill has run into opposition in the Rajya Sabha because of its perceived shift of power from the States to the Centre. The issue is not one of legislative competence as the subject is in the Concurrent List.
- India saw **1.5 lakh deaths** from road accidents, according to the 'Road Accidents in India, 2016' as report by the Ministry of Road Transport and Highways.

### Provisions of The Bill

- ***Overall approach:*** The Bill seeks to update the three decades old Motor Vehicles Act by hefty increases in penalties for traffic violations, rationalizing third party insurance, revamping norms for Internet enabled taxi aggregators, holding parents/guardians accountable for juvenile driver's handiwork and instituting clear cut liability norms for automotive producers in the case of vehicle defects and for builders in the case of infrastructure flaws.
- ***Removal of intermediaries:*** The Motor Vehicles (Amendment) Bill seeks to redress corruption of intermediaries by taking the process online. Tests for driving licences will be automated and learner's licences will be issued online.

**Key provisions**

- Aadhaar number required to apply for driving licence
- No need to visit transport office to get a learning driving licence as process will be online
- Contractor responsible for bad roads liable to be fined
- Bill defines cab aggregators
- Stricter penalties proposed for high-risk offences such as drunken driving, dangerous driving and non-adherence to safety norms by drivers (such as not using seat belts and helmets)

- ***Hefty fines:*** The Bill proposes to raise the fine for various offences such as for rash driving from Rs. 1000 to Rs. 5000; driving without a licence will attract a minimum fine of Rs. 5000 against Rs. 500 now.
- ***Liability for grievous hurt and death:*** The old Act provided Rs. 12000 for grievous injury and Rs. 25000 for death, while the amendment Bill provides Rs. 50000 for grievous injury and Rs. 2 lakh or more for death.
- ***Creation of new fund:*** The Bill provides for a **Motor Vehicle Accident Fund**, which would provide compulsory insurance cover to all road users in India for certain types of accidents. The 1988 Act already has a **Solatium Fund** for victims of hit-and-run accidents, but the new Bill has also provided for another Fund. And the money will come either from the government or from a grant or loan.
- ***Financial liability for defect in road design:*** For any road crash injury or death caused by defective road design and engineering, the designated authority responsible to construct and maintain the road is to be penalized with a sum capped at **Rs. 1 lakh.**
- ***More categories in driving licences:*** While under the 1988 Act, a driving licence is valid for 20 years until a person turns 50 and for five-year periods after the age of 50, under the new law, more categories have been created. A driving licence issued to a person under the age of 30 is valid till the person turns 40. For those who receive licences between the ages of 30 and 50, the licence will remain valid for 10 years. If the licence is issued between 50 and 55 years, it will be valid until the person turns 60 and above 55 years, licences will carry a five-year validity.
- ***Taxi Aggregators:*** The Bill defines aggregators as a digital intermediary or market place for a passenger to connect with a driver for the purpose of transportation. Aggregators currently are to comply with the **Information Technology Act, 2000**. Thus, the Aggregators are as yet unregulated in India but this Bill seeks to change that.
- ***Vehicle recall:*** The new Bill provides for the recall of vehicles if the defective vehicle is a danger to the environment, the driver or other road users. The manufacturer will then have to reimburse all buyers with the full cost of the vehicle, replace the defective vehicle and if necessary pay a fine as specified by the government.
- ***Protection of Good Samaritans:*** The Bill suggests several provisions for the protection of Good Samaritans. If someone helps the accident victims, he/she will be protected from the civil or criminal liability.

### State Government Concerns

- ***Against federalism:*** Some State governments are concerned about the new provisions, **Sections 66A** and **Section 88A**, which will empower the Centre to form a **National Transportation Policy** through a process of consultation and not concurrence. The changes will also enable centrally drafted schemes to be issued for national, multi-modal and inter-State movement of goods and passengers, for rural mobility and even last-mile connectivity. Since all this represents a new paradigm that would shake up the sector, several States have opposed the provisions as being anti federal.
- ***Corporatization of vehicle registration:*** **Clause 44** of the Bill sought to pass on the powers of registration of vehicle from the Regional Transport Office to private dealers.

### Defects In The Proposed Amendment

- ***Lack of investigation agency:*** There are some new provisions to harness technology, including CCTV monitoring, to improve road safety, but these cannot produce results when there is no professional accident investigation agency to determine best practices.
- ***Poor enforcement:*** Many of the proposed amendments deal with road safety. These however, are likely to achieve little without strong enforcement by the States.
- ***Purpose of new fund unclear:*** Under the Act, compensation for hit and run victims comes from a Solatium Fund. The Bill creates a new Motor Vehicle Accident Fund in addition. With a Fund already existing to provide compensation for hit and run accidents the purpose of the new Accident Fund is unclear.
- ***Nature of offence for imposing penalty not defined:*** While the penalties for contravening provisions of the proposed scheme on interim relief to accident victims are specified in the Bill, the offences that would warrant such penalties have not been specified. It may be argued that imposing penalties without knowing the nature of the offences is unreasonable.

## Way forward

- There is a need to incorporate the **Safe System Approach** in all aspects of road design, engineering and construction. This approach takes into account the possibility of human error and ensures that the surrounding environment and infrastructure are designed to save lives.
- Care is needed to see that other measures, such as sharply enhancing fines for rule violations, do not only result in greater harassment. It is the certainty of enforcement, zero tolerance and escalating penalties that will really work.
- The opposition to the bill is not correct as the passenger transport sector operating within cities and providing inter-city services has grown amorphously with vested interests exploiting the lack of transparency and regulatory bottlenecks. With a transparent system, professional new entrants can enter the sector.
- As things stand, State run services have not kept pace with the times. Major investments made in the urban metro rail systems are yielding poor results in the absence of last mile connectivity services. Thus, Creating an equitable regulatory framework for the orderly growth of services is critical. This could be achieved through changes to the MV Act that set benchmarks for States.
- Enabling well-run bus services to operate across States with suitable permit charges is an imperative to meet the needs of a growing economy. Regulatory changes introduced in **Europe** over the past few years for bus services have fostered competition, reduced fares and increased services operating across European Union member-states.