GS PAPER 3

Economic Growth and Development-Nov'18

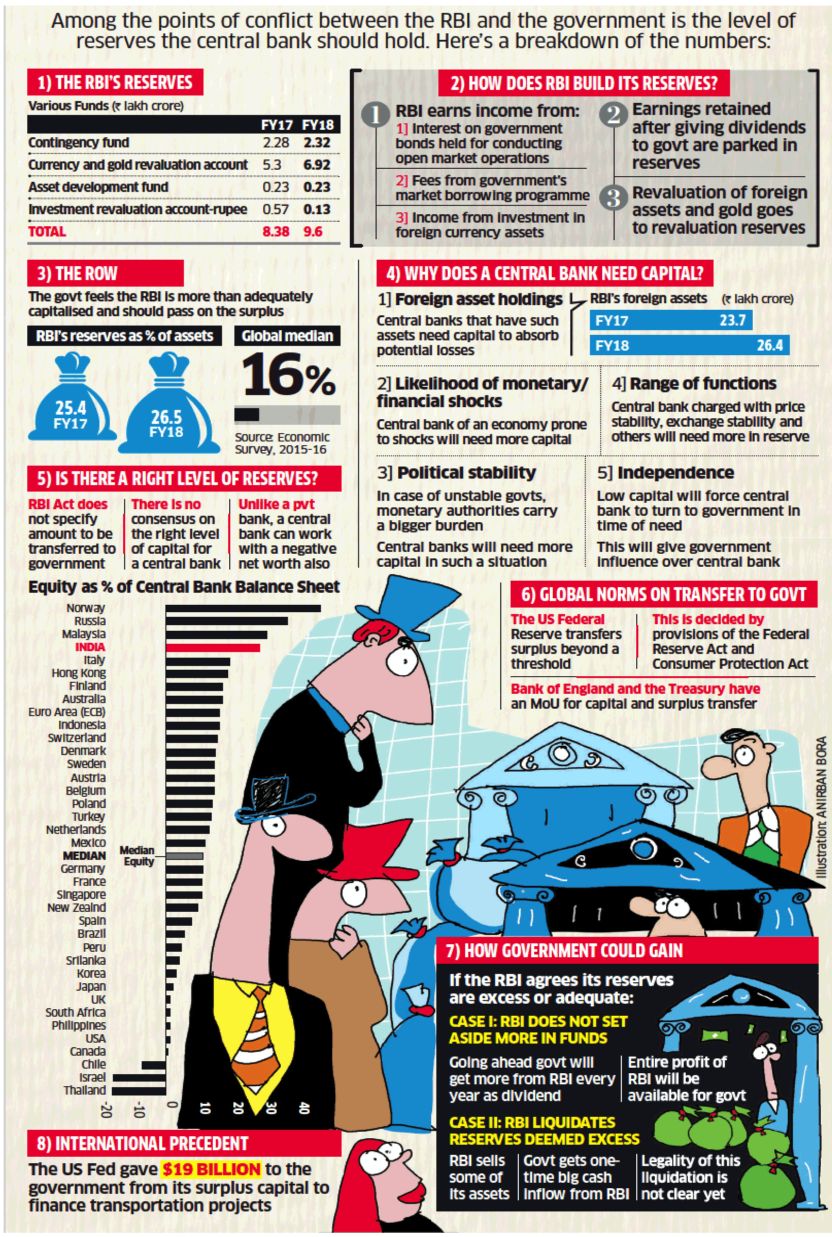
Government Allegedly Want Rs 3.6 Lakh Crore From RBI Reserves

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

In News

At the heart of the RBI-Government standoff is a proposal by the Finance Ministry seeking to transfer a surplus of ***Rs 3.6 lakh crore***, more than a third of the ***total Rs 9.59 lakh crore*** reserves of the central bank, to the government. The Ministry has suggested that the RBI and the government can manage this surplus jointly.

RBI's Income And Reserve And The Controversy



- ***RBI's Income:*** The RBI earns income from lending to commercial banks and from purchase and sale of government securities. It also has a surplus seignior age (the difference between the value of notes that it prints and the cost of printing and distributing them). Thus, the reserves are built through transfers from the annual surpluses in the profit and loss account of RBI. The balance surplus after transfer to reserves is given to the Centre as dividend.
- The RBI maintains various types of reserves to cover various risks including *market risk, operational risk, credit risk and contingency risk*.
- For the year ending June 2018, RBI had ***total reserves of Rs 9.59 lakh crore***, comprising mainly currency and gold revaluation account (Rs 6.91 lakh crore) and contingency fund (Rs 2.32 lakh crore). While ***Contingency Fund*** represents the provisions made for unforeseen contingencies, *the* ***Currency and Gold Revaluation Account(CGRA)*** represent unrealized marked to

market gains/losses.

- ***Surplus Distribution Policy:*** The Finance Ministry has raised objections to the *Staggered Surplus Distribution Policy (SSDP)* of the Central Bank, under which the RBI transfers its surplus to the government. The Ministry's view is that RBI has been conservative and at times arbitrary, especially when it came to the transfer of the interim surplus.
- The CGRA accounts for 19.11% of total assets and the contingency reserve for another 6.41%.
- Back in 2004, a committee under ***Usha Thorat***, then Deputy Governor, examined the question about the ideal size of RBIs reserves. It suggested that the CGRA should be 12.26% of total assets while the contingency reserve should be 5.5%, totalling 17.76% in all.
- But the RBI Board did not accept the recommendation and preferred to continue with the level set by an earlier committee in 1997. That committee, under ***V. Subrahmanyam***, had set a *contingency reserves level of 12%* of total assets.
- ***Past transfers:*** In 2017-18, the RBI transferred a surplus of Rs 50,000 crore to the government (comprising an interim transfer of Rs 10,000 crore), up from Rs 30,659 crore in 2016-17, but lower than in the previous three years.

Arguments In Favour Of Transfer Of Reserves

- ***Surplus Reserves Are High As Per International Standard:*** The Government believes that, when compared with global central banks, the RBI holds much higher total capital as a percentage of its total assets **(*at about 28 %)*.** While, countries including the US, the UK, Argentina, France, Singapore maintain much lower capital as a percentage of total assets.
- ***Over Estimation Of Capital Requirement Due To Conservative Assessment Of Risk:*** The Finance Ministry claims that the existing economic capital framework, which governs the RBI's capital requirements and terms for the transfer of its reserves to the government is based on a very conservative assessment of risk by the Central Bank. Thus, RBI has over-estimated its capital reserves requirements resulting in excess capital of *Rs 3.6 lakh crore.*
- ***Unilateral Adoption by RBI:*** For its part, the Finance Ministry argues that the RBI unilaterally adopted the current framework in July 2017, because both the government nominees on the Board were not present during the meeting. The government did not accede to this framework and has since then been constantly seeking discussions with the RBI.
- ***Viable Deployment:*** The government has proposed that the use of these funds be decided in consultation with the RBI. These funds can be used, for example, to recapitalize public sector banks, help them expand their loan book and come out of the Prompt Corrective Action (PCA) framework.
- The ***Malegam Committee*** in 2013 estimated that the RBI was holding *Rs 1.49 lakh crore* of reserves and buffers in excess of its requirements.

Arguments Against Transfer Of Reserves

- ***Lender Of Last Resort:*** Central banks need to be adequately capitalized in order to perform their core functions, which include being the lender of last resort for the banking system.

- ***Weaken RBI's Balance Sheet And Its Role:*** If the RBI dips its reserves further to pay the Centre, this would weaken its balance sheet. Moreover, it will also impact on the RBI's role in *Open Market Operations (OMOs) via* which it implements monetary policy and also supports its role as the public debt office. The reserve is also a cover for the *deposit insurance fund* given that the *Deposit Insurance and the Credit Guarantee Corporation (DICGC)* is a wholly-owned subsidiary of the RBI.
- ***RBI Most Under-Capitalized Central Bank:*** Only a third of RBI capital is actually contingency funds that can be deployed when needed. Thus, the deployable capital base of the RBI is just about **7 % of total assets**. This makes the RBI one of the most under-capitalized central banks in the world.
- ***Impact Macro-economic Stability:*** The RBI view is that this attempt by the Government to dip into its reserves can adversely impact macro-economic stability. The transfer will not only hurt the government's commitment to fiscal prudence, it also affects the confidence of the financial markets.
- ***No Fresh Receipt:*** RBI in its opinion also states that reserves do not tantamount to any fresh income and was essentially in the nature of issuing new securities to fund government expenditure.
- ***International Experience:*** The transfer of excess reserves from a central bank to government can be catastrophic, as had been proven in the *case of Argentina*. The transfer of $6.6 billion of its central bank's reserves to the national treasury, sparked off the worst constitutional crises in Argentina and led to a grave reassessment of its sovereign risk.

Way Forward

The RBI should adopt a policy framework to determine dividend payable to the government each year, after assessing Contingency fund adequacy *vis-à-vis* an identified set of risks, following a rich methodology.

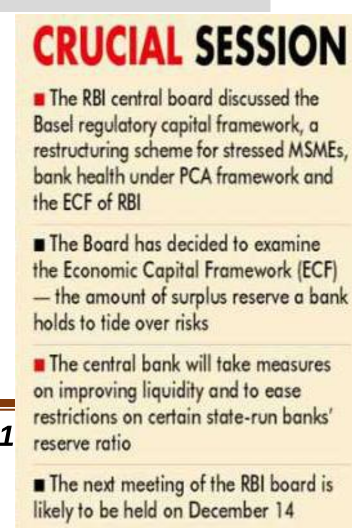
Government And RBI Meeting On Acrimonious Issues

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

In News

The Government and the Reserve Bank of India (RBI) pulled back from the brink after a public spat and reached an agreement on providing relief to small and medium firms and easing lending restrictions on some state-owned banks.

The Agreement


CRUCIAL SESSION

- The RBI central board discussed the Basel regulatory capital framework, a restructuring scheme for stressed MSMEs, bank health under PCA framework and the ECF of RBI
- The Board has decided to examine the Economic Capital Framework (ECF) — the amount of surplus reserve a bank holds to tide over risks
- The central bank will take measures on improving liquidity and to ease restrictions on certain state-run banks' reserve ratio
- The next meeting of the RBI board is likely to be held on December 14

- ***Loan Recast for SMEs:*** The RBI agreed to work out a loan-restructuring scheme for SMEs for a loan exposure of up to Rs 25 crore in line with the advice of the board. The Board advised that the scheme should be subject to such conditions as are necessary for ensuring financial stability. The RBI was earlier unwilling to consider any loan-recast scheme for small units as the banking sector is already reeling under the impact of a huge pile of bad loans.
- ***Review of PCA Framework:*** An existing committee of the RBI, the Board for Financial Supervision (BFS), will review the Prompt Corrective Action (PCA) framework, which imposes restrictions on

lending on banks which have been hit by bad loans and weak capital. This is expected to ease curbs and so boost lending for 11 PSU banks, which have been placed under this framework.

- ***Committee On Capital Framework:*** The Board also decided to form an expert committee to fix the appropriate capital framework or the capital, which is needed to shield or protect the central bank from future losses. The membership and terms of reference of which will be jointly determined by the Government of India and the RBI.
- ***Ease of Buffer Norms:*** The banks are expected to get a boost with the easing of norms on the *Capital Conservation Buffer (CCB)*, which is the extra capital banks hold above their mandatory capital and in terms of pushing back the deadline for transition to the globally recognised Basel norms by one more year to end of *March 2020*.
- Further, on the issue of capital for banks, Government nominees and an independent director argued for *8 % capital* in line with the Basel recommendations; while the RBI Board decided to retain the capital adequacy requirement at 9 %.

Review of IBC's Progress

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

In News

As per the Corporate Affairs Secretary, the insolvency and Bankruptcy Code (IBC) has catalyzed the recovery of around Rs. 3 lakh crore from various default cases, directly or indirectly, since its inception in 2016.

Relevant Data

- ***Lowest Recovery:*** The lowest recovery rate of 6 % was seen in the case of Synergies Doorey Automotive in which financial creditors could recover only Rs 54.7 crore out of total claims of Rs 972.2 crore.
- ***Average Recovery:*** The average recovery in the 60 odd insolvency cases that have seen resolution over the past two years has been to the tune of ***46 %***, against just ***26 %*** under the earlier Board for Industrial and Financial Reconstruction (BIFR) regime. Thus, highlighting the effectiveness of the nascent insolvency framework.
- ***Total Recovery:*** The resolution of the 60 cases have so far yielded around **Rs 71,000 crore**, some Rs 50,000 crore is expected to be recovered from Essar Steel, which is at the advanced stage of being resolved.

A fifth of IBC cases cross the 180-day deadline

Status of cases admitted under NCLT

Resolution in progress of which*	**442**
< 30 days	33
30-150 days	225
150-180 days	67
>180 days	117
Resolution plans approved	10
Liquidation order passed	30
Closed by appeal/review	36
Total petitions admitted	525

- ***Fear of IBC Among Defaulters:*** Apart of these, around 3500 cases involving *defaults of Rs. 1.2 lakh crore* were withdrawn from the National Company Law Tribunals (NCLTs) before applications were admitted by the adjudicating authority, suggesting that creditors might have recovered money from debtors by just issuing threats of the IBC.
- ***Reduction in NPAs:*** The non-performing assets (NPAs) worth another *Rs. 45,000-50,000 crore* were converted to standard accounts after the borrowers had paid back, ostensibly due to fears of the IBC being invoked by the lenders.

- ***Missing Deadlines:*** More than half of the companies on the RBI's first list for resolution, which were referred to the NCLT, have completed more than *400 days of CIRP* (computation of time period of corporate insolvency resolution process) duration against the stipulated 270 days. For example, the Essar Steel resolution process missed many deadlines since it was admitted to the NCLT in June 2017.

Problems With IBC

- ***Delays:*** The delay adds to the operational losses to creditors, who cannot receive interest for the period. This will impact foreign investments & force companies to remain in liquidity crisis.
- ***Banks at loss:*** Experts say that the delay also results in substantial losses for banks in terms of interest as banks can book interest on an account only up to the date of commencement of insolvency proceedings.
- ***Conflict between rival creditors:*** The dissent between the financial lenders and operational creditors is creating inordinate delays with their repeated intervention in the resolution of cases before the National Company Law Tribunal (NCLT). The latest being the case of Standard Charted Bank that has questioned resolution of Essar steel bankruptcy case.

Way Forward

- Experts say that once a resolution plan is approved by the CoC as per the requisite majority, no such objection should be entertained, as many entities unnecessarily delay the closure out of self-interest. If at all these entities have to be heard on the point of view of natural justice, it should be time-bound so that the entire process does not go for a toss.
- IBC is a welcome proposal in complicated resolution process. India's new Bankruptcy Code has instilled deterrence among defaulting promoters % empowered its long-suffering lenders.
- Further, the principal stakeholders of the insolvency ecosystem *i.e.* the NCLTs, the committee of creditors and resolution professionals need to work towards expediting the resolution process.
- Thus, even if the IBC succeeds in instilling in the promoters of India Inc. a real fear of losing control over their assets and shapes better behaviour that will still count as its biggest triumph.

Insolvency: Pre-IBC Facility

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

In News

The government is exploring the feasibility of implementing a so-called "pre-packaged" bankruptcy scheme, prevalent in *countries like the US*, in India to aid the existing insolvency framework and cut costs and time of the resolution process.

About The Scheme

- The pre-packaged bankruptcy scheme will typically allow a stressed company to prepare a financial reorganization plan with the approval of its ***at least two-thirds of creditors and shareholders*** before the filing of an insolvency application by any party at the National

Company Law Tribunal (NCLT). The resolution plan so reached can then be placed before the NCLT for approval, so that it can be implemented.

- ***Complementary To The Existing Scheme:*** The pre-IBC (Insolvency and Bankruptcy Code) window for the resolution of stressed assets will not seek to dilute the existing IBC framework in any way and creditors can still tap the current IBC window if they don't want any pre-IBC negotiations with debtors.
- ***Effect:*** Since the plan is already endorsed by the lenders, it will effectively bypass various requirements and interventions by the NCLT at different stages under the usual IBC process, thus reducing litigation costs and delays. It will also help to decongest the over-burdened NCLTs.

Exports Grow 17.86% to $26.9 Billion in October

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

In News

- ***Exports:*** India's goods exports bounced back in October 2018 posting a 17.86 % year-on-year growth to $26.98 billion boosted by an increase in shipments of petroleum products, chemicals, pharmaceuticals and engineering goods.
- ***Imports:*** Imports during the month grew 17.62 % to $44.11 billion widening the trade deficit to $17.13 billion compared to $14.61 billion last October.
- ***Commodity wise:*** The import of crude and petroleum products jumped over 52 % to $14.20 billion during the month, while import of gold declined 42.9 % to $1.68 billion. Ready-made garments, gems & jewellery, spices, electronics, leather goods, plastics and handicrafts also recorded an increase in exports.
- ***Overall Export:*** Total exports in April-October 2018-19 were $191.01 billion, which was 13.27 % higher than exports in the same period last year. Imports during the period were 16.37 % higher at $302.47 billion.
- ***Overall Trade Deficit:*** Trade deficit in the first seven months of the fiscal widened to $111.46 billion compared to $91.28 billion in the same period last year.

E-Registration Mandatory For Jobs In 18 Countries

Syllabus: Indian Economy and Issues relating to employment.

In News

- Passport holders with "non-Emigration Check Required (non-ECR)" status will soon have to get themselves registered with the Ministry of External Affairs before taking up jobs abroad.
- The rule, which takes effect on 1st January 2019, applies to jobs in 18 countries, including the six GCC nations, which have the largest number of expats.
- The non-ECR category of passengers include Indians paying income tax and those with educational qualification above matriculation.
- As of now only ECR category passport holders were required to get emigration clearance from the office of the Protector of Emigrants to seek employment abroad. Now all those

seeking employment in the said countries will have to register online and those failing to register at least 24 hours prior to actual departure will be off-loaded at the airports.

- It has been observed that not all blue-collar workers are in the ECR category. Some have higher educational qualifications but don't get included in the e-migrate system.
- There are lots of people who are vulnerable and it is to safeguard their interest. It will enable the consulate and the ministry to provide help quickly as they will have the details of their whereabouts.

E Migrate

- Launched in 2015, e-Migrate is an online registration system for foreign employers to recruit Indian workers. Indian citizens with ECR stamp on their passports have to get their job offers cleared through the e-Migrate system.
- The system was introduced to protect unskilled and illiterate blue-collar workers from contract substitution, exploitation, and human trafficking.

Fact File

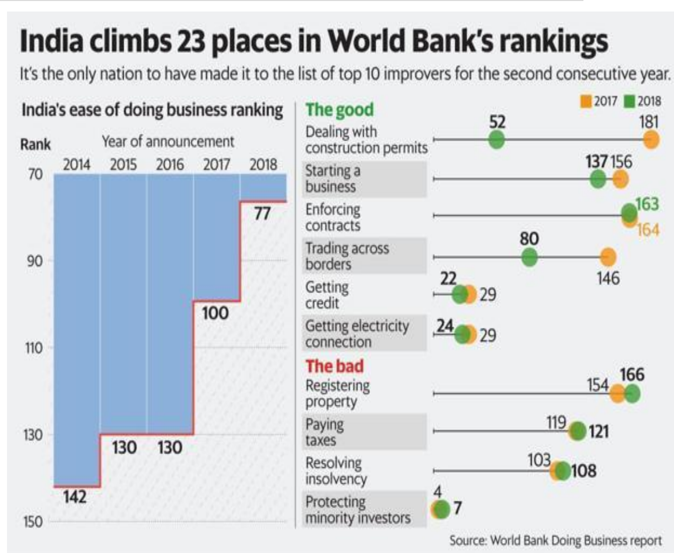
- Statistics available with the Ministry of External Affairs show that UAE is one of the five top destination countries for Indians taking up employment. Nearly 1.5 lakh Indians had taken up employment in that country last year.
- Further, Uttar Pradesh has emerged as the top labour-sending State followed by Bihar, Tamil Nadu, West Bengal and Rajasthan.

India's Position On Ease Of Doing Business Ranking

Syllabus: Effects of liberalization on economy

In News

- India jumped 23 spots in the World Bank's Ease of Doing Business ranking to ***77th place,*** becoming the top ranked country in South Asia for the first time and 3rd among the BRICS nations.
- In the last two years, the country has climbed 53 notches, a performance matched in the past only by ***Bhutan and Djibouti***. The government's objective is to lift India into the top 50.
- The survey, which is restricted to ***Mumbai and Delhi***, maps reforms across ***10 parameters*** such as starting a business, getting construction permits, securing electricity, registering property, getting credit, protecting minority investors, paying taxes, cross-border trade, enforcing contracts and resolving insolvency.



Other Takeaways

- ***New Zealand*** tops the list of 190 countries, followed by Singapore, Denmark, and Hong Kong. The US is placed 8th and China has been ranked 46th while Pakistan is placed at 136.
- ***Top 10 Improvers:*** With 13 reforms between them, China and India, two of the world's largest economies are among the 10 top improvers. ***Djibouti and India*** are the only economies to make the list of 10 top improvers for the second consecutive year in the 190-country ranking.
- ***Absolute Improvement In Performance:*** More remarkably, India stands out among the top five reformers among 190 countries, its score up by 6.63 points to 67.23; the four countries whose score has jumped more are *Afghanistan, Djibouti, China and Azerbaijan*. This implies that an improvement in rank is based on India's absolute performance and not on the under-performance of other countries.
- ***Biggest Gain:*** The biggest gain was in *construction permits*, where India climbed 129 ranks to 52nd place on the back of targeted government efforts to remove hurdles. In dealing with construction permits, India has implemented an online single window system, introduced deemed approvals and reduced the cost of obtaining these permits. The government has also facilitated improved building quality and control by introducing decennial liability and insurance.
- ***Dismal Ranking On Other Parameters:***
  - Its score remains dismal on *registering property*, where it ranks 166. While it takes 69 days to register a piece of property and costs about 8% of its value in India, the norm for OECD countries is just 20 days at half that cost. New Zealand gets this done in a single day.
  - There has been a deterioration in ranking of the *paying taxes parameter* to 121 from 119 in 2018. A typical Mumbai-based firm makes 13 tax payments a year, spends 278 hours on this and coughs up 52% of its profits.
- ***India's rank on other indicators:*** India now ranks in the *top 25* in the world on three indicators *i.e.* getting electricity, getting credit and protecting minority investors.
- ***Rank on Distance To Frontier (DTF):*** The Doing Business Report ranks countries on the basis of Distance to Frontier (DTF), a score that shows the gap of an economy to the global best practice. India's DTF score *improved to 67.23 from 60.76* last year.

Steps Taken By Government For Ease Of Doing Business

- ***Steps in Electricity Sector and IBC:*** In the electricity sector, the time taken for obtaining a new connection has *dropped from 105 days to 55* in the past four years. India has also put in place a new Insolvency and Bankruptcy Code (IBC) and a time bound reorganization procedure for corporate debtors. Under IBC, secured creditors are now given priority over other claims and repaid first during liquidation, a move that helped India's rank improve seven places in the getting credit criterion.
- ***Startups:*** To help ease business startups, the government has merged PAN and TAN with *SPICe* (Simplified Proforma for Incorporating Company Electronically). Registration is also faster under the Goods and Services Tax (GST) regime.
- ***Removal of Site Inspection:*** At the same time, Mumbai abolished the practice of site inspections for registering companies under the Shops and Establishments Act.

- ***Other Steps:*** By upgrading port infrastructure and electronic sealing of containers, India jumped to 80th place in 2018 from 126th in 2017, in that area.

Lacuna In The Ranking Framework

- ***Restricted Analysis:*** The ranking framework is only restricted to the cities of *Mumbai and New Delhi*, thus ignores the improvement or hurdles in business environment in other parts of India. Recognizing this limitation, World Bank is in process to calculating district wise ranking.
- ***Indicators Not Comprehensive:*** The World Bank's intent is to measure a country's progress on a few doing business indicators in great depth, without trying to be comprehensive about the indicators or striving for a statistically large sample.
- ***Qualitative Aspect:*** The index does not take qualitative factors into consideration. The notion of a supportive business environment cannot be seen in isolation of a country's health and education indices, its political climate and the robustness of key institutions.
- ***Biased:*** The index has also evoked criticism by Nobel Prize winner Paul Romer who suggested that the Index's methodology is biased and alleged the political motivations of the World Bank staff in influencing the ease of business rankings. Moreover, he questioned the repeated changes in methodology for calculating the same.
- ***Confine Itself To Review Of Old Rules And Regulations:*** Critics have argued that the report does not take a nuanced view of regulation.

Way Forward

- Although there may be lacunas in EODB rankings, but it do serve as the most trusted ready-reckoner for foreign investors looking to set up shop in a country. For that reason, this is an achievement for India to celebrate.
- Moreover, the learnings will be especially critical as the country strives to focus on further improving its performance on Doing Business with the objective of achieving the vision of making India the easiest and simplest place to do business in.

Credit Availability for MSMEs

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

In News

- Prime Minister has announced 12 measures under the MSME support and outreach programme to boost the Micro, Small and Medium Enterprises (MSME) sector, including a portal that would enable the units to get a loan ***upto Rs. 1 Crore in just 59 minutes***.
- The programme will run for ***100 days covering 100 districts.***
- These measures come when the government is engaged with banks to address the liquidity crunch in the markets.
- The MSME sector accounts for an estimated ***30 % of country's GDP, 45 % of its manufacturing output, and 40 % of merchandise exports***.
- And given that MSMEs have contributed least to the banking system's non-performing assets crisis, even while disproportionately bearing the brunt of demonetization and GST, there is also a moral case to support the sector.

About The Measures

- ***Five Key Areas:*** The government will focus on five key aspects for facilitating the MSME sector. These include *access to credit, access to market, technology upgradation, ease of doing business, and a sense of security for employees*.
- ***GST Registration Mandatory:*** The firms registered on the GST portal would be able to avail themselves of loan facility on the portal itself.
- ***Interest Subvention:*** Moreover, GST registered firms will also get a *2% rebate* on interest rates for fresh & incremental loans. For exporters, who receive loans in the pre-shipment and post-shipment period, an increase in interest rebate from **3 % to 5%** was announced.
- ***Compulsory Procurement:*** The Public sector companies had now been asked to compulsorily *procure 25%, instead of 20%* of their total purchases from the MSMEs. Further, of the 25% procurement mandated from the MSMEs, *3% must now be reserved for women* entrepreneurs.
- ***TReDS Portal:*** All companies with a turnover of more than *Rs. 500 crore* must now compulsorily be brought on the Trade Receivables e-Discounting System (TReDS). Joining this portal will enable entrepreneurs to access credit from banks, based on their upcoming receivables. Thus, will resolve their problems of cash cycle.
- ***GeM Portal:*** All public sector companies have been mandated to register on the GeM portal (Government e-Marketplace) through which they can source their requirements. A total of 1.5 lakh suppliers comprising 40,000 MSMEs are currently registered with GeM.
- ***Technology Upgradation:*** On technological upgradation, the *20 tool hubs* would be formed across the country and *100 spokes* in the form of tool rooms would be established.
- ***Other Measures:*** The other measures announced were establishing clusters of pharma MSMEs, the easing of return filing, the allotment of inspectors for routine inspections of factory units, the merging of air and water pollution permits and the simplification of the process to address minor violations under the Companies Act.

Benefits

- ***Credit Availability:*** These measures will help to improve credit flow to MSMEs where growth has been much lower particularly after recent NBFC crisis.
- ***Check Misuse:*** Forcing large companies to list all their receivables on TReDS will curb the misuse of factoring (use of receivables for loans) practice and benefit the MSMEs.

Challenges

- ***Surge in NPAs:*** But at the same time, it should also be considered that the biggest risk of a credit stimulus is the misallocation of productive economic resources. Thus, unintended consequence is the likely deterioration in credit standards as financial institutions are pushed to lend aggressively to MSMEs as seen in case of *MUDRA Loans Scheme,* which has been troubled by soaring bad loans.

- ***Inefficiencies:*** There is a fear that obligation on PSUs for procuring a quarter of their inputs from MSMEs could breed further inefficiency in the economy.
- ***Release of Input Tax Credit:*** The promise of higher interest subvention to exporters is welcome, too, although the real reform the sector needs is faster release of much-delayed input tax credit on exports.
- ***State Support A Must:*** The Central Government has promised that factory inspectors will be permitted to conduct visits through random computerized allotment with compulsory publication of reports *within 48 hours*. In addition, there would be only a single environmental approval for both air and water pollution. But the implementation here, too, is dependent mainly on the states concerned.

Way Forward

- Thus, care needs to be taken to see that the new MSME loan scheme does not pose a similar risk in the future.
- Moreover, a well-functioning debt market is the solution to MSME finance, along with greater freedom for the emerging fintech sector to operate in trade credit. NBFCs, small finance banks, *etc.* can raise money from the debt market and service MSMEs that cannot access the debt market directly. The government and Reserve Bank of India must work to this end.

Merchant Mining of Coal

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

In News

- Centre needs to follow the big bang reforms in the coal sector and promptly allow merchant mining to end perennial shortages of the fuel that remains India's main source of commercial energy.
- As per the reports, the coal stocks at thermal power plants are ***down to about 6 days worth***, while the stipulated ***norm is 21 days***.

Government's New Proposal

- The Centre has proposed tweaking the rules for the next round of captive coal block auctions, so as to *allow 25% offloading in the open market* from such mines. The idea presumably is to boost investor's interest in captive coal blocks.
- Captive mines are those coal mines that are allocated to the industry to fulfil their own coal requirements. They can't be used for any other purpose, except for the reasons it has been allocated.

Proposals To Boost Coal Production

- ***Opting Out Of Captive Mining:*** The whole notion of captive coal mining must be abandoned. Captive blocks are necessarily suboptimal, lacking economies of scale. It also means forcing total non-specialists to foray into a capital-intensive sector like coal with its attendant risks and costs.

- ***Ending Monopoly In Coal Sector:*** There is a need to overhaul Coal India that has been unable to meet coal demand. The fact is that India has been importing huge volumes of coal, *about 200 million tonnes per annum*, despite having some of the largest coal reserves.
- ***Allowing Private Investment:*** The coal sector must be opened up for private sector investment and technological upgradation, even as we step up production of renewable energy. The way forward is to have multiple, competing coal producers.

Way Forward

The government did set aside the ***Coal Mines Nationalization Act 1973*** and has, in fact, put in place legislation to duly allow merchant mining. But it needs to walk the talk, take trade unions into confidence, and rev up productivity in domestic coal mining. Further, coal-to-gas and coal-to-liquid research must get top priority, as well.

PM Unveils Vision For A Gas Based Economy

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

In News

- PM laid the foundation stone for City Gas Distribution (CGD) projects in 129 districts of 18 States that were awarded in the recently concluded bid round.
- India consumed *142 million standard cubic meters per day* of natural gas in the fiscal year ending March 31, 2018 and is slated to *rise 2.5 times* in next decade.

Vision for Gas-based Economy

- ***Gas Infra:*** Gas infrastructure is being strengthened through a nationwide gas grid, city gas distribution projects, and raising liquefied natural gas (LNG) import capacity.
- ***Gas Distribution Network:*** The government will more than *double city gas networks to 400 districts,* quadruple piped cooking gas connections to households to *2 crore,* and also set up 10,000 CNG dispensing stations.
- ***New Biddings:*** The government also launched the 10th round of bidding for award of city gas licenses in 124 new districts. Once 10th round is completed, natural gas as fuel will cover 400 districts and 70 per cent population.
- ***Incentive for Investment:*** The Domestic gas prices have been linked to global gas market and to increase domestic production, marketing and pricing freedom has been given.
- ***Independent Operation & Exchange:*** An independent transport operator and a trading exchange are being developed to provide transparency in operations of pipelines and price discovery.
- ***Connecting Northeast India:*** Over Rs 22,000 crore is being spent on laying new pipelines that will transport natural gas to unconnected eastern states of Bihar, Odisha and West Bengal and further to northeastern states, making available environment friendly fuel for industry and domestic use.
- ***Biogas:*** To promote clean energy, *5,000 compressed biogas plants* will be set up in five years to convert agri-waste into bio-CNG. This would not only address the problem of agri-residue, but also increase farmer income.

- ***Ethanol:*** Besides, 12 modern bio-refineries to convert biomass into fuel are being set up at an investment of Rs 10,000 crore. The blending of sugarcane-extracted ethanol in petrol has jumped four times since 2014 and the target is to take the doping to around 10 per cent level from current 3-4 per cent.
- ***Environment Friendly Fuel In Energy Mix:*** With the push towards a gas-based economy, the share of environment-friendly fuel in the energy basket will be increased from 6.2 % to 15 % by 2030.
- All these efforts will create lakhs of jobs and help meet India's COP-21 (Climate Change Conference) commitment of cutting emission intensity by 33-35 %

First Multi-modal Terminal on Inland Waterways

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

In News

- Prime Minister inaugurated India's first multi-modal terminal on the Ganga river in Varanasi and it received the country's first container cargo transported on inland waterways from Kolkata.
- This is the first of the four multi-modal terminals being constructed on the ***National Waterway-1 (Sahibganj and Haldia)*** as part of the *World Bank* aided ***Jal Marg Vikas project*** of the Inland Waterways Authority of India.
- Food and beverages major ***PepsiCo India*** become the first company to use the country's inland waterways for container movement by transporting products from its plant in Kolkata to Varanasi.

About Jal Marg Vikas Project

- After the passage of the ***National Waterways Act, 2016***, under which 111 inland waterways were declared as national waterways, the Centre launched the Jal Marg Vikas (JMV) project to boost the carrying capacity of the Ganga, also called NW–1.
- The ***objective*** of the JMV project is to facilitate the movement of 1,500-2,000 tonne vessels along the *Allahabad-Haldia stretch*.
- ***Funding:*** The annual profits of the 12 major ports, estimated at Rs. 7,000 crores, will be channelized to develop an extensive inland waterways system. The major ports will develop special purpose vehicles to this end.
- ***Specifics:*** The project entails construction of three multi-modal terminals (Varanasi, Sahibganj and Haldia), two intermodal terminals, five roll-on-roll-off (Ro-Ro) terminal pairs, new navigation lock at Farakka in West Bengal, assured depth dredging, integrated vessel repair and maintenance facility, differential global positioning system (DGPS), river information system (RIS), river training.

Significance of The Move

- Cheap and environment friendly means of transportation, especially for cargo movement.
- ***Project vis-à-vis road project:*** Its fuel efficiency is unparalleled, particularly in

comparison with road transport. Moreover, deforestation and uncertainties associated with land acquisition are minimized, even as livelihoods of communities living off the river are protected.

- ***Benefits of multi-modal transport:*** A multi-modal approach will address chronic logistics issues, inviting investment into regions considered uncongenial for business.
- ***High Potential:*** The potential of inland waterways to emerge as a viable alternative to road transport is immense in a country where barely ***3.5 % of trade*** is done through this route, against *47 % in China, 40 % in Europe, 44 % in Japan and Korea and 35 % in Bangladesh*.
- ***Economic Benefits:*** The Varanasi will become the gateway and North India hub of the first modern water transport system and it will also be beneficial for export and import through water route, thus benefit local industrialists and exporters/importers.
- ***Linkage to Bay of Bengal:*** The movement of the container vessel means the eastern Uttar Pradesh and country's eastern part have been linked to the Bay of Bengal.
- ***Link with East Asia:*** The project will also connect the religious places in East India to the East Asian countries.
- ***Tourism Promotion:*** The waterway will not only be used for transporting cargo but this will also promote tourism. Varanasi and other areas in the eastern region will also be popular for cruise tourism.

Final Analysis

- However, environmentalists have raised concerns about the impact of enormous vessels on the riverbed and aquatic life.
- Moreover, meeting river flow concerns across seasons would call for a review of hydal projects.
- In undertaking this paradigm shift towards inland water transport, India should implement the *sustainability practices as in Europe*. A consultative, inter-disciplinary approach, as opposed to a techno centric one, would keep the negative consequences to a minimum.