Economic Growth and Development

Unregulated Deposit Schemes To Be Banned

Syllabus: Indian Economy and Issues relating to mobilization of resources

In News

- The Union Cabinet has given its approval to move official amendments to the Banning of Unregulated Deposit Schemes Bill, 2018. The amendments were based on the recommendations of the Standing Committee on Finance (SCF) which reviewed the the Bill that was first introduced in Parliament in July, 2018.
- The Bill seeks to provide for a comprehensive mechanism to ban the unregulated deposit schemes that are being run by non-banking entities and to protect the interest of depositors.
- The Bill has been introduced in view of the frauds that has cropped up in non-banking saving schemes like chit fund, ponzi schemes etc.

Provisions of the Banning of Unregulated Deposit Schemes Bill, 2018

- **Complete prohibition of unregulated deposit taking activity:** The Bill contains a substantive banning clause which bans Deposit Takers from promoting, operating, issuing advertisements or accepting deposits in any Unregulated Deposit Scheme.
- **Types of offences:** The Bill creates three different types of offences: 1) Running of Unregulated Deposit Schemes, 2) Fraudulent default in Regulated Deposit Schemes, and 3) Wrongful inducement in relation to Unregulated Deposit Schemes.
- **Punishment:** The Bill provides for severe punishment and heavy pecuniary fines to act as deterrent. It prescribes monetary penalty, and jail term, which could be extended up to 10 years, for duping gullible depositors.
- **Competent Authority:** The Bill provides for the appointment of Competent Authority, which has the powers similar to a civil court, including powers to attach properties of the deposit takers.
- **Repayments to depositors:** The Bill has provisions for repayment of deposits in cases where such schemes nonetheless manage to raise deposits illegally. The Competent Authority can attach properties/assets and use the subsequent realization of assets for repayment to depositors.
- **Online central database:** The Bill enables creation of an online central database, for collection and sharing of information on deposit-taking activities in the country.
- **Special Courts:** The Bill provides for the designation of Courts to oversee repayment of depositors and to try offences under the Act.
- **Implementation by States:** The Bill entrusts the primary responsibility of implementing the provisions of the legislation to the State Governments.

Benefits of The Bill

- **Protects vulnerable people:** As many as 978 cases of unauthorised deposit schemes came to the notice of the Central Government between 2014 to 2018. The worst victims of these schemes are the poor and the financially illiterate, and the operations of such schemes are often spread over many States. The Bill protects them by banning all unregulated deposit schemes.
- **Separate Law to plug loopholes:** Companies/ institutions running such illicit deposit schemes exploit existing regulatory gaps and lack of strict administrative measures.

The Bill plugs all loopholes and provides that every deposit-taking scheme must be registered with one of the regulators (like RBI, SEBI etc.) listed in the Bill.

- **Deterrent Punishments:** By levying huge fines and long jail terms along with special authority and designated courts
- **Best Practices adopted:** The Bill adopted best practices from State laws.

Final Analysis:

There have been rising instances of people in various parts of the country being defrauded by illicit deposit taking schemes. The Bill provides appropriate legislative provisions, along with effective administrative and enforcement measures to protect the hard-earned savings and investments made by millions of people. The government should also ensure that, while drafting the rules, there will be no loopholes left.

Govt To Set Up Unified Authority For Regulating Financial Services In IFSCs

Syllabus: Indian Economy and Issues relating to mobilization of resources

In News

The Union Cabinet has approved the establishment of a unified authority for regulating all financial services in International Financial Services Centres (IFSCs) in India through International Financial Services Centres Authority Bill, 2019.

International Financial Centers

- Such centres deal with flows of finance, financial products and services across borders. London, New York and Singapore can be counted as global financial centres. Many emerging IFSCs around the world, such as Shanghai and Dubai, are aspiring to play a global role in the years to come.
- **GIFT City in India:** Gujarat International Finance Tec-City Co. Ltd, also called GIFT City, has been set up as India's first International Financial Services Centres (IFSC) in Gandhinagar, Gujarat

Benefits of IFSC in India

- **Bringing back Financial Services to India:** An IFSC in India enables bringing back the financial services and transactions are currently carried out in offshore financial centers by Indian corporate entities and overseas branches / subsidiaries of financial institutions (FIs) by offering business and regulatory environment that is comparable to other leading IFSCs in world such as London and Singapore.
- **Develop financial markets in India:** It would provide Indian corporates easier access to global financial markets. IFSC would also compliment and promote further development of financial markets in India.
- **Offer wide variety of financial services:** An IFSC can provide various services like Fund-raising services for individuals, corporations and governments; Asset management and global portfolio diversification undertaken by pension funds, insurance companies and mutual funds; Wealth management; Global tax management; Risk management operations such as insurance and reinsurance; Merger and acquisition activities among trans-national corporations etc.

Need For Unified Authority for IFSCs

- Currently, the banking, capital markets and insurance sectors in IFSC are regulated by multiple regulators, i.e. RBI, SEBI and IRDAI. The dynamic nature of business in the IFSCs necessitates a high degree of inter-regulatory coordination.
- It also requires regular clarifications and frequent amendments in the existing regulations governing financial activities in IFSCs.
- The development of financial services and products in IFSCs would require focussed and dedicated regulatory interventions.
- **Additional benefits:**
    - **Ease of business:** This unified regulator would also be essential from an ease of doing business perspective.
    - **Global best practices:** The unified authority would also provide the much needed impetus to further development of IFSC in India in-sync with the global best practices.
    - **Jobs:** This would also generate significant employment in the IFSCs in particular as well as financial sector in India as a whole.

Provisions of IFSC Authority Bill 2019

- **Management of the Authority:** The Authority shall consist of a Chairperson, one Member each to be nominated by the RBI, SEBI, IRDAI and PFRDA, two members to be dominated by the Central Government and two other members.
- **Functions of the Authority:** The Authority shall regulate all such financial services, financial products and FIs in an IFSC which has already been permitted, or which may be notified later.

Final Analysis

- The establishment of a unified financial regulator for IFSCs will provide a stimulus for further development of IFSCs by creating world-class regulatory environment to market participants from an ease of doing business perspective.
- This will provide a stimulus for further development of IFSCs and generate significant employment in India while also bringing back of financial services and transactions that are currently carried out in offshore financial centres to India.

RBI To Pay Rs 28,000 Crore As Interim Dividend To Government

Syllabus: Indian Economy and Issues relating to mobilization of resources

In News

- The Reserve Bank of India (RBI) will pay Rs 28,000 crore as interim dividend to the government. The interim dividend will help to keep the fiscal deficit at 3.4 per cent of GDP for 2018-19 (FY19) as per the revised estimates.
- Including this interim transfer, government got a total of Rs 68,000 crore for FY19 from RBI, exceeding the Rs 65,896 crore it received in FY16 and Rs 40,659 crore in FY18.

RBI's Balance Sheet

1. **RBI's Income Comes From Three Sources:**
    a) Interest on government bonds held for conducting open market operations (OMOs)
    b) Fees from government's market borrowing programme
    c) Income from investment in foreign currency assets

2. **RBI's Expenditure:** RBI's expenditure is mainly on the printing of currency notes, on staff, on commissions to banks for undertaking transactions on behalf of the government across the country, and to primary dealers.
3. **Surplus:** The central bank's total costs, including expenditure on printing and commissions, is only about a seventh of its total net interest income. This means that RBI generates a large surplus, more than the entire public sector put together.

What Happens To The Surplus?

1. **RBI retains some in contingency reserves:** The RBI retains some of this as equity capital to maintain its creditworthiness, and adds it to its Contingency reserves. For example, at the end of June 2018, RBI put aside Rs 14,190 crore for the contingency fund.
2. **Transfer of part surplus to the government:**
   - After retaining some of the surplus, RBI pays out the remaining surplus to the government. Section 47 of the RBI Act provides for the transfer of surplus to the government. As per the section, after making provision for bad and doubtful debts, depreciation in assets etc., the balance of the profits shall be paid to the Central Government.
   - **Interim dividend:** The central bank follows a July-June accounting year and usually transfers the surplus in August after annual accounts are finalised. However, it sometimes makes an "interim transfer" at the request of government.
   - For example in FY19, the RBI had transferred Rs 40,000 crore to the government in August 2018, and another interim transfer of 28,000 crore in February 2019, making it a total of Rs 68,000 crore for the fiscal.

Controversy Over Amount Of Surplus To Government

There is controversy over how much of the surplus RBI retains, and how much it transfers to the government. For example, the amount RBI retained towards risks and reserves in FY17 and FY18 amount to more than Rs 27,000 crore. While the RBI wants to retain it, the government wants it transferred to it.

About RBI's Reserves - RBI Maintains Two Major Types Of Reserves:

1. Revaluation reserves:

- The revaluation reserves are reserves created due to upward revaluation of RBI's assets like dollars and gold. As the rupee depreciated against the U.S. dollar and other currencies, gold and foreign reserves held by the RBI when translated into the current rupee value, leads to an increase in its asset value (even when the assets remain the same).
- Most of the reserves that RBI holds are in the form of revaluation reserves. All such gains are *non-cash and notional* and the cash realised only when the assets are sold. So, unless these assets are sold, these reserves are not transferable for other purposes.

2. Contingency reserves:

They are needed for the Indian central bank to conduct its usual functions. This is the only capital that can actually be deployed (as the revaluation reserves are only accounting entries). However, there is no agreement on the size of these reserves between the government and the RBI.

Why Does A Central Bank Need Capital

- The Central banks that have foreign assets need capital to absorb potential losses.
- The RBI needs capital to shield the economy from monetary and financial shocks.

- A central bank needs reserves to perform functions such as price and exchange stability.
- The reserves give independence to a central bank. Low capital will force central bank to turn to government in time of need. This will give government influence over the central bank.

Final Analysis

Every country has its own way of handling the issue of central bank capital. Some central banks like Bank of Korea is legally bound to transfer 30% of its annual profits to statutory reserves. The Reserve Bank of India Act, 1934, does not provide clarity on the amount to be transferred to the government. It is now time for more legal clarity on central bank capital, which needs an informed debate. A committee headed by former Reserve Bank of India governor Bimal Jalan has been set up to review RBI's economic capital framework, which would give clarity on dividend flows to the government.

RBI Cuts Key Repo Rate By 25 Basis Points

Syllabus: Indian Economy and Issues relating to mobilization of resources

Key Highlights

- RBI has released its bi-monthly Monetary Policy Statement.
- **Interest Rates cut:** The Monetary Policy Committee (MPC) reduced the repo rate under the liquidity adjustment facility (LAF) by 25 bps to 6.25%. Consequently, the reverse repo rate under the LAF stands adjusted to 6.0 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.5 per cent.
- **CRR:** Cash Reserve Ratio held constant at 4%.
- **Monetary policy stance changed to 'neutral':** RBI has also changed the stance of the monetary policy to ‘neutral’ from ‘calibrated tightening’. Calibrated tightening refers to a situation where a rate cut is ruled out in the existing rate cycle. A neutral policy will mean that depending upon the situation, RBI can increase or decrease interest rates.
- **Growth Rate:** The RBI projected GDP growth for 2019-20 at 7.4 per cent – in the range of 7.2-7.4 per cent in H1, and 7.5 per cent in Q3.
- **Need for private investment:** Investment activity is recovering but supported mainly by public spending on infrastructure. RBI's statement said that there's the need to strengthen private investment activity and buttress private consumption.

Reasons For Interest Rate Cut

- **Inflation under control:** Retail inflation grew by 2.2% in December - its slowest in the last 18 months. The rate cuts are thus in consonance with the objective of achieving the medium-term target for CPI of 4 +/- 2 per cent, while supporting growth.
- **Inflation expectations also good:** Central banks look to the future for decisions, and RBI's surveys capture sentiment and expectations of households and businesses. RBI survey found that inflation expectations have been firmly stabilized, as households now expect inflation to fall in the coming three months as well as a year ahead. The benign outlook on inflation is largely responsible for the rate cut.

Positive Impact Of Rate Cut

- **Address liquidity issues:** The 25 basis point rate reduction is a signal to easy money policy environment, and will help banks to address liquidity issues.

- **More lending activity by banks and other FIs:** Fall in the cost of funds will also aid lending, so it is positive for banks as well as NBFCs.
- **Cheaper loans for borrowers:** When the RBI cuts repo rate, banks are expected to pass on the benefit to their customers (with a time-lag effect) and auto, home and other loans are likely to get cheaper.
- **Boost growth rate:** The MPC referred to a growing slack in the economy and the need to support private consumption and investment. Low cost of funds is likely to boost consumption and aid in higher growth rate.

Risks From Rate Cuts

- **Slows growth in term deposits:** A declining interest rates scenario has also meant that the growth rate in term depostis has been coming down quite sharply over the years, from a range of 17% to a low single-digit rate in the last 3 years. This is a concern because lower term deposit by depositors means lower liquidity for banks**.**
- **Push financial savings into taking more risks:** A regular lowering of interest rates has also meant that the overall savings as per CSO is down from 33.1% in FY13 to 30.1% in FY18. Migration (from savings in banks) to the capital market through the mutual funds route or direct equity has also increased the risk taken by households, as this investment can be volatile depending on market conditions.
- **Does not automatically lead to higher investment:** While lower rates do cause cost of funds to come down, it is not necessary that it will lead to higher investment. This can be seen from the data on credit growth rate across various segments. Housing segment responds positively to lower rates and shows higher investment in housing and auto. In case of industry, a lot would depend on the state of capacity utilisation and investment opportunities that are there.

ILO Released Its "World Employment and Social Outlook Trends 2019" Report

Syllabus: Indian Economy and Issues relating to employment.

In News

- The International Labour Organization (ILO), a UN agency, has released its "World Employment and Social Outlook Trends 2019" report.
- The report provides an overview of global and regional trends in employment, unemployment, labour force participation, productivity, as well as employment status, informal employment and working poverty. It also examines income and social developments, and provides an indicator of social unrest.

Key Findings

1. **Fall in unemployment:** Global unemployment levels fell one percentile to a steady 5 per cent in 2018, the lowest figures since the economic crisis of 2007-08. Unemployment rates were anticipated to fall further to 4.9 per cent this year, which is expected to hold steady into 2020.
2. **Poor quality employment** is the main issue for global labour markets, with millions of people forced to accept inadequate working conditions. About 700 million people are living in extreme or moderate poverty despite having employment.

3. **Slow progress on SDG:** The report found that progress on Sustainable Development Goal 8 has been slower than anticipated. One of the targets under SDG8 is to, by 2030, achieve full and productive employment and decent work for all women and men.
4. **Existing labour market achievements could be undermined** - Achievements in areas such as improving employment formality and security, social protection and labour standards etc. could be undermined by some new business models, including those enabled by new technologies (for example, exploitation in gig economy).
5. **Gender gap:** There's lack of progress in closing the gender gap in labour force participation. Only 48 per cent of women are in the labour force, compared to 75 per cent of men. Women also faced a higher risk of unemployment in many regions and earn significantly less than men when they are in employment.
6. **Persistence of informal employment:** Another another major issue is that about 2 billion workers – 61 per cent of the world's workforce (of 3.3 billion) – were in informal employment, that are vulnerable jobs with low pay and no social protection.
7. **Youth not employment-ready:** More than one in five young people (under 25) are not in employment, education or training, compromising their future employment prospects.

About International Labour Organization (ILO)

- It was established in 1919, as part of the Treaty of Versailles that ended World War I. It was intended to reflect the belief that universal and lasting peace can be accomplished only if it is based on social justice.
- India is a founder member of ILO.
- The ILO, headquartered at Geneva (Switzerland), became the first specialized agency of the UN in 1946.
- Aim: To promote social justice and internationally recognized human and labour rights. ILO was awarded the Nobel Peace Prize in 1969 for promoting reforms that strengthen the cause of peace by reducing social injustice.
- Functioning: It sets international labour standards, develops policies and devise programmes promoting decent work for all women and men and improving working conditions and social rights of all employees. The ILO registers complaints but does not impose sanctions on governments for violating international rules.

National Minimum Wage

Syllabus: Indian Economy and Issues relating to employment.

In News

- The Expert Committee constituted under the **Chairmanship of Dr. Anoop Satpathy**, Fellow, V. V. Giri National Labour Institute (VVGNLI) by the Ministry of Labour and Employment has submitted its report on "**Determining the Methodology for Fixation of the National Minimum Wage**" to the Government.
- The report has now been placed on the Ministry's website, for facilitating the process of consultation and dialogue among social partners and stakeholders and seeking necessary approval of methodology from tripartite bodies.

New Methodology

- The report has updated the methodological framework of fixation of minimum wages based on the overall guidelines of the ILC 1957 and the Supreme Court Judgment of ***Workmen v Reptakos Brett & Co. in 1992.***
- It has undertaken a rigorous and meticulous analysis and has generated a large amount of evidence relating to changes in the demographic structure, consumption pattern and nutritional intakes, the composition of food baskets and the relative importance of non-food consumption items to address the realities in the Indian context by using official data made available by the National Sample Survey Office (NSSO).
- Using the nutritional requirement norms as recommended by the Indian Council of Medical Research (ICMR) for Indian population, it **recommends a balanced diet approach** which is culturally palatable for fixation of national minimum wage. Accordingly, it has proposed that food items amounting to the level of *± 10 per cent of 2,400 calories, along with proteins ≥ 50 gm and fats ≥ 30 gm per day per person* to constitute a national level balanced food basket.
- Further, it proposes minimum wage should include reasonable expenditure on '**essential non-food items'**, such as *clothing, fuel and light, house rent, education, medical expenses, footwear and transport*, which must be equal to the median class and expenditure on any 'other non-food items' be equivalent to the *sixth fractile (25-30 per cent) of the household expenditure* distribution as per the NSSO-CES 2011/12 survey data.
- On the basis of the aforesaid approach, the report has recommended to fix the need based national minimum wage for India at **INR 375 per day (or INR 9,750 per month)** as of July 2018, irrespective of sectors, skills, occupations and rural-urban locations for a family comprising of 3.6 consumption unit.
- It also recommends to introduce an **additional house rent allowance** (city compensatory allowance), averaging up to **INR 55 per day** i.e., INR 1,430 per month for urban workers over and above the NMW.
- Apart from proposing the level of a single national minimum wage at an all-India level, the report has also estimated and recommended **different national minimum wages for different geographical regions of the country to suit the local realities and as per socio-economic and labour market contexts**.
- For the purpose of estimating national minimum wages at regional levels it has **grouped the states into five regions based on a composite index** and have recommended region specific national minimum wages.
- It has also asked for a **review of the consumption basket every five years**, subject to the availability of NSSO-CES data, and – within the period of 5 years - revising and updating the basic minimum wage at least in line with the consumer price index (CPI) every six months, to reflect changes in the cost of living.

National Productivity Week

Syllabus: Indian Economy and Industry

In News

- National Productivity Council (NPC) celebrated its 61st Foundation Day on 12th February as Productivity Day and celebrated the National Productivity Week from February 12-18.
- This year's theme is **'Circular Economy for Productivity & Sustainability'** which represents a unique opportunity for circular business models to **Make-Use-Return**.

- To integrate circular economy principle in strategy and process, NPC has been at the forefront through such efforts in enhancing productivity. Through this event, it aims at collaboration with business and policy makers so as Circular Economy opportunities can be highlighted.
- The event gains significance in the backdrop of the mammoth target of growth to raise the Indian economy to the level of USD 5 trillion by 2025 and USD 10 trillion by 2035. To achieve the desired targets, the productivity levels must be comparable with the competitors in global and regional market value chain so that Indian products can remain competitive.

What Is Circular Economy

- A circular economy is an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life.
- It follows the principle of preservation and enhancement of natural capital by controlling finite stocks and balancing renewable resource flows.
- Circular economy has the potential to increase productivity and create jobs, whilst reducing carbon emissions and preserving valuable raw materials.
- It provides for a way of creating value by extending the product life span through improved design and servicing and relocating waste from the end of the supply chain to the beginning – in effect, using resources more efficiently by using them over and over.

National Productivity Council (NPC)

- NPC is national level organization to promote productivity culture in India.
- Established by the **Ministry of Industry, as a registered society in 1958** by Government of India, it is a tri-partite non-profit organization with equal representation from govt, employers and workers' organizations, apart from technical and professional institutions including members from local productivity councils and chamber of commerce on its governing body.
- It is a constituent of the Tokyo-based Asian Productivity Organisation (APO), an Inter Governmental Body, of which India is a founder member.

Govt. Relaxes Angel Tax Norms For Startups

Syllabus: Indian Economy and Industry

In News

The Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce, issued a notification that reclassified the definition of startups, and also provided clarity on tax exemptions to them.

Older Norms Regarding Angel Tax And Inconvenience To Startups

- **Angel tax:** Angel tax is a term used to refer to the income tax payable on capital raised by unlisted companies (like startups) via issue of shares where the share price is seen in excess of the fair market value [under Section 56(2)(viib) of the Income Tax Act]. The tax was introduced in the 2012 Union Budget to prevent money laundering in the name of investment.

- **Exemption to startups:** The government issued a notification in 2018 to give exemption to startups under Section 56 of the Income Tax Act in cases where the total investment including funding from angel investors did not exceed Rs 10 crore. For the exemption, startups were also required to get approval from an inter-ministerial board and a certificate of valuation by a merchant banker.
- **Angel Tax notices to startups:** Despite the exemptions provided, many startups have received notices to pay angel tax under Section 56(2)(viib) of the Income Tax Act, 1961. They have been asked to pay up as much as 30% of their funding as tax.

New Norms Provide Relief To Startups

1. **Definition of startups expanded** to cover companies incorporated for up to 10 years and having up to Rs 100 crore turnover.
2. **Greater exemption:** Startups can now receive Angel Funds from domestic Indian Angel Investors to the tune of Rs 25 crore (excluding investments from non-residents, VCs and listed companies).
3. **Inter-Ministerial Board approval is not needed** for receiving exemptions and startups can now make a simple declaration in Form 2. They won't need a merchant banker evaluation and will not need to substantiate the higher valuation with supporting documents and explanations.
4. **Startup will continue to need to be recognised as one:** All the benefits shall continue to be available only for startups getting recognition as a 'Startup' through online application over the mobile app or portal set up by the DPIIT.
5. **Restrictions on investment from raised funds:** To keep a check on diversion of investment funds, startups are restricted for seven years from investing the raised capital in new list of restrictive asset class in lands, buildings, expensive vehicles, further lending or capital investment etc.

Benefits

1. **Impetus to entrepreneurship:** It give an impetus to innovation and entrepreneurship that government is aiming through initiatives such as Digital India, Make in India and Startup India, and further strengthen India's position as a leading startup nation.
2. **Greater domestic investment:** It will unshackle angel investing and bring in domestic money for startups, including from individuals with tax paid income as well as corporates
3. **Foreign investment:** Since most start-ups are focussed on using investment to scale, this is a welcome move and inspires confidence and will allow angels globally to evaluate Indian companies on merit rather than worrying about taxation and regulatory requirements
4. **Innovation:** It will enable innovation in addressing India's pressing challenges in health care, education, agricultural productivity, clean energy etc.
5. **Ease of doing business:** The relaxations are in line with the government's aim to achieve ease of doing business in India, by making the system and process very simple and transparent.

Final Analysis

The new notification on startups and angel tax is a welcome step by the government, and it takes care of a large chunk of issues raised by the startup ecosystem. It will boost Indian startups to be world class and compete with countries which have truly opened up to the start-up culture. The next step would be to further raise exemption limit to Rs 50 crore especially in sectors where experimenting with new technologies have a long gestation period and are capital intensive.

National Policy on Electronics 2019

Syllabus: Indian Economy and Industry

In News

- The Union Cabinet has approved the National Policy on Electronics 2019 (NPE 2019), proposed by the Ministry of Electronics and Information Technology (MeitY), with the aim to achieve a turnover of US$ 400 billion from theElectronics System Design and Manufacturing (ESDM) sector by 2025.
- NPE 2018 seeks to build on the foundation laid by NPE 2012 to propel the growth of ESDM industry in the country.

Significance Of ESDM Sector

- **Economic:** Electronics Industry is the world's largest and fastest growing Industry and is increasingly finding applications in all sectors of the economy. Electronics hardware manufacturing is one of the important pillars of both "Make in India" and "Digital India".
- **Security:** Focus on electronics hardware manufacturing up to the Chip level is required due to the growing security concerns associated with electronics hardware in critical sectors including cyberspace, communications networks etc.
- **Strategic:** India is a signatory to the Information Technology Agreement (ITA-1) of WTO and Free Trade Agreements (FTAs) with various countries/ trading blocs such as ASEAN, Korea and Japan. Lagging in this sector will see it overwhelmed by imports.

Problems The Sector Faces

- Electronics hardware manufacturing sector faces lack of level playing field vis-a-vis competing nations due to several factors which render domestic manufacturing uncompetitive.
- <u>The factors include</u>: Lack of adequate infrastructure; Supply chain and logistics; High cost of finance; Inadequate availability of quality power; Inadequate components manufacturing base; Limited focus on R&D by the industry etc.

Features of The Policy:

- ***Policy targets:*** The policy targets production of ***one billion mobile handsets by 2025***, valued at $190 billion (about Rs. 13 lakh crore) including export of 600 million mobile handsets valued at $110 billion (about Rs. 7 lakh crore).
- ***MeitY to coordinate:*** The Ministry of electronics and information technology (MeitY) will coordinate with the concerned ministries/departments to provide incentives to industry for rapid and robust expansion of electronics hardware manufacturing within the country.
- ***Incentives:*** Some of the measures proposed in the draft include promotion of manufacturing of electronic goods covered under the ***Information Technology Agreement (ITA-1)*** of the World Trade Organization and provision of suitable direct tax benefits, including investment-linked deduction under ***Section 35AD*** of the Income Tax Act for electronics manufacturing sector, for setting up of a new manufacturing unit or expansion of an existing unit.
- ***Replacing M-SIPS:*** It also proposed replacing the ***M-SIPS (Modified Special Incentive***

Package Scheme) with schemes that are easier to implement such as interest subsidy and credit default guarantee *etc* in order to encourage new units and expansion of existing units in electronics manufacturing sector. M-SIPS was launched in 2012 that provided for capital subsidy of 25 % for Electronics Industry located in non-SEZ area and 20 % for those in SEZ areas.

- ***Promoting startups:*** The policy aims to also push the startup ecosystem in emerging technology areas such as 5G, Internet of Things, artificial intelligence and machine learning, and their applications in areas such as defence, agriculture, health, smart cities and automation. Being export-led, it is also targeting to develop core competencies in all the subsectors of electronics, including electronic components and semiconductors, telecommunication equipment, medical electronics, defence electronics, automotive electronics, industrial electronics, strategic electronics *etc.* and fabless chip design.
- ***Skilled manpower:*** One of the 14 objectives of the policy is to provide support for significantly enhancing availability of skilled manpower in the electronics system design and manufacturing industry.
- ***Modification in EMC scheme:*** The draft policy also pitches for support for infrastructure development through formulation of a new scheme or suitable modifications in the existing Electronics Manufacturing Clusters (EMC) Scheme for supporting both Greenfield and brownfield manufacturing clusters. EMC scheme was also launched in 2012 to provide quality infrastructure within a cluster. Under the scheme, 50% of the project cost for Greenfield EMC and 75% for brownfield EMC is given by the Ministry as grant.
- ***Creation of EMCs:*** The Policy has also proposed creation of ***200 EMCs*** by 2020 that will house entire ecosystem for development and production of specific category of products.

Final Analysis

When implemented, NPE 2019 will lead to formulation of several schemes, initiatives, projects, etc. for the development of ESDM sector in the country. It will enable flow of investment and technology, leading to higher value addition in the domestically manufactured electronic products and increased electronics hardware manufacturing in the country. This will come with substantial employment opportunities, along with reduction in imports of electronics and increase in exports. Considering its economic, strategic and security implications, the focus now must be to put the policy into action.

Draft e-Commerce Policy

Syllabus: Indian Economy and Industry

In News

The government has released the draft national e-commerce policy. The National e-Commerce Policy aims to create a framework for achieving holistic growth of the e-commerce sector alongwith existing policies of Make in India and Digital India.

e-Commerce in India

- The Electronic Commerce market has been witnessing consistent growth in recent years across the world. The Indian B2C e-commerce market was valued at $ 38.5 billion in 2017 and is estimated to rise to $ 200 billion in 2026, while B2B e-commerce was estimated to be around $ 300 billion.

- Despite the high rate of growth of e-commerce in India, the sector is still at a nascent stage and according to some estimates, it is about 3 per cent of the retail market worth $860 billion, excluding travel and tourism.

Features Of The Draft E-Commerce Policy

1. **Data**
   - **Restrictions on Cross border flow of Data:** Stricter restrictions are sought to be brought in through the draft policy on the cross border flow of data generated by users in India, including e-commerce platforms, social media, search engines etc. Data collected or processed in India, even if stored abroad, cannot be shared with other business entities outside India, even with the customer consent. Such data cannot be made available to a foreign government, without the prior permission of Indian authorities and immediate access to all such data is to be given to Indian authorities upon request. These restrictions seek to exercise sovereignty over data.
   - **Establishment of Data Authority:** As per the draft policy, a data authority shall be set up along with a suitable framework for sharing of community data that serves 'larger public interest'.
2. **Infrastructure Development**

The focus of the government is on development of infrastructure to store data in India. Data centres, server farms, towers, optical wires etc. will be accorded 'infrastructure status' to help the industry develop data storage facility.

3. **E-commerce marketplaces**
   - Market place models only: In tune with the current FDI policy for e-commerce, the draft policy emphasises on the allowance of FDI only on market place models and not inventory based models.
   - Registering in India: All ecommerce sites/apps which are available for download in India must have a registered business entity in India. This is important for ensuring compliance with extant laws and regulations.
   - Customs route for all imports: All product shipments from other countries to India must be channelized through the customs route. An integrated system that connects Customs, RBI and India Post to be developed to better track imports.
   - Anti-counterfeiting measures are also suggested, including trademark protection, seller details being made available on marketplace etc.
4. **Regulatory issues**
   - SGoS to track regulatory issues: Issues related to e-Commerce fall under the ambit of different Ministries, Departments as well as State Governments while also being the subject matter of different statutes. The Standing Group of Secretaries on e-commerce (SGoS) shall give recommendations to ensure that the policy keeps pace with the digital environment.
   - Technology wings: Regulators and law makers must create dedicated ‘technology wings’ within their organizational set-ups to deal with new and cutting-edge technology like AI, big data, deep learning etc.
   - Online dispute resolution and establishment of e- consumer courts to address grievances online have been stated in the draft policy.
   - Others: Regulation of advertising charges in e-commerce, imposing custom duties on electronic transmissions etc.

5. **Stimulating the domestic digital economy**

Draft proposed this through facilitation of online customs clearance by adopting Customs Electronic Data Interchange (EDI) platform; Creation of industrial standards for smart devices and IoT equipment; Minimizing procedures and documentation; Inclusion of e-Commerce in the proposed National Integrated Logistics Plan and Continued focus on Digital India initiatives.

6. **Export promotion through e-commerce**

For this, the draft policy has suggested increased exemption limit for consignments through courier mode; Simplification of documentation for exports; fastracking of implementation mode of Electronic Data Interchange (EDI); Removing application fee for exports by MSMEs and start-ups; Setting up of Air Freight Stations (AFS); Leveraging of India Post negotiate lower costs with international freight carriers.

Analysis

Electronic commerce (e-commerce) and data are emerging as key enablers and critical determinants of India's growth and economic development. In order to enhance the capabilities and realise the potential of the e-commerce sector, it is imperative that India develops robust administrative, regulatory and legal mechanisms. The draft e-Commerce Policy lays down strategies to address issues pertinent to the sector. Feedback of various stakeholders needs to be incorporated into the final National e-Commerce Policy.

Khadi and Gramodyog Vikas Yojana

Syllabus: Indian Economy and Industry

In News

- The Cabinet Committee on Economic Affairs, chaired by the Prime Minister, has approved to continue existing schemes subsumed under Khadi and Gramodyog Vikas Yojana.
- The schemes include ***Market Promotion Development Assistance (MPDA), Khadi Grant, Interest Subsidy Eligibility Certificate (SEC) and Village Industry Grant.***
- The committee has also approved a new component, **Rozgar Yukta Gaon**, which aims at creating employment opportunities for thousands of new artisans in the current and next financial year (2018-19 and 2019-20).
- Rozgar Yukta Gaon aims at introducing **an enterprise-led business model in place of a subsidy-led model**, through partnerships among three stakeholders, namely, Khadi Reform Development Programme-assisted khadi institutions, artisans, and business partners.
- It will be rolled out in **50 villages by providing 10,000 charkhas, 2,000 looms and 100 warping units to khadi artisans**, and would create **direct employment for 250 artisans per village**. Further, the total capital investment per village will be Rs 72 lakh as subsidy, and Rs 1.64 crore in working capital from business partners.
- The focus under village industry verticals will be on the *agro-based and food processing, handmade paper and leather, pottery, and wellness and cosmetics sectors*, through product innovation, design development and product diversification.
- For this initiative, advanced skill development programmes shall be conducted through existing Centres of Excellence, such as CGCRI, CFTRI, IIFPT, CBRTI, KNHPI and IPRITI.

- Four design houses will also be set up across the country to capture regional variations, provide access to khadi Institutions and evolve modern designs, with an investment of Rs 5 crore each.
- Another key component of the initiative is to **make production assistance competitive and incentive-based**. The incentive structure focuses on improving productivity, turnover and quality assurances and will be extended on the basis of an objective scorecard.
- While khadi institutions will automatically be given the financial assistance of 30 percent, they need to strive for efficiency, optimal utilisation of resources, reduction of waste, and effective managerial practices, in order to become eligible for an additional incentive of 30 percent.

Govt Approves Phase-II Of Rooftop Solar Programme

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

In News

- The union government has approved phase-II of the Grid Connected Rooftop Solar Programme for achieving cumulative capacity of 40 GW from Rooftop Solar (RTS) Projects by the year 2022. Phase-I of the programme was launched in 2014.
- The programme will be implemented with total central financial support of nearly Rs.12,000 crore.
- Including the RTS component, India aims to achieve an installed capacity of 100GW of solar power by 2022.

Grid Connected Solar Rooftop Programme

- Rooftop solar programme aims at generating decentralized and distributed solar power by installing solar plants on the rooftops of industrial, commercial, residential and public buildings.
- **Components:** This program would have two components: 1) Commercial Lending 2) Institutional support and Technical Assistance.
- **Central Financial assistance (CFA)** will be available for the residential sector for phase-II in the range 20-40% for RTS systems depending on the capacity.
- **Discom involvement:** Phase-II will also have an increased involvement of the distribution companies (DISCOM) which will get performance-based incentives on RTS capacity achieved.

Benefits

- **Rapid solar capacity addition:** The programme by facilitating power generation on a distributed basis enables rapid capacity addition in a short time.
- **Economic benefits:** The generated power can be used for self-consumption as well as supply/sale of electricity to the grid.
- **Green power:** It mitigates the dependence on fossil fuel based electricity generation and encourages environment friendly methods. It is expected to result in CO_2 emission reduction of about 45.6 tonnes per year.
- **Investment and jobs:** It seeks to create enabling environment for investment in solar energy sector by private sector, state government and individuals, and to encourage

innovation and employment. Besides increasing self-employment, it is likely to generate employment opportunity equivalent to 9.39 lakh job years.

Shortcomings

Limited funding support to Discoms: DISCOMs are required to incur additional expenditure for implementation of scheme in terms of additional man-power, creating infrastructure, capacity building, awareness, etc. However, the incentives to the DISCOMs will be available only for initial capacity addition of 18 GW under the scheme.

Final Analysis

India is blessed with vast solar energy potential which can be harnessed for energy security through conversion of solar radiation into heat (solar thermal) and electricity (photovoltaic technology). The rooftop solar programme is a good innovation to tap the vast potential of generating solar energy from individual homes. However, the success will depend on whether the Discoms, that are already incurring heavy losses, can create an enabling ecosystem for the successful implementation of the scheme.