Economy This Week - 21st to 27th September 2018

- **MSME Bill opposed**
  - The government introduced MSME Development Amendment Bill 2018
  - This bill redefines the MSME sector based on revenue/turnover
    - Micro up to ₹ 5 Cr
    - Small from ₹ 5 Cr to ₹ 75 Cr
    - Medium from ₹ 75 Cr to ₹ 250 Cr
  - As per the present definition
    - Manufacturing
      - Micro up to ₹ 25 lakh
      - Small from ₹ 25 lakh to ₹ 5 Cr
      - Medium from ₹ 5 Cr to ₹ 10 Cr
    - Services
      - Micro up to ₹ 10 lakh
      - Small from ₹ 10 lakh to ₹ 2 Cr
      - Medium from ₹ 2 Cr to ₹ 5 Cr
  - Many stakeholders have opposed this bill
  - As of now the MSMEs are defined based on the investment in plant and machinery (one for those in manufacturing and the other for in services)
  - The opposition is on the fact that nowhere in the world the turnover is the sole criteria for defining an MSME. The MSME sector should get all the support from the government
  - On the other hand the government officials have pointed that the new definition has been provided keeping mind the changing needs of the business, it would promote ease of doing business and that the support to MSME sector such as mandatory sourcing norms, financial programs would continue
  - The number of MSMEs
    - As per UAM (Udyog Aadhaar Memorandum) - 48.4 lakh
    - As per 73rd round of NSSO - 63.88 lakh
  - The MSMEs exported goods worth $137.1 bn and registered growth of 4.8% in FY17

- **e-NAM logistical support started**
  - It was launched in April 2016
  - Nagarjuna Fertilizers and Chemicals' iKisan division is the strategic partner to develop, operate and maintain the portal

- The government aims to connect 200 mandis this year and 215 next year to the platform. Already 585 mandis have been connected to the platform within two years of its launch
- Two mandis in Telangana - Khammam and Warangal - have started providing logistical support thereby allowing traders from all over the country to bid and purchase the commodities

➢ **Agri Exports - govt draws a plan**

- The commerce ministry has proposed investment of ₹ 1500 Cr to develop 40 export-oriented clusters under the exports policy
- Under the new scheme, the government will provide assistance for post-harvest infra, capacity building, laboratories, new technology introduction etc
- There is also a need for promoting Agri Export SEZs and attract FDI in these

➢ **Mudra loans and Credit risk**

- Mr. Raghuram Rajan has warned the government against setting ambitious credit targets and waiving loans
- Mudra loans with potential credit risks
- "Credit targets are sometimes achieved by abandoning appropriate due diligence, creating the environment for future NPAs. Both Mudra loans as well as the Kisan Credit Card, while being popular, have to be examined more closely for potential risk. The Credit Guarantee Scheme for the MSME run by the SIDBI is a growing contingent liability and needs to be examined with urgency"
- Mudra - Micro Units Development and Refinance Agency
    - Set up in 2015 under PMMY (PM Mudra Yojana)
    - Objective was to provide refinancing the financial institutions that lend to micro/small businesses
- Under the scheme ensuring repayment has become a challenge as
    - These loans are unsecured
    - The scheme is available for those who need small amounts. The business of such borrowers is susceptible to volatility and susceptibility
    - The other problem is with respect to recollection. For example a vegetable vendor may choose a different place to do business everyday
    - The bank staff would rather go after a big loan rather than large number of small value loans
- So far in this financial year, the total value of loans disbursed under the scheme are worth ₹ 2.53 lakh Cr and the number of loans sanctioned are 4.81 Cr. the average size of loan sanctioned stood at ₹ 52706

- The total loans issued since the launch under the scheme are worth ₹ 6 lakh Cr to 12 Cr beneficiaries. Of these 3.25 Cr are first time entrepreneurs and 9 Cr were women
- SBI in FY18 has disbursed loans totaling ₹ 28566 Cr under this scheme and NPAs of under these classes of loans are 5.2%in SBI

➢ **<u>Solar safeguard duty - Taiwan seeks talks with India</u>**

- The govt has imposed a safeguard duty of 25% for the next two years on solar imports coming from China and Malaysia
- These countries account for over 90% of these imports
- The objective is to promote domestic production
- Taiwan has sought consultations with India under Agreement on Safeguards to exchange views on the proposed measures and reaching an understanding
- The consultations will not fall under the ambit of dispute resolution mechanism and is an indicator that India is not fulfilling its obligations under WTO rules

➢ **<u>India's trade with neighbors</u>**

- India's trade with neighboring South Asian region countries is just 30.65% of its potential trade of $62 bn. The trade value with South Asian partners is valued at $19.1 bn ($43 bn below the potential)
- It is just three percent of total global trade of $637.4 bn
- It is because of tariff and non-tariff barriers, non-economic barriers (issues at the border). It is cheaper for India to import from Brazil than importing from Pakistan, Nepal, Sri Lanka etc. The average tariffs in South Asia stood at 13.6% as against the global average of 6.3%
- The trade between India and Pakistan is presently valued at $2 bn but the potential is around $37 bn
- Despite having liberalized the tariff regimes, many countries in this region have a list of items which will not be covered under the liberalized programmes and will attract tariffs and para tariffs (are imposed upon tariffs)
- Border Haats (marketplaces at the border) are crucial towards trust building measures between buyers and sellers. As of now India has 4 haats and the World Bank has recommended that it should be increased to 10
- 4 border haats are at
    - Kalaichar (West Garo Hills, Meghalaya)
    - Balat (East Garo Hills, Meghalaya)
    - Srinagar (Tripura)
    - Kamalasagar (Tripura)

➢ **<u>Edible oils import</u>**

- The govt aims to increase/double the edible oil production in next 5 years and also reduce the dependence through expansion in sowing area and increasing the yield
- India presently produces 7.31 mt of (demand was 24.5 mt in FY17) edible oil and the plan is to increase it to 13.69 mt . for oil year (October to September FY17, the value of imports have been at ₹ 73048 Cr)
- In the past also such policies have been formulated but there has been a lack of successful implementation. The consumption has grown at a faster pace leading to an import dependence of 67%. The production of nine oilseeds has grown at CAGR of 3.89% whereas the demand has grown by 6% at CAGR. this growth in consumption has been driven by population growth and increasing per capita income
- The total production volume of nine oilseeds has been targeted at 45.64 mt of which the nine oil seeds will contribute 13.69 mt by 2022
- For FY17, the area under cultivation was 26.7 mn hectares (of which 70% is rain fed) and the land under cultivation has kept on declining
    - Incomes and profits on these has kept declining
    - Other crops such as maize, cotton, chickpea etc are yielding more profits
- The government has proposed to provide direct assistance of ₹ 3000 to ₹ 5000 per hectare for any farmers who will take up cultivation of oil seed in intercropping pattern

➢ **<u>Inland waterways transportation</u>**

- India has over 7500 kms of coastline and over 14500 kms of navigable waterways
- To promote transportation through waterways, Cabotage law has been eased
- As per the new guidelines, foreign flagged vessels will be allowed to carry fertilizers within India without any license
- Fertilizers are seventh largest item that has been freed from the restrictions under the cabotage law (this year the government has allowed foreign flagged ships to carry agriculture, horticulture, fisheries, fly ash, cement and animal husbandry cargo)
- The transportation costs in India account for 14% of GDP which is 8-10 percent higher than in developed economies. High transportation costs lead to Indian exports losing price competitiveness and also blunt the benefits of Make in India initiative
- It costs ₹1.5, ₹1 and 30 paise to transport per tonne km in Road, Railway and waterways. Apart from this, the waterways transportation is less polluting. Apart from this, it is cheaper to build and maintain waterways. Despite all these advantages just over 5% of total freight is transported through waterways while road accounts for over 60% and rail accounting for 30%
- While China transports 47%, japan 44%, Bangladesh 35% of goods over waterways
- This relaxation under cabotage law will increase the ships available for transportation and this should prompt industries to use this method of transportation

- **Banks want relaxation of PCA (Prompt Corrective Action)**
    - The govt has promised to infuse liquidity of ₹ 65000 Cr in this fiscal in the PSBs. of this so far ₹ 13600 Cr has been infused in the six PSBs
    - The government had set up a committee of bankers to recommend regarding the required relaxation of PCA norms (banks have demanded from conditions/criteria of capital requirement and NPAs)
    - The banks want alignment between the Basel norms and PCA norms (in risk weight, provisioning and capital norms). So that the banks will have get some relief and grow
    - Basel 3 guidelines are being implemented in India since April 2013 and the target date is March 2019 (RBI has mandated that under CET1 - Common Equity Tier 1 - of at least 5.5% must be maintained, whereas the Basel guidelines mandate only 4.5%; the banks by march 2018 have built up a capital conservation buffer of 1.875%, hence there should be no compulsion to increase it to 2.5%)
    - The PCA has been in place since 2002 but has been revised in 2017. A bank will be put under PCA if they fall below the regulatory requirement
        - NPAs above 6%
        - Two consecutive years of negative return on assets (percentage of profit to average total assets)
        - CAR falling below the required values

- **Impact bonds**
    - Are outcome based finance mechanism. In these bonds the investors provide the funding and are provided with small returns. The donors in these provide the payment only if the programme meets certain pre-decided outcomes. The advantage of this mechanism is that
        - The Outcome Funder / Donor is sure that his money is being used for the right purposes
        - The service provider/NGO gets the access to funding
        - The risk investor earns returns
        - More importantly the funding is linked to outcomes
    - These are also referred to as Social Impact Bonds
    - There are over 130 such bonds around the world mainly in sectors such as Employment, Social welfare, health, education, criminal justice etc
    - India is becoming an epicenter for such type of investments. Having said so, the stakeholders in this sector are of the opinion that there should be more domestic based philanthropic institutions to participate in this funding

- **Govt imposes tariffs to control CAD**
    - The govt has announced tariffs on 19 categories of items to control CAD. The value of these imports in FY18 were about ₹ 86000 Cr
    - The new rates will be applicable from 27th September
    - The GoI had the right to raise tariffs within a band under the WTO regime
    - The 5% duty on ATF is unlikely to lead to increase in the airfares as India imports crude and a small amount of ATF is imported (in FY18, India has imported ATF worth $181 mn)
    - The rupee depreciation has already made the imports costlier, added to this now tariffs will add to importers' woes. Having said so, importing from countries having FTAs with India may not be attracting these tariffs

  The government has not raised tariffs on the imports of gold and electronic goods

- **GSTN (Goods and Services Tax Network) to be state owned**
    - GSTN was incorporated in 2013
    - It is a Not-for-profit entity
    - GSTN is providing the information technology backbone for the successful implementation of GST. the functions of GSTN are
        - Facilitate registrations of tax assesses
        - Filing of tax returns
        - Computation of IGST and settlement
        - Facilitate tax refunds etc
    - Presently the central government and state government each owns 24.5% (total of 49%). The remaining 51% is cumulatively owned by
        - HDFC Ltd
        - HDFC Bank Ltd
        - ICICI Bank Ltd
        - NSE Strategic Investment Co
        - LIC Housing Finance Ltd
    - The cabinet has approved the decision to make the GSTN state owned. The centre and states will each own 50% of the stake in GSTN. the ownership amongst the states will be pro-rata basis
    - Earlier this was approved by GST council