PRS Capsule June 2018

Key Highlights of PRS

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Public Credit Registry of India

The Reserve Bank of India (RBI) had constituted a **High Level Task Force** to assess the need and scope of creating a **public credit registry in India,** which presented the following report:

Present Scenario on Storage of Credit Data

Currently, India has multiple entities storing credit data, such as

- Four private Credit Information Companies–
  - Trans Union CIBIL
  - Equifax
  - Experian
  - CRIF High Mark that maintain credit data of borrowers
- Entities within the RBI – **Central Repository of Information on Large Credits** and the **Basic Statistical Return-1** that record loans larger than five crore rupees, and credit across various sectors. **Information Utilities** which store financial credit data to help establish defaults by borrowers.

Challenges with Current Scenario

The Task Force identified various shortcomings in the current credit information structure:

- data stored is incomprehensive, and fragmented across different entities, for example, data on

- borrowings from banks, inter-corporate and overseas borrowings, are not available in a single repository;
- reliance on self disclosure by the borrower;
- time lags and discrepancies between multiple data sources; and
- Increased reporting burden on credit institutions from having to report to multiple entities.

Consequences of the Current Indian Structure

The information asymmetry and fragmented nature of credit reporting leads to the following inefficiencies in the credit market:

- since lending institutions do not have complete credit information on all borrowers, all borrowers pay similar interests irrespective of their risk or credit ratings;
- lenders may pick up clients who have a history of delinquency that is unknown to all lenders, and thereby face greater overall credit risk;
- it prevents credit supply to some subsections of the market, for example, small and medium industries are perceived as risky by default, and often denied timely credit due to lack of adequate credit history

Public Credit Registry

A public credit registry refers to an extensive database of credit information of borrowers that is accessible to all lending and credit decision-making institutions. Typically, the registry is managed by a public authority like the central bank of the country, and reporting of loan details to the registry by lenders and/or borrowers is mandated by the law.

To bring about efficiency and transparency in the lending market, a public credit registry needs to be created which should:

- Be backed by a suitable legal framework.
- Be for all loans regardless of amount, capture data currently not recorded in the system, for example, data on external borrowings.
- Store supplementary credit data such as utility bill payments history to benefit individuals with no credit history.
- Ensure security and privacy of the stored information.
- Further, reporting entities should ensure the quality of data in the registry.

Reward Schemes for Information on Tax Evasion

The Income Tax Department launched the **revised Income Tax Informants Reward Scheme, 2018** and the **Benami Transactions Informants Reward Scheme, 2018**.

These schemes reward informants whose information leads to: (i) detection of substantial tax evasion, or (ii) identification of any benami property worth more than one crore rupees. Persons residing outside India, irrespective of their nationalities, are also eligible to become informants.

- **Income Tax Informants Reward Scheme, 2018:** It defines substantial tax evasion as an evasion of at least five crores rupees if detected by investigation directorates of Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Ahmedabad, Pune, or Bangalore. This amount is one crore rupees in case of detection by any other investigation directorate.
- **Benami Transactions Informants Reward Scheme, 2018:** The Benami Transactions Informants Reward Scheme, 2018 rewards information on any movable or immovable benami property actionable under the Prohibition of Benami Property Transactions Act, 1988. The reward amount is up to 5% of the fair market value of movable property, and the circle rate of immovable property. This amount should be limited to one crore rupees in respect of a single benami property.

The Insolvency and Bankruptcy (Amendment) Ordinance, 2018 Promulgated

It amends the Insolvency and Bankruptcy Code, 2016. The Code provides a time-bound process for resolving insolvency in companies and among individuals.

Key Features of the Ordinance

- **Real estate allottees:**
    - The Ordinance clarifies that an allottee under a real estate project will be considered a financial creditor. An **allottee** includes any person to whom a plot, apartment, or building has been allotted, sold, or transferred by a promoter (real estate developer or development authority).
    - The Code defines a **financial creditor** as a person to whom financial debt is owed. Such debt includes any amount raised that has the commercial effect of a borrowing. Financial creditors are a part of the committee of creditors, which is responsible for taking the main decisions related to the resolution.
    - The allottees can appoint an authorised representative to the committee of creditors to vote on their behalf.
- **Applicability of the Code to Micro, Small and Medium Enterprises (MSMEs):**
    - The Code **prohibits certain persons from bidding** for the company in the resolution process. This includes:
        - **Persons whose account has been classified as a NPA** for a year, and
        - Any **guarantor** for a defaulting debtor.
    - The Ordinance provides that the ineligibility criteria for resolution applicants regarding NPAs and guarantors will **not be applicable to persons applying for resolution of MSMEs**. The central government may, in public interest, modify or remove other provisions of the Code while applying them to MSMEs.
- **Voting threshold of committee of creditors:**
    - The Code specifies that all decisions of the committee of creditors be taken by a majority of at least 75% of the financial creditors. The Ordinance lowers this threshold to **51%**.
    - For certain decisions of the committee, the voting threshold has been reduced from 75% to 66%. These include: (i) appointment and replacement of the resolution professional, (ii) approval of the resolution plan, and (iii) approval of certain actions of the resolution professional during the insolvency resolution process.

Cross Border Insolvency

The Ministry of Corporate Affairs released draft norms on cross border **insolvency under the Insolvency and Bankruptcy Code, 2016 (IBC)**.

- The norms are based on the **UNCITRAL Model Law on Cross Border Insolvency, 1997** which provides a uniform mechanism for cross border insolvency.
- Under the IBC, the central government is required to enter into agreements with countries to initiate cross border insolvency proceedings. In addition, a letter of request is issued to access assets situated in other countries.

Key Features of the Draft Norms

- **Applicability:** The draft norms will be applicable in cases where:
    - assistance is sought in India by a foreign court or foreign insolvency professional, or
    - assistance is sought in a foreign country in connection with proceedings under the IBC, or
    - creditors in a foreign country want to commence or participate in proceedings under IBC, or
    - Foreign proceedings and proceedings under the IBC are concurrently underway.
- **Foreign proceeding:** A foreign proceeding is a judicial or administrative insolvency proceeding in another country, where the assets of the corporate debtor are under control or supervision by a foreign court, for the purpose of recognition or liquidation. A foreign representative may apply to the **National Company Law Tribunal (NCLT)** for recognition of the foreign proceeding to commence cross border insolvency proceedings with India.
- **Cooperation with foreign courts:** The central government, in consultation with NCLT will notify guidelines for communication and cooperation between NCLT and foreign courts in cross border insolvency matters.

Dam Safety Bill, 2018

The Union Cabinet has approved the introduction of the Dam Safety Bill, 2018. The draft Bill aims to provide proper surveillance, inspection, operation, and maintenance of all specified dams in the country to ensure their safe functioning.

Key Features of the draft Bill

- **National Committee on Dam Safety:** the National Committee on Dam Safety will evolve dam safety policies and recommend necessary regulations.
- **State Committee on Dam Safety:** The State Committee on Dam Safety will ensure proper surveillance, inspection, operation, maintenance, and safe functioning of all specified dams in a state.
- **National Dam Safety Authority:** The Bill establishes the National Dam Safety Authority as a regulatory body which will implement policies, guidelines, and standards for dam safety in the country. It will maintain a national level database of all dams in the country and the records of major dam failures. It will also look into unresolved issues between the State Dam Safety Organization of two states.
- **State Dam Safety Organisation:** The State Dam Safety Organisation in every state will look into the safety aspects of the state specific dams

Cauvery Water Management Scheme, 2018

The **Cauvery Water Management Scheme, 2018** was formulated by the government to implement the decision of the **Cauvery Water Disputes Tribunal** that was modified by the Supreme Court in February 2018.

The Supreme Court in its judgement increased the share of Karnataka by 14.75 TMC and reduced the share of Tamil Nadu by the same amount. To implement the scheme, the government has constituted the **Cauvery Water Management Authority and the Cauvery Water Regulation Committee**.

Key Details:

- **Composition (CWMA):** The Cauvery Water Management Authority (CWMA) will be headed by a Chairman, and will comprise two whole-time members, two-part time members who will be government representatives from the Ministry of Water Resources and Agriculture, respectively, and four part-time members, one each from the state of Kerala, Karnataka, Tamil Nadu and one from Puducherry.
- **Function and duties (CWMA):**
  - Storage, apportionment, regulation and control of Cauvery water;
  - Supervising the operation of reservoirs and regulating water releases and
  - Regulating release of water by Karnataka at the inter-state contact point of Karnataka and Tamil Nadu.
- **Composition (CWRC):** The Cauvery Water Regulation Committee (CWRC) will be headed by a Chairman, and will comprise eight other members, including representatives from the three states and one union territory, the Indian Meteorological Department, Central Water Commission, and Ministry of Agriculture.
- **Functions of CWRC:** The CWRC, on the directions of the CWMA, will: (i) collect daily water levels, inflows, and storage position at eight reservoirs of the Cauvery; (ii) ensure 10 daily releases of water on monthly basis from the reservoirs as directed by the CWMA; and (iii) prepare seasonal and annual reports of the water account and submit it to the CWMA, among other things.

Composite Water Management Index 2018

NITI Aayog has developed the Composite Water Management Index 2018 to enable effective water management in Indian states.

Through the Composite Water Management Index, NITI Aayog has:

- Ranked states on several parameters with regard to their water availability, use, and management, and
- Prepared a national database on water.

The index aims to increase competitiveness among states with regard to water use and conservation.

Key Findings:

- Currently, 600 million Indians face high to extreme water stress
- By 2030, the country's water demand is projected to be twice the available supply, implying severe water scarcity and an eventual loss of 6% to the country's GDP.
- **Data on water resources:** Data related to water in India is limited in its coverage, robustness, and efficiency. Detailed data is not available for several critical sectors such as domestic and industrial use. Unavailability of data is mainly responsible for water crisis and ineffective management.
- **Ground water:** 54% of India's ground water wells are declining in level due to extraction rates exceeding recharge rates. 21 major cities are expected to run out of groundwater by 2020, affecting 100 million people. Over-extraction of ground water is highest in the agriculture sector, where ground water accounts for 63% of water used for irrigation.
- **Water use efficiency:** Agriculture accounts for 80% of all water demand in India. Water efficiency of Indian farmers is currently amongst the lowest in the world. On average, Indian farmers use three to five times more water for producing the same amount of crops than their Chinese, American, and Israeli counterparts. This problem is further worsened by the provision of electricity subsidies for ground water extraction in most states.
- **Rural drinking water:** Currently, only half of the rural population in the country has access to safe drinking water. This has resulted in a high disease burden in the country (two lakh annual deaths from inadequate or unsafe drinking water).

Shillong Selected as the 100th Smart City

Shillong, the capital of Meghalaya has been selected as the 100^{th} Smart City. This completes selection of the 100 cities under the Smart Cities Mission. With the selection of Shillong, the total proposed investment in the selected 100 cities under the Mission would be Rs 2,05,018 crore.

National Strategy for Artificial Intelligence

NITI Aayog released a discussion paper on National Strategy for Artificial Intelligence.

Artificial Intelligence (AI) refers to the ability of machines to perform cognitive tasks like thinking, perceiving, problem solving, and decision making.

The discussion paper focuses on how India can leverage AI to ensure growth in line with the development priorities of the government. It emphasises on the adoption of AI solutions for: (i) agriculture, (ii) education, (iii) healthcare, (iv) smart cities and infrastructure, and (v) smart mobility and transportation.

Key Challenges Identified:

- Lack of expertise in research and application of AI,
- lack of quality data ecosystems suitable for successful adoption,
- high resource cost and low awareness for adoption of AI,
- lack of formal privacy, security, and ethical regulations, and
- Absence of collaborative approach to adoption and application of AI.

Recommendations:

In order to address these challenges, the paper gives a set of recommendations, which include:

- **Research and skill development:** It recommends establishment of academic and applied research institutions as centres of excellence in AI. This would promote innovative avenues and aid in skilling and reskilling of the workforce. This would be implemented keeping in mind changing employment patterns, and needs of the job market and entrepreneurial sectors.

- **Market-based adoption:** It recommends the government to facilitate the creation of a ***National AI Marketplace***. This would focus on creating markets for:
  - data collection and aggregation,
  - data annotation or insight, and
  - ready-to-use deployable models for sector-specific applications. Adoption of AI would take place using this model where the government would act as a catalyst by creating demand and supporting partnerships.
- **Regulatory challenges:** It recommends the government to address regulatory challenges by creating ***strong legal frameworks***. This would include frameworks related to data protection, intellectual property, and sector-specific regulations on privacy, security, and ethics. This would be assisted by the adoption of international standards and practices.

Crisis in the Sugar Sector

The Union Cabinet approved several measures to improve liquidity of the sugar mills and enable them to clear sugarcane price arrears of farmers.

- **Creation of buffer stock:** The Department of Food and Public Distribution notified a scheme for the creation and maintenance of buffer stock of 30 Lakh Metric Tonnes of sugar by the sugar mills for one year with effect from July 1, 2018. The reimbursement under the scheme will be made on quarterly basis, which will be directly credited into farmers' account on behalf of the sugar mills against their sugarcane price arrears.
- **Sugar Price (Control) Order, 2018:** The central government notified the **Sugar Price (Control) Order, 2018** under the **Essentials Commodities Act, 1955**. The Order **fixes the minimum selling price of refined (white) sugar** below which no producer can sell or deliver white sugar in the domestic market. The minimum selling price of refined sugar would be based on the Fair Remunerative Price of sugarcane, and the minimum conversion cost of refined sugar. The Department of Food and Public Distribution has fixed the rate at **Rs 29 per kg**.
- **Increasing capacity of sugar mills:** The government will upgrade the capacity of the existing distilleries attached to sugar mills by: (i) installing incineration boilers, and (ii) setting up new distilleries in sugar mills. The government will provide an interest subsidy of up to Rs 1,332 crore over a period of five years.

Guidelines for the New National Biogas and Organic Manure Programme

The Ministry of New and Renewable Energy released the guidelines for the New National Biogas and Organic Manure Programme.

This is a **Central Sector Scheme,** which provides for setting up of **family type biogas plants** mainly for rural and semi-urban households. A family type biogas plant **generates biogas from organic substances such as cattle-dung, and other biodegradable materials** such as biomass from farms, gardens, and kitchens.

Key Guidelines

- **Objectives:**
  - providing clean cooking fuel and meeting other small power needs of farmers, and individual households,
  - reducing drudgery of women and help them save time for other livelihood activities,
  - improving sanitation in rural and semi-urban areas by linking sanitary toilets with cattle dung biogas plants, and
  - Helping reduction in causes of climate change by preventing emission of green-house gases.
- **Physical targets:** The target for 2017-18 was to set up 65,180 biogas plants. For 2018-19, this target has been increased to **one lakh plants**.
- **Central assistance:** The guidelines also provide details of central assistance that will be provided depending upon the state (in which the plant is located), and the size of the plant. This assistance

will be directly disbursed to the beneficiary accounts after setting up of the plants.

Off-grid and Decentralised Solar PV Applications Programme - Phase III

The Cabinet Committee on Economic Affairs approved the Phase III of the Off-grid and Decentralised Solar Photo Voltaic (PV) Applications Programme

Phase III will have the following components:

- **Solar street lights:** Three lakh solar street lights will be installed throughout the country. Special emphasis will be given to areas where there is no facility for street lighting systems through grid power, such as north eastern (NE) states and left wing extremism (LWE) affected districts.
- **Stand-alone solar power plants:** Solar power plants of individual size up to 25 kilo Watt peak (kWp) will be promoted in areas where grid power has not reached or is not reliable. These plants provide electricity to schools, hostels, panchayats, police stations and other public service institutions. The aggregated capacity of solar power plants would be 100 MWp.
- **Solar study lamps:** 25 lakh solar study lamps will be provided in the NE states and LWE affected districts.
- **Central assistance:** The total cost of the three components is Rs 1,895 crore. Of this Rs 637 crore will be provided as central financial assistance. For solar street lights and solar power plants, financial support of up to 30% of the benchmark cost of the system will be provided. For NE states, hill states and island union territories, up to 90% of the benchmark cost will be provided.

Ethanol Pricing for Public Sector Oil Marketing Companies Revised

The Cabinet Committee on Economic Affairs approved the revision of ethanol price under the Ethanol Blended Petrol Programme for supply to public sector oil marketing companies.

- Currently, there is a flat rate for ethanol, irrespective of the mode of manufacture.
- Blending ethanol with petrol helps reduce vehicle exhaust emissions and reduces the import burden for petroleum.
- The **Ethanol Blended Petrol Programme** was launched in 2003 to promote the use of alternative and environment friendly fuels. However, since 2006, Oil Marketing Companies were not able to procure the required quantity of ethanol due to pricing issues of ethanol. Therefore, the government has been administering the price of ethanol under the programme since December 2014.
- The revision approves different rates for ethanol manufactured from different sources, for the ethanol supply period between December 1, 2018 and November 30, 2019.

Key Changes:

- The price of ethanol derived out of **C heavy molasses** (end product obtained during sugar processing) will be Rs 43.70 per litre.
- The price of ethanol derived out of **B heavy molasses** (intermediate product obtained during sugar processing) and sugarcane juice will be Rs 47.49 per litre.
- As the price of ethanol is based on estimated fair and remunerative price (FRP) for sugar season 2018-19, it will be modified by the Ministry of Petroleum and Natural Gas according to the actual FRP declared by the central government.
- For the ethanol supply year 2019-20, ethanol prices will be modified by the Ministry as per normative cost of molasses and sugar derived from FRP of sugarcane.

Digidhan Mission

The Ministry of Electronics and Information Technology released certain amendments to the **Digidhan Mission**. The Mission is implemented **under the Digital India programme** and seeks to achieve a target of 2,500 crore digital transactions in 2017-18.

Key Amendments

- The Mission has been extended till March 31, 2020.
- The target of 2,500 crore digital transactions in 2017-18 has been removed from the Mission objectives.
- Subsequently, the strategy of the Mission has been changed to (i) promote digital payments in the country and (ii) increase the digital payment acceptance infrastructure.
- New policy measures and interventions will be proposed to design tax incentives to promote digital payments.
- Mechanisms will be devised to monitor the regional penetration of digital payments by geo-tagging the digital payment transactions.

Visit of President of Seychelles to India

The President of Seychelles visited India.

Six agreements were signed between the two countries on various subjects, including:

- Indian grant assistance for implementation of small development projects through local bodies;
- cooperation in the area of cyber security; and
- Sharing white shipping information between the India Navy and National Information Sharing and Coordination Center of Seychelles.

Visit of Prime Minister to China

The Prime Minister visited China and signed two bilateral agreements. These relate to:

- provision of hydrological information of Brahmaputra river in flood season by China to India; and
- phytosanitary requirements (measures for control of plant diseases in agricultural crops) for exporting rice from India to China.