



7 PM COMPILATION

1st - 10th May, 2020

Features of 7 PM compilation

- ❖ Comprehensive coverage of a given current topic
- ❖ Provide you all the information you need to frame a good answer
- ❖ Critical analysis, comparative analysis, legal/constitutional provisions, current issues and challenges and best practices around the world
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India's light bulb moment: Not using this crisis for meaningful energy sector reform would be a waste

Topic: Indian Economy

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A grain stockist with a role still relevant

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Regulatory gaps, lax governance have precipitated a crisis in co-operative banking

Topic: Indian Economy

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India's light bulb moment: Not using this crisis for meaningful energy sector reform would be a waste

Source: [Financial Express](#)

What has happened? The proposed Electricity Amendment Bill, 2020 is an ambitious step towards solving the problem of India's power sector. Therefore, the crisis like COVID-19 shall be used as an opportunity for meaningful energy sector reforms.

This brings us to the question of considering the event of 9-minute lights-off on April 5 as an opportunity to take a step back and to address key issues of power sector and plan for a more sustainable future. Therefore, in this article we will discuss the following:

- What are the key issues in India's power sector?
- What is Electricity Amendment Bill, 2020?
- What are the issues in the bill?
- Way Forward
- Conclusion

What are the key issues in India's power sector?

- India is committed to have 175GW of renewable energy (RE) generation by 2022 keeping with climate change goals and energy security. For this, a market-based, automatic mechanism for integration of infirm renewable power into the grid is non-negotiable.
 - Frequency and voltage are two important parameters that ensure stable operation of the power grid. Currently, majority of RE systems do not participate in system frequency and voltage regulation functions. This is mainly due to the facts that RE in general is highly intermittent and fluctuating.
 - The standard practice generally followed with renewable resources is to disconnect them during contingencies and reconnect when normalcy is restored. This is acceptable as long as RE share is low. However, with the increasing share of RE, they must also contribute to frequency and voltage regulations exactly like traditional units.
- The past decade has seen a steady decline in energy generation from fossil fuels—plant load factors for the 2019-20 period are at 56%, down from 78% a decade ago. Hence, there are many idle, old, and inefficient coal plants. Many of these plants were to install air pollution equipment, as part of the country's commitment to COP21
 - The plan was to retrofit 440 power units aggregating to 166.5GW with flue gas desulphurization (FGD) systems by December 2022, which is way behind schedule. For example, only two out of 33 plants in the highly-polluted NCR have met their FGD targets.
- High industrial power tariffs in India. Industrial power in Vietnam is, for example, 40% cheaper than in India; this is the case across ASEAN.
 - Lowering industrial power tariff is an opportunity for 'Make in India' to

Flue gas desulfurization (FGD):

- It is a set of technologies used to remove sulfur dioxide (SO₂) from exhaust flue gases of fossil-fuel power plants, as well as from the emissions of other sulfur oxide emitting processes.
- FGD wastewater contains high concentrations of sulfates, calcium, magnesium, heavy metals, TSS and ammonia. Stricter regulations in Europe, China, USA and other countries require Zero Liquid Discharge (ZLD) treatment for the wastewater.

bring in fresh Covid-influenced industrial investment from Korea and Japan, which are diversifying away from China.

- The financial health of the distribution companies (Discoms) is not good. Discoms now owe over Rs 8.8 billion to generators. The current industrial lockdown has hit finances even harder with discoms left catering to low-paying households and loss-making agriculture.

What is Electricity Amendment Bill, 2020?

- Supply of quality power at affordable prices is essential for sustained growth of the economy of the country. For further development of the power sector, Ministry of Power has issued draft proposal for amendment of Electricity Act, 2003 in the form of draft Electricity Act (Amendment) Bill, 2020 on 17th April 2020.
- Major amendments proposed in the Electricity Act are as follows:

1. Viability of Electricity Distribution companies (Discoms):

- a. Cost reflective Tariff: To eliminate the tendency of some Commissions to provide for regulatory assets, it is being provided that the Commissions shall determine tariffs that are reflective of cost so as to enable Discoms to recover their costs.
- b. **Direct Benefit Transfer:** It is proposed that tariff be determined by Commissions without taking into account the subsidy, which will be given directly by the government to the consumers.

2. Sanctity of Contracts:

- a. Establishment of **Electricity Contract Enforcement Authority (ECEA):** A Central Enforcement Authority headed by a retired Judge of the High Court is proposed to be set-up with powers of the Civil Court to enforce performance of contracts related to purchase or sale or transmission of power between a generating, distribution or transmission companies.
- b. Establishment of adequate Payment Security Mechanism for scheduling of electricity - It is proposed to empower Load Dispatch Centers to oversee the establishment of adequate payment security mechanism before scheduling dispatch of electricity, as per contracts.

3. Strengthening the regulatory regime:

- a. Strengthening of the **Appellate Tribunal (APTEL):** It is proposed to increase the strength of APTEL to seven apart from the Chairperson so that multiple benches can be set-up to facilitate quick disposal of cases. It is also proposed to further empower the APTEL to enforce its decisions. APTEL is proposed to have the powers of a High Court to deal with willful disobedience of persons and entities under the Contempt of Courts Act, 1971.
- b. Doing away with multiple Selection Committees: It is proposed to have one Selection Committee for selection of Chairpersons and Members of the Central and State Commissions and uniform qualifications for appointments of Chairperson and Members of Central and State Electricity Regulatory Commissions.
- c. Penalties: In order to ensure compliance of the provisions of the Electricity Act and orders of the Commission, section 142 and section 146 of the Electricity Act are proposed to be amended to provide for higher penalties.

4. Renewable and Hydro Energy:

- a. **National Renewable Energy Policy:** It is proposed to provide for a policy document for the development and promotion of generation of electricity from renewable sources of energy.
- b. It is also proposed that a minimum percentage of purchase of electricity from hydro sources of energy is to be specified by the Commissions.
- c. Penalties: It is being further proposed to levy penalties for non-fulfillment of obligation to buy electricity from renewable and/or hydro sources of energy.

5. Others:

- a. **Cross border trade in Electricity:** Provisions have been added to facilitate and develop trade in electricity with other countries.
- b. **Franchisees and Distribution sub licensees:** Many States Distribution Companies have been assigning the task of distribution of electricity in a particular area or city to Franchisees / Sub-Distribution Licensees. However, there was a lack of clarity regarding the legal provisions related to this. It is proposed to provide that the Distribution Companies, if they so desire, may engage Franchisees or Sub-Distribution Licensees to distribute electricity on its behalf in a particular area within its area of supply, however, it will be the DISCOM which shall be the licensee, and therefore, ultimately responsible for ensuring quality distribution of electricity in its area of supply.

What are the issues in the bill?

- All India Power Engineer's Federation (AIPEF) condemns the bill mainly due to the following reasons.
- The draft bill defined distribution sub-licensee as a person recognized as such and authorized by the distribution licensee to distribute electricity on its behalf in a particular area within its area of supply, with the permission of the appropriate state commission.
 - The government was pushing for privatization, with this draft bill aimed in the same direction.
 - It is, however, established that the franchisee model has not worked in India so far, according to experts.
 - The government tried its hand in several states, with a majority of such experiments failing. The cities where the government tried to establish a franchisee model included Bhiwandi, Nagpur and Sagar among many others.
- The removal of subsidies and cross-subsidies was another big concern, as the draft bill said consumers will not get subsidized electricity.
 - There are two concerns with the Centre's move to allow for a transfer of subsidies through DBT. Farmers will have to pay first from their own pocket, after which they will get subsidies. But, the country's farmers are not in a position to pay Rs 4,000-5,000 in advance and wait for the transfer from their government later.
 - The franchisee will cut off the connection of the consumer if subsidy is not paid on time, with the burden of arranging for a large sum going to the consumer. The consumer will have to approach the franchisee again to restart the connection if the connection is cut off, resulting in unprecedented chaos.
- The other issue is increasing centralized control through the formation of the ECEA, with states bearing the burden and also the regulators will also be appointed by a

central committee. The ECEA will dis-empower not only regulatory commissions in the states, but also people who will fight legal battles

Way Forward

The key issues prevailing in the Indian Power Sector can be solved through measures like:

- The 9-minute event demonstrated the technical capacity for managing grid flexibility. But, one must also remember that this was a planned event—grids had time to slowly back down supply. The ability to manage power spikes associated with the 175GW of RE can be augmented with the use of Li-ion battery storage. Approximately 25MW of such is needed per 1,000MW of capacity generated in each grid.
- The old and polluting thermal plants could be restructured and shut down, based on their generation costs, remaining plant life, and the economics of installing FGDs. This will increase the Plant load factor of larger, newer, more efficient thermal plants, including those of NTPC, and also help mitigate the country's now permanent problems with air pollution.
- India must lower industrial power tariffs to meet the competition and to attract investments from other countries. Lowering industrial tariffs obliges the unraveling of the cross-subsidy regime. The key issue of agricultural tariffs needs a permanent solution. The political consensus seems to be veering towards a DBT subsidy and freeing up all tariffs thereafter, with no scope for unfunded subsidies.

Conclusion

While the provisions of the Amendment are of a permanent nature, with long term planning and large-scale impact, it will be interesting to see the strategy of the Ministry of Power in terms of implementation of the new regime.

It is said that India reforms only when there is a crisis. At present, we have a monster of a crisis and to not use this crisis for meaningful reform would be a waste of talent, leadership, and this rare light-bulb moment at every level. The power sector needs immediate attention before the country becomes "powerless".

The 'Missing Middle' Problem in Indian Manufacturing

What has happened? India's manufacturing sector is on a high growth trajectory. As targeted by the National Manufacturing Competitive Council (NMCC), it is set to contribute 25% to the GDP by 2025. However, a very few firms are found in the mid-size category of the firms in the Indian manufacturing sector.

This brings to questions of manufacturing sector in India and related issues. In this article we will discuss the following:

- ❖ What is the role of manufacturing sector in India?
- ❖ What is "Missing Middle" in manufacturing sector?
- ❖ What are the constraints for mid-sized manufacturing industries?
- ❖ What are the possible solutions to remove these constraints?
- ❖ Conclusion

What is the role of manufacturing sector in India?

- Manufacturing industries are those that engage in the transformation of goods, materials or substances into new products. The transformational process can be physical, chemical or mechanical.
- In other words, it is agglomeration of industries engaged in chemical, mechanical, or physical transformation of materials, substances, or components into consumer or industrial goods.
- Manufacturers often have plants, mills or factories that produce goods for public consumption. Machines and equipment are typically used in the process of manufacturing.
- Manufacturing holds a key position in the Indian economy, accounting for nearly 16 per cent of real GDP in Financial Year 2012 (FY12) and employing about 12.0 per cent of India's labour force.
- Growth in the sector has been matching the strong pace in overall GDP growth over the past few years. For example, while real GDP expanded at a CAGR of 8.4 per cent over FY05-FY12, growth in the manufacturing sector was marginally higher at around 8.5 per cent over the same period.

What is "Missing Middle" in manufacturing sector?

- "Missing Middle" is the idea that industries in developing countries like India tend to be dominated by a large number of tiny enterprises and a few large firms, but disproportionately few small and medium enterprises.
- In terms of distribution, it is seen to be expressed in terms of a U-shaped curve whereby small and very large enterprises would dominate over medium-sized enterprises in terms of number of factories, number of workers, or share of output.
- Such a feature has typically been attributed to various institutional features:
 - for example, the difficulties of obtaining bank credit for expansion;
 - More importantly, the plethora of regulations, especially labour protection regulations and laws that restrict the ability of firms to hire and fire at will, and that do not allow profitable firms to expand to medium size.
- **World Bank:** In a study produced in the 1980s (India: Industrial Regulatory Policy Study)
 - World Bank has argued that barriers to both entry and exit are high for large firms, but significantly lower for small and tiny ones. Most of these barriers were seen to result from industrial regulation and its mode of implementation.

- Also, according to the World Bank these barriers have resulted in notable losses in terms of potential efficiency and productivity gains for industry and for the economy as a whole.
- It was further argued that “cross-country and Indian experience indicates that medium size firms often enjoy better labour relations and higher labour productivity than large firms, and respond more effectively to changing technological and market requirements. Their policy-induced absence has added an element of rigidity and contributed to the slowness of technological progress and structural change in Indian industry.”

What are the constraints for mid-sized manufacturing industries?

- **Infrastructural:** Poor infrastructure was the second-largest investment climate obstacle, affecting the most productive firms relatively more.
 - **Land:** According to Sandip Sarkar research paper (Prospects and constraints of manufacturing growth in India), most of the industrial plots available in the industrial estate at best can accommodate 200-300 workers. Further growth of medium sized units into large would require availability of adjacent industrial plots, which in most of the cases is either not available or only can be purchased at a prohibitive price.
 - **Power:** An Electricity shortage is one of the biggest obstacles identified by manufacturing firms. Power supply remains erratic and the cost per unit charged to industry remains prohibitively high, much higher than rates charged in competing countries such as China.
- **Productivity:**
 - Productivity is important for the growth and the competitiveness of the manufacturing sector, but the sector is characterized by low productivity. Indian manufacturing performs poorly both compared with other sectors (agriculture and services) of the Indian economy.
 - There has been little change in the distribution of firm size between 2000–01 and 2010–11.
 - However, the economic distance between small and large firms is substantial: firms in the 500+ category were about 13 times more productive (in 2010–11) than firms in the 6–9 size category in 2010–11.
 - Creating the institutional environment to help small firms grow to become mid-size firms can improve the manufacturing sector's growth and productivity, and it calls for identifying the constraints to the growth of firms in terms of size and scale.
- **Skilled Manpower:** It has been found that the access to skilled labour suggests that it is harder for medium and large firms than small firms to find educated and skilled workers and it is a more serious constraint to growth.
- **Credit constraints:**
 - Access to finance is identified as a major obstacle to firm growth. Although most firms had a bank account, very few had a loan. Getting a loan from a bank took almost a month on average after all the documents had been submitted.
 - Firms that were able to borrow from formal financial institutions had 37 percent higher labor productivity than firms that were not.
- **Tax Administration:**
 - Tax administration is also costly: a representative company needs to make 60 payments a year and will spend 271 hours doing so.

- Informal payments are widespread, and dealing with government officials is also time-consuming: firms pay, on average, 4.9 percent in bribes, and managers spend, on average, 12.6 percent of an average week dealing with government officials.
- Firms need to have stable regulations or need advance notice of change to order and make rational investments. Frequent changes in the tax regime have introduced uncertainty in operational planning.
- **Corruption:** Red tape, corruption, and crime had the largest negative impact on firm productivity, real wages, and exports. It accounted for percentages ranging from 16 to 28 percent.
- **Ease of doing Business:** Despite being regarded as 'the engine of economic growth' MSMEs in India are still facing several issues like infrastructural bottlenecks, lack of proper market linkages, and challenges in terms of flow of institutional credit among others.

What are the possible solutions to remove these constraints?

The domestic regulatory regime needs to be eased, especially pertaining to labour issues and provision of improved infrastructure.

- **Infrastructural reforms:**
 - Simplify land acquisition- Simplification of land acquisitions is required as it remains complex, because of the difficulties in establishing legal ownership and a 'clean' holding for purchase.
 - Electricity: getting electricity of ease of doing business has improved significantly. Government has taken many steps to make getting electricity easier, faster and cheaper, such as procedures for internal wiring inspection by the Electrical Inspectorate (in Delhi) have been eliminated. In Delhi, service line charges have been capped to INR 25,000/- in electrified areas for Low Tension loads up to 150 KW. However further tariffs need to be reduced to promote business of mid sized firms.
 - Municipal service offerings and support services to industrial estates should be improved to pave the way for efficient production and transit of goods.
- **Labour Reforms:** Rigid labour laws lead to inefficient resource utilization. Three areas that need to be looked into and modified according to the changing needs of the manufacturing sector are:
 1. Excessive regulation of industrial relations.
 2. Restrictions on hiring and firing as per optimum needs.
 3. Restrictions on relocating a worker even within the plant.
- **Fiscal Reforms:** The government also needs to undertake a number of fiscal reforms to alleviate the situation.
- **Operational Improvements:** While the government pursues investment-friendly growth-oriented economic policies backed up by the creation of world-class infrastructure, organizations must give adequate attention to have the necessary internal systems in place to make themselves globally competitive.
- **Skill Man-power:**
 - Labor skills, quality, and innovation have a smaller effect on productivity but are more important for efficient firms. Improving the labor quality available to enterprises and stimulating innovation has the potential to raise productivity.
 - Manufacturing companies will have to focus on gaining unique comparative advantages. These advantages will come by when they begin to focus on

factors that are within their domain and develop strategies to manage their unique resources.

Conclusion

India has the capability to push its manufacturing contribution to GDP to 25% by 2025. The stage has been set and the initiatives rolled out. The initiatives taken to promote the manufacturing sector will benefit all the other segments of the economy. The overall growth momentum of the economy offers incentives not only to the domestic entrepreneurs but also the foreign investors. The Indian manufacturing sector will slowly but surely gain the foothold in the coming years.

Mains Practice Question:

What is the 'Missing Middle' problem in Indian Manufacturing Sector? Suggest ways to overcome the 'missing middle' problem. (15 Marks)

A grain stockist with a role still relevant**Source:** [A grain stockist with a role still relevant](#)**What has happened?**

For the first time, in the history of FCI, the Centre has decided to supply rice and wheat at a lower price to prevent hunger pangs among the rural and urban poor amid COVID-19 pandemic.

FCI has been in news for all the wrong reasons over the past several years. Even in late 1990s, the FCI was often referred as “Food Corruption of India”. However, it has proved its worth amid COVID-19 pandemic.

This brings us to the questions regarding Food Corporation of India (FCI). In this article we will discuss the following:

- ❖ What is Food Corporation of India (FCI)?
- ❖ What is the working Mechanism of Food Corporation of India (FCI)?
- ❖ What are the issues with FCI?
- ❖ What are the recommendations of Shanta Kumar Committee?
- ❖ In what ways FCI could disperse the food grains speedily and cost effectively in present scenario?
- ❖ Conclusion

What is Food Corporation of India (FCI)?

- The Food Corporation of India was setup under the Food Corporation's Act 1964.
- It was set up in order to fulfill following objectives of the Food Policy:
 - Effective price support operations for safeguarding the interests of the farmers.
 - Distribution of food grains throughout the country for public distribution system.
 - Maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security.
- FCI's Objectives are:
 - To provide farmers remunerative prices
 - To make food grains available at reasonable prices, particularly to vulnerable section of the society
 - To maintain buffer stocks as measure of Food Security
 - To intervene in market for price stabilization

What is the working Mechanism of Food Corporation of India (FCI)?**Procurement:**

- FCI, the nodal central agency of Government of India, along with other State Agencies undertakes procurement of wheat and paddy under price support scheme.
- The Government policy of procurement of Food grains has broad objectives of ensuring MSP to the farmers and availability of food grains to the weaker sections at affordable prices.
- It also ensures effective market intervention thereby keeping the prices under check and also adding to the overall food security of the country.

Stock:

- Food grain stocking norms refers to the level of stock in the Central Pool that is sufficient to meet the operational requirement of food grains and exigencies at any

Open market Sale Scheme:

- This is a price control mechanism.
- As we know Central Pool of food grains has been created primarily to maintain a minimum buffer stock for meeting the unforeseen exigencies like drought, flood and other natural calamities and also for providing food grains required for Public Distribution System and the other food grains based welfare program of the Government.
- In addition, the FCI on the instructions from the Government has been resorting to sale of food grains i.e. wheat and rice at predetermined prices to the open market from time to time to achieve the objectives as under:
 - To enhance the supply of food grains especially during the lean season and thereby to have a healthy and moderating influence on the open market prices.
 - To offload the excess stocks in the Central pool and to reduce the carrying cost of food grains to the extent possible.
 - To save the food grains from deterioration in quality and to use food grains for human consumption.
 - To release valuable storage space for stocks procured during the ensuing

- point of time. Earlier this concept was termed as Buffer Norms and Strategic Reserve.
- The storage function assumes paramount importance in organization such as Food Corporation of India because of its requirement to hold huge inventory of food grains over a significant period of time.
- Storage plan of FCI is primarily to meet the storage requirement for holding stocks to meet the requirements of Public Distribution System and Other Welfare Schemes undertaken by the Government of India.

Sell:

- Government of India fulfils the objectives of food security through the Public Distribution System.
- Public Distribution System strives to meet the twin objectives of price support to the farmers for their product and supply of food grains at affordable prices.

Transport:

- Movement plays a very important role in the working of FCI as well as in fulfilling the objectives of Food Policy and National Food Security Act.
- FCI undertakes movement of food grains in order to:
 - Evacuate stocks from surplus regions
 - Meet the requirements of deficit regions for National Food Security Act/ Targeted Public Distribution System and Other Schemes
 - Create buffer stocks in deficit regions
- On an average 40 to 42 million tonnes of food grains are transported by FCI across the country in a year. FCI undertakes massive movement operation of food grains all over the country.
- Movement of food grains is undertaken by Rail, Road and Waterways. Around 85% of stocks are moved by rail to different parts of the country.
- Inter-State movement by road is mainly undertaken in those parts of the country which are not connected by rail.

Finances:

- Main operation of FCI includes procurement of food grains at minimum support price declared by Government of India, store food grains so procured, transport the surplus food grains to deficit states and issue it to State Governments under Public Distribution System at a price decided by the Government of India.

- Since, the issue prices declared by Government of India under different schemes are much lower than the cost of food grains procured; the differential amount is reimbursed to FCI as food subsidy by the Government of India.
- FCI also maintains buffer stocks of food grains as mandated by the Government of India and intervene in the domestic market to control the rising prices of the food grains.

What are the issues with FCI?

There are several issues with FCI:

- Imbalances in availability of storage capacity.
- Storage of grains in open spaces.
- Non adherence of safe and scientific storage methods.
- Poor and reckless management.
- Delay in getting approval for want of disposal approvals for damaged stock from FCI.
- Undue delay in obtaining of various clearances for land allotments by state government.

What are the recommendations of Shanta Kumar Committee?

The Committee made following recommendations on stocking and movement related issue:

- FCI should outsource its stocking operations to various agencies such as Central Warehousing Corporation, State Warehousing Corporation, private Sector under Private Entrepreneur Guarantee (PEG) scheme, and even state governments that are building silos through private sector on state lands
- Better mechanization in all silos as well as conventional storages
- Covered and plinth (CAP) storage should be gradually phased out with no grain stocks remaining in CAP for more than 3 months. Silo bag technology and conventional storages where ever possible should replace CAP
- Movement of grains needs to be gradually containerized which will help reduce transit losses

After discussing the basic mechanism of FCI and the related issues, let us focus on the ways FCI can be more effective amid COVID-19.

In what ways FCI could disperse the food grains speedily and cost effectively in present scenario?

- **Use of Railways/Roadways for transportation:**
 - The FCI ha long back recognized the road movement as better suited for emergencies and for remote areas.
 - However, in 2019-2020 (until February) only 24% of the grains moved by road.
 - FCI needs to increase the use of roads more imperatively to move grains with least cost and efforts to the remote areas where the need is greatest
- **Decentralized storage:** In the current context, it would be useful for the State government and the FCI to maintain stocks at block headquarters or panchayats in food insecure or remote areas.
- **Fiscal Burden:** The centre should release stocks over and above existing allocations under PDS and Pradhan Mantri Garib Kalyan Yojana, but at its own expenses rather than by transferring the fiscal burden to States.
- **Activating Vibrant Network:** In many States, there is a vibrant network of self-help groups formed under the National Rural Livelihoods Mission (NRLM) which can be tasked with last mile distribution of food aid other than the PDS. Consultative

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committees presumably exist already in each State to coordinate with the FCI on such arrangements.

- **Suspending the “First in, First out (FIFO)” principle:** Typically, the FCI’s guidelines follow a first in, first out principle (FIFO) that mandates that grain that has been procured earlier needs to be distributed first to ensure that older stocks are liquidated, both across years and even within a particular year. It is time for the FCI to suspend this strategy, which will enables movement that costs least time, money and effort.

National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED):

- NAFED was established on the in 1958.
- Nafed is registered under the Multi State Co-operative Societies Act.
- Nafed was setup with the object to promote Co-operative marketing of agricultural produce to benefit the farmers.
- Agricultural farmers are the main members of Nafed, who have the authority to say in the form of members of the General Body in the working of Nafed.

Farmers’ Producer Organisation (FPO):

- FPO are also known as farmers’ producer company (FPC), is an entity formed by primary producers.
- These include farmers, milk producers, fishermen, weavers, rural artisans, and craftsmen.
- An FPO can be a Producer Company, a Cooperative Society or any other legal form.
- FPOs are basically the hybrids of cooperatives and private companies.
- The participation, organisation and membership pattern of these companies are more or less similar to the cooperatives.

- **Expanding support to Farmer Producer Organisations (FPOs):**

- The FCI along with the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) has required expertise to manage the logistics to help farmers across the country to reach out to consumers directly.
- The FCI should consider expanding its role to support FPOs and farmer groups, to move a wider range of commodities including agricultural inputs such as seeds and fertilizers, packing materials

Conclusion:

There is no doubt that the FCI needs to overhaul its operations and modernise its storage. At the same time, the relevance of an organisation such as the FCI or of public stockholding, common to most Asian countries, has never been more strongly established than now, even as we contemplate its new role in a post-pandemic world.

Covid lockdown: When you can't litigate and arbitrate**Source:** [Covid lockdown: When you can't litigate and arbitrate](#)**What has happened?**

As with most sectors, the legal fraternity too has been reeling under the impact of the corona pandemic and the resultant lockdown, searching for ways to surmount the difficulties that lie ahead. Indian courts have adapted to the new situation by introducing video conferencing to hear urgent matters, where parties cannot wait for regular courts to resume seeking relief.

However, this is a solution only for a tiny fraction of cases, and with the pandemic unlikely to retreat for a while, traditional litigation has hit a roadblock for an uncertain period. There is another mode of dispute resolution that has dealt with the constraints of present times with relative ease-arbitration.

This brings us to the questions of arbitration and its importance and issues. In this article we will discuss the following:

- ❖ What is judicial Process?
- ❖ What is Alternative Dispute Resolution?
- ❖ What are the different types of Alternative Dispute Resolution mechanism?
- ❖ What is the historical background of Arbitration in India?
- ❖ In what way the process of Arbitration works?
- ❖ What are the inherent benefits of arbitration in situation like COVID-19?
- ❖ What kind of issues facing by Arbitration in India?
- ❖ Way Forward
- ❖ Conclusion

Normally disputes between two parties (Either Individuals, organizations or between Individual and State, or between Organization and State) are settled through Judicial Process and Alternative dispute resolution process or methods.

What is judicial Process?

- Judicial process is basically “whole complex phenomenon of court working”. Everything done by the Judges in the process of delivery of Justice is called Judicial Process.
- Judicial process is an adjudicatory process where a third party (Judge/other authority) decides the outcome. Procedure and decision are governed, restricted, and controlled by the Provisions of the Relevant Statutes.
- In Judicial Process the Judges are called upon to decide contentious issues between the parties strictly in accordance with law and the Constitution.

What is Alternative Dispute Resolution?

- Alternative Dispute Resolution (ADR) is the procedure for settling disputes without litigation, such as arbitration, mediation, or negotiation.
- ADR procedures are usually less costly and more expeditious. They are increasingly being utilized in disputes that would otherwise result in litigation, including high-profile labor disputes, divorce actions, and personal injury claims.

What are the different types of Alternative Dispute Resolution (ADR) mechanism?

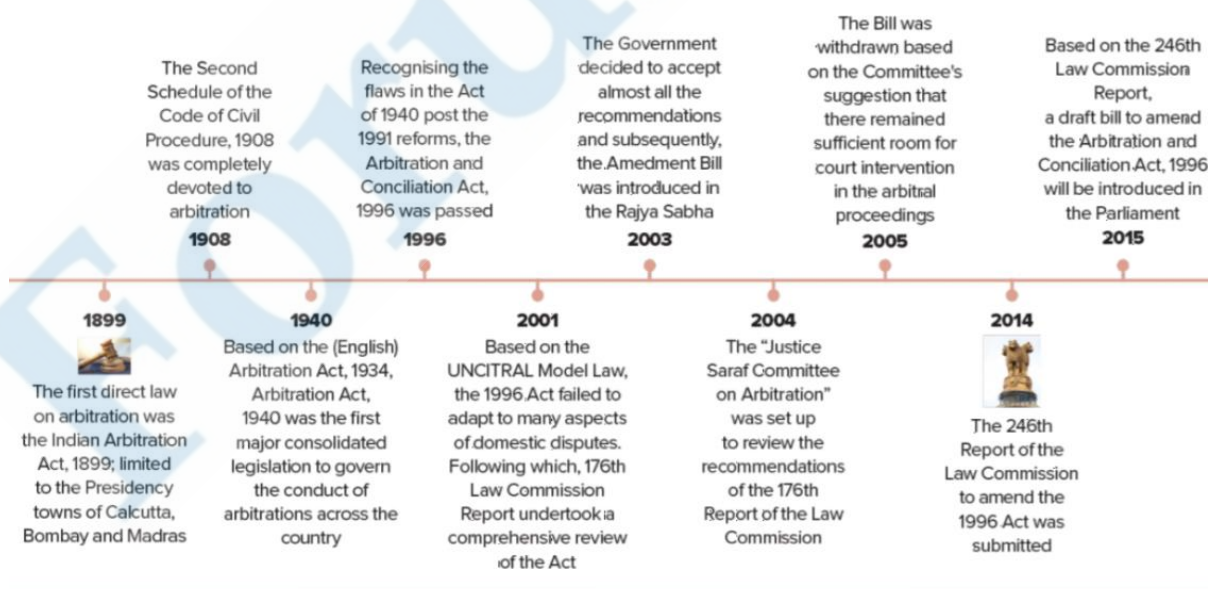
There are different types of ADR mechanisms, such as arbitration, mediation, conciliation and negotiation. The difference between all these “alternate dispute resolution mechanisms” lies in the process and mode of resolving the dispute. These are listed below:

- **Arbitration:** Broadly, in arbitration, the arbitrator hears evidence and makes a decision. Arbitration is like the court process, where parties provide testimony and give evidence, as in a trial. However, it is usually less formal.
- **Mediation:** In mediation, on the other hand, the process is a negotiation with the assistance of a neutral third party where mediators do not issue orders. Instead they help parties reach a share opinion and reach settlement.
- **Conciliation:** is another dispute resolution process that involves building a positive relationship between the parties to the dispute. Conciliation tries to individualize the optimal solution and direct parties towards a satisfactory common agreement. Although this sounds strikingly similar to mediation, the conciliator plays a relatively direct role in the actual resolution of a dispute and even advises the parties on certain solutions by making proposals for settlement.
- **Negotiation:** The fourth mode of ADR, i.e negotiation, is a process where parties (or their attorneys) can try to work out a solution that they are both satisfied with, often giving offers and counter-offers without legal counsel.

What is the historical background of Arbitration in India?

- India has had a long tradition of arbitration. The settlement of differences by tribunals chosen by the parties themselves was well known in ancient India.
- There were in fact, different grades of arbitrators with provisions for appeals in certain cases from the award of a lower grade of arbitrators to arbitrators of the higher grade.
- Ancient texts of Yajnavalka and Narada refer to three types of popular courts (Puga, Sreni, Kula). Besides at the village level, Panchayats have also been a prevalent form of alternate dispute resolution.

History of Arbitration in India



In what way the process of Arbitration works?

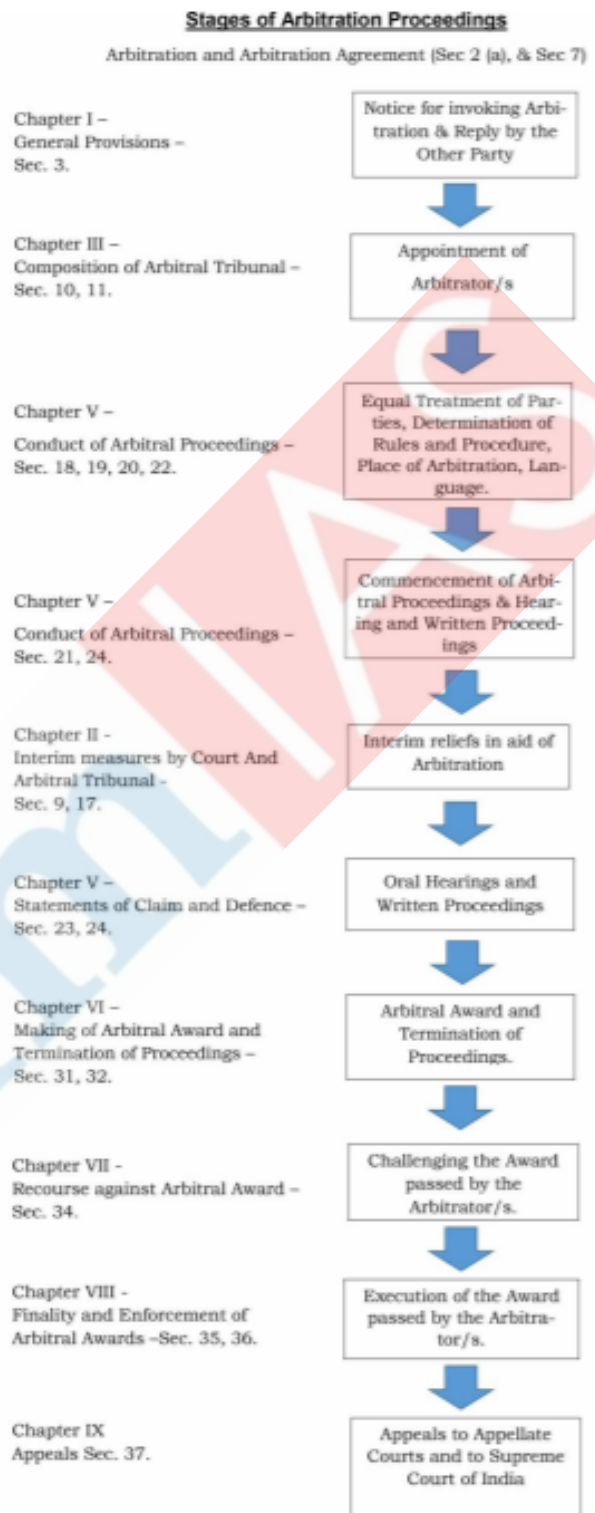
- While entering into a contract, parties agree that in case of a conflict the matter would be sought to be resolved by an arbitrator.
- Often the name of the potential arbitrator, agreed upon by both the parties, is mentioned in the contract itself.
- In case a dispute arises, the first step is issuing of an arbitration notice by either of the parties. This is followed by response by the other party and subsequently appointment of an arbitrator, decision on rules and procedures, place of arbitration and language.
- Once the arbitration proceedings commence, there are formal hearings and written proceedings. The arbitrator, if the matter so requires, issues interim reliefs followed by a final award which is binding on both parties.
- The tricky part arises if either of the parties, unhappy with the award, challenges it before the court. This can be before the appellate court or the Supreme Court depending upon the matter.

What are the inherent benefits of arbitration in situation like COVID-19?

Arbitration was increasingly becoming a preferred mechanism of dispute resolution. While arbitral procedures have continued to be conducted largely unhindered, even these are not completely immune to the impact of the global lockdowns.

- **Flexibility and party autonomy:**

- Arbitration's key feature, parties' ability to mould the arbitral procedure based on their agreement, is most suitable to resolve disputes in the times of Covid-19.
- For instance, the parties may now agree to a documents-only arbitration, or have all hearings by video conferencing. If the parties don't agree, the arbitrator has the power to conduct the proceedings as they deem appropriate.



- **E-filings:**
 - All pleadings in arbitration, from the notice invoking arbitration to the statement of claim and witness affidavits to written submissions, are filed by email.
 - Voluminous documents are uploaded on a file share link, which is sent to the opposing party and the arbitral tribunal.
 - Equally convenient is the fact that communications with the opposite party, arbitral tribunal, or the arbitral institution is through email.
- **Videoconference hearings:**
 - One of the biggest advantages of arbitration is that all hearings can be conducted by video conferencing. This has become particularly relevant now due to the travel restrictions.
 - The courts have also started holding hearings through video conferencing, but these are still restricted only to certain matters. Moreover, the judiciary may face teething issues as judges may find it difficult to cope with the technology, which they may overcome with time. Seasoned arbitrators are more likely to be familiar and comfortable with the technology.
- **Interim relief provisions:**
 - Under section 9 of the Arbitration & Conciliation Act, 1996, during arbitration proceedings, a party may approach the tribunal for any interim relief.
 - Interim relief is usually granted if the claimant is able to prove that they will suffer irreparable harm without such relief—for example, the respondents' assets being dissipated, bank guarantees being invoked, etc. Given the nature of the relief, these petitions are being heard by courts even during the lockdown.

What kind of issues facing by Arbitration in India?

- **Delays:**
 - Section 29A provides that the arbitral tribunal must enter the award within 12 months from the date the tribunal entered reference with the option to extend the time period by a further 6 months with the mutual consent of all parties.
 - However, after the expiry of that 18-month period, parties seeking a further extension would have to apply to the Indian courts, which may grant such an extension on such terms and conditions as it may impose if it finds that there is sufficient cause.
 - Section 29-A of the Arbitration Act which has been subject to debate and varying viewpoints particularly in complex international cases where the arbitral proceedings become lengthy.
- **Appointment of Arbitrators by the Courts:**
 - Arbitration clauses usually contain a party-agreed procedure to appoint the arbitral tribunal, which are often unsuccessful due to parties' inability to reach a mutual consensus after disputes have arisen.
 - In such situations, in an ad hoc arbitration, parties have to approach the court under section 11 of the Arbitration Act for appointment of an arbitrator. In the current scenario, this will pose an issue as it is unlikely that courts will consider an application for appointing an arbitrator as 'extremely urgent'.

Way Forward:

- Effective use of Technology such as e-filing, creating database of cases, big data analytics, Online Dispute Resolution, video conferencing needs to be scaled up and be put to extensive use in the process of arbitration.
- One example being video conferencing as no adjournment would be required, cases can be registered on line, voluminous papers can be instantly transmitted, and testimony of experts can be recorded through video conferencing.
- It has been argued that though routine matters can be completed within the prescribed time frame, the question of extension may be considered in cases of international arbitration. But it has also been argued that the introduction of this provision has brought in accountability in arbitrators which in turn brings discipline and accountability in lawyers as well as litigants.

Conclusion:

India is on the track of establishing confidence in its legal system which is the fundamental condition for any country to become an international arbitration venue. The present need is reforms in the implementation of the legislative changes by the judiciary along with building of institutional capacity in the country. Despite the roadblocks, it is apparent that arbitration is no longer just an “alternative” dispute resolution mechanism, but for, many parties, should be the primary choice for adjudicating their disputes.

Mains Practice Question:

What is alternative dispute resolution mechanism? How arbitration is helpful in solving the pending cases amid COVID-19? (250 Words)

Undemocratic Evasion of Environmental Responsibility

Source: [Undemocratic Evasion of Environmental Responsibility](#)

What had happened?

The Ministry of Environment, Forest and Climate Change (MoEFCC) released the Draft Environment Impact Assessment Notification, 2020 on 23rd March 2020. It seeks to replace the Environment Impact Assessment Notification, 2006. The ministry has recently extended the notice period for making any objections or suggestions on the proposal contained in the draft notification till 30th June 2020.

The draft Environment Impact Assessment Notification, 2020 has many issues which evade the Indian government from its environmental responsibilities.

This brings us to the questions of issues pertaining to draft Environment Impact Assessment Notification, 2020. In this article we will discuss the following:

- ❖ What is Environmental impact assessment (EIA)?
- ❖ What are the components of EIA?
- ❖ What are the key features of Draft Environment Impact Assessment Notification, 2020?
- ❖ What are the issues pertaining to draft EIA Notification 2020?
- ❖ Conclusion

What is Environmental impact assessment (EIA)?

- Environmental impact assessment (EIA) was developed as a tool to minimize negative impact of human activities on the environment.
- The purpose of the environmental impact assessment is to:
 - assess the impact of a proposed activity on the environment before making the decision on whether to carry it out, and
 - Develop and assess measures to avoid or minimize those impacts if it is decided to carry out the activity.
- EIA can be defined as a process of collecting information about environmental impacts of a proposed project and consequent relevant decision-making.
- UNEP defines Environmental Impact Assessment (EIA) as “a tool used to identify the environmental, social and economic impacts of a project prior to decision-making. It aims to predict environmental impacts at an early stage in project planning and design, find ways and means to reduce adverse impacts, shape projects to suit the local environment and present the predictions and options to decision-makers.”

Evolution of EIA in India:

- It was first started in 1976-77 when the Planning Commission asked the Department of Science and Technology to examine the river-valley projects from an environmental angle.
- The Government of India also enacted the Environmental (Protection) Act in 1986 making legal requirement of EIA to obtain environmental clearance for construction and operation for all development projects.
- Till 1994, environmental clearance from the Central Government was an administrative decision and lacked legislative support.
- In 1994, under the Environmental (Protection) Act and Rules of 1986, the Ministry of Environment and Forest (MoEF) issued a notification making environmental clearance legally mandatory for expansion and modernization and for construction of new projects and listed in Schedule I of the notification of 1994.

What are the components of EIA?

The fundamental components of an EIA would necessarily involve the following stages:

1. **Screening** to determine which projects or developments require a full or partial impact assessment study;
2. **Scoping** to identify the key issues and impacts that should be further investigated. This stage also defines the boundary and time limit of the study.
3. **Assessment and evaluation of impacts and development of alternatives**, to predict and identify the likely environmental impacts of a proposed project or development, including the detailed elaboration of alternatives;
4. **Reporting the Environmental Impact Statement (EIS) or EIA report**, including an environmental management plan (EMP), and a non-technical summary for the general audience.
5. **Review of the Environmental Impact Statement (EIS)**, based on the terms of reference (scoping) and public (including authority) participation.
6. **Decision-making** on whether to approve the project or not, and under what conditions; and
7. **Monitoring, compliance, enforcement and environmental auditing**. Monitor whether the predicted impacts and proposed mitigation measures occur as defined in the EMP. Verify the compliance of proponent with the EMP, to ensure that unpredicted impacts or failed mitigation measures are identified and addressed in a timely fashion.

After the discussion on the basics of Environment Impact Assessment (EIA), let us discuss the draft Environment Impact Assessment Notification, 2020 and the issues pertaining to it.

What are the key features of Draft Environment Impact Assessment Notification, 2020?

The draft Environment Impact Assessment Notification, 2020 seeks to replace the Environment Impact Assessment Notification, 2006 and Environment (Protection) Rules, 1986. It proposes certain conditions and thresholds on undertaking new infrastructure projects and on expansion or modernization of existing infrastructure projects. These projects include dams, mines, airports, and highways.

Key features of the proposed notification include:

Categorization of projects and activities:

- All infrastructure projects and activities will be divided into three categories based on their potential social and environmental impacts and the extent of such impact.
- All projects will require prior environment clearance from the concerned regulatory authority before commencement of any



construction, installation, establishment, or any such activity.

Exemption: The 2006 notification defines 'public consultation' as the process by which the concerns of local affected persons and other stakeholders are addressed and taken into account while designing the project. The draft notification exempts certain projects from public consultation. These include all building, construction and area development projects, inland waterways, expansion or widening of national highways, and modernisation of irrigation projects.

Violations: The draft notification provides four ways for cognizance of environmental violations. These are:

- application of the project promoter,
- reporting by any government authority,
- found during the appraisal by Appraisal Committee, or
- any violation found during the processing of application by the regulatory authority.

What are the issues pertaining to draft EIA Notification 2020?

- **Post-Facto Approval:**
 - The new draft allows for post-facto approval for projects, which means that it has provisions to award clearances for projects even if they have started construction or have been running without securing environmental clearances.
 - Post facto approval is in violation of the "precautionary principle," which is a principle of environmental sustainability.
 - Even Supreme Court on 1st April, 2020, ruled that the central government had no power to grant post facto approval, on the grounds that this would be in "derogation of the fundamental principles of environmental jurisprudence."
- **Public Consultation:** To date, the EIA process is the only legal process where information is shared and the opinion of the public obtained on environmental impact before a decision is taken on a large-scale project. The disregard of this process by the draft notification is simply undemocratic.
- **Strategic Projects:** The Draft Notification 2020 also completely exempts all defence and national security projects, as well as any other project involving "strategic considerations as determined by the government" from the need to obtain environmental clearances. This gives a virtual freedom to the government who could, for instance, define nuclear power projects, oil installations etc as "strategic projects." All such projects are also exempt from public hearings.
- **Exemption:** The building and construction sector is among the largest greenhouse gas emitters. However, as per the draft notification, the new construction projects up to 1,50,000 square metres (instead of the existing 20,000 square metres) do not need "detailed scrutiny" by the Expert Committee. Also, they need not to do EIA studies and public consultation.
- **Changes in definitions:** For instance, the term "capital dredging," which in the 2006 Notification covered non-maintenance dredging of both rivers and sea beds, is amended in the 2020 draft to refer only to sea-bed dredging for ports and such. However, dredging of river beds for building of navigable waterways, clearly a capital rather than maintenance activity, with untold ecological consequences and impact on livelihoods, has now simply been omitted from the definition.

Way Forward:

Any project impacts the environment which directly impacts the public life. So, public consultancy forms the basic feature of Environmental Impact Assessment. Diluting this very basic feature through the draft notification EIA, 2020, the government is moving into wrong direction. Instead the government should focus on creating awareness about the EIA process and releasing the EIA in regional languages to reach out to the most affected people.

Conclusion:

The government through the new draft Environment Impact Assessment, 2020 has shown its utter disrespect for public consultations and opinions expressed in response to such public notifications. The draft notification dilutes provisions related to public consultations and hearings.

The extension provided in the notice period till 30th June, 2020 is a step in right direction. Since the notification has to be widely discussed and should be considered only after due democratic deliberation.

Mains Practice Question:

What is Environment Impact Assessment (EIA)? Discuss the features of draft Environment Impact Assessment (EIA) notification, 2020. (250 Words)

Regulatory gaps, lax governance have precipitated a crisis in co-operative banking

Source: [Regulatory gaps, lax governance have precipitated a crisis in co-operative banking](#)

What has happened?

The RBI on May 2 has cancelled the license of a Mumbai based 'The CKP Cooperative Banks Ltd.'

Careless governance and the gaps in regulatory measures are the primary cause of crisis in co-operative banking in India. Both RBI and central government are taking steps to tackle the crisis.

This brings to questions of co-operative banks in India and related issues. In this article we will discuss the following:

- ❖ What are Co-operative Banks?
- ❖ What are different types of Co-operative Banks?
- ❖ How are the Urban Co-operative Banks (UCBs) regulated?
- ❖ What is the issue with the Cooperative Banks in India?
- ❖ What are the steps taken by RBI?
- ❖ What are the steps taken by the Central Government?
- ❖ Way Forward

What are Co-operative Banks?

- A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank.
- Cooperative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc.).
- The co-operative banks in India are regulated by the Reserve Bank of India (RBI) and governed by Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.

What are different types of Co-operative Banks?

The co-operative banking structure in India is divided into following 5 categories:

1. **Primary Co-operative Credit Society:** The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality.
2. **Central Co-operative Banks:** These are the federations of primary credit societies in a district and are of two types-those having a membership of primary societies only and those having a membership of societies as well as individuals.
3. **State Co-operative Banks:** The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. The state co-operative banks lend money to central co-operative banks and primary societies and not directly to the farmers.
4. **Land Development Banks:** The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes.
5. **Urban Co-operative Banks:** The term Urban Co-operative Banks (UCBs), have not been formally defined. It refers to primary co-operative banks located in urban and semi-urban areas.

How are the Urban Co-operative Banks (UCBs) regulated?

- The urban co-operative banks are regulated and supervised by State Registrars of Co-operative Societies and by Reserve Bank of India.

- The regulatory powers of registrar of cooperative societies includes incorporation, registration, management, audit, supersession of board and liquidation and on the other hand, the RBI is responsible for regulatory functions such maintaining cash reserve and capital adequacy, among others.

After the discussing the basics of Co-operative Banks in India, let us focus on the issues in the co-operative banking and steps taken by the RBI and the central government.

What is the issue with the Cooperative Banks in India?

- **Operational Problems:** The operational problems of urban co-operative banks consist in their loaning policies and practices. It has been noticed that some of these banks are advancing loans which are unproductive. Though these banks are getting their deposits at low rate of interest they advance loans at unreasonably high rates.
- **Unsecured Loans:** There is a risk in granting the large amount of loans on impersonal relationships. A person's integrity and character alone cannot constitute a reliable index of credit worthiness. Most of the times, unsecured loans are issued on Ration cards and there are high chances of frauds and irregularities in such cases.
- **Neglect of finances to industries:** In spite of the facilities extended by the RBI to urban banks like share capital participation, refinance facilities, etc. majority of the urban banks neglected the financing of small scale and cottage industries.
- **Political And High Posting Officers Problems:** Many a time political interference with the services of urban banks leading to maladministration. Due to these factors there is no proper administration of the urban co-operative banks. Rules and regulations are conveniently violated. As a consequence loans are granted even with the forged documents.
- **Administrative Problems:** The Board of Director (BoD) of a UCB, performs both executive and supervisory roles, and has the responsibility to oversee the functioning of UCB as a cooperative society. But many a time, BoD mis-use their executive power in granting loan amount exceeding the limits allowed.

What are the steps taken by RBI?

- **Creating Board of Management:** According to the RBI guidelines, UCBs with deposits of Rs. 100 Crore and more will constitute a Board of Management (BoM). The BoM will comprise expert banking professionals. It will exercise over-sight on banking functions of the UCBs and assist the BoD on formulation of policies.
- **Appointment of CEO:** UCBs having deposit size of ₹100 crore and above shall obtain prior approval of Reserve Bank for appointment of CEO
- **RBI revised supervisory framework for UCBs:** According to the RBI, a UCB can be placed under Supervisory Action Framework when:
 - Its net NPAs exceed 6% of its net advances.
 - If Capital Adequacy Ratio (CAR) falls below 9%.
 - If it incurs losses for two consecutive financial years.
- **Reporting of large exposures:** The RBI issued a notification where it mandated that all UCBs having total assets of Rs. 500 Crore and above of the previous financial year, will have to report large exposures to Central Repository of Information on Large Credits (CRILC) on a quarterly basis.

Recommendations of high-powered committee chaired by former Deputy Governor of the RBI, R. Gandhi:

The RBI has announced a scheme for voluntary transition of urban cooperative banks into small finance banks, in line with the recommendations of a high-powered committee chaired by former Deputy Governor of the RBI, R. Gandhi.

- H. Malegam recommended having a board of management in actual control of operations as opposed to elected directors. There must be a push for a fit and proper management, otherwise the elected director can get away with fraud.
- RBI has given the choice to urban cooperative banks to convert to small finance banks. That option is there for those players with more than ₹50 crore capital and 15% capital adequacy. This is an incentive as they will then be able to grow their capital by issuing shares at a premium.
- RBI has also said that for urban cooperative banks there could be an umbrella organisation promoted by the banks themselves to raise capital as a joint stock company can from the markets.

What are the steps taken by the Central Government?

The central government introduced Banking Regulation (Amendment) Bill, 2020 to amend the Banking Regulation Act, 1949 with respect to cooperative banks.

The silent features of the bill are:

- The bill deals with only Multi-state cooperative banks and Urban Cooperative Banks and not the rural primary cooperatives.
- **Additional powers to RBI:** The cooperatives banks are currently under the dual control of both RBI and the Registrar of Cooperative Societies. If the bill passed, the RBI will get the superseding powers over the board.
- **Auditing:** After the bill is passed, the cooperative banks will be audited as per the RBI rules.
- The Section 56 of Banking Regulations Act, 1949 deals with Cooperative Societies. The amendment bill tries to replicate certain other sections like Section 10A (professional BoD), 10B (removal of a whole time chairman) and 30 (audit) under the section 56 of the Act.

Way Forward:

The RBI's governance measures and the Banking Regulations (Amendment) Bill, 2020 deals with only the Urban Cooperative banks. There are about 96000 rural cooperatives that constitute about 65% of the total assets of the cooperatives in India. Even Primary Agricultural Credit Societies are outside the purview of the Banking Regulations Act. The Rural cooperatives play an important role in mobilizing the resources in the remotest areas. There is an urgent need to bring reforms regarding the governance of the rural cooperatives similar to urban cooperatives.

Mains Practice Question:

Recently, RBI cancelled the license of a Urban Cooperative Bank. Discuss the issues pertaining to the urban cooperative banking in India and the steps taken by government and the RBI in this regard. (250 words)