OXFOM REPORT ON INEQUALITIES

The anti-poverty charity 'Oxfam International' gave report titled "*An Economy for the 1%*"

What the report says:

- Since 2000 the poorest half of world population has received just 1% of the total increase in global wealth, while 50% increase has gone to top 1%.
- Total wealth of 62 individuals = wealth of 3.6 billion individuals
- These 62 individual are 44% wealthier than they were in 2010
- Growing economic disparity also compounds existing inequalities between social groups, notably gender inequality.
- According to a World Bank forecast, if pro-poor growth moves are not visible soon, by 2030, almost half-a-billion people will still live in extreme poverty.
- Inequality poses a threat to economic expansion and social cohesion around the world.

Suggestions in the report to reduce inequality:

- Check the influence of the very rich and to empower people who are currently excluded from the power structure
- For workers, they suggest increasing minimum wages towards living wages, promoting transparency on pay ratios and protecting workers' rights to unionize and strike.
- End of tax havens, describing them as unjust and a legal means that allowed the rich to remain rich, estimating that tax havens help the rich hide $7.6 trillion.
- Governments should work towards creating a worldwide tax transparency system

CHANGES IN GOLD MONETIZATION SCHEME

About Gold Monetization:

Gold monetisation scheme was launched in November 2015. It allows people to deposit gold jewellery or bars with banks or designated collection agents. In return, they get up to 2.50 per cent tax-free interest per annum and an exemption from capital gains made through trading or at the time of redemption.

Changes introduced:

- Allowing premature redemptions after three years and five years for medium term and long term deposits, respectively. The interest payable to depositors in such cases would be reduced, while allowing them an exit option.
- The quantity of gold collected will be expressed up to three decimals of a gram to give consumers better value for their gold deposits that can be of any purity level.
- Gold depositors can now give their gold directly to the refiner rather than only though collection and purity testing centres (CPTCs)
- Banks would now be paid a 2.5 per cent commission for their services on medium and long term deposits which include testing the purity of gold deposits, refining, storage and transportation.
- Banks have also been given the freedom to hedge their positions in the case of short-term deposits, and issues around interest rate calculation as well as extending loans against gold deposits.
- The numbers of refiners under the scheme are also likely to go up with the Bureau of Indian Standards (BIS) modifying the licensing condition that mandated three years' experience to one year refining experience.

SEBI PANEL SUGGESTS REFORMS TO GROW ALTERNATIVE FUNDS INDUSTRY

What is AIF?

Anything alternate to traditional form of investments gets categorized as alternative investments. (AIFs) are defined in Regulation 2(1)(b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company which are not presently covered by any Regulation of SEBI nor coming under the direct regulation of any other sectoral regulators in India-IRDA,PFRDA, RBI

AIFs are categorized into the following three categories:

Category I AIF are those AIFs with positive spillover effects on the economy. Such funds generally invests in start-ups or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable. .eg. Venture Capital Funds, SME Funds, Social Venture Funds and Infrastructure Funds.

Category II AIF are those AIFs for which no specific incentives or concessions are given. eg. Private Equity or debt fund.

Category III AIF are funds that are considered to have some potential negative externalities in certain situations and which undertake leverage to a great extent; with a view to make short term returns. No specific incentives or concessions from the government or any other Regulator.eg. Hedge

A 21 member advisory panel under Narayan Murthy set up by SEBI has suggested a slew of tax reforms and changes in existing laws to facilitate capital-raising by AIFs and boost entrepreneurship

Recommendations:

- Government should introduce a securities transaction tax (STT) on all distributions (gross) of AIFs, investment, short-term gains and other income and eliminate any withholding of tax.

- After STT, income from AIFs should be tax-free to investors and should have parity with the taxation of investments in listed securities,

- Given the high risk and relatively illiquid and stable nature of private equity and venture capital, it needs to at least be treated at par with volatile, short-term public market investments for taxation

- The exempt income of AIFs should not be subject to withholding tax of 10%; the exempt investors too should not be subjected to the tax.

- The investment gains of AIFs should be deemed to be capital gains in nature and losses incurred by AIFs should be available to their investors for set-off.

- AIFs and portfolio companies should be exempted from certain income tax provisions so that they are subjected to tax only when receiving dividend or interest income during the holding period, or realize capital gains at the time of exit.

- In order to attract more foreign investors into India-centric private equity and venture capital fund vehicles the panel recommended that the central board of direct taxes should clarify that investors in the holding companies are not subject to the indirect transfer provisions.

- The panel suggested that AIFs should be allowed to invest in charitable and religious trusts also.

- AIFs should not pay taxes higher than those paid by foreign portfolio investors or domestic institutional investors.

- The government should work on ways to unlock those domestic pools of capital that currently do not contribute enough to the AIF industry.

- Large capital pools from pensions, insurance, DFIs and banks, and charitable institutions, which currently constitute only around 10% of the total private equity and venture capital invested in India annually, should contribute more to develop the AIF industry.

- All banks, pensions, provident funds, insurance companies and charitable endowments must create an internal management system and utilize a minimum of 2-5% of the corpus to invest in Sebi-approved Category 1 AIFs.

- The panel urged the regulators to increase the investment limits for banks and insurance companies in AIFs from the current 10% to 20% of the total corpus of an AIF.

- Domestic pension funds in India including the National Pension System and the Employee Provident Fund Organization should allocate up to 3% of their assets to AIFs by 2017, rising to 5% by 2020.

- The existing norm on investment limits for AIFs restricts diversification and should be done away with.

- The panel also suggested that Sebi change its eligibility norms for investors to invest in AIFs. The present norms require an investor to invest at least Rs.1 crore in an AIF. Any individual with a total annual income of at least Rs.50 lakh should be allowed to put money in.

PM LIKELY TO UNVEIL MISSION KAKATIYA PYLON

What is mission KAKATIYA PYLON?

- It is a program of restoring all the tanks and lakes in Telangana State, India.
- The Program was inaugurated on 12 March 2015 by chief minister Kalvakuntla Chandrashekar Rao.[3]
- The name 'Mission Kakatiya' is given in the remembrance and tribute to the Kakatiya rulers who developed large number of the irrigation tanks.
- Government identified 45,000+ tanks and lakes in a special intensive survey on minor irrigation tanks.
- Government is planning to restore all these tanks and lake which is expected to cost Rs.20,000 crore over the next five years.
- By restoring almost all the tanks, as much as 250~270 TMC of water available for agricultural, irrigational, live stock and Drinking water needs.

STAGFLATION RISK AHEAD

SLOW DOWN IN GROWTH

- The latest Index of Industrial Production data, showing a contraction in factory output in November, read along with the **acceleration in retail inflation**.
- Both basic goods and capital goods – proxies for manufacturing and investment demand – contracted 0.7 per cent and 24.4 per cent, respectively. However there are a few bright spots like automobiles and consumer durables.
- Two key drivers, the overseas export markets and the rural economy, are both facing independent challenges.
- Global trade growth has been becalmed by **China's slowdown** and is now being roiled by the **yuan's depreciation**, while **back-to-back deficient monsoons** have sapped rural consumption capacity.

RISING INFLATION

- With the **Consumer Price Index (CPI)-based reading** rising for a fifth straight month in December to 5.6 per cent.
- Additional public expenditure, with implementation of the **Seventh Pay Commission** and the **One Rank, One Pension scheme**, will fuel price pressures at the retail level and could complicate the RBI's inflation targeting agenda.
- Unseasonal weather conditions including an El Nino-induced milder winter could lead to the Rabi crop yield ending up well below expectations in several regions.
- The accelerating retail inflation combining with the faltering growth leads to stagflation.

SUGGESTED SOLUTIONS

- Chief Economic Adviser Dr. Arvind Subramanian, have mooted the idea of the government temporarily straying from its fiscal consolidation path in order to enable it to step up spending on infrastructure to pump prime the economy, especially given the low levels of private investment.

ORGANIC FARMING IN SIKKIM

- Citing the successful example of Sikkim, Prime Minister Narendra Modi on Monday batted for expansion of organic farming across the country as part of efforts to transform the agriculture sector entailing better remuneration for the farmers.

- He also pitched for creating farming-oriented mobile phone apps, online mandis and value addition to farming while talking about the benefits of the recently-announced Crop Insurance Scheme and the Soil Health Card.

- As a means of financial security to farmers who suffer due to vagaries of weather, Modi suggested that they should divide their farming activities into three equal parts — regular farming involving crop production, growing of trees for economically-valuable timber and animal husbandry.

- He said timber and animal husbandry products could act as fallback options in case the crop fails and the farmer would not face the situation of “helplessness”.

- To address the problem of fruit wastage, he said he had asked the companies producing aerated drinks to mix 5 per cent of fruit juice in these products so that the farmers don’t suffer financial losses.

GOVERNMENT TO COME OUT WITH COMPREHENSIVE MSME POLICY

MSME account for 40 per cent of India’s manufacturing and about 45 per cent of total exports. It is central to MAKE IN INDIA initiative.

- Micro, Small and Medium Enterprises Ministry has decided to come out with a comprehensive policy for MSMEs, which will be drafted by a high powered committee to be headed by former cabinet secretary Prabhat Kumar.

- At present there is no integrated approach for their development. There is even no single policy for MSMEs.

- The idea is to integrate various policies pertaining to the sector and come out with one comprehensive policy.

- Ministry also launched a new web **portal http://smepost.com/**, which is dedicated to celebrate the good work done by MSMEs in the country.

- The associations will focus on the need for integration of the MSME’s requirement of raw material, capital, manufacturing and marketing. These will be critical inputs in the MSME policy formulation.

THE PROBLEM WITH SMART CITIES

- Apart from criticism on the quality of proposals and public participation, there were indications of a few cities hesitant to submit their proposals.

- Problem with Special Purpose Vehicle (SPV), which is to be mandatorily constituted for the implementation of their respective Smart City Plans. SPVs with private investments also are seen by local bodies to defeat the essence of 'local self-governance' being defeated with specific focus on private sector driven SPVs.

- Urban local bodies see the idea of an SPV as bypassing the elected municipal council as proposed in the SCM guidelines

WHAT IS A SPV?

- An SPV is a legal entity created for a specific purpose, which can theoretically be shut down after the specified purpose has been achieved. The major advantage of an SPV is that it allows investors to limit their risks and maximize profits, and bypass cumbersome legal and regulatory issues.
- In India, SPVs have come to dominate the infrastructure landscape. A prominent example of this would be road construction, operations and maintenance. In certain other cases, like metro rail projects, the private-public partnership efficiencies are yet to be realized.

- Reasons for setting up SPVs

    - To ensure objective and efficient decision making, independent of municipal councils, which are subject to local politics. The Smart Cities Mission (SCM) guidelines mandate an equal share of equity contribution by the state government and urban local body, thereby making them the majority shareholders.

- The absence of clarity on specific projects and assured revenue streams, it would be very difficult for private companies to participate. This, combined with a lack of management control, may reduce the attractiveness of SPVs for private investors.

- The SCM guidelines also stipulate that government funding can only be used for projects that have public benefit outcomes. Criteria to decide the degree of public benefit of projects is unclear.

- Finally, there is the issue of convergence at city level. There are cities that are covered under more than one such flagship program. For example, Varanasi is included under both SCM and the Heritage City Development and Augmentation Yojana (HRIDAY). The manner in which a smart city SPV interacts with the implementing agency for HRIDAY, and how two projects under the two separate programmes complement each other, is yet to be seen.

SOLUTIONS:

- An important first step would be to build safeguards to protect the democratic nature of governance structures. A robust governance structure, which allows for sharing of power and financial resources between urban local bodies and the private sector stakeholders, would go a long way towards assuaging fears.

- Government should clarify the financial nature of SPVs and how the private sector can contribute effectively.

- Critical issues of capacity and skill building for local bodies need to be addressed in parallel.
- Matters related to intellectual property rights, open standards and technology transfer should be enshrined at the highest level of government since it is difficult for individual urban local bodies to negotiate with private parties.

NEW DEFENCE PROCUREMENT POLICY

Background:

DPP 2013, categorises defence acquisitions into four sub-categories:

- 'Buy Indian/Global', meaning outright purchase from Indian/foreign manufacturers;
- 'Buy and Make' and 'Buy and Make (Indian)', meaning buying from foreign/Indian vendor followed by Transfer of Technology and production in India;
- 'Make (Indian)', meaning development of the product in India from scratch.

Offsets policy

- The DPP mandates that for any contract above Rs 300 crore in the 'Buy' and 'Buy and Make' categories, offsets corresponding to 30 per cent of the value of the contract are compulsory.
- Which means the vendor has to invest 30 per cent (of the cost of the contract) in Indian industry so as to have indigenous content in the product.
- However, given that the Indian defence industry is still in a nascent state and has been unable to absorb state-of-the-art technology that defence offsets require.
- Foreign vendors have been discharging offsets that do not build the capability of Indian industry, thus killing their very objective.
- The offset policy is under revision; the government is of the view that they should be measured as percentage of technology gained, instead of in terms of money.

What's the news?

- Government has announced the contours of the Defence Procurement Policy of 2016 (DPP-2016), which will guide military acquisitions hereafter.

The policy will include imaginative and far-reaching changes in DPP-2013:

- Top priority to the new Indian Designed, Developed and Manufactured (IDDM) category explicitly to boost Indian design and development
- "This category will be the most preferred acquisition category, above the existing 'Buy (Indian)' category
- Besides being designed and developed in India, at least 40 per cent of a product must be manufactured in India for it to qualify for the IDDM category.
- This will change India from being a destination for low-cost manufacturing, to being a starting place for cutting-edge innovation.

- Including a first-time emphasis on indigenous design, reduction of export content in weaponry, a boost to the "Make" programme in which the government subsidizes equipment development and encouragement to small-scale industry.

- In addition to indigenously designed kit, equipment containing 60 per cent or more of indigenous content will also make it to the highest procurement priority.

- In future, vendors offering equipment designed and built in India - termed Indian Designed, Developed and Manufactured (IDDM) products - will be preferred to vendors offering equipment designed abroad.

- The defense ministry is incentivizing defence industry, so far focused on licensed manufacture, into the higher-tech realm of designing and developing Indian weaponry.

- There are far-reaching changes in the "Make" procedure, which currently involves the government funding 80 per cent of the design and development cost of indigenous weapons platforms, with vendors paying 20 per cent. In DPP-2015, the "Make" procedure will be expanded into three types.

    - **In the first type**, termed Make I, the government will fund 90 per cent of the development cost, instead of just 80 per cent. Further, if after successfully developing a prototype, the vendor does not get an order within 24 months, his 10 per cent expenditure would be refunded.

    - This indirectly addresses an oft-expressed concern of the defence industry: the high cost of capital, which effectively raised its 20 per cent share to 40-45 per cent by the time the government reimbursed its expenditure. Now, say industry leaders, their 10 per cent expenditure would rise to 20 per cent.

    - **The second type**, Make II, involves industry funding, rather than government funding, for prototype development. If a tender is not issued within two years of the successful prototype development, the defence ministry would refund the entire development cost to the duly selected vendor.

    - **The third type**, Make III, seeks to galvanise innovation in micro, small and medium enterprises (MSMEs). While procedurally similar to Make II (industry-funded Make), this is reserved for projects with a development cost of less than Rs 3 crore, which will be exclusively reserved for MSMEs.

- For the first time, the army, navy and air force will each have dedicated "Project Management Units", headed by two-star general rank officers. They will drive all Make projects relating to their respective services.

- To participate in a Make contract, a firm must have a majority Indian stake and be controlled by resident Indians. The company must be registered for at least five years; three years for MSMEs. It must have a minimum rating of B++ from a recognized credit rating agency. For projects worth Rs 5000 crore or more, the participating company's net worth must be 5% of the development cost, subject to a maximum of Rs 1000 crores. For projects worth under Rs 5000 crore, the eligibility criterion is a positive net worth.

- Another proposed DPP change will encourage vendors of commercial equipment - such as jeeps or trucks - to participate in tenders without incurring large expenses on costly modifications, which would be money wasted if their product is not chosen. For example, a tender could involve a specialised communications truck, which requires radio racks and antenna fitted onto commercial trucks. The ministry would specify two sets of essential parameters. "Essential Parameters A" would evaluate only the automotive performance of vehicles fielded by truck vendors, without requiring them to make costly radio modifications. Thereafter, only selected vehicles would be tested for "Essential Parameters B".

- This (will increase the) vendor base by allowing participation of vendors who will make changes to existing product specifications, only on receipt of assured orders.

- In another progressive change the lowest qualifying bidder would no longer win a defence contract automatically, if another bidder were offering an obviously superior product at a marginally higher cost i.e. (Tenders) will also contain Enhanced Performance Parameters

- DPP-2015 also seeks to overcome that defence procurement bugbear - "single vendor situations" - which often stall acquisition programmes because the vendor is perceived as enjoying too much leverage in the absence of competition. Now "Single vendor cases… will be processed, with due justification."

Offset threshold raised to Rs 2,000 crore

- In a surprise move, the offset threshold will be raised, with foreign vendors liable for offsets only in contracts worth over Rs 2,000 crore. Earlier, foreign vendors were liable for offsets in all contracts worth Rs 300 crore; the policy required them to plough back at least 30 per cent of the contract value into the Indian defence sector.

- Private industry chiefs say that it would sharply reduce investment by foreign companies into India. Off the record, they blame the defence ministry's inability to implement the offset policy since it was introduced in 2005-06.

- It is believed offsets raise the price of defense equipment by 20 per cent.

- The proposed policy has three options given to the foreign supplier for discharge of offsets, which will be clearly specified in the Request for Proposal (RFP) issued by the ministry.

- In the first option, the RFP will specify certain critical technology that the foreign supplier will have to transfer to the Indian partner. This will be chosen from a bank of technologies identified by the DRDO in collaboration with private industry.

- The second option will ask the foreign supplier to manufacture a specific sub-system or component of a product in India, while the final option obligates the foreign vendor to develop requisite skill sets in the Indian industry. The government will specify either one or more of these offset options in the RFP.