TOPIC 1

Shanta Kumar committee report on "Restructuring of FCI"

Relevancy

- GS Prelims, GS Mains paper II, III
- Optional- Agriculture, Economics
- FCI restructure, High level committee
- Recommendations

Recently

- High Level Committee (HCL) on restructuring of Food Corporation of India (FCI) has submitted its report to the Government.

Introduction

- The committee is also known as Shanta Kumar (Chairman) committee.
- The HCL was set up by the Government in August, 2014.

Need for this committee?

- This Committee was made to recommend measures on the following important issues:
    - On how to make the entire food grain management system more efficient
    - Financial management of FCI
    - Reorienting the role of FCI in MSP operations
    - Cost effective models for procurement, storage and distribution of grains under Targeted Public Distribution System (TPDS)
    - Integration of supply chain of food grains in the country.

Major Recommendations of HLC

- **On procurement related issues:**

- HLC recommends for FCI to hand over procurement operations of wheat, paddy and rice to states that have gained sufficient experience and reasonable infrastructure for procurement.
- These states are Andhra Pradesh, Chhattisgarh, Haryana, Madhya Pradesh, Odisha and Punjab.
- FCI will accept only the surplus from these state governments to be moved to deficit states.
- FCI should move on to help those states where farmers suffer from distress sales at prices much below MSP.
- Quality checks can be done either by FCI and/or any third party accredited agency in a transparent manner with the help of mechanized processes of quality checking.
- GoI can encourage building of warehouses with better technology, and keep an on-line track of grain stocks with them on daily/weekly basis.
- GoI needs to revisit its MSP policy.
- Currently, MSPs are announced for 23 commodities, but effectively price support operates primarily in wheat and rice and that too in selected states.
- This creates highly skewed incentive structures in favour of wheat and rice while country is short of pulses and oilseeds (edible oils).
- Trade policy works independently of MSP policy and imports of pulses come at prices much below their MSP which hampers diversification.
- HLC recommends that pulses and oilseeds deserve priority and GoI must provide better price support operations for them.

- **On PDS and NFSA related issues**
  - HLC recommends that GoI has a second look at NFSA, its commitments and implementation.
  - Leakages in PDS range from 40 to 50 percent, and in some states go as high as 60 to 70 percent.
  - GoI should defer implementation of NFSA in states that have not done end to end computerization and have not set up vigilance committees to check pilferage from PDS.
  - HLC also recommends to have a relook at the current coverage of 67 percent of population.

- Priority households getting only 5 kgs/person as allocation and central issue prices being frozen for three years at Rs 3/2/1/kg for rice/wheat/coarse cereals respectively is an issue.
- HLC recommends that they be given 7kg/person.
- HLC recommends while Antyodya households can be given grains at Rs3/2/1/kg for the time being, but pricing for priority households must be linked to MSP.
- HLC recommends that targeted beneficiaries under NFSA or TPDS are given 6 months ration immediately after the procurement season ends.
- This will save the consumers from various hassles of monthly arrivals at FPS and also save on the storage costs of agencies.
- HLC recommends gradual introduction of cash transfers in PDS, starting with large cities and then giving option to deficit states to opt for cash or physical grain distribution.
- This will be much more cost effective way to help the poor and in line with best international practices.
- Cash transfers can be indexed with overall price level to protect the amount of real income transfers.
- It can be given in the name of lady of the house, and routed through Prime Minister's Jan-Dhan Yojana and dovetailing Aadhaar and Unique Identification number.
- This will empower the consumers, plug high leakages in PDS, save resources, and it can be rolled out over the next 2-3 years.

- **On stocking and movement related issues**
  - HLC recommends that FCI should outsource its stocking operations to various agencies such as Central & State Warehousing Corporation, Private Sector, etc.
  - It should be done on competitive bidding basis, inviting various stakeholders and creating competition to bring down costs of storage.
  - India needs more bulk handling facilities than it currently has.
  - FCI's old conventional storages can be converted to silos with the help of private sector and other stocking agencies.
  - Better mechanization is needed in all silos as well as conventional storages.

  - Movement of grains needs to be gradually containerized which will help reduce transit losses.
- **On Buffer Stocking Operations and Liquidation Policy**
  - One of the key challenges for FCI has been to carry buffer stocks way in excess of buffer stocking norms.
  - FCI has to work in tandem to liquidate stocks in OMSS or in export markets, whenever stocks go beyond the buffer stock norms.
  - A transparent liquidation policy is required, which should automatically kick-in when FCI is faced with surplus stocks than buffer norms.
  - Greater flexibility to FCI with business orientation to operate in OMSS and export markets is needed.
- **On Labour Related Issues**
  - FCI engages large number of workers (loaders) to get the job of loading/unloading done smoothly and in time.
  - Some of the departmental labours have received wages even more than Rs 4 lakhs/per month in 2014 due to widely used proxy labour.
  - This must be fixed, either by de-notifying these depots, or handing them over to states or private sector on service contracts.
  - Also by fixing a maximum limit on the incentives per person that will not allow him to work for more than say 1.25 times the work agreed with him.
  - These depots should be put on priority for mechanization so that reliance on departmental labour reduces.
  - FCI should be allowed to hire people under DPS/NWNP system.
  - HLC recommends that the condition of contract labour, which works the hardest and are the largest in number, should be improved by giving them better facilities.
- **On direct subsidy to farmers**
  - HLC recommends that farmers be given direct cash subsidy (of about Rs 7000/ha) and fertilizer sector can then be deregulated.
  - This would help plug diversion of urea to non-agricultural uses as well as to neighbouring countries.
  - It will help raise the efficiency of fertilizer use.

    - Direct cash subsidy to farmers will go a long way to help those who take loans from money lenders at exorbitant interest rates to buy fertilizers or other inputs.
    - This will thus help in relieving some distress in the agrarian sector.
- **On end to end computerization**
    - HLC recommends total end to end computerization of the entire food management system.
    - Starting from procurement from farmers, to stocking, movement and finally distribution through TPDS.
    - It can be done on real time basis.
- **On the new face of FCI**
    - The new face of FCI will be akin to an agency for innovations in Food Management System.
    - It should come with a primary focus to create competition in every segment of food grain supply chain, from procurement to stocking to movement and finally distribution in TPDS.
    - This should be done so that overall costs of the system are substantially reduced, leakages plugged, and it serves larger number of farmers and consumers.
    - It should focus on eastern states for procurement, upgrade the entire grain supply chain towards bulk handling and end to end computerization by bringing in investments.
    - It should also focus on technical and managerial expertise from the private sector.
    - It will be more business oriented with a pro-active liquidation policy to liquidate stocks in OMSS/export markets, whenever actual buffer stocks exceed the norms.

Conclusion

- This whole task of restructure of the FCI would be challenging.
- But the HLC hopes that FCI can rise to this challenge and once again play its commendable role as it did during late 1960s and early 1970s.

TOPIC 2

Key takeaways from COP-23

Relevancy

- GS Prelims, GS Mains paper II, III
- Environment, Bonn conference
- COP-23, Paris agreement
- Climate change

Recently

- The 23rd meeting of the Conference of the Parties (COP-23) of the United Nations Framework Convention on Climate Change concluded in Bonn, Germany recently.

What were the key issues dealt by COP?

- The key topics of contention were related to:
- **Loss and damage:**
    - COP-19 established the Warsaw International Mechanism for Loss and Damage to address the destruction likely from climate change.
    - COP-23 recognised that anthropogenic greenhouse gas emissions already in the atmosphere are causing warming.
    - This severely affects the poorest countries that are the most vulnerable to the impacts of climate change.
    - Currently there are no funds available for this stream and the discussion on this has been postponed to 2018.
    - It highlighted that it is important that such countries have access to economic and non-economic support.

  - Mainly because their actions have not led to these increased concentrations of harmful greenhouse gas emissions.
- **Financial support:**
  - An aspect of the support from rich countries is about providing finance, technology, and building capacity for poorer countries.
  - It is needed both to protect themselves from the effects of climate change and to help them move along a low-carbon pathway.
  - There were conflicts on financial support on topic and COP-23 was a failure in regard to this.
  - The targets set by each country in Paris will not be achieved without the means of implementation,
  - Promise of $100 billion each year by 2020 into the Green Climate Fund has not kept up to meet the goal.
  - Discussion has been moved to the next meeting to be held in Katowice, Poland in 2018.
- **Alternate resources:**
  - Advances in renewable energy over the last several years were highlighted at various side events at COP-23.
- **Mitigation action:**
  - When coal will be phased out globally was also a major concern at the meeting.
- **Differentiation and Others:**
  - Importance has been given to integrating positions from parties on the Nationally Determined Contributions.
  - Steps were also taken to spell out the details of the global stock-taking that will occur every five years starting in 2023.
  - Focus was also given to transparency measures that are part of the overall process.

Significance of COP-23

- The Bonn meeting saw the launch of the Powering Past Coal Alliance, which was led by Canada and the U.K., and joined by numerous countries.
- There was small but significant headway made regarding agriculture.

- A work plan was proposed by Parties on items related to climate change and agriculture, including improvements in soil fertility and carbon, management of land use and livestock maintenance.

Conclusion

- The science on climate change has been grim this year.
- Greenhouse gas emissions which appeared to have stabilised for a few years rose by 2% in 2017.
- This was due to additional electricity drawn from coal power plants in China.
- Greater ambition on clamping down on fossil fuels is needed for the Paris Agreement to be successful.
- For India, this time could be an excellent opportunity for learning from others and sharing local knowledge.
- Much more needs to be done for the international community to truly grapple with climate change.
- The world is still far from keeping itself safe from harmful consequences.
- There is no time left for delaying action on multiple fronts on the landscape of sustainable development.

TOPIC 3

Debate on number of Parliament sittings

Relevancy

- GS Mains paper II
- Polity, Governance
- Parliamentary sittings, State assembly sittings
- Concerns, Solutions

Recently

- In the recent past the Parliamentary sessions have been shortened or even 'merged'.

Constitutional provisions for Parliamentary sittings

- The Constitution specifies that Parliament will be summoned by the President.
- The President shall act on the aid and advice of the Council of Ministers.
- There cannot be more than six months between two sittings of Parliament.
- Similar provisions exist for State legislatures.
- Thus, it is effectively the Prime Minister (or the Chief Minister) who determines when Parliament (or an Assembly) will meet, subject to the gap being less than six months.

Role of Parliament and its sittings

- The lawmaking and financial functions of Parliament are primarily to examine and endorse government proposals.
- Parliament also has the important role of holding the government to account for its actions.
- Parliamentary system strikes a balance between stability and responsibility in a democracy.
- It provides a high level of responsibility on the government through daily assessment by members in the form of questions, resolutions, no-confidence motions, adjournment motions and debates on addresses.
- According to B.R.Ambedkar, daily assessment was more effective in holding governments to account, and more appropriate for India.
- That is why frequent sittings of Parliament are called for.

Concerns regarding sessions of Parliament

- In the initial years of India's Republic, Lok Sabha sat for about 125-140 days a year.
- The size of the country and poor connectivity meant that MPs could not make a quick dash to their constituencies.
- There were planned intersession gaps to enable them to split their time between Delhi and their constituencies.
- Though it is far easier to travel today, the Parliament has met for just 65-75 days per year in the last couple of decades.
- A direct consequence has been less scrutiny of the government's actions, and even that of bills and budgets.
- **Situation of State Assemblies:**
    - Data for 20 Assemblies over the last five years indicate that they meet for 29 days a year on average.
    - States such as Haryana (12 days a year) and Uttarakhand (13 days) rarely meet.
    - There have also been some extreme cases in terms of session time like Uttar Pradesh (session of 10 minutes).

Way forward

- **Structural changes:**
  - Issue of the government deciding when to summon the legislature, and its ability to adjust the dates needs to be addressed.
  - That is to dilute the power of the government to be the sole decider of session dates.
  - A simple solution is to have a calendar of sittings announced at the beginning of each year.
  - This would also help members and others plan better for the whole year.
- **Emergency meetings:**
  - There is also a need to build in the possibility of additional sittings that the government can require if it needs urgent parliamentary approval for action under unforeseen situations.
- **Ideas from British model:**
  - British Parliament model can be adopted to have year-long sessions.
  - The five-year term of British Parliament consists of five sessions of a year each.
  - This would require some minor changes in rules such as permitting no-confidence motions to be taken up multiple times in a session if a significant minority asks for it.
  - A different approach would be to allow a significant minority of members to call for a session.
- **Ideas from Pakistan's model:**
  - Pakistan's Constitution requires a session of Parliament within 14 days if one-fourth of its membership demands one.
  - It also states that Parliament should meet at least 130 days every year and there should be at least three sessions.

Conclusion

- The legitimacy of the government in a democracy is derived from constant scrutiny by elected representatives.
- A clear requirement for a more effective Parliament would be more sitting dates and a clear plan of those dates.

- It is time to strengthen the system and ensure that key institutions such as Parliament and State legislatures are able to perform their roles more effectively.

TOPIC 4

India's IT Industry growth patterns

Relevancy

- GS Mains paper III
- Economy, post 1991 economic reforms
- Low IT growth, employment
- Automation, global financial crisis

Recently

- There is a sharp decline in export rate prediction of IT sector by Nasscom which has started a debate on its future.

What is the issue?

- Industry association Nasscom has declared that the IT industry's export revenues would grow maximum at around 7-8 per cent in financial year 2017-18.
- That is pretty bad news for an industry as it has had high, double-digit export revenue growth rates in past decades.
- Also its export revenues constituted an overwhelmingly large share of total revenues.

- According to the RBI the rate of growth of the combined exports of software and IT-enabled services had fallen from 20.8 per cent in 2012-13 to 14.9 per cent in 2014-15.
- It has further hit a low of 7.3 per cent in 2015-16.

IT sector's boom post 1991

- Growth soared during the decade starting the mid-1990s.
- The average annual growth was close to 30 per cent but was influenced by the low base the industry started from.
- Those rates were recorded at a time when the Indian government had embraced a neoliberal strategy.
- That made the industry the center of India's economic reform and the symbol of India's 'economic prowess'.
- Profits did even better than revenue growth because of the given the tax benefits and infrastructural support provided by the government.
- This industry rode on India's cheap skilled labour.
- Eventually, the IT sector became the site for breeding many of India's post-reform billionaires.

Slowdown in growth

- Starting from the time of the global financial crisis, and global recession that followed the growth began to slow.
- Also, since 2014-15 that growth has turned almost flat by historical standards.
- A slowdown in 'export growth' was an important factor influencing the overall performance of this export-dependent sector.
- This suggests that there has been a reversal of the industry's fortunes.

Reasons for the downfall?

- IT growth was based on exploiting an outsourcing opportunity in low-cost niches.
- It was triggered by the cost-cutting imperatives facing the corporate sector in the US and elsewhere.

- There were factors that made the model vulnerable.
- **Export concentration:**
    - Most important was the concentration of exports by destination.
    - Largest share of exports were directed to the US market, with the EU following at a distant second.
    - In 2000, the US market accounted for close to two-thirds of India's IT exports.
    - The EU accounted for about a quarter.
    - Even in 2015-16 the US came in first with 62 per cent of the industry's exports and Europe second with 24 per cent.
    - This scenario has not changed much.
- **Service rather than products:**
    - More revenue was generating by selling software services like code writing and IT-enabled services, rather than IT products.
    - To remain competitive in this area requires sustaining cost advantages by limiting wages and squeezing profit margins.
    - This made the industry susceptible to competition from new locations and sap its limited employment generation.
    - This happened because of pressure to opt for automation of the routinized activities that constitute an important part of these operations.
    - Therefore the developments since the global crisis of 2007-08 have been posing challenges to the industry.
    - Financial crisis in the US affected mainly the developed countries, the main markets of the industry have turned volatile.
    - That is why demand growth has been sluggish in contrast to the high rates of growth characteristic of its early years.
    - Even after a decade there is no sign of a robust recovery from the global recession.
- **Other challenges:**
    - Recently there have been forms of protectionism in the developed countries, especially the US.
    - Onsite provision of services by Indian firms to clients in the US is becoming more difficult and costly to deliver.

  - The US administration argues that such provision is based on the misuse of the H1-B visas to import cheap labour to undertake work that can be performed by local labour.
  - More than 80 per cent of the workers on H-1B visas earn less than the US median wage for their jobs and just 5 per cent have earnings in the highest wage tier.
  - Therefore the rules regarding H1-B visa numbers and minimum salary requirements are being modified.
  - This is leading to loss of business or lower profits.
  - Efforts are underway to pressure US clients to abjure offshoring.

Current scenario

- While India's software and IT-enabled services exports was remarkable, that growth has been slowing considerably.
- Automation of routinized operations is reducing the demand for workers by the IT industry.
- Sluggish demand and automation are limiting this contribution of the industry.

Conclusion

- In volume terms the IT sector has not been a major employer even after its high share in GDP.
- But this was one sector where employment was being created that could at least partly absorb the large number of job-seekers in India.
- IT and It-enabled services industries were among the few sectors outside of finance and real estate that were flourishing under liberalization.
- But the deceleration in their growth marks the end of an era for the industry and a turning point in India's post-liberalisation growth record.